

BIZ EDGE

Family Business

Does your company put family or business first?

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Family businesses are known for their generosity with family members: offering jobs, fast track advancement, understanding and supporting family members with special needs or problems.

But family businesses also have a dark side: when family jealousies and arguments overshadow good business decisions.

Why are family businesses so well known for their conflicts? Because family and business have innate differences and the boundaries between the two is often unclear.

The family's purpose is to care for and nurture family members; the business' purpose is to provide goods and services at a profit. These two different "systems" have different rules, expected behaviors, goals, and communication patterns and when they overlap, confusion and frustration often occurs.

What works in a family context is often at cross-purposes in the business environment. And when family conflict occurs in the business, the entire business suffers.

FAMILY FIRST COMPANIES

Family-First companies emphasize family needs over business interests and are typical of first generation businesses that have boot-strapped their way to success.

As second-generation successors learn the business,



family-first rules often create difficulties for this next generation. Family stakeholders have strong emotional

attachments to the company and the business is often linked with family identity. Typical family-first behaviors are:

Finding a place for all family members. An "open door" policy for hiring family often becomes a safety net for those who cannot succeed outside the business. Competent family members are expected to care for (via compensation, perks, etc.) their less-than-competent siblings or cousins.

Providing equal pay for all. A family-fairness rule may be applied to mean that everyone is paid the same, regardless of their experience or contribution to the business.

Bestowing leadership. Leadership is based on seniority, rather than demonstrated competencies or successes, so eldest sons or daughters (usually sons) are the heirs-apparent even when younger siblings are more qualified. Longevity in the family business may be more highly valued than working and succeeding outside the business.

Using business resources for family perks. Vacation homes, cars (and boats) for children, are funded with company dollars, diverting resources from strategic uses. One

company paid for 27 cell phone accounts for children, spouses, and grandchildren.

Doing whatever avoids family conflict. Family-first companies are conflict-avoiders so procrastination and denial often rule. Poor communication, entitlements, and lack of respect for boundaries between the family and business system allow small issues to become big problems.

Putting only "insiders" on Board. Governance and oversight are often non-existent, so family members (Mom and Dad) and their trusted advisors are the only ones permitted on the Board; disagreements never occur.

Doing training on-the-fly. Family-first companies usually have no formal training programs so family are expected to intuitively learn business practices; difficult when they have no outside experience as a framework.

BUSINESS FIRST COMPANIES

Business-First companies balance business and family needs; boundaries between the family and business are generally clearly understood. Business-first rules align with known best practices. However, business-first companies may be so diligent about keeping family out, that they fail at recruiting competent family to come into the business. The result: the family may have limited ties to the business. Typical "business-first" behaviors are:

Letting qualified family members join the company.

Conditions for family employment are clear: finish college and work outside the family business for 3-5 years before joining the company. Family members who join do so with a portfolio of outside experiences.

Basing compensation on performance and responsibility.

Compensation is based on market and industry measures, not family need. Accountabilities and reporting relationships are clearly understood. High performers are highly paid. Family members may be terminated for non-performance.

Making sure leadership is earned. The family mantra is to have “the best and the brightest” running the business: family or non-family. Non-family senior execs may be recruited from within the industry although some companies successfully grow their own top teams.

Using business resources strategically. Budgeting and planning is important; earnings are used for growth initiatives. Distributions are based on family ownership but generally limited to amounts needed for taxes (for S corps and LLCs) plus a small dividend. Family dividends are sufficient for the family to pay attention but not excessive.

Setting clear boundaries and having a process for addressing conflict. Family entitlements are minimized and differences among stakeholders acknowledged and discussed. Teamwork is emphasized over individual self-interest. Exit strategies (during lifetime) provide options for family stockholders who want to sell.

Having strong outside influences on the Board. There is an active Board and healthy debates are encouraged. Family and non-family serve on the Board.

Setting clear policies for family stakeholders. Family policies address family employment, profit distributions, conflicts of interest, Board nominations, stockholder and pre-nuptial agreements, and trustee roles and responsibilities (for estate planning entities).

Want to learn more? Hold a family meeting and discuss how your own family business functions, since open communication is a first step toward successful succession planning.

Mike Cohn is a noted succession planning consultant. For information on his firm's services, including his book: Keep or Sell Your Business - How to Make the Decision Every Private Company Faces, call 602-468-9667 or visit the CFG web site at www.cfgllc.com.