

BEST PRACTICES IN FAMILY BUSINESS

Family Business

Make new balance sheet to examine human assets

Mike Cohn

You've built a successful company and have decided to help out family members by employing them in the business. What could be better than having trusted family members working together?

But before you leap into that void, consider what happens if you have to fire Uncle Joe or, even worse, your son or daughter.

Family businesses are known for their dedication, hard work, and streamlined decision making. They also are known for family conflicts and feuds. How can you balance the demands of business and family?

The answer lies in rethinking the question. The real question may be how to perpetuate and grow your family's capital.

Family capital has two components, the obvious of which is financial in nature. The business often represents the financial component of a family's wealth.

But the not-so-obvious component is the human and intellectual capital of its family members – individual creativity, educational accomplishments, social and community involvement, etc.

Business owners may think that by sharing the financial attributes of the business (employing family members and family perks, for example), they also are contributing to the human and intellectual capital of the family members.

But this may be a mistake. If the business is viewed as the primary



(and perhaps only) source for developing family capital, where is the balance?

Families and businesses are unique worlds and each has its own

rules. To balance the two worlds, it takes conscious planning and help from family members to keep family and business priorities separate.

When trying to balance family and business, the initial tasks may be in "righting the ship" since the financial/business side of the equation often outgrows and overshadows the family side.

As children become adults, marry and pursue their own careers, family ties may become stretched while business value grows. The business may dominate the family.

So, balancing the equation may require attending to the family's human and intellectual needs.

Whether intentional or not, families often have a Chief Emotional Office (CEO) whose job it is to provide empathy, patience and understanding to family members as they move between the two worlds.

Business goals typically are to be profitable, efficient, competitive, quick to respond and customer-driver.

Family goals typically are to be nurturing, patient, collaborative, loving and fair. When family members come into a family

business expecting it will enhance family relationships, disappointments often occur.

One solution is to educate family members where boundaries are between family and business. On one side of the line (outside of work), family rules apply and on the other side of the line (during work), business rules apply. That may help create realistic expectations but it does not address the issue of balance between family and business.

Another approach is to consciously enhance the family capital side of the equation by emotionally, intellectually, and maybe financially, supporting the passions of individual family members. One place to start is a family meeting to draft a family vision and mission statement.

Such a statement tells employees and customers what is important. A family vision and mission statement does the same. Perhaps you begin with a family meeting that asks "who are we as a family? What are our values and goals?" And more important, "where did we come from and where are we going?"

Business owners can look at their company's balance sheet for a snapshot of business assets and liabilities. What about doing a family balance sheet made up of the family's intellectual and human assets, and liabilities? Just as you might judge the success of a company by looking at changes in its balance sheet from year to year,

you can also judge a family's progress in realizing its goals.

Some ways to grow human and intellectual capital:

- Have the next generation of adult children draft a statement of family policies and priorities. They usually are the unwritten rules that everyone understands.
- Create a family council that meets regularly to discuss family issues. The council can be used to make decisions and resolve family disputes.
- Challenge family members to create their own personal vision statements and then develop a work plan to help them implement their goals.
- Assist family members in finding a personal mentor.
- Create a shared mission statement about what the family hopes to accomplish in the next year, and then monitor progress toward the goals.
- Create actionable activities as a family (outside the business) that requires collaboration among family members. An example is the formation of a family foundation that makes grants as decided by a particular generation.
- Discuss family history and its implications on the current generation.
- Discuss the family business and what responsibilities it imposes on family members as stakeholders.
- What are the "rule of entry" to join the family business?
- Adopt a project that the family uses its collective talents and intellectual capital to support.
- Have fun, get to know one another as partners in a family undertaking and look at the

building of family capital as a grand experiment.

In our busy lives, where time is so important, it is easy to overlook the ongoing emotional and intellectual needs of family members. But if one side of the equation is weaker than the other, imbalances occur, and left untreated, an imbalance will cause problems – either in the business, the family, or both.

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