

IN DEPTH: BEST PRACTICES IN FAMILY BUSINESS

Family Business

Reality check needed to avoid pitfalls in hiring family

Mike Cohn

Sometimes family members who have been recruited to join the business can be groomed for the role of president.

What could be better than a son or daughter taking over? But before the dream disappears into a cloud of disappointment, do a reality check.

If you already have recruited family members to join your business or are thinking about doing so, do they have a clear career path in the company?

Are they supervised by a non-family member? Are they paid at market rates for the work they do? Are they gaining the respect of their peers in the business? Do they work harder than everyone else?

It is well-known that family dynamics add layers of complexity and conflict. One telling statistic is that 70 percent of first-generation businesses do not survive into a second generation.

On the other hand, business owners who can successfully develop a family chief executive or chief operating officer have accomplished what most others cannot -- perpetuating a company and creating a legacy.

COMMON MISTAKES

Some of the mistakes start with how family members (and which ones) are recruited to work in the business. Some entrepreneurs succumb to the following pitfalls:

Mistake 1: Have an open-door policy for all family members who



want to work in the business, i.e., any family member who wants to work in the company can do so.

Try this instead:

Implement a family employment policy so if family members are qualified by education and work experience, they can join the business -- but only if a position is open.

Mistake 2: Pay family members the same salary regardless of position or experience.

Equal treatment works within families but usually causes conflict in businesses. Don't be tempted to draw on business resources to support family needs by hiring and overpaying children.

Try this: Establish a compensation policy and pay what the job is worth, not what family members need. If in doubt, hire a compensation consultant. Provide perks and benefits relative to the job. Try a performance-based pay plan.

Mistake 3: Leadership is "bestowed" by the founder.

The eldest son may be anointed as crown prince, regardless of skill, leading to conflict among siblings. Or, longevity in the business and loyalty is more important than outside experience and/or qualifications for the job.

Try this: Implement a leadership-development program in the

company, both for family and non-family members.

Take advantage of leadership-training programs offered by colleges or your industry association. Set up a personal coaching program to help candidates develop their management skills.

Mistake 4: Gender bias may lead entrepreneurs to overlook motivated and qualified daughters.

Try this: Outline the positions in the company that are (or will be) available and the qualifications necessary for success in the job. Then encourage qualified family as well as non-family to apply for the position.

STRATEGIES FOR SUCCESS

Private companies can successfully recruit family members; when they work well together the synergy and results can be powerful. Typical characteristics are:

- The family separates ownership from management so the "best and the brightest" are recruited into top positions.
- Family members who join the company have work experience - - typically 3-5 years -- in the same industry and ideally with a larger company.
- College degrees are expected; the degree is in a field related to the industry in which the business operates.
- Disclosure and transparency about the company is practiced, and candidates for senior

positions have a realistic understanding of its opportunities and risks.

- No sacred cows; status quo is not an acceptable strategy.
- No nepotism; leadership is earned.
- Compensation is at market rates -
- what others in the same industry with similar responsibilities are making.

There usually are two components to pay plans: a base salary and incentive bonuses earned only if performance is realized.

- Business resources are used strategically for the company -- no unusual family perks.
- There are clear boundaries between the owner's family and its business interests.

Recruiting family members isn't hard. Making sure you've selected the competent ones is a far tougher task.

When in doubt, imagine having to fire one of your kids before you hire the wrong ones. If you can fire a family member and still maintain a good relationship then you are on the right path.

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