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eBOOK

Family Business Challenges & Solutions

Solutions to the challenges of running a successful family business

A business run and managed by a family faces unique challenges. Common issues like managing sibling rivalry, hiring non-family members, and ensuring the success of the business through the next generation do have manageable solutions. In this eBook, we share how to manage and solve the issues many family business owners face.

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Challenge 1: Sibling Rivalry

As family business owners watch their children grow up, they may dream about the day when their offspring join the business and work as a team to ensure its ongoing success. Unfortunately, reality may not be quite as rosy.

Let's examine the case of a business owner with two sons who must make decisions on issues like compensation and succession. The brothers have different skill sets and ideas about how the business should operate; they've always been close, but issues regarding leadership are straining their relationship. What can the owner/father do to mitigate this situation? He can employ family governance rules to ensure there is less room for ambiguity and conflict—even in his absence.

WHAT IS FAMILY GOVERNANCE?

It's a mechanism to find consensus on matters where the owner's wishes matter most, and to provide family members with a sense of identity and mission that transcends their role as owners of the business.

Family governance should focus on areas of concern such as:

- Setting policies for family behaviors, actions, and decisions
- Addressing compensation rules
- Articulating vision and mission or motivating values
- Establishing a framework to promote learning together, sharing decisions, and communicating
- Determining family ownership policies
- Resolving conflicts
- Fostering family education and information
- Coordinating civic, political, and philanthropic roles
- Ensuring family fun

Compensation is one of the biggest points of contention between siblings working in a family business according to Aronoff and Ward, leading experts in the family business consulting field. They identify some of the common causes of compensation-generated angst as:

- Role confusion (making payouts to family members for their role in the family, rather than based on their performance in the business)
- Using pay to maintain parental control
- Using pay to resolve emotional issues
- Preserving secrecy at all costs
- Paying everyone too little or too much

Creating rules and policies to address these issues related to compensation—in addition to focusing on the family governance issues noted above—is essential to prevent potential sibling conflict.

Having compensation rules in place and employing family governance support transparency and ways to manage expectations so everyone is on the same page. This is especially important when it comes to siblings who may have wildly different styles, areas of expertise and thoughts about the future of the business. Creating family governance rules is essential to the long-term success of the family business.

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Challenge 2:
Hiring Non-Family Members

When you head a family business, you face a number of challenges that are absent in non-family businesses. One of the most trying can be determining whether family members have the requisite skills and experience to be productive employees. If they do not have the required skills, you need to look outside the family to staff your team.

TIPS FOR HIRING OUTSIDE THE FAMILY

If it sounds like this is a slippery slope, believe me, it is. Family dynamics aren't the same as business dynamics, and a combination of the two can be a disaster or a blessing—depending on how proactive and transparent you are.

Identify Your Business Philosophy

Your first challenge is to identify the philosophy of your family business. Having clear focus as to what really drives the business will assist you tremendously in making decisions and dealing with office dynamics. Think about which of the following three philosophies resonates with you:

Family first. The happiness of family members comes before everything else. Unity is favored, even if it results in negative business consequences.

Business first. What's best for the business is put ahead of everything else. Professional business practices are followed and stringent rules are in place.

Family business enterprise. Striking a balance between the family and business first philosophies is the goal. Family satisfaction is created while the economic health of the business is supported.

There is no "right" philosophy, but you must understand the consequences that can result from each one. Let's consider what you may face and how you can overcome it.

If you choose family first, that means you're willing to live with the possibility of family members filling positions they're not qualified for—and that can be very hard for non-family employees to swallow (especially when they report to those family members). It's important to be upfront with non-family members so they understand the lay of the land, so to speak. This will help them decide whether they feel your business is the right environment for them.

If you choose business first, that means you're willing to live with the possibility that you'll have to tell family members they're not up to snuff. The best way to approach this is to develop criteria for success that are applicable to all team members—family and non-family alike—and be clear that family members will not benefit from favoritism. Sometimes the price may be too high to operate this way, i.e., if you're dealing with your spouse, but it's your call.

If you choose family business enterprise, that means you want to ensure business success while keeping family members happy. This can actually be the most difficult way to operate because there's a bit more "gray" involved. You need to placate family members while ensuring that non-family members don't feel slighted and thus not as apt to give it their all. The best course to take in this situation is to be honest and keep personal issues outside the business as best you can.

Determine Power Limits

For all three operating philosophies, it's important to ensure that non-family members understand the parameters of their power as well as the fact that they are valued team members. You need to keep your finger on the pulse of the business to determine whether resentment, jealously or even anger is present in non-family employees—something that can harm the bottom line and negatively affect your family. In the best situations, family and non-family members work well together toward a common goal that benefits them all.

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Challenge 3: Succession Planning

The statistics about family businesses—a mainstay of the global economy—are quite sobering. It's well documented that just 30% of all family businesses last into the second generation, and only 12% make it to the third generation. Why? It's often the result of poor talent management.

An article in the April 2015 Harvard Business Review, "Leadership Lessons from Great Family Businesses," provided some food for thought from a study conducted by Egon Zehender and Family Business Network International of the 50 leading family firms around the world. They found their top four best practices were:

- Establish a baseline of good governance.
- Preserve what they call "family gravity" (what makes a family special).
- Identify future leaders from within and outside the family.
- Bring discipline to the CEO succession process.

Those are certainly important steps to take in working toward establishing a sustainable family business, but as a family business consultant, I would add one more: **Run like a business, but feel like a family.**

Work on the Business

Yes, that's easier said than done, but it's quite possible to accomplish, starting with a critical first step for many family businesses: identifying their values and creating a mission statement as well as a strong set of governance rules. Many family businesses are reluctant to do this—preferring to work in the business rather than on it—and unfortunately, that's detrimental to their long-term health.

Create a Mission Statement

For instance, the process of crafting a mission statement doesn't have to be overwhelming. According to family business consultants Aronoff and Ward, the document should tell readers "who we are as a family and what we stand for" by articulating the family's values and the means by which they are expressed both within the family and in the community. It also describes the family's vision for the future, documenting its dreams, hopes and ideals.

It really is best to engage in formal "baseline" activities like this in the early stages of a family business, since that's when this type of purposeful behavior will have the greatest impact. Think of it this way: you wouldn't erect a building without first laying a good foundation.

The reluctance to create a mission statement articulating family values and good governance rules is one of the two primary reasons I believe family business succession plans fail. The other is an unwillingness to bring in non-family talent when it's needed to get to the next level.

Choose the Right Successor

Many family business owners are not comfortable allowing a non-family member to assume the CEO position or leadership role, even when no one in the family is well suited for that responsibility. This is really akin to cutting off your nose to spite your face; by promoting a family member who isn't qualified to lead, the business is put in jeopardy.

Clarify Roles and Responsibilities

One way to prevent this uncomfortable situation is to clarify roles and responsibilities within the family business. Understanding the difference between ownership and management can be critical to guide families in making difficult talent decisions that are in the best interest of their business.

> As cited in the "Leadership Lessons…" HBR article, family businesses account for an estimated 80% of companies worldwide—and employ 60% of workers in the U.S. while being responsible for creating 78% of new jobs.

Lay a Strong Foundation

It behooves the owners of family businesses to do what it takes to lay the proper foundation for long-term success. This includes implementing the best business practices cited above and ensuring you're guided by principles and values that best define your family.

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About Dr. Denise P. Federer

Clinical psychologist and executive coach Dr. Denise P. Federer is the founder and principal of Federer Performance Management Group, LLC. She brings more than 20 years experience as a clinician, researcher, speaker, author and consultant to her work as a performance coach.

Dr. Federer, who received her B.A. in Psychology from the Honors Program at the University of Michigan and her Ph.D. in clinical psychology from Nova University, is an expert in stress management, health and wellness, communication styles, performance enhancement and motivational strategies. She has extensive experience providing guidance to leading U.S. firms and their executives and in private practice as a psychotherapist to couples, families and individuals—an intense focus that has led to her interest and expertise in peak performance coaching and in the unique dynamics of closely held and family-owned businesses.

Dr. Federer is a member of the International Coaching Federation (ICF) as a credentialed Professional Certified Coach (PCC).

She has also received certificates in Family Business Advising and Family Wealth Advising. Her professional affiliations over the past twenty four years include the following:

- National Register of Health Service Providers in Psychology
- American Psychological Association
- National Association of Women Business Owners
- National Association of Female Executives
- Society for Psychologists in Management

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