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eBook

Keys to Building a Successful Family Business

Your guide to creating a successful management strategy

Building a strong, successful family business that can be passed down through multiple generations is no easy feat. In fact, less than one-third of family businesses transition to the next generation.[i]

Not all family businesses are destined to end after one generation of management. In fact, there is much that you can do to invest in your business and focus on its sustainability and longevity. In this guide, we share several key aspects to building and maintaining a successful family business that you can pass on to your children and grandchildren.

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The Right Partner: Choosing Trusted Family Business Advisors

Failing to engage trusted family advisors is one of the main reasons that family businesses don't continue into a second generation of management.

It's important for all businesses to collaborate with trusted advisors who have expertise in areas that are critical to long-term business success, such as:

- CPAs
- Wealth Managers
- Attorneys
- Other Professionals

The process of selecting those individuals is difficult for any organization, but it's more challenging for family business owners, who often are reluctant to bring outsiders into the company's inner circle.

The issue is typically one of trust. However, since trust isn't just "earned," but must be given, how do family business owners decide whom to allow into the "inner circle" of their families?

Selecting trusted advisors based on gut instinct alone is not a prudent strategy. A Harvard Business Review[ii] article exploring the critical factors that contribute to trusting others suggests there are two parts to the equation: how easily you trust others as well as situational elements that can impact the decision to trust.

The following is a brief assessment that can be helpful in exploring those situational factors:

- How secure do the parties feel?
- How many similarities are there between them?
- How well aligned are the parties' interests?
- Does the trustee show benevolent concern?
- Is the trustee capable?
- Has the trustee shown predictability and integrity?
- Do the parties have good communication?

The more factors that score on the high end of the scale, the more likely the decision-maker (the business owner in this case) is to choose trust.

However, my experience shows that it's necessary to break down these issues into simpler and more practical questions to help make a good assessment of potential advisors' trustworthiness.

Consider the following:

- Assess your values and those of the business.
- Clarify the relevant issues in your business.
- Determine if you'll be comfortable with this advisor and his/her personal style —since this person will need to lead difficult discussions and help address your fears and concerns.
- Ask yourself whether you envision being responsive to a plan prepared by this advisor.
- Evaluate whether this advisor's skill set and expertise are a good fit for you and your business.
- Ask yourself whether this advisor will respond with patience, understanding and sensitivity toward your concerns — traits that translate into trust.

It can also be instructive to ask yourself why you're reluctant to bring in one or more trusted advisors. Unfortunately, many family business owners wait until they're in crisis before turning outside the organization for help. It's always best to be proactive, choosing trusted advisors who can guide you through issues like succession planning, tax-saving strategies and more in the absence of a "fire drill.

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Negotiations: Managing Emotions in a Family Business

Typical strategies used in corporate America aren't always appropriate in family businesses. An article about negotiating in the Harvard Business Review,[iii] and many others on the same topic, suggest that most negotiation experts focus on strategy and tactics. However, research shows we can regulate emotions like anxiety, anger, excitement, and disappointment during the process to help achieve a better outcome.

Anxiety and anger are the two emotions most difficult to control, and their effect is magnified in family business scenarios such as when parents are negotiating with children or siblings are negotiating with each other. With the goal of creating a win-win scenario and ensuring personal relationships aren't indelibly damaged, it's important to find ways to work through emotions to reach a consensus that pleases everyone.

One way to do this is by using four key behaviors often associated with having difficult conversations.

4 Key Behaviors to Manage Difficult Conversations

- **Be intentional.** Identify your ideal outcome prior to the start of the negotiation.
- **Clarify the issues.** Be objective in describing behavior and providing data rather than attacking the other person.
- **Listen non-defensively.** Hear the other person's perspective and adjust your emotions to fit theirs.
- **Take the high road.** Acknowledge the other person's feelings and perspective, even if you don't agree with it.

Another way to prepare to overcome emotions during negotiations is to answer a series of questions before the conversation begins. The Top 12 Questions for Change, taken from the Question Thinking Workbook by Maralee G. Adams,[iv] include:

- What do I want?
- What are my choices?
- What assumptions am I making?
- How else can I think about this?
- What is the other person thinking, feeling, needing and wanting?
- How can I turn this into a win-win?

These two strategies are applicable for any negotiation, but when it comes to dealing with a family business, employing cognitive behavioral strategies is even more critical. For example, you must be clear about your values; if having Christmas dinner with the whole family is important to you, you want to take care not to burn bridges during business-related negotiations.

It's Just Money

Money is at the root of most negotiations in any business. With respect to dealing with family members, it's a good idea to remove as much emotion as possible from this hot button issue, considering if it's worth destroying the family over "just money." In my experience, I've found when family members' values are aligned and everyone's perspective is taken into account during negotiations, the end result can be a stronger bond and a more focused business.

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Family Governance: Strategies for Siblings in a Family Business

Much has been written about how to deal with the parent-child relationship in the context of a family business, but less is said about how to address the very common instance of multiple siblings working in the same environment. When parents and children are involved, the balance of power lies with the older generation, but that clarity becomes blurred when two or more siblings are involved.

The Issue: Sibling Rivalry or Conflict

Recently, I worked with the owner/CEO of a family business who was in the process of creating a succession plan to include his two sons. These siblings, both in their late 30s, grew up very close—even rooming together in college—and expressed great affection and respect for one another…until leadership decisions needed to be made at their family business.

The brothers were at odds; their viewpoints were often diametrically opposed to one another and their discussions typically became heated. Both expressed concern about the other's perspective and behavior—and their differences at work negatively affected their personal relationship.

The Solution: Family Governance Rules

Stories like this are all too common in family businesses, but there is a way to help prevent such conflict: create family governance rules and specific sibling-focused strategies. By providing family members with a sense of identity and mission that transcends their role as owners of the business, and finding consensus on matters where the owner's wishes matter most, the hope is that siblings will work as a team rather than as adversaries.

The Focus of Family Governance

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

Strategies to Avert Sibling Issues

Other strategies to avert sibling-sibling issues include:

- Ensuring siblings do not report to one another—encouraging them to find their own areas of expertise.
- Defining the pay scale, whether it's based on ability, responsibilities or birth order—or everyone gets paid the same.
- Providing a clearly defined path to entering the business and equal opportunities once employed.
- Establishing boundaries between work and personal relationships.

Creating governance rules and employing specific sibling-focused strategies like those noted here provides less room for ambiguity and conflict. That, in turn, helps ensure that siblings in a family business work together to better the business rather than fighting one another, an occurrence that never has a happy ending.

By providing family members with a sense of identity and mission that transcends their role as owners of the business, and finding consensus on matters where the owner's wishes matter most, the hope is that siblings will work as a team rather than as adversaries.

Takeaway

Building a successful family business not just happen. Selecting the right advisors, strategizing for solutions, and implementing family governance rules are necessary to ensure the success of a family business in this generation and the generations to come.

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[i] Family Business Alliance, Facts & Figures.

[ii] Hurley, Robert F. The Decision to Trust. Harvard Business Review, 2006

[iii] Malhotra, Deepak. Control the Negotiation Before It Begins. Harvard Business Review, 2015.

[iv] Adams, Marilee. Ph.D. Learner Mindset: Foundation. Inquiry Institute, 2012.

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 PhD 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
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