All in the Family

An in-depth guide to navigating the unique challenges and rewards of owning and operating a family business.

TAB
THE ALTERNATIVE BOARD

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Balancing Act: When Family and Business Intertwine

For most families, spending time together is both enjoyable and fulfilling. Closely tied families share the rewards of loyalty, love, affection, acceptance, and understand – often in unspoken terms – a sense of commitment to one another. Thus, the family business concept has long appeared an attractive proposition. Worldwide, some of the most successful companies are family-owned and operated – many of them household names. Yet while the family business sector is indeed flourishing, many people in the business community are unaware of the unique challenges that "all in the family" organizations face. When properly addressed, these hurdles can be successfully navigated. Left to chance, they often spell doom for the hard working family.

This white paper discusses some of the key issues, challenges and obstacles that family-owned businesses encounter and offers suggestions to help ease the way towards achieving balance across the entire family enterprise.

"The greatest thing in family life is to take a hint when a hint is intended — and not to take a hint when a hint isn't intended." Robert Frost

Today's Family Business Environment

Family businesses, defined as businesses where more than one family member is involved in management and ownership, dominate the business marketplace. Strong and healthy family businesses are central to maintaining vibrant local, regional, national and international economies. Today, approximately three out of four businesses worldwide are family-owned, ranging from the very small "mom and pop" shops to huge corporations. Astonishingly, more than 40% of the companies on the Fortune 500 are family-owned. In the U.S. family businesses generate more than half of the Gross National Product (GNP). In fact, estimates say that over 85% of all United States enterprises are family-owned and controlled. The National Family Business Council estimates that 12.9 million family-owned U.S. businesses generate 60% of the GNP and employ 40 to 50 million people.

Currently, the estimated value of invested capital in family and closely tied businesses is over three trillion dollars. Their value is enhanced by the stability that they provide to the economic system because of their tendency toward long-term strategy, an opposition to debt, and inclination to reinvest earnings. Many recent studies have shown that family-owned firms outperform their industry peers and non-family counterparts, foster a supportive and healthy workforce and provide a solid foundation for new job growth.

Available data indicates that only 33% of all family businesses make it to the second generation and only about 10% to the third...

If you work or have worked in a family business, you know the many advantages. These include flexible working hours, dedicated employees, open communication and procedures and working closely with those you treasure most. The irony of family business, however, is that the same elements which contribute to strong family ties – such as leadership roles, varying personalities and spending time together – often become disabling burdens.

Emotions Versus Objectives – The Operational Tug of War

The key issues of family businesses are similar to those of any closely tied organization. However, these particular issues become more sensitive and difficult to deal with in a family-owned business environment because of how they are integrated with the family system as a whole. Family businesses encompass traditional business objectives and intricate affairs of family relationships.

When family members work together, emotions may interfere with business decisions. Issues may arise as relatives see the business from different perspectives. Those engaged in daily operations are more likely to be concerned about production and output, as opposed to those family members acting as "silent" partners who would naturally be more concerned about the bottom line. Challenges also arise when non-family employees enter the picture. Competition among family members such as adequate compensation and job titles can also be ongoing issues.

Family businesses are constantly forced to confront the difference between decisions that are made in the best interest of the family versus the best interest of the business.

Those families who place "family first" usually adopt a decision making process that is primarily based on emotion and result in a range of positive and negative results. Change is difficult within this decision-making philosophy, as decisions are ultimately made to ensure relationship stability and alleviate the chance for conflict.

In contrast, family businesses that operate using a "business first" outward mentality tend to be focused on the service and/or product aspects of the operation. As a result, these businesses tend to place a great deal of emphasis on productivity and competitiveness. Decisions are usually made based on exploiting new opportunities and embracing the change that typically accompanies growth and survival.

Which management philosophy yields the best results? Both have their pros and cons. There are no surefire management principles or techniques that will guarantee success. The key is to anticipate that conflict will occur and to use it constructively. If the fundamental differences between emotions and objectives are not managed and reconciled, the potential for conflict is significant and can yield tremendous consequences for your family, employees, and all individuals involved in the business

Common Sources of Conflict

In the family business environment, conflicts tend to center around certain themes, including:

- Leadership, authority and/or control
- Compensation and division of earnings
- Management of change
- Succession of business and legal transfer of property
- Responsibilities and indebtedness
- Decision-making
- Employment of family members
- Personality differences and varying means of coping with stress
- Future direction of business and long-term strategy

When combined, the primary sources of conflict include individuality, professional differences, and organizational structure.

Understanding Conflict

Conflict results when two or more people oppose one another because their needs, wants, goals or values are different. Most recognized experts on the subject of conflict would say that conflict is not necessarily bad. While all this may be true, family-owned businesses, like most businesses, understandably tend to focus most of the attention on the negative aspects of conflict.

What is the first thing that comes to mind when you hear the word conflict? If you are like most people, it will remind you of a less than happy experience or time in your life. That is because conflict is almost always accompanied by feelings of anger, frustration, anxiety, fear, resentment and hurt. Most individuals associate conflict with unpleasant life experiences, and the family business environment is no exception.

The ingredients of conflict include:

- **Needs:** Things that are absolutely necessary to a person's well being. Conflicts often arise when one's needs are overlooked, whether accidentally or not. It's important to remember that needs are not the same as desires (things that we would like to have, but are not imperative).
- **Interpretation:** People interpret life around them in very different ways. They perceive differences in cause and effect, level of severity, and consequences of a problem.

- **Authority:** The manner in which a person defines and handles authority and the level of power associated with a leadership role is an important influence on the types and number of conflicts that arise. This key ingredient may also be the decisive factor in how conflict is managed.

- **Values:** Ideals and principles that a person considers very important. Conflicts occur when people hold different values or when values are not clearly understood. Conflicts also arise when a person and/or group is not willing to accept that another person and/or group holds something as a value rather than a preference. Even when people are related, they can have different or opposing values.

- **Emotions:** Many people tend to let emotion rule how they deal with the issue of conflict. Conflicts can also occur when a person's feelings or emotions are overlooked. Other conflicts may arise when the level of emotion differs over a particular issue.

The negative aspects of conflict can be a serious drain a family business' financial resources, productivity and momentum, as most energies are directed toward resolution of conflict rather than prevention.

Strategies are typically directed toward minimizing the negatives of conflict rather than promoting the positives. Remember that conflict can be healthy when effectively managed. The positive attributes of conflict can lead to:

- Growth and prosperity
- Innovative ways of thinking
- Improved management skills
- Increased motivation
- Awareness of problems
- "Clearing the air"

The key to turning conflict into a positive outcome is to view conflict from a future-oriented perspective and channel the conflict into viable goals. If conflict is understood, it can be effectively managed by reaching a preventative solution that simultaneously meets the needs of the family members without losing sight of the business objectives. Developing and using skills such as effective communication, problem solving, and negotiating with a focus on "interest rather than position" can manage conflict. In looking for solutions to conflict it is important to focus on what needs to be changed rather than casting blame or reliving past wrongs.

How well you handle the unique problems and rewards that affect your family business will determine your success in both your family and the business.

Business owner advisory groups and executive coaching are resources that can help with conflict management and understanding unique differences among family members.

What is a Business Owner Advisory Group?

Most business owners have a small group of people they turn to when they are confused or overwhelmed. Such an informal advisory board may consist of an attorney, an accountant, family members or friends, but it is usually far less sophisticated than a “suit and tie” corporate board of directors.

An independent business owner advisory group offers family business owners opportunities to gain knowledge that can help them successfully operate and expand their businesses, as well as deal with conflict and family business challenges. These groups offer practical knowledge, resources, and networking opportunities designed to disseminate years of collective wisdom and promote future business success.

Independent business owner advisory groups are made up of members from non-competing companies, such as owners, CEOs and managing partners, so that issues can be discussed in complete confidentiality. Meeting with a group of peers allows members to benefit from each other’s experiences and insights. Peer discussion stimulates new and creative approaches to all areas of business and addresses the personal issues facing a leader of a company.

Because emotions often intersect with objectives, family business owners cannot always tell whether their rationale represents family, manager or owner perspectives. Business owner advisory group members can provide objective perspectives to help business owners see which “hat” they may be wearing on a given topic.

More benefits of a business owner advisory group:

- Offers informal means to understand and resolve conflict
- Provides a source for information and options
- Enhances problem solving skills
- Mutual accountability to insure decisions are actually implemented
- Mutual support to address challenges, goals and opportunities
- Frank feedback from peers who understand business and the demands of top roles

A business owner advisory group can also help with such problems as:

- Competition and rivalry between family members
- Compensation, promotion and performance review of employees and associates who are part of the family
- Managing relationships between family members
- Poor performance of family members
- Succession and succession planning
- Emotional factors influencing future planning
- Goal Setting
- Overall Workplace Climate

The Benefits of Family Business Coaching

Constant demands from family members, demands for employee satisfaction, and demands of strategic decision-making often leaves a family business owner feeling physically, mentally, and emotionally drained. Often, they can't—or don't feel comfortable—sharing their concerns or asking the family for assistance. Maintaining success under such conditions demands fresh knowledge, on-going insight, expanded skill, and sustained energy.

Enter the concept of Family Business Coaching. Instead of silently struggling on their own, serious competitors have always turned to expert coaching not only to preserve their edge, but to also increase their level of performance. Having a coach is a time-tested and proven method for reaching aggressive goals and guaranteeing effectiveness.

Coaching consists of a series of structured interactions between a coach and an executive or family team aimed at enhancing business performance and meeting personal and family business goals. It is about clearing roadblocks, unlocking potential, and filling gaps between where people are and where they would like to be.

Family business coaches serve as facilitators, motivators, consultants, and sounding boards dealing with business goals, people interaction and self-management issues. Coaches utilizes feedback and offer objectivity and accountability to help businesses move forward in reaching goals.

Family business coaching can:

- Provide an assessment of the roles and responsibilities of the family members and where they overlap.
- Identify communication issues between family members and employees.
- Facilitate individual and group coaching sessions to resolve issues and enhance communication.
- Develop a strategy for growth for family members taking on new leadership roles.
- Provide accountability for all family members involved in the business.
- Help formulate long-term business and individual family member goals.
- Prevent missed business opportunities.
- Become the catalyst to challenge each family member to focus on long-term business opportunities.

Family business coaching reduces the stress and difficulties that may result when family members work together and helps ensure businesses survive for multiple generations.

Conclusion

Family owned businesses face many challenges. The demands of a successful business often affect family life and family concerns frequently have an impact on the life of the business. Whether your family business will be successful for generations to come or one of the many that fail to survive will likely fall upon what you do to balance family emotions with business objectives and how effectively you manage the conflict that comes with both.

Accept that there may be rocky times in a complex family business relationship and take the necessary steps to ensure conflicts are warded off before becoming detrimental.

Family firms are powerful, yet delicate operating units that can realize long-term benefits from outside assistance to reduce the effects of operating in an environment of emotions vs. objectives. The use of business owner advisory groups and family business coaching provide the tools to help understand, accept, resolve sticky family business issues, and continue moving the family business forward to meet individual and business goals. Although using these elements in managing the family/business interface will not guarantee business, family, or individual success, they will aid in developing effective management techniques and reduce the risks and stresses associated with operating a family business.

Was *Family Business* helpful to you? Help someone else out by forwarding to a colleague.

Jacquelyn Gernaey, Independent Owner of The Alternative Board TAB and President of HyTech Consulting, has more than twenty-five years experience leading both entrepreneurial and large corporations. She now focuses helping CEOs, presidents, owners and partners create, execute and exceed their personal and business success goals. She has extensive experience challenging and guiding family-owned businesses.