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OPINION

Personal View: Ensuring family business success across generations

BY LARRY GODDARD

CEOs tend to be known for strength, vision and reliability. But when family and business mix, tensions can exceed typical boardroom expectations and rise to frightening heights. You would expect a seasoned CEO running a meeting with quiet reassurance – not on his office floor, being pummeled by his two middle-aged sons. That was the reality for a 75-year-old CEO client after he refused to give his sons pay raises, increased ownership and more control.

The fact is, family business disputes are rarely just business. Relationship dynamics, the fluidity between work and home life and complicated succession issues can undermine an otherwise successful enterprise. Add in generational divides, sibling rivalries, in-laws, inter-family disputes and conflicts about compensation and control, and it's a perfect storm.

But it doesn't have to be that way. At its heart, family is strength: It brings an enviable level of commitment and continuity to an enterprise. And because close to 90% of businesses are family owned, family is strength for the overall economy.

Here are four best practices for using the advantages of family to boost growth and performance, and equally important, to enhance family relationships.

1. Raise humble stewards of wealth

Children of family business owners often are born into wealth, which creates both privilege and burden. It can foster assumptions and expectations about their role in the family business, as well as the next generation of leaders. Parents can mitigate this by setting the expectation that leadership isn't automatically bestowed. Instead, it's earned. At the same time, parents should respect children who don't choose to work in the business or take different career entirely.

Emphasizing the value of hard work and occasional sacrifice will help teach the next generation to spend money with intention, while conveying egalitarianism by encouraging volunteerism or charitable giving to instill a sense of responsibility at a young age.

Remind the next generation that the skills essential to running the family business are learned, not inherited, and with guidance, they too can develop them.

2. Create a clear plan for succession

Even after cultivating a sense of stewardship in the rising generation, it can be hard to hand over the reins, especially when individual identity is so intertwined with the business. Statistically, only 13% of family businesses reach third generation succession, and only 3% reach fourth. The older generation often questions if the younger is prepared for ownership. They wish to ensure that their interests remain protected after stepping down and letting go of their "baby."

But even the reluctant must eventually pass the torch. Consider the second-generation CEO client who recognized his niece as a potential successor. He knew she wasn't ready to become CEO, so he appointed her president of a key division, connected her with important contacts and enrolled her in vital training.

As she developed increasing acumen, the CEO and his niece worked together to implement cultural changes that would allow the company to thrive after his retirement. By scaffolding her rise up the ranks, the CEO prepared a potential successor for leadership.

3. Form an advisory board

Many family business owners naturally tend to be conservative in their growth strategies, especially if the business is comfortably meeting family needs. What's more, objectivity is challenging when a business supports multiple generations.

A board of trusted advisers can offer input on a variety of important matters, from letting go of underperforming employees to appointing successors and determining fair compensation for all. A board also can collaborate with key stakeholders to assess and define the family's growth philosophy and risk tolerance, while ensuring the business maintains the cash flow to fund family needs.

If and when the time comes, a board can provide unbiased counsel on the expediency of salvaging unprofitable divisions and take a more objective view on selling all or part of the business. There may be costs associated with a board, but it represents a valuable investment. Arm's length expertise can diffuse emotional issues, facilitate succession and balance the needs of different generations.

4. Show respect for non-family member employees

Hiring and retaining valuable employees, while compensating them fairly, is a key to success in any business. In family businesses, equity can fall short. In one client company, non-family employees threatened to quit when they learned about the higher salaries of family members who worked just a few hours each day.

The inherent imbalances of power between family and non-family employees can cause resentment and distrust unless concrete steps are taken to motivate and retain key staff. Offer equitable salaries and PTO, and create merit-based opportunities for advancement and leadership.

Consider equity (or "phantom" equity) opportunities for superstars. In other words, for the long-term health of the business, invite all valuable employees into your "family."

Working with loved ones can be a rewarding experience, but it can also be rife with seemingly innocuous moments that turn toxic without appropriate care and sensitivity.

Of course, no one wants to end up like the CEO father and his angry sons.

Fortunately, there's hope.

Leaders committed to setting clear expectations about leadership, holding family members accountable to well-defined standards of performance, instilling responsibility at all levels, and drawing on the strength derived from non-family managers and advisers are likely to see their businesses prosper.

The best way to run a family business is to act like it's a regular business and award merit where it is due, not where it's inherited.

Goddard has served as CEO, consultant and coach to more than 300 middle-market and family businesses. As CEO of the Parkland Group, he has authored three books and now focuses his practice on family-owned businesses.