Practice Business Practices

To be a good family business, don't act like one.

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The best qualities of being together as a family can have disastrous implications for being together in a business. The strengths of history, relationship, affection and inclusion, when carried too far into the business context, can create significant limitations. The virtues that produce long-term (versus quarterly) thinking, legacy and purpose-driven environments, family-friendly cultures, fringe benefits and flexibility, can also create poor communication, fuzzy performance expectations, toxic work environments and perverse rewards. How do the following examples relate to your family business?

▶ **ENTRANCE GUARANTEES**. Many family business succession plans are well-intended but doomed early on, when the senior generation leaves the issue of returning to the business entirely in the hands of the younger generation. Without regard for education or experience, the next generation is told, "There will always be a place for you here."

Contrast this approach with a non-family business. You would not guarantee a spot for someone without a clear understanding of his or her qualifications, how they can contribute to the enterprise or whether the business can afford them. Being a family member does not guarantee business success. While a lack of experience and education don't assure failure, the odds of success are hindered when the only qualification for return is DNA.

▶ **COMPENSATION PHILOSOPHIES.** In most families, equality is a principle applied throughout childhood. Even though we may demonstrate love to our children in different ways, we try to avoid showing favoritism. With this background, it becomes difficult to pay the next generation different amounts, even if their contributions are distinct.

All businesses face the difficulty of compensating people fairly for different kinds of work. But, avoiding a difficult issue by paying family members equally, regardless of each person's contribution, results in frustration for those adding significant value and irritation for spouses who see differentiated efforts and results among siblings.

▶ **PERFORMANCE STANDARDS.** A frequent refrain in family businesses is, "You can't fire family." The reference is to poor behavior on the part of the family member, behavior that would, under normal circumstances, cause that person to be let go.

The business impact of a poor performing relative can range from hiring and retention problems, to loss of customers and landowners. It causes harm to your reputation in the community and in the industry. It also creates a succession obstacle for the senior generation, which stays around to buffer the impact of the incompetent or destructive family member.

▶ **EXIT STRATEGIES**. The spirit of camaraderie in working with people you know well can be a refreshing difference between family and non-family businesses. You can often become aligned more quickly on strategy, be more honest about your differences, execute faster and communicate more informally. Unfortunately, and partly due to these positive elements, the default response to many future problems is, "We'll figure it out. We're family."

A family member's exit from ownership or management is a common family business challenge. By not having a process and agreement in place for how this exit occurs, you create a risk of conflict and financial problems. Waiting to negotiate an exit in the middle of a family member's departure while trying to run the business, train a replacement, avoid tax consequences, establish entity values and come up with cash is overwhelming for most families and, often, worsens the health of the family and business. Consider planning your exit strategies sooner rather than later.

Well-run family enterprises offer wonderful benefits to owners, team members and communities. To sustain those benefits, implement some of the professional practices you see in non-family organizations. Many of those same practices will make you a better family and business. ●

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