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# THORNY MANAGEMENT ISSUES In Family Business

Family farms and ranches are similar to non-family agriculture companies. Both kinds of businesses offer a product or service to the marketplace. They use capital, buy inputs, manage labor, run equipment, deal with vendors and serve customers. Furthermore, most business principles are the same regardless of family or non-family ownership. Taking care of the customer, treating team members well and managing working capital are principles found in almost any kind of successful business.

When it comes to managing a business, however, family businesses often struggle to discuss several key issues, including compensation, individual performance and transitions. Indeed, the desire for family harmony, assumptions about people's intentions and the habit of taking family members for granted cause families to avoid some of the most important topics in any business. Consider the following:

**Compensation.** In a family farm or ranch, regular pay for family members is often approached conservatively. Since the family members are the owners, they get the profits, and they understand that if they don't make money, any extra compensation is creating a loss. Thus, the family is often expected to contribute their labor, or "sweat equity," to the enterprise. This can lead to below-market compensation with a future promise of reward in the form of profits or ownership.

The problem is that the future reward is seldom established in writing, as it would be with a non-family manager. Someone not related to you would be wary of only a verbal promise, but it is assumed a family member will stick around. Without specificity, and when sweat equity doesn't materialize in the way or amount or time frame expected by the person who made the contribution of labor, feelings of wasted time or effort, or even shock, are pervasive. The family relationship may become strained or permanently damaged.

Additionally, it seems difficult to acknowledge different levels of family member contribution to the business, and the result is often that family members are paid equally. Money is seen as a proxy for love or recognition, and it doesn't feel good to be loved less (paid less) than another sibling. Many parents struggle with the idea that by differentiating compensation, they are signaling one family member has more, or less, value than another.

**Performance.** In most positions held by non-family members, there is a clear expectation of performance often embodied in a job description or evaluation form, and there are clear consequences for not meeting those standards.

But, for family members who don't perform, giving them an ultimatum or firing them feels like a threat to their family membership. The accountability for poor performance—termination—isn't a true reality for a family member, so bad behavior goes unpunished. This lowers the morale of the entire organization.

**Transitions.** Family commitment is a strength, setting many family businesses apart from their non-family competitors. But, every strength taken to an extreme becomes a weakness. Family members can be so committed, they won't give up their role, pass on their knowledge or encourage other people to learn and grow, which is terribly frustrating for younger managers.

Or, the senior generation member may delay any transitional activity by annually announcing he or she will slow down "in about five years." This also causes frustration and bottlenecks, and puts the business at risk, as so much knowledge and responsibility are tied up in the generation approaching retirement.

I often suggest that the key to being a good family business is not acting like one. When it comes to compensation, individual performance and transitions, try to act as if no one is related. It will help you act more professionally, increase respect and ultimately be a better family business. ///

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