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# The Secrets to Setting Your Family Business Up for Success

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Nov 22, 2019

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To outsiders, the imprecise term “[family business](#)” can suggest a well-functioning company run by loving, hugging people with old-fashioned values or a continuous hypersonic rerun of family baggage and childhood scripts projecting a dysfunctional mess. Examples of each abound. Sometimes the moniker “family business” is applied to private companies with no more connection to “a family” than people who enjoy the income.

For this purpose, we'll define it as an employer company fully- or majority-owned by two or more related family members with active roles in the business.

## Treat a Family Business As... A Business

More market-influential, competitively resilient, profitable, and thus more valuable “family businesses” are run as professionally managed corporations. To avoid insularity and promote cross-pollination of ideas, they typically hire people from outside the family for senior roles, too. Larger family operations will often hire outside CEOs.

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They have Boards of Directors that minimally have independent directors from outside the family, possibly outnumbering family representatives.

They are run as a meritocracy. They do not employ family members unemployable elsewhere. They have fair, written standards of performance and position descriptions for all, whether part of the family or not. Performance reviews are evenly applied, and ideally, no family member ever reviews another, except perhaps in a 360-degree review process.

Some companies require the younger generation to work elsewhere as a prequalification to work in the family business later. Not only does this requirement strengthen the company by injecting outside learning and skills, but it also ensures the next generation feels they bring something valuable to the business and that they are there for reasons beyond nepotism. The self-esteem that requirement can create might be more valuable to the person and business in the long run than the skills themselves.

In a sense, think of your business as a high-performing company that just happens to employ some family members.

## An Effective Family Business Needs an Organizational Vision

The best-run businesses take the time to collectively define the organization's purpose, values, aspirations, and culture. They define what they stand for individually and collectively. A vision for the foreseeable future; the North Star. They define how their family interacts with the world, how they resolve disputes internally, and how they engage with suppliers or customers. It's the company's personality – a pillar of its brand.

Crucially, it will guide hiring and other important decisions. It is especially important if leadership succession is being contemplated, whether from within or outside the family {6 Traits of Strong Family Businesses, Harvard Business Review, June 18, 2019}.

It may take what feels like an eternity to reach clarity on a purpose, with hair-pulling, scratching, and biting along the way. It's worth researching the "purpose" concept in more depth, then taking the time and effort to do the work. It will pull the family and outside team closer, and clear vision and values will predispose financial success.

From that visioning, a mission should flow; the creation of a long-term goal of perhaps three to five years. Family owners of appropriate management level and senior management outsiders should collaboratively set goals to support the mission, then adjust it as warranted, aligning strategy, capital budgeting, and hiring decisions, too.

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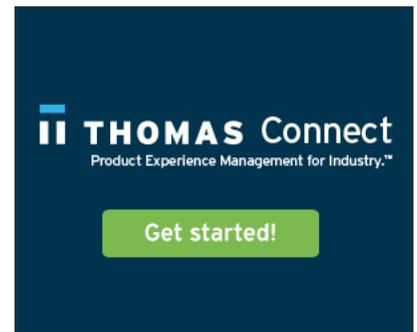
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# Use Rigorous Financial Controls to Promote Family Business Harmony

Well-performing family businesses are not treated as ATMs; loans to family members on a “repayment schedule” with a non-expectant wink are not done. It is best that the company does not make loans.

Period.

Unless of course... the family business is a bank.

As a company grows, a controller should be hired, [then, when larger, a chief financial officer](#). If the roles are assumed by family members, they should be trained and evaluated as though they were working for another corporation. Particularly when shareholders exist outside the family, be aware that there is legal jeopardy when one spouse is the CEO and the other the CFO. At best, it is a poor governance practice. Other disgruntled family members with an interest in the business could also create legal friction.

## Audit All Business Financial Records

It is worth every penny to have the accounting firm routinely audit the company’s financial statements.

Not only does it create “family harmony insurance,” but it will also “professionalize” financial and accounting processes, making the company significantly more valuable to stockholders and outsiders, e.g. banks from which to borrow, companies to acquire with stock, investors in or acquirers of the company, prospective outside management being hired – in short, any stakeholder being asked to “trust” the company’s financial reports.

## Separate Business From Personal Dynamics

It is difficult but crucial to maintain separation between family members’ personal lives and the business. Too often, a business falls victim to family feuding. Simmering resentments may encourage avoidance, discouraging conversations that may turn out to be very important for day-to-day business success.

While family love, bonds, and disagreements are ever-present, in the better-functioning workplace those are subservient to company responsibilities and should be left at the door. “Mom” or “Dad” may even be Kathy or Bill between 9 AM and 5 PM.

Consider using outside conflict resolution facilitators or consultants to help forge the way in which the company will deal with future disputes. Companies need a process to differentiate between personal and business matters when they start to muddle. Learn to embrace conflict but manage it; otherwise, it may assume the leadership role.

*This article is part 5 of a 6-part series running this week on Thomas Insights. The final article in this series, "What Are the Alternatives to Selling a Business Besides Family Succession?" will publish Monday on Insights and in the Thomas Industry Update newsletter.*

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