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When You're In Business With Family: Three Critical Considerations

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Not all companies are large corporations or conglomerates. Across the world, the majority of businesses are actually family owned. In North America, they are an estimated 80% to 90% of businesses. They employ 60% of the workforce.

In the European Union, at least 70% of firms are family owned (download required). In China, the world's most populous nation, it's about 85% But do all survive?

Research has shown that "only 13% of successful family businesses last through three generations. Less than two-thirds survive the second generation."

These figures indicate what many have long called the three-generation syndrome. This is where the first generation starts the business with scarce resources—usually a father and/or mother. The business grows, and the children take over. Many of these children are highly qualified. They don't take the business for granted because they saw the struggling years. By the third generation, cousins may lead the business. My clients from the more senior generation complain that children and grandchildren, after growing up in comfort, are not as driven nor as involved.

In a nutshell, it's rags to riches to rags for many families. This is unfortunate, if not tragic, because at the end of the day, every family business that shuts down or is sold means ending the legacies of its founders.

Still, many family enterprises are doing well. S.C. Johnson, makers of Johnson Wax and Pledge is now led by CEO Fisk Johnson, a fifth-generation CEO. Confectionery giant Mars, makers of M&M's, is led by Victoria B. Mars, a fourth-generation family member. More than 100 years later, both these firms remain profitable and privately held.

So what goes wrong with many businesses? And what can we do right?

There are three critical things that family businesses should consider.

Consideration 1: Recognize the uniqueness and complexities of family enterprises.

If being part of a family business often feels burdensome, you are not alone. Sons or daughters do find it doubly hard when they're harshly corrected at work by the boss—only to find that same person at Sunday dinner because that boss is Mom or Dad! We want these dinners to be solely about fellowship, but many family members can't help bringing up work.

My advice is to agree on boundaries and strictly enforce them. A client of mine has taken a "fun" approach. A family member who brings up work while at a restaurant foots the bill.

Families must also recognize the three overlapping roles that Harvard Business School has identified:

1. Owner/shareholder.

2. Manager.

3. Family.

We may play one, two or all three roles at once. Families in business should be extra mindful as these roles can easily clash with each other.

A "loving" brother who is CEO may treat his colleague – a younger sibling -- with kid gloves at the expense of the business. Another CEO could react harshly because of sibling dynamics that really don't have anything to do with business. The people I coach always complain that negative feedback is inevitably emotional and a pile-up of grievances pushes talented family members to leave the business. Being fair, just or right must be guided by clear family and business values.

Also, given the three overlapping roles, families must remember that each role needs to be governed uniquely. Purely family-related issues need their set of policies and communication channels. Operations must follow best management and finance practices. Family issues should not leak into the employee grapevine. Meanwhile, the board has its responsibilities. But what are the protocols, expectations and compensation for operationally involved family board members vis-a-vis the nonemployed board member relatives?

Consideration 2: Policies must be put in place before they become personal

issues.

A few years ago, I had a client, a family whose father was CEO and all three children were part of the business. The family owned several car dealerships, and they described themselves as "conservative and protective."

Two of the three children have been married for several years. And then, the third child —a son—decided to get hitched. The challenge: Unlike the two other in-laws, they didn't have a liking for the youngest son's fiancée. Both son and fiancée were already in their 40's, and they were OK with not having kids.

The family's issue: The fiancée already had children from a previous marriage. With this development, the parents pushed for a prenup, which wasn't previously discussed. The parents worried that their son's stepchildren would inherit what their "blood, sweat and tears" had earned them. The son was up in arms. He held a critical position, and he eventually resigned in protest. It fractured the family and left a vacuum in the business.

Policies must be agreed upon before they become personal issues.

I haven't even discussed the issue of money. But a client could not have said it better: Blood is thicker than water, but money is thicker than blood.

Consideration 3: There are some policies you will need to formulate.

1. How will the next CEO be chosen and compensated?

2. How will shares and other family properties be divided?

3. What are the rules when it comes to hiring family? Can in-laws be part of the business?

4. Can a family member be fired?

5. What are protocols regarding prenups and divorces?

6. How will we prepare the next generation?

7. How do we manage, even avoid, conflicts?

8. Can shares be sold to nonfamily? Will we go public?

Many families, especially those with larger businesses, eventually develop family constitutions. Some caution: Family constitutions often take years to develop, and it's tempting to abandon such effort. My advice is to work on priority policies, and then work your way up.

The Assurance

enjoying prosperity as one family. But just like all other worthwhile relationships, families must persevere through clear values, open communication, well-considered policies and commitment.

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