

# Protect the family from the family-owned business

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Don't let your family business become the family unit



Very few family businesses survive beyond the first generation. To ensure the longevity of your business and the best interests of your family, be sure that the next generation of leadership has the desire and talent to remain in the family business.

It can be argued that family business represents the heart of business in America. A recent *BusinessWeek* story notes that family businesses generate half of the country's gross domestic product, 60 percent of the country's jobs and 78 percent of new job creation.

Family business brings a complicated dynamic not only to the workplace but to the dinner table as well. Studies have shown that most family businesses don't survive beyond the first generation, and there are good reasons why. It is very easy to entangle business concerns with family issues. That's why every family business should realize that the family itself is the most important part of the equation.

In order to be fair to both the business and the family, the business should be run on pre-determined, guiding principles. Below are some best practices for running a family business.

### **The Curse of the Involuntary Successor**

It is not uncommon to see second generation family members subtly pressured to work in the business when their hearts are not in it. For the sake of both the business and the family, individuals should be encouraged to pursue their dreams, whether they lie in the family business or elsewhere.

If a son or daughter is assumed to be the successor when s/he doesn't have the aptitude, talent or desire for the role, they can end up feeling trapped. What the

parent intends as a blessing, can in fact, be a curse for the involuntary successor.

Sometimes pressure to stay in the family business is disguised in the form of money. When the salary can't be matched elsewhere, a child may stay for the wrong reason. Money tends to follow success, not the other way around. Both the business and the individual will be more successful when true career aspirations are followed.

The transition of family businesses as they pass from one generation to another can be made more difficult by founders who can't separate the business from the family. It is very tragic to see a business fail under an involuntary successor's watch. Running any business is pressure enough, but adding to it the unfair pressure of maintaining a family legacy will make it the hardest job in America.

### **Be fair to the true contributors**

Many family businesses are started in tough times because a family needs to take care of every member. As the family grows, the business can experience growing pains of its own. The business can begin to struggle when producers tire of carrying most of the burden but sharing the rewards equally. If business ownership becomes too widely dispersed among unproductive family members, the strong performers are demoralized.

The most successful family businesses are fair to the true contributors, and the top performer is not always the oldest child. Reward the producers or face the danger of causing resentment, inequity and lack of

incentive. Compensation – and ownership – should be based on contribution and role, not birthright.

We've often seen that the true producers may be too polite or generous to admit they want to be fairly compensated for their contribution. They are reluctant to raise the issue, for fear of appearing greedy. But when compensation is not aligned with contribution, even the most selfless family member will eventually become frustrated, damaging the performance of the company.

### **Succession can be painless**

Succession plans should be developed well ahead of transition events. The founding generation has a responsibility to lead this process. It may not be easy to discuss, but a little courage now will save a great deal of pain and conflict later.

Sit down in room – a professional facilitator can be very helpful here – and agree on the guiding principles that will be the basis of family business decisions. There are no right or wrong principals, but these decisions need to be made with wisdom and insight long before a transition event is eminent. Once the principals are clearly articulated, the rest is relatively easy.

Undue stress on the family comes when siblings are left to negotiate the terms of separation from the business. To minimize this tension, provide pre-determined guidelines for decisions. For example:

- Define earned income versus ownership income
- Clarify compensation and bonus policies for employees, both family and non-family
- Decide on specific criteria for owning stock
- Decide on valuation methods and buy-sell logistics
- Determine the roles and authority of the CEO, board of directors, and shareholders

Good succession almost always includes a consolidation of ownership at the second generation. Clear, guiding principles can help reduce conflict. Plan early and plan thoroughly. The financial statement may be the universal scorecard for business performance, but family relationships are priceless.

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