

For Success, Families Need More Than Love

By Henry Landes

When you think about a typical family-owned business, you might first think about a local mom-and-pop store around the corner. But family-owned businesses are an extremely important segment of the economy of the United States.

In fact, recent statistics show that family-owned businesses account for 60 percent of all U.S. employment, 78 percent of all new jobs, more than 50 percent of the Gross National Product, and 65 percent of all wages paid. Yet fewer than one in three family firms survive to the second generation.

While love and respect for one another can be a source of great strength for a family business, succeeding in family business takes more than just love—a lot more. Family businesses face a whole set of complexities and troubles not experienced by other businesses, as family issues and business issues frequently get tangled together.

Hats, headaches, heartaches

The head of the typical business family will wear no less than three different hats in the organization:

- A red hat, representing the blood connection and passion involved in a family, as a spouse and parent;
- A blue hat, representing the operating business system, as the CEO of a profitable company; and
- A gold hat, representing the golden goose, as the owner of a business who owns the gold and gets to make the rules.

When wearing all these hats, dealing with family members who are also employees, making decisions about salaries, promotions, business dealings and personnel can cause major headache and/or heartache.

A period of particularly high risk for both the family and the business is during ownership and management

transitions. Everyone feels off balance as they try on new roles, often exposing an emotional minefield. Many family-owned businesses don't survive this period.

At the Delaware Valley Family Business Center, we have developed a model to help our business families understand all the forces at work in their organization. This model is built around a scale metaphor, and achieving balance between elements in a family-owned business is the key to succeeding, even during difficult transitions.

A family business model

In our model, the family is the center, the fulcrum, the foundation of the business. It is the first circle, the circle of love. While the business is important and you need to treat it with respect, the family preceded the business and will endure after the business. The family factor can either hold the whole enterprise together or contribute to its destruction.

Balanced on top of the family foundation are two key elements: the business operation and the ownership system. In contrast to a family, which offers unconditional love, a business operation must be performance based or it will fail. And understanding of and experience with critical ownership structures and policies is often very limited.

So how can this delicate balance be achieved? Through a process that requires a remarkable commitment to growth on the part of the family members.

Steps to success

First, business families need to talk on a regular basis, perhaps monthly or quarterly. You can think of these meetings as research and development labs for the family business.

Second, families need to learn. Read books, listen to tapes, attend forums that

address the unique and complex challenges of running a family-owned business. Everything you can learn helps you.



Possibly the most important step, however, is building common understandings and commitments about the tough stuff that most business families face, then developing policies based on those commitments. Written policies can help avoid future misunderstandings, clarify expectations and build common values and a shared dream. Policies cover everything within the business from compensation issues to a code of conduct.

Developing a policy handbook for your family-owned business takes considerable time and effort, but it is worth it in the long run. Here's the process we use with our clients at the Delaware Valley Family Business Center:

- Commit to regular meetings to develop the policies. Choose a place and time that will minimize distractions;
- Select a family meeting facilitator to help launch the process. It could be a professional or an appropriate family member;
- Assign a recorder to summarize the discussion and actions steps to be taken;
- Write a code of conduct and ground rules about how you will discuss important issues;
- Ask questions and identify hot spots or problem areas. Anticipate future issues and talk about them before they become personal. Policies adopted should assure consistency, fairness and efficiency;

- Assign a wordsmith to pull discussions into a draft policy statement. It should be in your own words and should sound like your family;
- Review the draft policy at the next meeting and revise as needed. Adopt the policy when there is agreement. Ask each family member to sign the policy and note the date when it was adopted; and
- File the signed, dated policy handbook for future reference. Schedule regular time to review and revise the adopted policies.

While it certainly will never be easy to run a business with family members, it can be extremely rewarding, both emotionally and financially. When family businesses work, they possess an inborn competitive advantage that no other company can match.

A contributing editor of Family Business Magazine, Henry Landes is founder and president of the Delaware Valley Family Business Center, located in Sellersville, which has served over 400 family-owned firms since 1989. More information is available at 800-296-8672, or www.dvfambus.com