Managing the FAMILY BUSINESS

Three Key Disciplines

by David Dudon

The best way to succeed with a family business is to sell it.

Ever heard that? If you're a family business owner, you've probably thought it. It's usually said in jest, but satire owes its humor to an element of truth.

The fact is that family businesses confront a unique set of challenges, and it's no secret why. After all, they are *family* businesses. The owner can never escape the office because family dinners inevitably turn into board meetings, holiday gatherings become offsite retreats, and personnel decisions threaten more than just professional relationships.

Families can be a challenge to manage in their own right, but when family issues become business issues and vice versa, the challenges in each institution multiply exponentially. When family issues rob the energy that should be focused on improving the business organization, the business suffers, affecting many livelihoods, including those of non-family employees.

I grew up in my father's machining and fabrication business, and I served as President and CEO of the family business for sixteen years. Overall, I found this experience to be very rewarding. It was a privilege to work with those I loved, and our personal ties to the business made it easier to rally everyone around a common cause. However, I also encountered many challenges, especially when needing the courage to make the right decisions in a family environment.

The challenges of running a family business are inherent; they cannot be eliminated, but they can be managed. Key to overcoming these challenges is three specific disciplines: ensuring the right people are in the right positions, planning for succession, and conducting an annual family meeting. These disciplines are common to all businesses, but they have unique applications for family businesses.

JOHNNY ON THE (RIGHT) SPOT

Jim Collins writes in *Good to Great*: "People are not your most important asset. The *right* people are." He goes on to say that with the right people, the need to manage and motivate people is almost nonexistent. With the wrong people, you don't have a chance at having a great company. This presents a unique challenge for the family business because it doesn't always have a choice in choosing its people.

Before going further, let's clarify that this is not all bad. Having family involved in the business offers some potential advantages. For one thing, the core values and work ethic of family members are likely to be closely aligned, and the fact that they share a personal stake in the company's success is a powerful motivator for performance.

Of course, this natural familiarity with one another can also be a curse. It's hard enough to disagree with those you don't know and love, but even harder with those you do. When unhealthy dissension occurs, the rift can run quite deep, especially when there's no "escaping to home" from the family business.

So is Collins's observation relevant to family businesses? Absolutely. You might not be able to choose your people, but you can – and must – ensure that the right people are in the right *positions*. It's not easy, but it must happen for long-term success. In running my own family business, I found several principles to be invaluable in this regard. Like anything else, they are simple to understand, but difficult to execute. Nonetheless, you must find a way.

First, never create a position for a family member. For that matter, not every leadership position needs to be filled by a family member, regardless of who is available and interested. The goal is to get the right people in the right positions, not the positions for the people. Family members must understand that bloodline does not guarantee a position in the company, much less the executive team. It is particularly difficult for the first generation to face this fact. They want their children to run the company, but genes don't automatically deliver the right stuff to manage effectively. Nobody benefits if the business suffers, so business health must supersede family desires.

That said, it may be appropriate to show favoritism toward a family member, but only after he has applied and proven his qualifications like anyone else. Setting clear rules ahead of time regarding the hiring of family members will lessen the headaches when that time comes.

OIA Greece (Ilivia Yudkin)

Second, it's important to understand that, contrary to common assumption, the oldest child is not always the right choice for a position. I was the second son in my family, and it was not easy for anyone when I took control of the business. The reality, however, was that the CEO role did not fit my older brother's strengths. He had an essential role to fill in our business, but it was not as CEO. When I took the CEO role, I was not "promoted" above him in the family; he was still my older brother and respected as such. To his credit, he recognized that our roles in the family and our roles in the business were separate vocations. I admire him for the humility he demonstrated, which is perhaps the rarest, yet most important, characteristic of a leader.

Many families try to compromise by allowing a family member to share a position with another person. This does not work. If all are accountable, none are accountable. Furthermore, if one of the people sharing the job is not a family member, the non-family member will feel less freedom to make independent judgments, no matter how much he's assured otherwise by his management. This is bad business.

Third, never have one generation report to its parent generation. The parent boss is usually either too hard or too easy on his son or daughter employee. In response, the child tends to mimic the parent and never branches out to develop new professional skills or insights. I strongly recommend that a non-family employee supervise later generations of family employees.

WHEN JUNIOR NEEDS TO MOVE

Inevitably, a time will come when a family member needs to be fired or moved to another position. Understandably, but destructively, most family CEOs don't have the courage to follow through. Rather, they deceive themselves into thinking that they can develop the family employee. When it becomes clear that this won't happen, the CEO must face the facts and act.

I know of one family restaurant owned by several brothers who tried to avoid this situation altogether by refusing to hire any children. Their business was very successful, but when they grew older and decided to get out of the business, they had a problem. As the entrepreneurs, they had never relinquished any control of the business to their employees. Worse, their "our way or the highway" approach had inhibited their ability to develop anyone to succeed them. The restaurant was so closely identified with them that would-be buyers were scared by what they perceived to be a dead end. With no buyers and no future leaders in the organization, they had to close the doors, left with nothing but their memories. In attempting to avoid one problem, these brothers later realized that even they could not escape the issue of succession planning.

Most family businesses do not mirror these brothers' restaurant with nobody waiting in the wings, but regardless of approach, every business needs a successful succession plan. Because of the unique personal issues involved in a family business, it's very difficult for the CEO to do this without an independent advisory board composed of non-family members.

Therefore, **I encourage all CEOs of family businesses to form an advisory board before developing a succession plan.** This is important for all CEOs, but it's *imperative* for a family business. My advisory board was a small group of experienced confidants who could offer the unique perspective and the independent viewpoint I needed to make all difficult decisions, especially those involving family. Their advice enabled me to cite multiple independent perspectives to reinforce my decisions, rendering them more readily acceptable to my family.

It's never too early to develop a succession plan. Ideally, it should be in place long before you need it. If it's thrown together out of necessity, emotion is much more likely to play a role both in its design and the family's level of support. In laying out the plan, it's also important that no person's name be filled in the boxes. Set the structure of the plan before assigning names. Again, this will limit the influence of emotion over rationale in securing the company's future. When the time comes to enact the plan, it then becomes a matter of principled execution instead of emotional reaction.

Typically, family members are supportive of this process. Ironically, it's the *spouses* of family members that tend to be dissatisfied. Whatever the reasons, I've seen it happen too many times to ignore, and CEOs of family businesses should be prepared for this dynamic.

FAMILY MEETING

The third fundamental discipline for family businesses is a family meeting *separate* from the business meetings. All family members have a personal and financial interest in the success of the business whether they work there or not. Perhaps they actually own stock through inheritance, or perhaps their interest is just in ensuring that Mom has enough money to live when Dad dies. Whatever the reason, they should be informed of the state of the business. Therefore, the family council should consist of *all* family members. This is not only fair and in good order, but it will also avoid future family conflicts stemming from ignorance and confusion.

Use these meetings to teach the entire family about the business itself and the roles of the family members in the business. Those outside the business often have the wrong concept of what benefits those inside the business receive. They might believe, for example, that the business members use the company

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Santorini Church (Ilivia Yudkin)

expense account to pay their personal bills or to buy personal cars. Debunking these myths will head off many problems. The non-business family members need to understand how hard the business family members work and the difficulties they face as they strive to preserve the business for the next generation. They should also understand the succession plan and how they get paid their inheritance when the founder dies.

These meetings should be annual. If more frequent, they just become a job…or a party. I suggest conducting them off-site for about three hours, followed by a family dinner at the company's expense. One year, our family met in Orlando for our meeting so we could spend time together while taking our children to Disney World. Though they serve an important business function, these meetings can also be the source of special family memories.

In addition to general updates and succession plans, families may find value in inviting various experts to their family meetings. For example, an attorney could discuss issues related to their rights as shareholders, or a CPA could discuss the present and expected future value of the business. Planning a different special topic each year will keep the meetings interesting and expand the family's knowledge of the business.

Finally, it's important to emphasize that these family meetings should be conducted separate from the company executive meetings, regardless of any overlap in participants. Executive meetings are about running the company; family meetings are about the company's relationship to the family. Their purposes must remain distinct, and both are important to the health of the business and the family.

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