

Keeping the Family Business Alive (Even in Tough Economic Times)

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The future belongs to those who believe in the beauty of their dreams.
- Eleanor Roosevelt

Dreams are the foundation of most family businesses. The dream often combines success and financial security with family harmony and togetherness. Keeping the dream alive in today's economy is a challenge. Family businesses face all of the same challenges as any privately held business, plus they must navigate through family concerns and relationships. We will look at four areas that are critical to making the dream a reality: risk, family employees, expertise and the 3 "C"s. Then we will talk about what to do when things go wrong.

Risk

The Hoiles family owned and ran Freedom Communications for almost 75 years. In 2003, their nationwide network of newspapers, radio and television stations was valued at \$2 billion. Family disagreements and the lack of a buy-out policy led to a court battle. By 2009, the company was in Chapter 11 bankruptcy. There are no longer any Hoiles associated with the business.

For family businesses, it is both "the best of times and the worst of times". When successful, it can be the best of all worlds by combining financial success and a close knit family. If it fails, it can put the entire family's financial well being at risk.

So what can you do to reduce risk?

Reducing debt is one way. Debt increases both personal and business risk. Anyone who is upside down on a mortgage understands this. Leverage is your enemy in hard times and your friend when the economy is booming. Today cash is king. Paying down debt and building credit worthiness will put you in a great position when the economy improves and you need credit to expand.

Another related risk is a lack of good financial data. When a client bought a local bridal shop in 2006, they thought they were paying a fair price. They subsequently found that the inventory was overpriced, the accounting was poorly done and it was not worth what they had paid. They have struggled as the economy deteriorated and both the business and personal assets are at risk.

A good accounting system is one of the most boring but essential tools for any business. You can't manage what you can't measure. Knowing where you are is the first step in charting a path to where you want to go.

Family Employees

Employee morale was at an all time low. How could it not be? The owner had put her son on the payroll at a higher level than many of the managers. This might not be so bad if he didn't spend all his time in the warehouse practicing to be a professional skateboarder.

Family members can be a tremendous asset to the business. They typically bring a level of trust and commitment that cannot be hired, at any price. On the other hand, they can also bring a sense of entitlement and unrealistic expectations. The question is Do you have a hiring policy and process for family members? If so, how does it differ from how you would hire anyone else?

Here are a few common sense steps you can take:

1. Make sure that they are fully qualified for the position they are hired for. This may seem obvious but is routinely ignored in many family businesses. There are many qualified applicants looking for work today. Hiring the wrong person will serve no one; not the person you hired, their fellow workers and certainly not the business.
2. Pay them commensurate with their skills and experience. Overpaying a family member sets a bad precedent for the other employees. It can also create a sense of entitlement that will be difficult to overcome in good times. Underpaying can also be harmful. It can foster a feeling of being taken advantage of. The truly valuable people may be forced to look elsewhere. Those with marginal skill sets will stay. Unless it is clear that this "sweat equity" is there "buy in" to some ownership, underpaying is usually a bad idea. You often get what you pay for, even with family.
3. Clearly outline their job description and set expectations for behavior and performance. This will prevent misunderstandings that can undermine both the business and family dynamics.

Expertise

Their construction business had been very successful and the brothers decided to step back from the day-to-day management duties. They reconstituted their Board of Directors with several outside members with financial and operating expertise. During the first year of the new Board, they said the Board members saved them over \$1 million.

Family businesses need expertise in many different areas: finance, marketing, operations, sales, technology, etc. Enough of this expertise may exist within the family to get the business off the ground. However, the level of expertise needed increases with the size of the business. This causes many businesses to plateau at the level of their internal expertise.

In order to survive and grow beyond this point, family businesses need to find the expertise they need at a price they can afford. There is a wealth of experienced, talented individuals who have built their own companies. Many of them are willing and eager to serve on the Boards of small and mid-sized businesses as a way to give back to the community.

Outside Board members also bring fresh perspectives and new ideas. They inject objectivity and professionalism into the process. They help balance the innovation and passion of the family business with proven business expertise.

The 3 “C”s

Their small hotel chain was owned through a network of limited partnerships with a large number of family and friends. Over the years, communication broke down and factions developed within the partnerships. Ultimately, their lack of ability to work together doomed the business to failure. The financial downturn was the final straw.

Our 3 “C”s are clarity, communication and collaboration. These are the people skills that are critical to the survival of family business today.

Clarity is precise, concise and unambiguous. It means having straightforward objectives that you measure, track and manage. There is no room in this economic environment for wasted effort. Clarity is the first step to producing results.

Having a clear objective does you no good if your key people are not aware of it. Clear, clean communication lets everyone know what you are trying to accomplish. Share your vision, goals and ideas. Open a dialogue with key employees, vendors and customers. Communication is more about listening than talking. This is one place where social media can fit into any the plans of any business. It is a great way to create a two-way conversation with your target market.

Good communication leads to better collaboration. While it is important for the “head honcho” to set a clear direction, everyone needs to be rowing in the same direction or you will simply go in circles. Collaboration makes the most of the talents of your team, both family and non-family. Everyone works better when they feel they are part of the process and that their input is valued.

When Things Go Wrong

John, the eldest son, had been chosen as the successor to the family’s successful machine shop. As he started to take on more responsibilities, however, his harsh management style put him in frequent conflict with the company’s other long time employees. He also ran into problems when dealing with some of their larger clients. After awhile, it became apparent he had to go...

Just like most traffic accidents, business failures are typically the result of human error. Having the right personnel and aligning their efforts towards a common goal leads to success. The wrong people in the wrong position tend to send the business vehicle careening off into the wrong direction. In spite of the best efforts of the company and the employee, sometimes things just do not work out.

Firing an employee is one of the hardest things for most business owners. It is also one of the best things you can do for both the business and the employee who is not working out. Nobody likes working in a position in which they are not being effective. If you create clear guidelines for what success looks like in a given position, then it will be obvious to everyone involved when someone is not meeting expectations.

Having clear policies and expectations is even more important when the employee you need to fire is a family member. Now you have the added stress of creating a rift within

the family. However, it is sometimes the best solution for everyone involved. So what to do?

Start by having a little “family huddle”. This is a family crisis not unlike an illness in the family. The family can be the support system that helps get them through a tough situation. Many times the problem is simply a mismatch between the skills, temperament and experience of the family employee and those needed for the job they are in. So engage the family network to help find a position that is more suitable for this individual.

When Things Go Right

In-N-Out Burger was started in 1948 and has grown to be one of the most successful family owned food chains in the country. It survived a plane crash in 1993 that killed much of the management team. This included the son of the founders who had been the President for 17 years. He was only 41. Today, the granddaughter of the founders is running the company.

When things go right in a family business, dreams really do come true. You can create:

- A legacy in the community;
- An economic engine that can benefit the family through many generations; and
- A base for innovation and expansion that will benefit the world at large.

By managing your business risks, bringing in the right expertise and enhancing your people skills, you can turn those dreams into reality – even in tough economic times.

Bill Sornstein and Rachel Owens are Principals in Succession Strategies, Inc. They help family owned and closely held businesses survive and thrive across several generations. See more information at www.succession-strategies.com.