

# Unraveling the Mysteries of Family-Owned Business

By Ernest Doud, Jr.



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Over the years I've known hundreds of family business owners. Most of them are shrewd, decisive persons. But they fall apart when faced with a decision that involves the family.

What are these terrible decisions? Well, they often include hiring of family members, what to pay them, how to handle performance problems, the selection of a successor and transferring the ownership of the business to the next generation. These kinds of decisions come up often, yet they are so difficult for most founder/owners and their families.

To understand why, we need to look at the two worlds in which these families live all the time- the world of the family and the business world. Each of these worlds runs by a set of rules or values. The values that drive families are opposite from those that drive business. Failure to recognize and manage the differences between family values and business values is a primary reason so many family businesses fail.

### What Am I? Who Are We?

The other reality with which you and your family must contend is your multiple identities. Take a piece of paper and draw three columns. Label one column, "Family Member;" another, "Employee" and the third "Owner." Now write the name of each adult family member in the columns which correspond to the various roles each one plays.

Notice that the members of your family all wear different hats. Every name is in the "Family Member" column, but if you are like most families, not every name is in the "Employee" or "Owner" columns. So each family member approaches family/business issues from a different point of view.

### Putting the Secrets to Work

Consider these statistics on the mortality of family businesses: Only 25% of all family businesses make it to the second generation, and only 13% survive to the third. In

fact, the average life span of a family business is just 24 years.

Do you want to beat the odds? If so, there are three steps every adult member of any family business must take to help assure the success and perpetuation of the family business.

### Step One: Manage the overlap between the family and the business.

Determine whether to apply family rules or business rules to every family/business decision. It is your company and you can run it as you wish. Just remember-businesses that are run like a business do much better than businesses that are run like a family.

When you apply family rules to a business you end up employing all your relatives, paying them all the same regardless of the jobs they each do, and overlooking their performance problems. You don't discuss management succession and your estate plan divides ownership of the business equally among all your children whether they work in it or not. These may all seem like good things to do at the time, but only if you are thinking like a parent instead of an executive - which leads to Step #2.

**Step Two: Make sure you are wearing the right hat.** Chances are that you fit in more than one of the three columns you drew (Most family members usually fit in at least two). Matching the hat you wear with the decision you have to make can help.

Always wear your "Employee" hat when you have a management decision to make. Put the "Owner" hat on when you are making ownership decisions. And when it is time to make a family decision, be sure you are wearing your "Family Member" hat.

One other thing - resist the temptation to involve family members in decisions which require hats they don't have. You are all family members, and can all be involved in family decisions, but why should non-managers make management decisions? Why

would non-owners be involved in ownership decisions?

**Step Three: It is okay to confront.** Trust me on this one. When your family learns to communicate with each other on those "touchy" subjects you have always avoided, then your family becomes a favorite to beat the odds!

Hold regular family retreats at least once a year. Use them as a time to work together. Learn the art of consensus decision-making and use that skill to solve some of the questions, issues and dilemmas that are part of the family/business worlds in which you live. If possible, start before issues become problems - before disagreements turn into open warfare.

Finally, when you have reached consensus on how to approach a family/business matter, commit that decision to writing. As time goes by, you can put all those decisions together to form a "Family Creed" or "Constitution" for your family business.

### Facing the Challenge

Determining how the family manages its relationship to the business is probably a scary thought. Does it sound like hard work? You bet, because it is. But it's absolutely worth it. Your instinctive reaction may well be to ignore the challenge. But before you trust your instincts on this one, take just a minute to think about the mortality statistics on family-owned businesses. By accepting the challenge, you and your family have a better chance of perpetuating the business.

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