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Managing Your Family Business

A family business is one in which members of a family have a controlling ownership and occupy one or more leadership positions.

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Successful management of a family business involves six characteristics:

- Shared vision, values and goals and a strategic plan
- Clear procedures and expectations regarding family members participating in the business
- A plan for management succession and continuity
- Participation by outside advisers, board members and managers
- Open communication and methods for resolving conflict
- The ability to maintain interests outside the business

Shared Vision, Values and Goals and a Strategic Plan

In a national survey of over 4000 family businesses, Arthur Andersen and Mass Mutual found that only one-third had a strategic plan for their business. They identified reasons why most family businesses do not have one: The strategic planning process requires sharing of information, requires senior management to respond to the ideas of others and to defend their own ideas, and requires a commitment to the plan rather than the typical entrepreneurial manager's style of keeping his or her options open and private.

In contrast, many successful family businesses actually have three strategic plans, not just one. These include a long term strategic plan for the business, a long term plan for the family and a short term crisis plan. To be successful, the family and the business plans need to complement one another, be used to establish priorities and help to identify areas of conflicting objectives. Top farm executives recognize that to be successful, they first must determine what they want to accomplish and let that determine how to get there. It involves recognizing the difference between doing things right and doing the right things. Success emanates from first doing the right things and then doing them well.

"What separates me from the average player isn't that I'm stronger or faster, but that they go where the puck is, while I try to go where it's going to be."

—Wayne Gretsky

It is this planning process, not the plan document, that matters most. The strategic planning process involves scanning both internal and external environments. This is often described as a S.W.O.T. analysis — identifying Strengths, Weaknesses, Opportunities and Threats. While the process can be threatening and frustrating to action oriented managers, it is only through this process that business managers can flesh out a clear vision of

where the business needs and wants to go, what it will take to get there, what could go wrong and implementation and exit strategies.

"In times of crisis, I have found that plans are often useless, but that planning is absolutely essential."

—Dwight Eisenhower

An estimated half of the businesses that engage in formal strategic planning never implement the plans that are developed. The problem is that the management system (or lack there of) and management's operating style often do not support implementation, and the planning process serves mainly as a thought provoking exercise. The most successful businesses tend to be those that:

- Have a clear vision
- Encourage communication
- Have an operational management information system
- Delegate responsibility and authority
- Provide regular and constructive feedback
- Have moved beyond mere strategic planning to operating in a continuous learning, strategic thinking mode.

The development of short term crisis plans requires the owners to analyze different scenarios and develop specific plans for dealing with critical issues before they become problems. Addressing issues such as a death, divorce, disability or a decision by one of the owners to sell his or her interest, and doing it at a time when things are going well, helps make the discussions less threatening and emotional. In addition, crisis plans can be developed to address such possibilities as:

- What if we sold the farm?
- What if a key non-family manager suddenly quit?
- What if we lost a major contract or our biggest land lease?

In each case, the objective is to discuss the issue and develop action or contingency plans. Major issues must be readdressed regularly.

The long term success of a family business requires not only a shared vision but also a strong set of common values. As families expand and grow older, goals and values inevitably become more diverse. This is particularly true when the family members involved in a business are cousins or in-laws who grew up under different family influences.

One of the most important practices in achieving long term business growth and continuity is the practice of holding regular family meetings. These meetings are useful for communicating business performance and plans and for sharing the motivation and rationale behind the decisions that have been made. If such meetings have not been a regular family practice and if there is a potential for conflict, it may be advisable to engage a trained facilitator to keep the meeting on track, to keep the discussion objective, to keep emotions in check and to prevent the dominant personalities from controlling the discussion so that everyone's issues get on the table.

Clear Procedures and Expectations Regarding Family Members Participating in the Business

Successful family businesses generally have clear policies and expectations about the employment of family members. There must be a real job available, i.e., a position is never created just to make a place for a family member. Furthermore, the person must be qualified for the position. Some businesses require that family members have worked elsewhere for at least three years and earned at least one promotion before they are eligible for employment. It is made clear to all family members initially that a position in the business is an opportunity, not a birthright. At the same time, these businesses stress the "opportunity." The company actively

recruits talented family members, and both the family and the business instill a positive attitude about working with family and in the family business.

The business's compensation system is an important personnel issue. Remember that compensation doesn't just involve money; it also conveys a message. Salaries and wages should be based on the market value of the job. Base salaries or wages can be supplemented with bonuses earned by achieving specific performance objectives. Ownership interest should be rewarded separately through distributions or dividends based on company profitability. The most successful family businesses work hard not to confuse compensation and gifts. If compensation becomes less justifiable and more arbitrary, pressures mount to keep information secret. This breeds suspicion and undermines trust and open communication in other areas. It also builds resentment, affects working relationships and hurts morale.

Successful companies are committed to conducting honest performance appraisals and to dealing with behavior problems. Performance appraisals should be based on clear job responsibilities and objective standards for all employees, both family and non-family. Behavior problems should not be allowed to disrupt or destroy the business. Family troublemakers must be dealt with, and the business should not be used as a means to control or rehabilitate them.

A Plan for Management Succession and Continuity

Successful family businesses don't take the desires of the next generation for granted. Too many business failures and personal tragedies have occurred because the next generation worked in the business or assumed management responsibility to avoid disappointing their parents, to avoid conflict or to avoid being disinherited. This is another reason why some family businesses require family members to work elsewhere before they come into the business, so that working in the business is a conscious choice and not simply the path of least resistance.

There are several other critical issues in preparing and selecting the next generation of managers. One of the most important is abandoning secrecy. In many family businesses, information is shared only on a need-to-know basis. If an unplanned tragedy occurs, the next generation may be unprepared to take the reins. It is important that managers not learn by osmosis or solely through direct experience. Successors need to share in the accumulated wisdom and experience of their predecessors. Those who don't may learn the business from an operational but not a managerial perspective. Successor candidates need to be familiar with banking relationships, estate plans, relationships with key customers and suppliers (including landlords), how and why the business makes and spends money and senior management's strategic perspective for the business.

The CEO is a business's key link to its external environment. Successful businesses actively promote mentoring and networking opportunities for successor candidates to prepare them for leadership. For a business to be successful, each generation needs to bring in new strategic ideas that build on the business's core competencies.

It is also important that a clear basis for successor selection be established and communicated. This includes the type and style of management needed, the necessary skills and attributes and how the successor is expected to fit in and function on the management team. A timetable

must be established for the transfer of responsibility and control. This not only reduces the potential frustration for an incumbent and successor, it also provides time for transition and for supporting the successor during such changes. Without this support, a successor may be hampered by fear of making a mistake or disappointing those who placed their confidence in him or her. It also helps a successor make changes without being perceived as indicting the past or criticizing the predecessor.

Two closely related issues are a plan for what a retiring CEO will do next and identifying opportunities and addressing the issues involved for candidates not selected as a successor. Without something meaningful and worthwhile to go to, many incumbent CEOs either can't or won't leave their positions. It is critical that a business not lose the talents and experience of unsuccessful successor candidates, that relationship problems do not result and that those who stay retain their motivation.

Other factors can have a major impact on business continuity. Because most of an owners' assets are frequently tied up in the business, it is essential to implement an estate plan to minimize tax consequences and a funding mechanism to provide the necessary liquidity as soon as possible. This plan not only needs to be implemented but also communicated, along with the reasons why being equitable (fair) may not mean treating all heirs equally.

It is also essential that business owners have a buy-sell agreement — as important as for an individual to have a will. The buy-sell plan should, at a minimum, address ownership restrictions, voting rights, business valuation and buy-out terms. Finally, successful family businesses recognize that it is important to "prune the family tree," i.e, limit ownership. In non-family businesses, shareholders can come and go as the business suits their needs and expectations. Ownership of family businesses, however, often involves emotional, valuation and liquidity issues. Over time, a dilution of ownership, particularly among people not involved in the business, can create major business and relationship problems.

Participation by Outside Advisors, Board Members and Managers

While owners of successful businesses recognize that they are responsible and accountable for decisions regarding the future of the business, they must also continually expose themselves to new perspectives and ideas. No matter how well a business is doing, there is or will always be a better way. Unless the business changes as fast as the environment it operates in, it falls behind. Future business success will depend as much on how fast a manager can learn and adapt as it does on what that manager already knows. Managers must seek out successful people outside the business to exchange ideas and get feedback. Successful farmers and ranchers have found that this often means getting outside their commodity group and away from their home territory. It may involve interacting with business people outside of agriculture.

In addition to forming peer advisory groups and participating in programs such as The Executive program for Agricultural Producers (TEPAP) or AAPEX (Association of Agricultural Production Executives), a business can staff a board of directors with independent outside directors and/or an advisory board to get input from people with additional experience, expertise and perspective. These outsiders help assure a source of fresh strategic insight and challenge and question the owner's strategic assumptions and direction of the business. Insiders often cannot or will not do this, particularly if the owner is his or her parent or grandparent. An out-

side perspective can also be critical for dealing with lifestyles (business and individual), resistance to change and the tendency for family businesses to stagnate.

In addition to outside board members, in the past few years, some businesses have begun to use a board of counselors made up of an insurance specialist, a tax accountant, an estate attorney and possibly a financial planner to sit down together periodically and review an owner's estate plan. This enables all of them to hear the same story and objectives from the owner. Together they can develop a consistent and comprehensive plan; each does not get only part of the story or try to show up the other experts to prove their worth.

Finally, as farm and ranch businesses grow, it is often necessary to attract and retain top quality non-family managers. There are at least three key elements:

- Personnel decisions need to be based on merit. Arbitrary or preferential treatment in pay, promotion or responsibility encourage the most capable non-family employees to look elsewhere.
- These employees must have the opportunity to accumulate personal wealth even if it isn't ownership interest in the business. A few approaches that have been employed include the use of phantom stock, partnering on new business start-ups or existing parts of the business or issuing stock with a repurchase (buy-sell) agreement that includes an equity-based valuation provision.
- The opportunity for career growth may or may not preclude the opportunity to eventually become the CEO. Some very successful family businesses have a non-family member as the CEO.

Open Communication and Methods for Resolving Conflicts

Successful businesses recognize that one of the biggest roadblocks to progress is secrecy. Without a clear understanding of what is going on, a shared vision and a sense of ownership, it is difficult to get employee buy-in, commitment and total team effort. Employees and family members want and need to know what they are expected to do, why they are doing it, how they are doing and how they can improve. In addition, everyone in the business must know where the business is headed, how it will get there, what is each persons's role is and what's in it for them.

"If two people in a business agree on everything, then one of them is superfluous."

—Henry Ford

It is also important to recognize that disagreement is normal and inevitable. In fact, if a business is going to change and grow, disagreement is essential. Problems arise when a disagreement grows into conflict. When conflicts are suppressed or ignored, they grow. Under a strong authoritarian leader, problems often don't erupt until the leader dies or turns over the reins. By then, differences may be irreconcilable except through the legal system, a very costly and often harmful process.

An important ingredient to addressing conflict is learning to fight fair. This requires developing emotional maturity and interpersonal skills. There are at least five basic ground rules — avoid personal attacks, don't force others to take sides in an argument, don't use subversion, focus on the issue(s) and keep heated discussions in private. Bullying or childish behavior may win battles, but the result may be that family relationships and/or the business loses the war.

Finally, successful family businesses make it a point to include their in-laws (children's spouses) in discussions about the family business.

The Ability to Maintain Interests Outside the Business

Successful family businesses recognize the importance of taking time off from the business. This isn't just annual vacation time. Family members need to be encouraged to develop outside interests and to spend time with their own families. Although any business can and will be all-consuming at times, healthy family relationships are essential if the business is to remain healthy over the long term. Time away and directed to other interests energizes and focuses people for their return to work. Periodic extended absences by the CEO and members of the senior management team also allow potential successors to assume more responsibility. Businesses do best and achieve the most when people enjoy what they're doing and are able to have fun in the process. Happy people are more productive, have higher energy levels and are more creative.

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