

# Navigating the Pitfalls of Working in a Family Business



*'Families in business combine two of the most important things in people's lives: love and work. As a consequence, when they are working well, families can bring a level of commitment, long range investment, rapid action and love of the company that non-family businesses yearn for but rarely achieve.*

*On the other hand, when they are working poorly, families can create levels of tension, anger, confusion and despair that can destroy good businesses and healthy families amazingly quickly'*

**K.E. Gersick**

So you work in business with other family members. This is the second in a series of booklets that addresses the issues that arise in a family business.

As highlighted in the quote above there are many benefits of working with family -

- A passion for the business
- high level of trust
- quick decision making
- shared values
- common and uniting vision

However success is not guaranteed. There are a number of traps which can derail even the most successful family business remarkably quickly if not addressed.

## Avoiding the Traps

There are a number of warning signs that you need to watch out for in a family businesses. This booklet will deal with three of the most important of these –

- Lack of a clear common and uniting vision for the future
- Lack of communication or a fear of confronting the important 'unspoken' issues
- Avoiding a clash between 'head' and heart', building a strong business that supports the families objectives

## A Common Uniting Vision

Entrepreneurs who start successful businesses invariably have a clear vision of what they plan to achieve. It provides them with a beacon, to which they can align their strategy and make decisions. In a non-family commercial enterprise the priorities are quite clear. These generally focus on growing a profitable business that maximises the return to shareholders.

Introducing family into the world of commerce means that there are competing and in many cases opposing objectives. Families, by their nature, are a supporting and nurturing system. A business on the other hand is established to achieve commercial objectives. The values of these two systems are quite different.

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Family	Business
Emotional system	Objective and task based system
Nurtures, supports and develops family members	Ongoing participation is based on performance
Member of the family by birthright	Selects the best person for the job
Inward looking	Outward looking
Protective of family as a whole	Self interest
Strong loyalty to family members	Advancement is dependant on performance
Minimises change	Exploits change
Employment is a right	Employment an opportunity
Nepotism rife	Competency based

As no two families are the same, each family business has to decide what is right for it. For example, some family businesses are lifestyle businesses which provide the family with lifestyle opportunities rather than focus solely on financial gain. In fact this is at the centre of what family business is about – you can decide what you want from your family business. There is no ‘right’ answer, just the answer that is right for your family.

There are a number of factors which can reduce the strength of this vision over time such as –

- the day to day cut and thrust of business
- the pull between family and business priorities.

The first step is to consider where you sit on the Family v Business spectrum:-



Are the objectives of your family business closer to the family or the business end of the scale? Once you’ve determined this, you can create a vision for what you want to achieve as a family in business.

Your commitment to this vision will be tested at various times during the life of the family business, perhaps most severely at times of transition when the business is being transferred from one generation to the next. When that happens you may need to realign the vision so that it meets the objectives of both the incoming and outgoing generation.

## Communicating about the Critical Issues

One of the greatest strength of a family business can also become its greatest weakness. The closeness that creates the passion for the business can quickly turn if family members feel that they are being taken for granted or not being listened to.

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Because of the desire to 'not rock the boat' important issues are often not raised or discussed in the hope that they 'will just go away'. Unfortunately this rarely happens. The answer is to have open and honest discussions about the important things in your family. If you deal with the **important** before it becomes **urgent** you will certainly avoid a major pitfall.

The outcomes of these discussions can be recorded in a Family Charter or Constitution which sets out how the family and the business interact. It will address issues such as –

## Employment

- Preconditions for employment of family members
- Remuneration and career development
- Performance evaluation of family members
- Exit from the business
- Employing In-laws and other family members

## Managing family dynamics

- Managing conflict between generations, siblings and cousins
- Introducing in-laws to the business and to family traditions
- Rules for amending these rules in the future

## Governance

- Professionalising the business
- Recruiting, motivating & retaining key non-family employees
- Appointment of an active, representative board of directors
- Disclosure of financial information

## Ownership policies

- Conditions under which the family might sell the business
- Deciding who can own shares in the business
- How is ownership transferred and the valuation methodology
- What rules apply to family members who are not involved in the business
- Establishing a dividend policy

## Family Support

- Assistance for family members in need
- Dealing with divorce, drugs, social irresponsibility
- Assistance for those looking to establish new business ventures outside the core business
- Teaching the responsibilities of ownership to the next generation
- Responsibility to the broader community

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As families are generally very private by nature there is a reluctance to seek outside assistance when dealing with these issues, but often an experienced family business facilitator can help the family work through these issues and put them into perspective.

## Building a Strong Business without Destroying the Family

At the root of many family business issues is the clash between the head and the heart. How can you build a strong, viable business that competes and wins in the market place while also supporting the ideals of your family? If the objective of your business is to create wealth for your family what do you do if the family gets in the way? For example, your family values may be to encourage and support members of the family. Does this mean that you will hire or retain unqualified or underperforming family members to the detriment of the business? Is it to be business first or family first? The process of developing a Family Charter will help you consider these and many other questions.

An important step is to establish a mechanism for keeping family issues off the agenda at management or board meetings. Consider setting up a Family Council to deal with family issues that impact on the business. This means that you have forum at which family members, whether actively involve in the business or not, can meet and discuss matters that relate to how the family and the business interact.

## In Summary

The most important message is that – you are not alone! Many other families have had to deal with the issues you are facing. Though the answers you come up with will be unique to the circumstances of your family, the matters you are dealing with are universal. Through organisations like Family Business Australia you can meet and talk to others in family business and learn from each others experiences.

## Other Booklets in this Series

- So you Work with your Family in Business
- Navigating the Pitfall of Working with Family
- Structuring the Family Business for Success
- Exit Options & Strategies for the Family or Owner Managed Business

*This article is for general information only and should not be relied on as, or in substitution for, professional advice. It was written by Harry Kras, Director of the family Business Resource Centre [www.fbr.com.au](http://www.fbr.com.au) for Family Business Australia [www.fambiz.org.au](http://www.fambiz.org.au). Harry is an FBA Accredited Adviser and can be contacted at 03 9018 9800 for further information.*

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