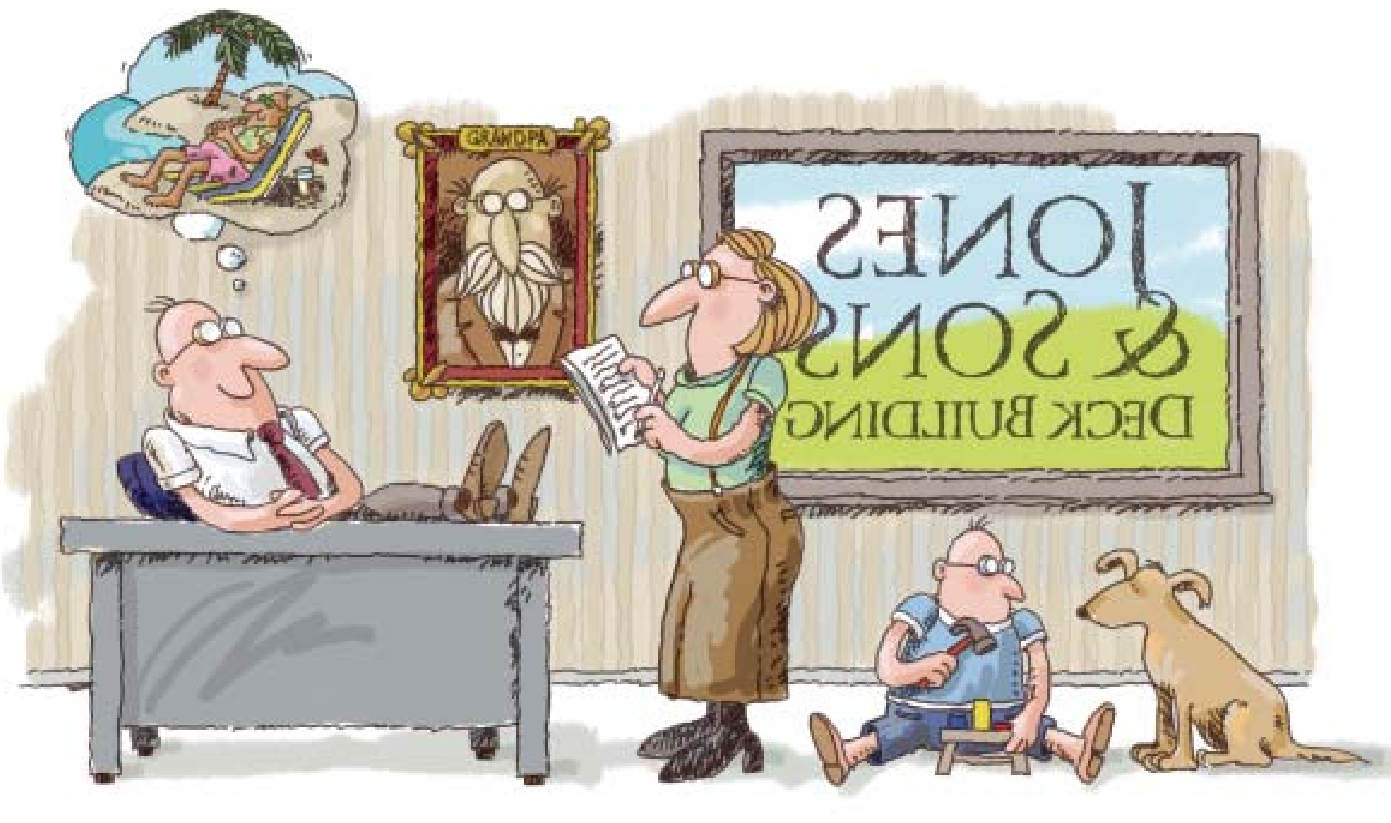
Make Your **Family's Business** Thrive

by Anne W. West

Growth, communication, and estate planning are key to long-term success



Consider these facts: Family-owned businesses account for 78 percent of new jobs created, 60 percent of employment, and 50 percent of the gross domestic product in the U.S., according to the Family Business Forum of the University of North Carolina in Asheville. But, only one third of family-owned businesses survive into the second generation — and only 3 percent make it to the fourth generation and beyond. To help you beat the odds, family-business experts offer the following tips.

Define Your Goals

Do you want to hammer nails 80 hours a week or do you want to take on a different role in your business? "About 40 percent of our clients are in construction, and they think about what they have to do today," says Wayne Rivers, president of the Family Business Institute in Raleigh, N.C. "Projects dominate their lives."

To get beyond the day-to-day, Rivers suggests that you broaden your perspective and think about where you want the business to be in five, 10, or 20 years. "You've got to look at how to get more business by marketing and selling," he says. "Otherwise, you're so busy hammering, and supervising work crews that no one is building the business. Is your purpose to gain financial rewards, build a legacy for your family, or build a business that rewards its employees? Is this business going to create the outcomes you envision for yourself, or is it just a way station to something else?" No matter what your goal is, you must define it before you can achieve it.

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Define Policies and Jobs

Experts agree that expectations must be clearly detailed for all employees, including family members. Work responsibilities need to be well defined, and specific consequences laid out for positive and negative performance — in writing.

"The family needs to clarify values and write down the circumstances under which a family member can come to work in the business," says Mike Henning, founder and president of Henning Family Business Center in Effingham, Ill. "You also need an exit plan in case a family member doesn't work out."

And family employees should be held to the same standard as unrelated employees. "You need to apply for an available position and be qualified, like anyone else who wants to join the business," Henning says, pointing out that a poorly performing family member will have a negative impact on non-family employees. "If I'm not family and I see this going on, I'm going to question why I'm working so hard."

Henning adds, "We are a family business because we all value superior performance. If a family member can't go along with that, send them to work somewhere else for three years. Then see if they still want to come back — and whether you want them back."

Robert Walker, vice president of Decks, Decks & More Decks in Papillion, Neb., emphasizes the necessity of clear job descriptions. When Walker, his brother, and his father purchased the deck business six years ago, none of them had built a deck. Today, the company has grown to be the largest deck builder in the Omaha area, employing eight family members and 13 to 15 non-family members.

"We make sure every person has a written job description so we know who does what," says Walker. "If there's a question about advertising, we all know that I handle that and no one else does. I know I'm not the guy to talk to about scheduling."

Settle Conflicts Quickly

As in any work setting, conflicts are bound to arise in a family-owned business. And, as in any work setting, they should be resolved quickly and privately. "Don't bring the customer in the middle of it, because they didn't hire you to listen to you yell at each other," says Bob Simonson, owner/designer of Pro-Dek in Sammamish, Wash., who works with his two sons. "Take it off the job site, settle it in the truck."

Walker suggests keeping ownership at an odd number and using a vote to resolve conflicts. "We lay out the pros and cons. If we need to have a vote, someone will always win," he says.

Even better, put communication channels in place to prevent unnecessary conflict. "Poor communicators keep secrets from each other and that can destroy the business," says Henning, who recommends daily communication about what needs to be done, what is expected, and how the work will be done. He notes there's a growing trend toward having an annual family retreat to develop a strategic business plan. These retreats also educate family members about running the business, identifying new opportunities, and diversifying

Invest to Grow

Owning and operating a family-owned business is not without risks, yet the family may be risk-averse when it comes to incurring debt. But, Walker believes, businesses can't afford to wait until they earn the money to invest in future growth. "You need to be willing to take out loans to grow your business," he says, adding that his own company was initially reluctant to do so: "We were a little gun-shy at first when we started talking about taking out loans to double our vehicles and tools and hire more people, but we have paid things off faster than we thought we would have been able to, and we've made better profits because of those additional assets."

Seek Outside Advice

Professional guidance in key areas, such as accounting, taxes, and legal issues, is a basic business necessity. "The reason we are able to excel is that we have become the master of one thing," says Walker, whose company only builds decks. "We realize we don't know things in other areas of business. We might get 85 percent of it right, but that 15 percent can put us out of business." His company uses an accountant, financial advisors, tax consultants, and a lawyer — and also receives advice and instruction from its local distributor.

Getting advice from owners of non-competing businesses is another way to enhance the business. "Create a study group of other business owners and share with each other without revealing business secrets," says Henning, stressing that members aren't in the group to sell their services to each other, but rather to exchange information and ideas. "I've been part of such a group for 21 years. It's about 15 people who meet three times a year to support each other in our efforts to help business-owning families."

Plan for Succession

The Family Business Forum estimates that in the next five years, 30 percent of family-owned firms will experience a change in leadership due to retirement or semi-retirement; experts say the lack of a transition plan between generations is the No. 1 problem for family-owned businesses, because it can paralyze a business for years. "Family businesses address problems every day, but this issue comes up once per generation, so the business doesn't have a model for it or experience with it," says Rivers. "The younger generation wants to take the business in a new direction, while the older generation is looking to slow down and reap the rewards."

Walker's company has a written transition plan in the form of a buy-sell agreement that details each step of the process. "We are dealing with family, and things can get touchy. We've all agreed on it, so there should be no confusion or heartbreak," he says. Typically, to set up such an agreement, you'd hire an attorney with experience in coaching business owners and writing buy-sell agreements.

Leave Work at Work

Leaving work at work isn't as easy as it sounds, as Walker knows from personal experience. "You can't enjoy the family barbeque when someone has just reminded you that you're late on two estimates," he says, adding that, in the early years, his family didn't know how not to talk about business. "Finally, we had to say out loud to each other that we aren't going to do it [talk shop outside of work], for everyone's sanity."

Most companies don't set rules about discussing work outside of the business setting, but Henning believes this can help separate the personal and professional sides of people's lives. He says some companies even charge a fee for violating the rule, and donate the money collected to a charity. "Let it be known that you are tired of business talk in a social setting and you're going to do something about it," he recommends. "Just like managing cell phone calls, you've got to have rules about bringing work home in the middle of everything else." ❖

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