Managing the family/business overlap

BY ANDREW KEYT AND GREG MCCANN

IMAGINE A FAMILY BUSINESS where each family member, regardless of competency, feels entitled to a high-paying position. In such situations, business needs are eclipsed by family members' desires, and confusion results as the roles of both the family and the business are left undefined.

Such situations are not rare. Conventional wisdom often dictates the decision to separate the family from the business—to build a wall between them or do whatever it takes to keep the family's whims from derailing the business plan.

If we take a step back, however, we see the problem does not arise because family and business overlap. The problem is that the overlap itself is not managed. In fact, a growing body of research confirms that a well-managed family business will outperform its non-family competitors when family members develop strategies and governance processes to manage their interaction with the business.

Unfortunately, the potential strengths inherent in a family business often go overlooked. Professionals and managers tend to treat the family and the business as if there are two separate cultures: the family culture and the business culture. However, the two cultures are inherently connected. It's in the overlap, where the family and the business blend together, that both the strengths and the problems unique to family enterprises are found. The more the family intentionally manages the overlap between these cultures, the more effectively they leverage the advantage of having a family business.

If asked whether it's more important to preserve the family or the business, most people would put greater value on the family. But do they act accordingly? Think about how many meetings, reports and advisers' billable hours are devoted to managing the business and ensuring its success. Now compare that to how much time, money and effort are spent on building family unity. In few families would the total even come close.

Family businesses need a framework for strategizing about who they are as a family or what they want to accomplish as a group. Without such a framework, family issues can become more threatening than business issues.

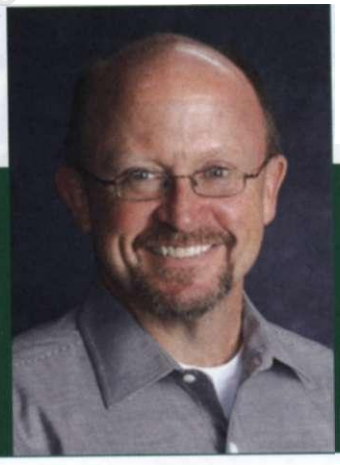
> *For a family enterprise to turn cohesion into a strategic advantage, it must devote resources to building a common sense of purpose among family members and to creating effective governance.*

Advantages of family cohesion

After studying this issue extensively, researchers Torsten Pieper and Joe Astrachan determined that family cohesion is the key to success across generations. They found that long-term success is more likely when the family works to create a sense of unity about why they are in business together and the types of businesses they want to be in. Building a cohesive family business requires a strong sense of connection within the family and a strong sense of pride in what they are doing together—pride in the family business.

For a family enterprise to turn cohesion into a strategic advantage, it must devote resources to building a common sense of purpose among family members and to creating effective governance and leadership to manage the overlap of family and business.

Building family relationships requires building a commitment to each other and showing respect for each other's needs, goals and opinions. It requires balancing individual and collective goals. Enterprising



Andrew Keyt (left) is the executive director of the Family Business Center at Loyola University Chicago's Quinlan School of Business and president of the Family Business Network – North America (andrewkeyt.com). **Greg McCann** is a professor of family enterprise at Stetson University and founder of Stetson's Family Enterprise Center. He is also the founder of the consulting firm McCann & Associates (www.mccannfbconsulting.com).

families do this with the help of structures such as family meetings, family councils, boards of directors and family constitutions.

The role of managing the overlap falls to the family and should *not* be outsourced to business managers or advisers. An estate attorney, for example, might be able to *integrate* the family's vision into an estate plan, but she cannot create or uncover it.

> **Professionals and managers tend to treat the family and the business as if there are two separate cultures. However, the two cultures are inherently connected.**

The family is keeper of its values and culture. If the goal is to succeed across generations, the family must take responsibility for deciding the future of the family and the business.

For example, one of our clients has a family council. The family president oversees interaction within the family council and acts as intermediary between the family and the business. In this highly effective family enterprise, part of the CEO's role is to work with the family president to manage the overlap.

Like their non-family counterparts, family-managed businesses must be able to rapidly move financial, human and other resources toward new opportunities. When the overlap is effectively managed, the enterprising family has the benefit of leaning on their values, culture, mission and vision to drive decision making. Thus family members and employees are given the freedom to react quickly.

Another client places a high value on people as an important component of the overlying vision. The family translated this value into a number of metrics in the business, including turnover, key person turnover and what they call "regrettable turnover"—losing employees they really wanted to keep on board. This very plainly aligned the family's values with the culture managers expected to create. When the CEO reports to the board of directors—largely made up of family members—the first question he is asked is whether he has fulfilled the family's values.

To begin the process of managing the family/business overlap, individual family members must clarify their goals and visions for their lives. Everyone should plan to help the group reach its full potential. Each generation should consider why the family wants to be in business together and to individually and collectively address two fundamental questions: (1) What does our family bring to this business or enterprise? (2) What does this business or enterprise bring to our family?

Once each generation has articulated its answer to these questions, the family must decide how to deploy its human, social and financial capital. In essence, they should determine what business or businesses they want to own, what return (including both financial and nonfinancial rewards) they expect on their investments and what level of risk they are willing to assume. This paradigm enables the family to approach its enterprise more holistically and to acknowledge the interdependency of all the stakeholders and not merely the financial needs of the stockholders.

Step 1: Define success. The first step in effectively managing the family/business overlap is for each family member to consider, "What does it mean for the family to be successful?"

When this question is left unanswered, both the family and the business aim at a nebulous and ever-changing target. Individual family members must express what they want for themselves and for the family. Only then

Continued on page 16

Managing the family/business overlap

Continued from page 13

can they tackle larger questions.

Step 2: Agree on values, culture, mission and vision. Given the current climate of exponential change, families must be flexible and focused in order to adapt. They need to know who they are, what they do well and where they are going.

Members of an enterprising family are connected to their values and treat the businesses they own as mechanisms to build the family's financial, human and social capital. Adaptability doesn't arise overnight, so the family will need to spend some time on this process.

Begin by developing and communicating a detailed list of family values and then determine how these values are expressed and measured in the business. These values should guide the actions and decision making in the family and the business. Since the family values are translated into business values, this alignment creates shareholder value, which management is charged with creating, monitoring and reporting on. This ultimately empowers management to create and maintain a culture that is aligned with the family.

Step 3: Approach the issue holistically. Many family business owners struggle to protect the golden goose—they strive to protect the business from the family by always putting the business first. However, separating business and family oversimplifies the issues involved. Rather than protect the golden goose, work on building a unified family—one you don't need to protect the business from.

A unified, enterprising family continually rebalances itself according to circumstances. By assessing the needs and goals of both family and business, the enterprising family acts as a barometer. They know when to shift focus to the business and when to shift focus to the family. They understand the ebb and flow that happens naturally within the family/business overlap.

Beyond bureaucracy

We can be reasonably certain that the rate of change will continue to accelerate. When the overlap between family and business is managed, bureaucracy can take a backseat as resources become focused on goals and objectives. Decisions can be quickly moved down through the organization.

A cohesive family—with a firm grasp on its reasons for being in business, on the way it develops human capital and on its definition of shareholder value—will have a greater chance of success in the future. When family involvement is recognized as a strategic advantage, the family is not the people from whom the business should be protected. Instead, they are the owners under whom the business thrives. FB

Fonte: Family Business, Philadelphia, v. 24, n. 4, p. 12-13 e 16, Jul./ Agu. 2013.