Why There Is No One-Size-Fits-All for Family Business

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As a consultant, I often receive requests from clients to provide them with a set of best practices that they can follow to ensure that their family business is well-run. This request is logical. Why reinvent the wheel if someone else has already figured it out? Plus, the best-practice mindset is encouraged by books and articles that link family business success to a few key requirements. These include: create a board of directors, hold family meetings, educate next-generation owners, and require work outside the business before joining, among others.

Unfortunately, in making these blanket recommendations, consultants do a disservice to their clients. While suggestions may be appropriate for many clients, they are not always the right answers. Given the dynamics of any given family system, certain suggestions may be too complicated to implement. Many situations will require a staged approach for a family business to achieve the desired end result.

Consider this example: Four siblings inherit a family business from their father. While the father designates one of the four as the CEO, they are all paid equally. It is often suggested that pay should be based on market rates. There are a number of good reasons for this recommendation. Basing a company's pay system on market rates supports recruitment and retention of strong non-family employees. It reduces owners' sense that they are entitled to an equal salary, regardless of what contributions they make. It separates the concepts of pay for work from return on ownership capital invested. Despite these reasons, changing a compensation structure midstream may create a high level of animosity for the owners whose compensation will be changed. In extreme cases, it could cause these individuals to sell their ownership positions. So, while the practice sounds good in theory, it may not be right for every business.

A similar challenge occurs when a business moves from the practice of hiring any family member who is interested to hiring only those who are most qualified. Taking a "cold turkey" approach of letting go family members who are not qualified, or limiting their opportunity for advancement, can create a significant strain on a family system.

These are the difficult decisions families often face as they professionalize their business practices. While "best practices" such as market rate pay, family employment based on strict qualifications, board oversight by independent directors, family education programs starting at a young age, and a family council or other formal family decision-making body are often required for later-stage family businesses, they are not always appropriate for earlier-stage businesses.

To make it more complicated, the age of the business isn't the only factor that determines the level of structure required in family and business. Size and structure of the family, size and structure of the business, and family philosophy (i.e., do you put the needs of the family before the business, or vice-versa?) all play a strong part in determining the appropriate recommendations for family and business practices. Top these off with varying personalities and interpersonal dynamics, and it is not always easy to come up with the right answer.

So, what is a family to do? The best approach is to begin with the end in mind. What is it that you are trying to accomplish? Rather than taking a one-size-fits-all approach—creating an independent board of directors, for instance—think about what you want the board to achieve. Are you looking for more accountability of management to owners? Do you want to inject strategic advice into long-range planning? Are you trying to professionalize business practices such as budgeting, planning, and performance evaluation? Or are you looking for an independent voice to help you set family compensation, evaluate family managers' performance, and assist with succession planning? Regardless of your objectives, there is typically more than one way to solve the problem.

If gaining strategic insight is the goal, owners could consider strategic planning consultants. They could also join a family business forum where they can learn from peers. If owners are not comfortable giving outsiders a vote on key business issues, they could consider an advisory board whose members provide input but have no legal authority. Or the owner could move to a more formally structured board consisting of all owners. In this scenario, the family and business begin to separate ownership from management decisions, thus enforcing accountability without injecting an outsider's perspective. There is a good chance that these intermediary steps will increase owners' comfort level with taking more dramatic steps in the future. Once an advisory board has been in place for a number of years, it is not uncommon to transition that group to a board of directors.

Another example is professionalizing practices for family employment. It may be difficult to reverse practices that were used in the current generation, but the current generation can prepare the next generation for new practices. Creating an employment policy that specifies requirements for employment of the next generation can be done even if the current generation does not meet the same criteria. While these requirements can be difficult to justify to next-generation members, explain to them that practices appropriate for a smaller business governed by a smaller number of owners simply will not work now that the business and ownership group are more complex. Create policies with a look to the future, not the past. You may even want to include some stipulations for the current generation to begin to transition the business practices before the next generation enters. For example, include all family members working in the business in a formal performance evaluation process.

Thinking with the end in mind really has two meanings: One "end" relates to the objective you want to achieve—be it greater family harmony, more professional business practices, or more open family communication. Understanding what ends you are trying to accomplish before pursuing blanket best-practice recommendations is important to ensure that you design a solution that works for your family and business. The second "end" is the end of your planning horizon. If you hope that the family will remain in the business for a generation or more to come, you need to begin to design solutions that work for the next generation. Family members who disagree about how to work together in their generation can often bond around a common goal of creating a platform for success in succeeding generations. They may even bite the bullet and make some changes in their own generation to model appropriate behavior for the next generation and to set them up for success.

So, before you go down the path of implementing best practices that you've read about or heard about from another family or that have been recommended by a consultant, think about what it is you are trying to accomplish. Once you take this step back, you are more likely to design a solution that works for your family business.

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