

Family Business Employment Policies: Evening the Playing Field for the Next-Generation

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Deciding when and how to transition your business is not an easy choice to make. Deciding to transition the business to a family member can make that choice even cloudier.

There are several tools to make bringing the next generation into the business a bit more seamless. For instance, the family employment policy is a tool that clearly lays out the expectations and requirements of joining the family enterprise. “Family employment policy” may sound formal and intimidating, when in reality, it takes away some of the stress that arises in a business in transition and sets the next generation up for success. At its basic level, it is an agreement on the general principles and guidelines surrounding the development of the next generation and their involvement in the family business. It is simply a roadmap. A sound family employment policy addresses the following key areas.

This Matters to Whom?

Start by putting boundaries around who qualifies as a family member and thus will be covered by the family employment policy. Some families choose to define a family member as all shareholders, spouses, children and legally adopted children. Others require a family member to be a lineal descendent of the founder or any of their spouses, domestic partners, children, etc. Each family is unique and has a different make-up. The definition of a family member should mirror that.

How Do I Get There?

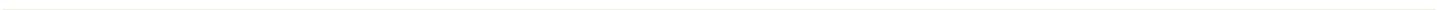
Many families have found that requiring family members to spend time working outside of the family business prior to working in the family business can lead to great success in the next generation. Gaining this outside experience opens family members up to how

other business’ function and operate. They are held accountable by a supervisor who isn’t related to them, and get the chance to spread their wings on their own – without familial influence. While working outside of the business isn’t always a realistic option or desire of the family, it can be a valuable learning opportunity.

Some families also have a minimum education requirement that must be met to be eligible for employment, designed around the needs of the business. This could be a degree from a technical or traditional university or a professional certification or distinction such as a plumbing journeyman card or professional engineering license. Whatever the specific requirement may be, it is important to decide early and be transparent so that the next generation has a clear understanding of what is expected of them.

Other family businesses create a next generation education curriculum as part of the pre-employment development process to ensure their family members are getting access to the knowledge and skills they need to be successful contributors to the business. There may be dedicated time to discuss the family’s history or why the business was founded and its evolution leading up to today. It may include information on what the business does, who its competitors are, industry trends and an introduction to the company’s strategic plan. There may be sessions surrounding basic finances, communication, conflict resolution skills, trusts and estate planning.

There should also be an overview of the family’s governance structures. While the next generation may not have been involved in the creation of plans such as a family employment policy, they should understand why such guidelines were implemented and what it means for them.



Who Earns What?

Instituting a compensation structure as part of your family employment policy helps to keep compensation fair and gets away from arbitrarily deciding who earns what. As much as parents may try, being completely objective when determining a child's pay is not easy. Setting parameters around what family members will earn ahead of time will take emotion out of this decision.

However, each family business varies on how they view compensation. It may be based on fair market value or competitive as compared to nonfamily employees with similar job duties. Others choose to give family members a bit of a compensation boost with the expectation of greater ownership responsibility and pay them more than nonfamily members.

Ready or Not, Here I Come

To enter employment at the family business, most companies require members of the next generation to apply for an open position with real roles, responsibilities and accountability. It is often stated that positions will not be created just for family members. Though, once again, each family business is different. Some families prefer a more open approach, such as guaranteeing at least an entry level position for every interested family member.

Who Do I Work For?

Once a family member enters the business, it is recommended to have them work under a nonfamily supervisor. This allows for impartial feedback and ensures family members are held to the same standards and reviews as nonfamily employees. Working for a nonfamily mentor rather than a parent or relative will cultivate a more trusting relationship between family and nonfamily employees, in addition to business competency development.

To avoid confusion and frustration, a clear path for growth and development should be set. Be realistic and transparent about the skills needed, degrees required and milestones achieved to take on management and leadership responsibilities.

And If It Doesn't Work Out..

How will your business handle a family member that is not performing? Are family members held to the same standards as nonfamily employees? Letting any

employee go is not easy. Add in the family element and it gets even more challenging. Having a clear-cut procedure for the termination of family employees will take some of the tension out of having to do so.

What if a family member decides the family business just isn't for them and would like to seek employment elsewhere? Having an "exit plan" for voluntary resignation in place well in advance of the next generation joining the company is just as important as involuntary.

Laying Down the Law

Who will ensure these policies are followed and amended as necessary? Establishing who is responsible for enforcing the terms of the family employment policy is crucial, particularly in businesses that do not have a board or a family council. Some families choose to hold each other accountable as a means for enforcement. Some use some sort of committee, made up of nonfamily and family members to implement and administer the hiring of next generation family members.

Different types of employment may have different guidelines, though. For instance, there may be one policy for full-time employment, another for part-time and another for seasonal employment as well as internships.

Bringing the next generation of potential family business leaders into the fold can be taxing and worrisome. Using tools such as a family employment policy can go a long way in clarifying the expectations, guidelines and conditions for joining the business. The primary goal is to make transitioning next generation family members into the business as smooth as possible for everyone and provide a foundation for continued success.

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