Business Planning

Seven ways to create a high-performance, multi-generation family business.

By Jeremy S. Lurey, Ph.D.

Family business leaders regularly take great pride in treating all their employees like family and creating positive work environments for everyone. That's quite admirable, and those employees very likely appreciate the special treatment. The question, though, is what do you do with your employees who actually are family?

Family businesses by their very nature are complex organizations. It's not just about managing and operating a sustainable business with a family enterprise. It's about the leadership and governance practices required to keep your family drama and any unproductive relationships away from work.

In multi-generation family businesses, you may have 20, 40, 60 or even 100 or more years of history influencing company performance. On the personal side, that's generations of family members living together and growing up together who now need to work together to operate that same business. That can create a lot of added stress and anxiety – something that many family business leaders are poorly equipped to handle – on an otherwise viable business venture.

Family businesses make up the backbone of the US economy if not global markets too, so it is critical for us to find ways to support these organizations. So, what can you do to increase your likelihood for success and create a high-performance family business? Reinforcing a more intimate family culture versus a more formal corporate structure at work is a great place to start. According to a recent survey of CEOs and family business owners, the following seven strategies also can help any family business leader succeed and secure his or her legacy from generation to generation.

1 DRAFT A FAMILY BUSINESS CHARTER. A family business charter serves as the family's constitution to define its mission, vision and values, and document key business practices such as employment policies for future generations. The charter is a living document that can be refined over time, but it clearly communicates the strategic intentions and operating guidelines for a family and its business ventures from one generation to the next. It also provides a strong foundation for future decision making and conflict management well before any issues do arise between or within generations.

2 CONVENE FAMILY COUNCIL MEETINGS. Once you develop your charter, share the content of your charter with any family members who have an interest in or might otherwise be impacted by the business. This often includes establishing a family council comprised of active business managers to meet monthly. In other family enterprises, holding an annual retreat with all family shareholders/ owners and their immediate families also can be an effective approach. Either way, the point is to create the governance required to run the family's business, continually monitor its performance, and keep everyone informed about how it is doing.

3 BUSINESS FOCUS AT WORK, FAMILY FOCUS AWAY FROM WORK. Some family business leaders blur the lines on talking about personal matters at work. This may work well for those who are more connected with all of their employees, but it regularly creates problems when it's simply family members communicating with other family members. For this reason, it may be safer to keep discussions about your grandchildren to after hours and avoid familial terms like "Mom" and "Dad" at work. At the same time, avoid deep discussions about work when you are away from work. Sharing highlights about your workday at home is one thing, but having an involved strategy discussion about your key customers around the dinner table is another. If nothing else, empower your family members to call "Timeout!" and clarify which hats they are wearing – business or family – at any time and in any conversation.

4 DISTINGUISH OWNERSHIP FROM MANAGEMENT. Depending on the terms of your family business charter, it is quite common for family members to be "passive owners" of the family business rather than "active managers" in it. Passive owners might receive a monetary distribution when the company does well, but they have no say in the day-to-day management of the business. Active managers, on the other hand, have some level of operational authority whether they own equity in the business or not. This means that family members can be peers in the boardroom but direct supervisors and direct reports at the management conference table, so it is important to make sure family members know when they need to defer to their higher-level, more senior relatives, like the CEO, versus when they may have an equal vote.

5 DEFINE MANAGEMENT RESPONSIBILITIES. Once you clarify the difference between ownership and management, establish clear roles and responsibilities for anyone who works in the business. Sometimes, this means dividing business units among siblings and cousins. In less diversified family businesses, it often means assigning functional responsibilities (e.g., operations, finance, human resources, sales, etc.) to one relative or another. The obvious benefit of this is that it minimizes any overlap or potential conflict between family members. Under the right circumstances though, it actually enables you to put a trusted partner in charge of running other critical areas of the business, so you don't have to.

6 PLAN FOR YOUR LEADERSHIP SUCCESSION. What are you doing to engage your next generation of family members in your business? Family business succession planning facilitates the hand off between generations and enables the transfer of management responsibilities – and wealth – from one leader to the next. Sooner or later, your current family business owners and leaders are going to move on. Successful family businesses, then, support their next generation in pursuing their individual passions, but they also prepare for their businesses to be multi-generation legacy businesses.

With more than 10,000 Baby Boomers reaching retirement age every day in the US, this problem isn't going away by itself, so consider executive coaching programs and other leadership development opportunities to help individual family members develop the critical skills and executive presence needed to run your family business.

7 "FAMILY FIRST" MINDSET. The final strategy is recognizing that family always comes first! This can put undue pressure on the business if it means you are going to make a family member who isn't well qualified a manager simply because he/she needs a job. If we take a "both/and" approach to the business rather than "either/or," then perhaps the "family first" mindset simply means you will offer that family member a job in a more focused individual contributor role and allow him/her to develop into a more seasoned leader over time. The business, many would argue, is a means to an end, and that end of taking care of and providing for the family takes precedent for most family business leaders over pure business results. More commonly what this really means is that family business owners will convene a family dinner or other social gathering outside of shareholder/board meetings so that family members can still connect while prioritizing the business.

Conclusion

Family businesses are often ripe with relational chaos and can create emotionally charged environments that don't exist in other business settings. That's why it's so important to leave your family drama and relationships at the door when you go to work.

It can also be invaluable to explicitly and symbolically announce which hat you are wearing – parent or boss, child or leader – at all times. If you want to create a high-performance family business that continues for generations, these strategies can help you lay the foundation for greater success and preserve your legacy for the future.

Dr. Jeremy Lurey, CEO of Family Legacy 1st, serves clients ranging from families of significant wealth to mid-market companies to Fortune 500 corporations. With a passion for helping multi-generation families sustain their legacies, he excels at enabling these families to transfer their wealth and transition their businesses from one generation to the next. Dr. Lurey regularly facilitates family forums and retreats, drafts family charters to define core values for families, and provides family counseling both to parents and their children. He frequently presents at professional conferences and seminars, and has authored several publications on family business, succession planning, organization development, change management, and leadership excellence. Dr. Lurey holds MS and Ph.D. degrees in organizational psychology from the California School of Professional Psychology as well as a BS degree in communication studies from Northwestern University.