

# Sorting Out the Family From the Business

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There is a German saying referring to family business. It goes like this: “The first generation struggles to build it from scratch. The second generation improves it and expands it. The third generation spends it.”

Although this saying does not apply to all family businesses, there is a lot of truth to it. Many families struggle to overcome these tendencies. Many businesses get in trouble over family issues. At the same time, both family and business can benefit from working and growing together.

Understanding different perspectives of your family business can help you avoid the potholes on the way and contribute to making the best out of the opportunities ahead.

## *Three Perspectives*

Of course there are a lot of different ways to look at family business. Three perspectives are key to meeting the challenges of family enterprises: business, ownership, and family (Figure 1). Family businesses differ in how they are organized around these three perspectives. Although they overlap, they should be viewed as separate subsystems.

Persons involved in your family business, whether family or employee, can be looked at from the ownership, the business or the family perspective. The diagram shows where different people are in relation to each perspective. Everybody who is family is in circle 1. Everybody who is working in or for the business is in

circle 2. Everybody who is a shareholder is in circle 3. If everyone in your family business would be part of only one circle, then the tree circles would not overlap. But then we would not be talking about family business--that’s what’s special about family businesses: people involved in the business are part of different circles.

Some of your employees might only be part of the business cycle (sector 2). Some of your family members might only be part of the family cycle (sector 1). It helps to guide you and them in finding the right decision if you spend some time clarifying that their involvement and contributions will be different from those of others who are involved in more than one way.

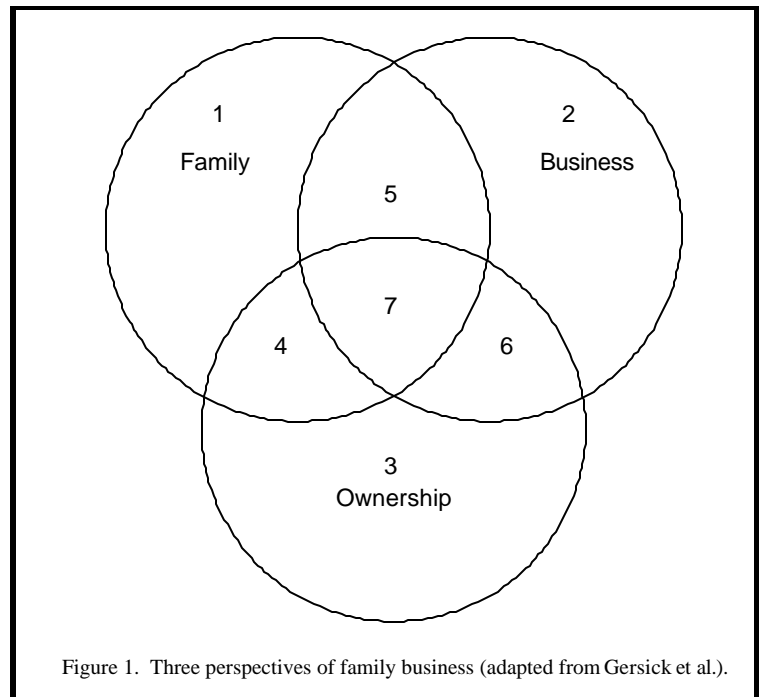


Figure 1. Three perspectives of family business (adapted from Gersick et al.).

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For example, an employee cannot be expected to work as hard in the enterprise as somebody who is also an owner and a family member (sector 7). If you need your employees to work 150% for some time or if overtime is necessary, you have to provide incentives for them to do so. Actually, there are business owners who give their most important employees access to shares of the enterprise to overcome this problem. Employee owners belong to sector 6 of the diagram.

On the other hand, family members, who are not part of the business or owners, might not understand how you can spend so much of your quality time working on business issues. Family crisis might be caused by not being clear about the different levels of involvement and the consequences thereof. The classical in-law scenario is based on this conflict: a son or daughter not yet owner of the parent's business is spending every weekend working there, not to speak of the rest of the week, the long hours, and the number of times he or she misses the common dinner or the long awaited theater evening. The outside working spouse will not tolerate this situation forever.

### ***Conflicts are Unavoidable***

Potential conflicts can be eluded or solved more easily when you clarify everybody's position in the overlapping circles. Take two brothers who have inherited the business from their deceased father. One has never worked there but is an owner now. He is in sector 4. His brother is the manager and also owner. He is sector 7. The non-employee brother wants to get some dividend out of his ownership. The managing brother wants to invest in new state-of-the art equipment. Both had difficulties understanding why it was so hard for them to agree on the right course of action, because they had always been very close. Seeing the rationale behind their different interests made it easier for them to find a solution that did not hurt their relationship.

### ***Family and Employees***

Another area of challenges for family business is sector 5, the overlap between family and business. Facing the decision about which family members should work in the enterprise and which will do better somewhere else, can be a very difficult situation for the business family. Employee owners (sector 6) can be

rather resentful about family members being drawn into a business with what they perceive as minor qualifications. They like to see the best person hired for the job. They are afraid of someone coming in with special privileges but without special skills.

On the other hand, for many families it is part of their culture and philosophy as a business family to have as many family members as possible working together in the same enterprise. One of the benefits of all the hard work in a family business is the chance to work together as a team with the people you trust and love. Sons and daughters growing up involved in the business are not just other employees. Ideally, they have been part of the business and contributed since an early age. They know the ropes from youth and have learned the trade very thoroughly, in a way that can hardly be achieved by someone from the outside.

Certainly, the ideal is not always realized, and sometimes the employees' fears of another family member stirring things up are well grounded. Therefore, if you want your children to grow up to become employees, managers, and at some point owners of your business, you will have to prepare for this early on. Start letting them share what is going on at an early age. Let them participate in decision making at the level they are at. If you keep the right to make final decisions until the very end, they will not grow up to be the managers and owners you want them to be.

Family business succession is a long-term project. It starts when the family is still young and might not even be in control themselves. With their parents planning to hand over control to them, they might already begin to share it with their own youngsters. This is a difficult step to take.

For the sake of the family, the employee, and the business, aspire to define everybody's role in the family business. As long as the family member is an employee, the "chain of command" has to apply to him or her, the same as to other employees. The wages have to be fair depending on work done. No extra dollars for family membership. If someone in the family needs more money, look for other ways to do this: a loan, dividends based on ownership, or a different higher paying job. However, it can hurt your business to base promotion on family membership. You might lose your best employees if they feel they will not be promoted or they are doing the less interesting jobs because there is always someone

outranking them.

High benefits, high challenges, hard work and great fun are the different aspects of a family business. Meeting the challenges and having fun together after hard work is very rewarding. People and businesses change over time, and new challenges are just around the corner. But different generations working and growing together, is a way of life.

### ***Clarifying Interests***

Sometimes family and business issues get mixed up, and ongoing misunderstandings have led to deep wounds that prohibit the family and the business from prospering. In these cases, an outside mediator can support the family. If the main issues are related to the business, a consultant might be the best choice. But where the problem exactly lies is hardly visible to those involved when the tensions are high. A close friend or business associate may be able to help you in sorting out the issues and deciding how to proceed.

The use of some management tools can prevent unnecessary tension by spelling out the position that everybody is in.

Each person involved can live up to his or her potential and develop his or her role, in the business, in the family or as an owner, more easily once the situation is clarified.

Interests coming from the different perspectives will be obvious to anyone involved. Developing joint decisions will become less painful. Solutions can be found more easily. Possible conflicts may even be avoided. Clarifying where everybody stands will contribute to smoother relationships and better business decisions.

Reading tips: Gersick, K.E. Davis J.A. Hampton, M. M. Lansberg, I. (1997): *Generations to Generations: Life Cycles of the Family Business*. Harvard Business School Press, Boston (Massachusetts) ISBN 0-87584-555-X

