

5 Surefire Ways to Screw Up Your Family Business

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The webinar will start at 11:00 am CT



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Administration



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Please provide your feedback at the end of today's presentation.

About the Speaker



Marjorie Engle

Senior Vice President
Organizational Development
and Family Business Services

Extensive experience in board governance, executive coaching, organizational analysis, succession and strategic planning

Certificate in Family Business
Advising from FII



Learning Objectives

Explore frequently seen mistakes family businesses unknowingly make that result in conflict, failed succession or a failed business

Gain an understanding of why it's so easy to be tripped up by common pitfalls

Consider solutions and strategies of successful family businesses

Learn about resources that can assist a family business

Fears and Misperceptions



Conflict Is Normal

- Natural and inevitable
- Constructive or destructive
- Focus on conflict management



5 Common Sources of Conflict

Employment,
performance and
accountability

Compensation

Succession

Roles, rights and
responsibilities

Separation or
exit from the
business

The Costs



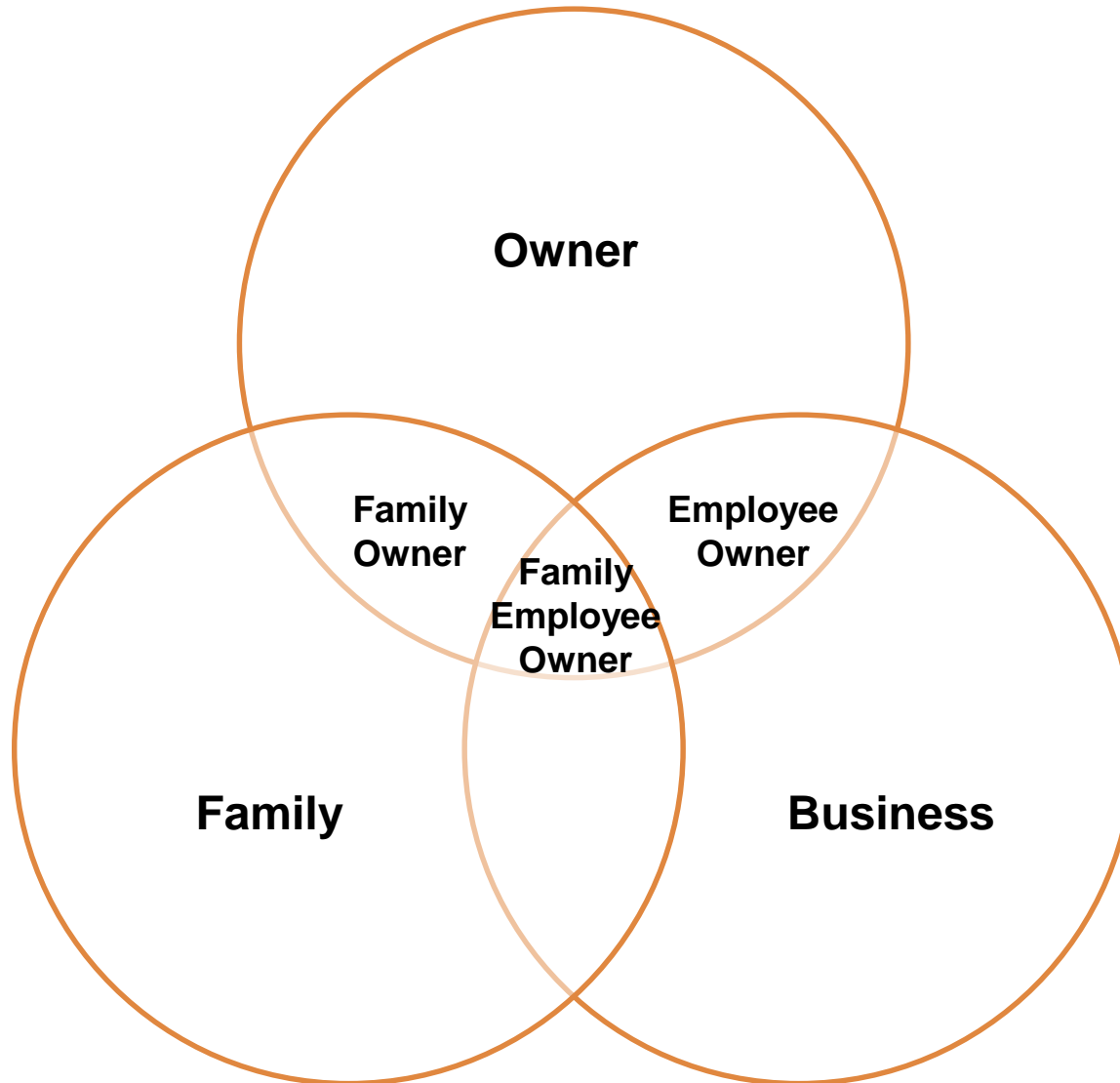
Family First? Business First?





Polling Question #1

Three-Circle Model



Source: Three-Circle Model of the Family Business System, Renato Tagiuri and John Davis, Harvard Business School


Conflict Management Toolkit

- Structures
- Processes
- Policies
- Skills





5 WAYS TO SCREW UP YOUR FAMILY BUSINESS



#1: Ignoring the pitfalls in employment, performance and accountability issues for family

Predictable Employment Questions

Who is eligible to work in the business?

How do we determine people's roles?

What performance expectations do we have?

How will we evaluate performance?

How do we recognize good performance and address poor performance?

How can family members develop and advance in the company?

How do we attract and retain the nonfamily employees we need to succeed?

What Others Are Doing

Most frequently used criteria in written policies:

- ✓ Existing job opening (58%)
- ✓ College education (54%)
- ✓ Outside work experience (50%)
- ✓ High school education (18%)
- ✓ Other considerations (20%)



Performance Issue Checklist

- ☐ Performance expectations (job description)
- ☐ Defined reporting relationships (not parent)
- ☐ Performance appraisals (formal/scheduled)
- ☐ Promotions/advancement (career tracks)
- ☐ Organizational chart/clear roles
- ☐ Coaching and support
- ☐ Disciplinary action/dismissal



Polling Question #2



#2: Failing to differentiate between fair and equal compensation

The Ultimate \$\$ Issue

Equal vs. Fair



Money is More Than a Paycheck

- Security
- Opportunity
- Comfort



Defining Value

As ...

An employee?

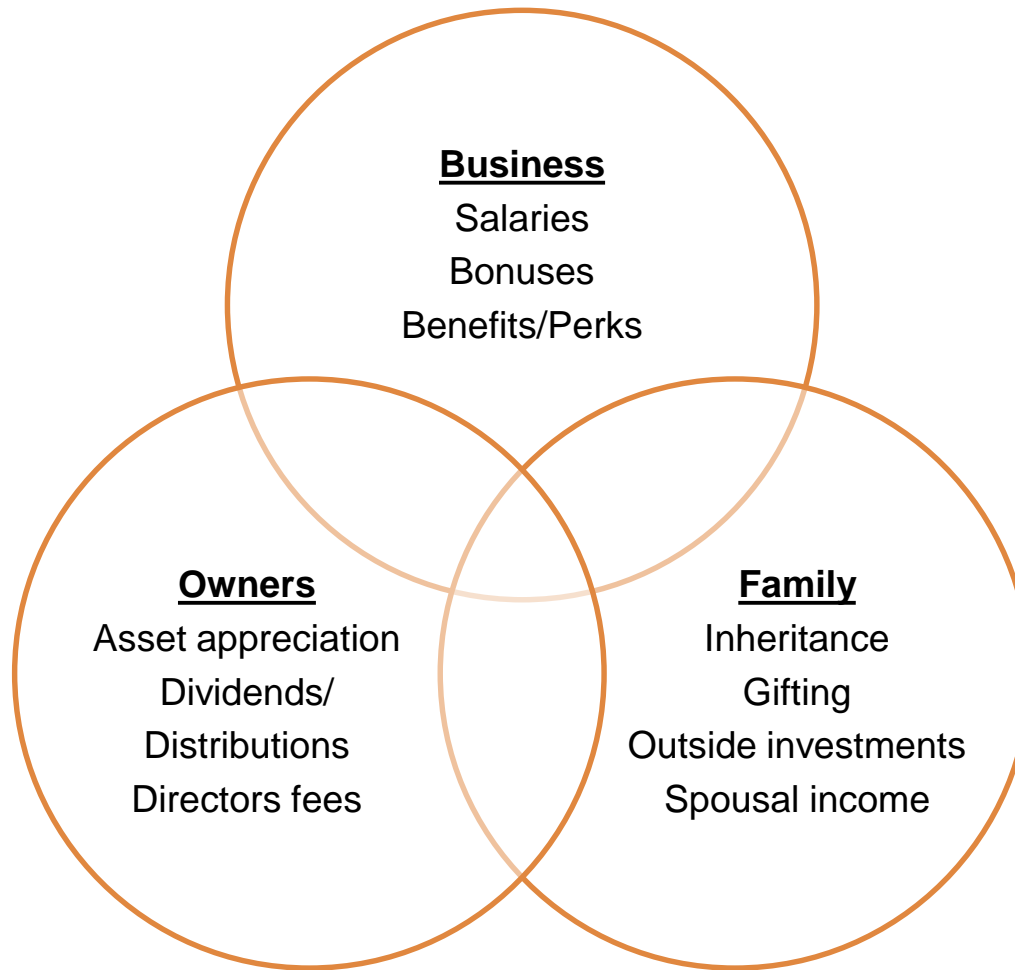
An owner?

A family member?

A person?



Sources of Family Business Funds





Polling Question #3



#3: Not planning for the future

Multiple Areas of Planning

- Succession Planning
 - ✓ Ownership
 - ✓ Management/Leadership
- Strategic Planning
 - ✓ Clear shared answers



The “Succession Conspiracy”



Although it's in **everyone's** best interest to have a succession plan, **each person** may be motivated to avoid the issue altogether.

Quote: Ivan Lansberg's insight



Ownership Succession Checklist

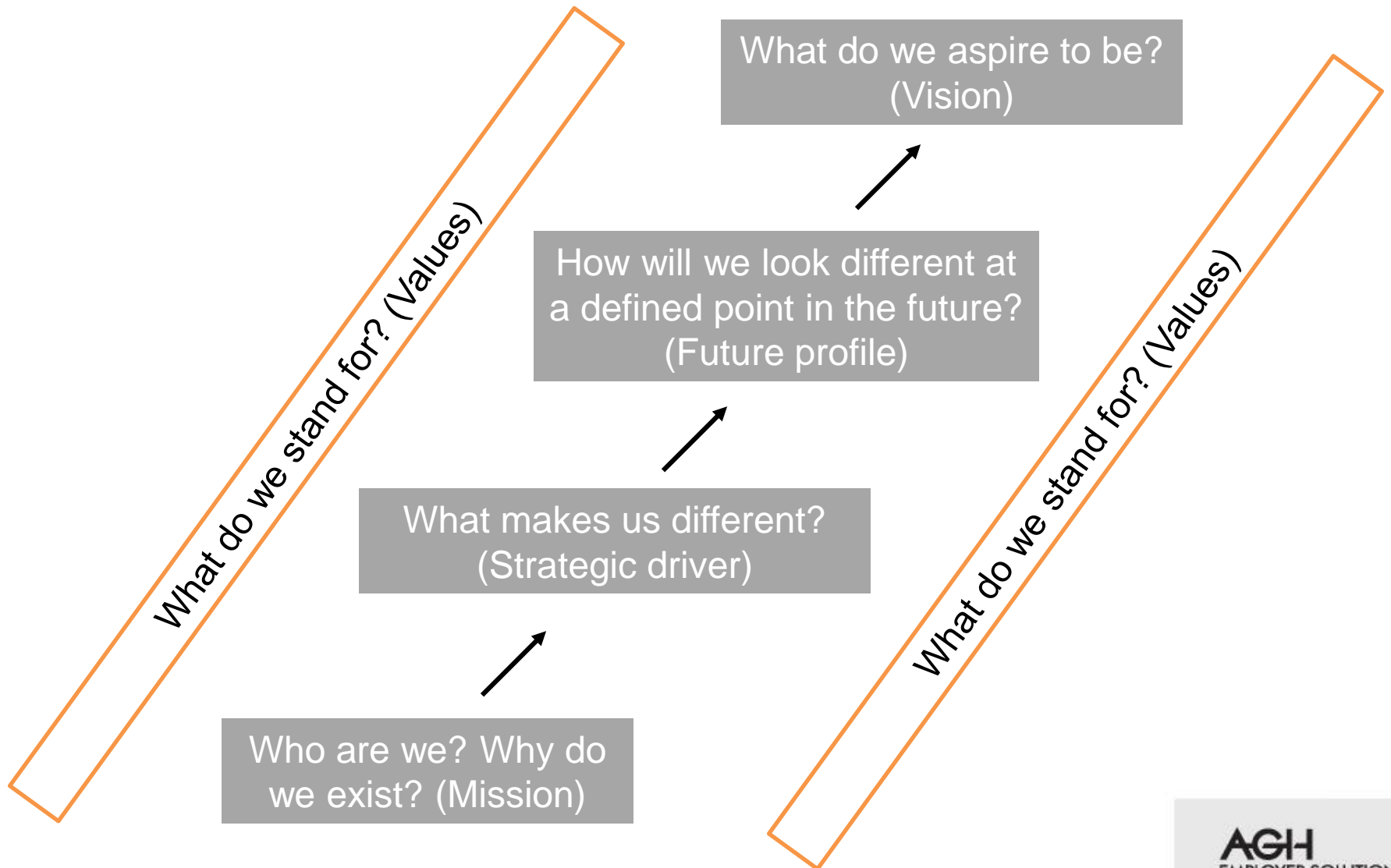
- ☐ Personal financial security independent of the business
- ☐ Future ownership vision
- ☐ Commitment and abilities of future partners
- ☐ Funding of purchase (valuation, liquidity and cash flow)
- ☐ Estate tax planning
- ☐ “Pro”-tirement interests and options
- ☐ Communication and dialogue



Management Succession Checklist

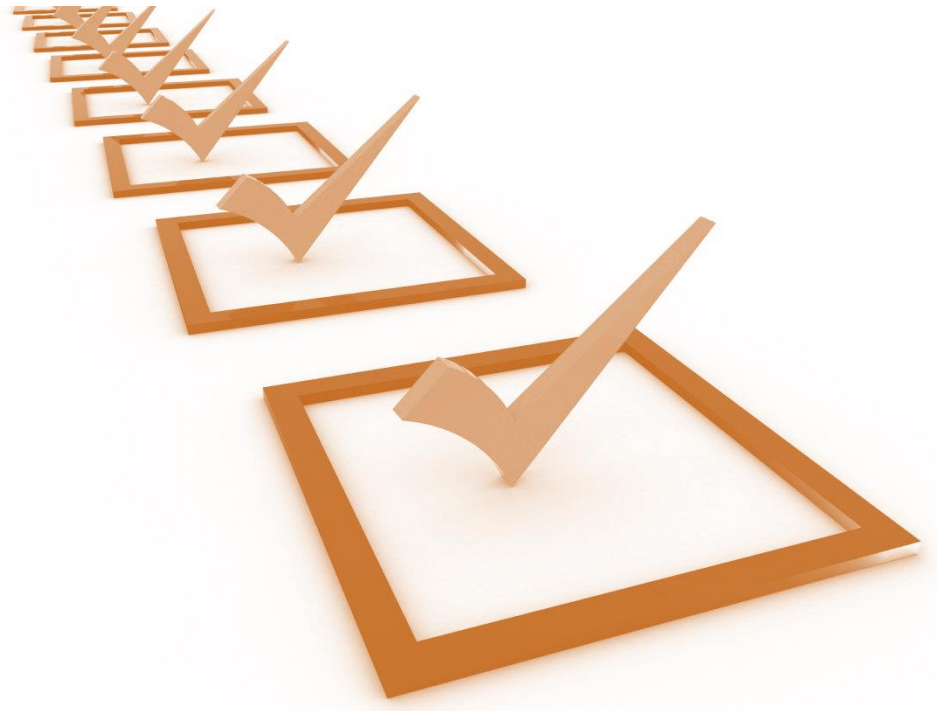
- ☐ Future vision and strategy for the business
- ☐ Agreed on selection process, timeline and participants
- ☐ “Successor team”
- ☐ Development program
- ☐ Communication and dialogue

Key Strategic Questions



Strategic Planning Checklist

- ☐ Prepare
- ☐ Develop Plan
- ☐ Implement
- ☐ Revise





Polling Question #4



#4: Having unclear roles, rights and responsibilities

Roles, Rights and Responsibilities

- The many “hats”
- Rights and responsibilities
- Expectations and feedback





The Role of Owners

Provide financial capital

Agree on the goals of the owners

Define the partnership

Effective governance system

Elect directors

Articulate philosophy and core values



The Role of Directors

Serve on the company's Board

Protect the shareholders' investment

Keep owners and managers "in balance"

Review corporate objectives, policies and strategies

Hire the CEO

Provide guidance and input to the CEO as advisors

Hold the CEO accountable

Approve management plans, budgets and compensation packages for top executives

Oversee succession planning and risk planning

Declare owners' dividends



The Role of the Business Leader

Develop a strategic vision for the company

Select, hold accountable and direct the company's executive management team

Serve as an active link between management, the board and the owners

Cultivate a corporate culture in alignment with the company's core values

Represent the company in public and corporate settings

Seek input from directors and leverage their individual and collective abilities

Mentor the company's future leaders



The Role of the Family

Provide a sense of continuity

Impart core values

Preserve the family's legacy

Community representation

Set the tone for communication and conflict

Make decisions mindful of the needs of all stakeholders

Family Meetings

- Learn
- Work
- Fun

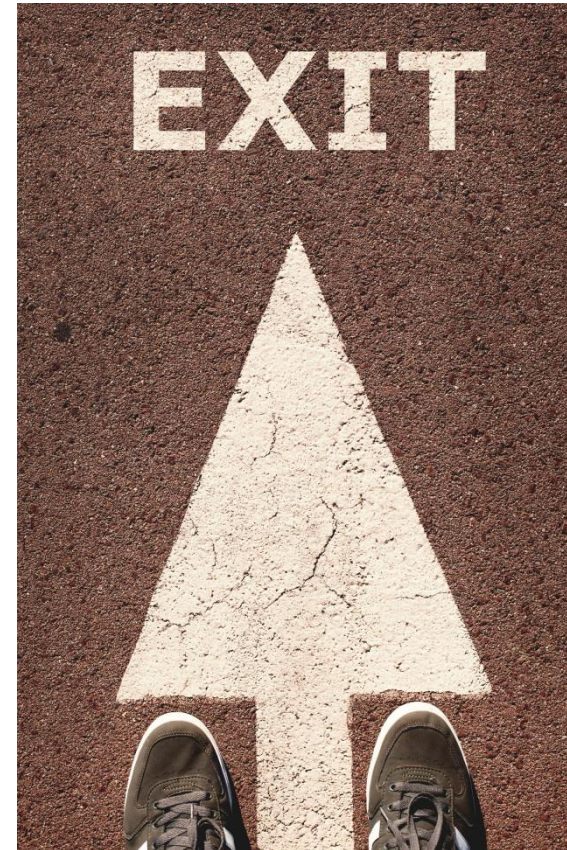




#5: Pretending that separation won't happen

Plan for Unpredictable Separation Needs

- Beer truck
- Surprises



Resources

Suggested Reading

“Be Quiet Be Heard: The Paradox of Persuasion” by Susan R. Glaser & Peter A. Glaser

“Creating Effective Boards” for Private Enterprises by John L. Ward

“Family Business Key Issues” by Denise Kenyon-Rouvinez and John L. Ward

“Generation to Generation: Life Cycles of the Family Business” by Kelin E. Gersick and John A. Davis (1997)

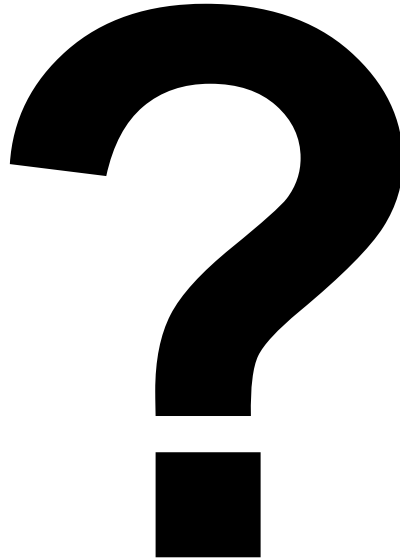
“Good to Great” by Jim Collins

“The Ultimate Legacy: How Owners of Family and Closely Held Businesses Can Achieve Their Real Purpose” by Donald J. Jonovic

Suggested Activity: Family Business Forum participation



Questions?



Thank you!



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