

Why the Family Dynamic Must Be Recognized

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Learn How to Bridge One of the Main Sources of Conflict in a Family Business

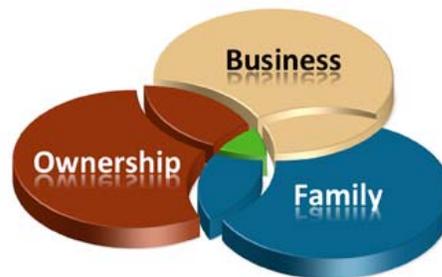
“Shirtsleeves to shirtsleeves in three generations” is a familiar saying in the United States, and describes the propensity of family businesses to fail by the time the grandfather’s grandchildren have taken over. The data supports this saying, with 70% of family businesses not making it to the second generation, and only 10% to the third generation.

Some of the issue lies in the practical matter that family business leaders stay in position 20 to 25 years, while their public company counterparts often change leadership every five to seven years. This extended tenure in the family business leadership can lead to difficulties coping with shifts in technology, business models, consumer behavior, and globalization.

The Unique Character of Family Business

What is a family business? It is generally accepted that a family business is one that includes two or more members of a family that have financial control of the company. It is easy to see one key factor is that the family has financial control of the company, which gives it a different perspective than a family with multiple members working in a company owned by someone else.

To better understand family business and its unique character in the business world, it is important to recognize the three different, but interrelated domains: the “family”, the “business”, and the “ownership” domains.



Family Domain

Family is a group of two or more persons related by blood and/or legal relationship (i.e., marriage). An emotional bond usually accompanies the relationship. Family members tend to approach relationships with one another differently than they might with a business colleague who is not from the same family.

Business Domain

Business is an economic unit that produces, distributes, and/or exchanges goods and services with customers for a reasonable profit. People in business tend to relate to one another in a hierarchical manner based on defined roles that are designed to further the business.

Ownership Domain

Ownership is the third domain of the family business model. An owner is someone who has legal claim to the assets of the business and who risks his or her own personal assets in hopes of realizing a profit. In a family business, ownership may remain in the hands of one family member, or within a small group of family members, or even some nonfamily members.

So what makes the family business different?

The domains standing on their own, independent of each other, is no different than any other business. What is unique to the family business, however, is the involvement of family members in more than one domain with differing purposes, which sometimes leads to conflict and misunderstandings. It is the overlap of the family, business and ownership domains that makes a family business different from other businesses, and it is the family involvement that brings both the unique joys of working together and the particular problems of owning and operating a business.

This combination of domain overlap in some family businesses presents problems which non-family businesses generally do not face. Not everyone in the family will participate in all three domains, so there will be varying combinations of involvement, experience and knowledge of the family business among family members. This variation requires each family member to be keenly aware of the domain and domain overlap they reside in so that they act and behave appropriately in the business.

Needless to say, the lack of awareness is the source of many a conflict.

In order to successfully address and leverage this unique makeup of the family business, implementing some best practice governance structures can provide a forum for communication between the different domains; alignment as a family around values, purpose, and direction; and a focus on reviewing the business results, its place in the market, and what it must do next to remain competitive and drive business value. This type of communication is often the bridge that moves the family from discord to unity.

Many family businesses utilize a 3rd party family business advisor to help them develop the governance structures and facilitate the meetings as well as provide coaching when emotions run high, opinions vary, and the stakes are high. It takes courage (and time) as a family to develop good governance, but the results are well worth it – things like harmony, business success, and even fun. Getting started is always the hardest, but like all good things in life, one step at a time.

Families in business without some sort of governance often get messy, and the lack of governance is a major cause of problems in the organization. Love, power, and money can be a powerful force to grow the business, but can just as easily blow it up.

Compass Point is a business consulting firm specializing in family-owned companies. We work primarily in the manufacturing, construction & professional service industries. We provide hands-on consulting & coaching to help businesses close performance gaps; give owners practical, actionable tools that drive growth; develop leaders and position the business for successful ownership transition – all on their terms.

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