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FINDING THE BALANCE BETWEEN FAMILY AND BUSINESS

1 Although family-owned businesses represent almost 90% of all businesses in this country, a family business is really an anomaly: a hybrid organization that mixes the value system and informal nature of the family with the structure and organization of a business. When viewed separately, the family and the business have little in common in their make up and objectives. Yet when they join forces, as they do in a family business, the relationship between them can be so close that it is often difficult, if not nearly impossible, to determine where the family ends and the business begins.

Therein lies the most challenging aspect of a family business – balancing the interplay between these two rival systems. It is the quality of this interaction that ultimately determines the overall health of both family relationships and business effectiveness. The yin and yang connection between the two needs to be respected, for they are both the greatest source of strength and the Achilles heel of vulnerability for each other. Too much family intervention and too few corporate procedures and processes can spell disaster for both entities. For example, it is a well documented fact that a family-owned firm often enjoys a substantial competitive advantage over others in the same industry; at the same time that competitive success can also mask a culture of secrecy and corporate dysfunction within the business.

The family-owned business is a staggeringly positive force in our economy today. According to current research,

- between 80-90% of all businesses in US are family-owned businesses
- 33.6% of S+P 500 firms are family-owned
- 60% of all public companies in the US are family controlled
- family-owned businesses account for 62% of total US employment
- ... for 78% of all new jobs
- ... more than 64% of GDP
- and 65% of all wages paid¹

Yet, this is in sharp contrast to the statistics that almost 70% of all family-owned businesses in this country fail before they reach the second generation, and the numbers become even more dismal as time progresses.

In order to better understand some of the challenges that prevent family-owned businesses from sustaining their success, it is helpful to look back at how those businesses began. Very few of them began with the end goal of becoming a multigenerational family business. Rather, most businesses began as somebody's bright idea for a way to make millions, or

¹Source: www.ffi.org

2 maybe just make the rent, have a better life or provide a nest egg, or put the kids through college, or buy a country house. The original motivation and the ideas themselves are as varied as the people who dream them up, and who then work relentlessly to turn those bright ideas into viable businesses.

That road from start-up to success is a notoriously long and perilous one that requires enormous amounts of passion and dedication, endless hours and hard work. And add to that list of requirements the willingness of family and friends to fill in where ever staffing and financial gaps occur. So whoever is good with numbers becomes the bookkeeper, and whoever can drive the truck, delivers the product, and whoever has deep pockets becomes an investor. Regardless of how formal or informal the arrangement may be, this recruitment of supportive and able minds, bodies and dollars carries an emotional undertone that is based in the family-centric value of “all for one and one for all.”

In the start-up stage of the business this approach is appropriate and works pretty well. But as the business becomes more solid and progresses thru the frenzied instability of the start-up stage into a period of relative growth and steadiness, the need for professional processes and procedures becomes more evident. It is no longer adequate to have the books tallied once a week or the delivery schedule determined by your cousin’s availability. This is the juncture where the spontaneous nature of family life comes into direct conflict with the structures of business.

That conflict is predictable, perhaps even inevitable when you think about the characteristics of a family in contrast with those of a business. Families are closed systems with only two ways in... birth or marriage, and two ways out, divorce or death. Their primary concerns are focused inwards upon the family members and their relationships with each other. Families tend to develop in a rather casual and unstructured way; rules come into being when they are needed; behaviors are accepted – or not – as they happen. Members are born into the pecking order and assume their roles and responsibilities as they mature. Expectations are simply understood, often without ever being verbalized and the family’s guiding principles are learned at your mother’s knee. Little if any of this is written down or formalized in any way other than “this is the way we do it.”

Businesses, on the other hand, thrive on defined structure and set procedures: job descriptions, reporting structures, performance reviews, procedure manuals and compensation charts are all part and parcel of corporate life. The focus of any organization must be outward – on the economic environment and the competition. Corporate membership is dependent upon an individual’s skills; and the specific needs of the organization and when those skills are no longer adequate, needed or relevant, the relationship is terminated. Decisions are based on facts rather than emotions and the bottom

3 line drives the direction of the company. The hierarchy is clear and the leaders are selected for their specific abilities, skills and experience, as well as for their vision and passion.

The dual nature of a family business is reflected in these contrasting characteristics and objectives of the components. If the ultimate objective is for each part to be successful and to function autonomously in a way that respects the duality of the association, then balance is clearly needed to keep the considerable strengths and diverse traits of the two systems in line with each other. The challenge then, for every family business, is to be able to effectively harness the power of its “family-ness” in a way that supports family relationships while simultaneously respecting the organization’s development. A challenging task to be sure, and one which necessitates that the competing mythologies that inherently exist between families and organizations are both recognized and understood. Unfortunately, few family businesses do.

The ability to consider the family and the business as distinct from each other is essential to this. They are allied with one another to be sure, and in some ways they are interdependent upon each other, but each has its own, unique mission and code of conduct. The quest for balance between the family and the business must begin in the family arena because it is here that the ambiguity between what is a family issue and what is a business matter is the most prevalent. And rightly so when you think back to the way most family businesses begin... with the help of family members working together for “the good of the family”. Along with family allegiance comes an intangible component – the values of the family itself, made up of the moral and religious beliefs, as well as the spoken and unspoken expectations and hopes. Ultimately, without any thought or planning, that value system becomes the nascent organizational culture of the business.

This morphing of family values into business ethics presents a tricky challenge not only because it is spontaneous, but also because it generally occurs as a package deal. Think of a computer program that is always running in the background, it is invisible to the naked eye, but its programming affects everything that happens. In the same way, the principles that support family life are transferred into a business setting and become the operating principles of the organization. Some of those principles will adapt seamlessly to their new environment, but others will be inappropriate. For example, “do unto others as you would have them do unto you,” is easily convertible from a family value into a business ethic; but, “blood is thicker than water,” which promotes the idea that allegiance to family supersedes everything else, becomes an exclusionary and nepotistic tool when applied in the business environment. If left unexamined, this maxim can translate all too easily into family

4 members being rewarded on the basis of their DNA rather than on their qualifications and/or experience.

And that is how family businesses get into difficulty. The transfer and automatic acceptance of family ethics into the business arena disrupts the tenuous balance between family matters and business issues. The result is confusion, double standards and a general sense of entropy that pervades the business. If left unresolved, it can demoralize and destroy the family business itself. Fortunately, it is not an irrevocable condition.

The way to restore – or initiate – balance is by the taking a long, hard, dispassionate look at all of the attitudes and values that the family holds dear, both those which are obvious and those which lie below the surface. And, based on that assessment, make the intentional decision to integrate into the corporate culture only those values and ethics which are appropriate in a business environment.

This is arduous work and is most successful when done over time and in collaboration with family members. It is helpful, often necessary, to engage a professional to facilitate the discussions and keep the process on track. In the end, the dual nature of the family business experience is most successful and rewarding when there is clarity and balance between the two competing systems. When the goals and values within the family are clear and distinct from the goals and values of those in the business, then the relationship between the two opposing elements of the equation comes into balance, to the benefit of both the family and the business.