and Your Family Business

"Family Business" does not always equate to "Mom and Pop"—very large companies that employ more than 30,000 people are family-owned businesses. They represent 50% of the nation's Gross Domestic Product and 60% of the total U.S. employment. Only 30% of family businesses succeed to the second generation; only 10% into the third generation. Family businesses deal with very unique issues in running their companies—SSB understands these issues and helps family businesses become successful in spite of the obstacles.

What steps does SSB take to help a family business deal with the unique issues of running a family business? We—

- **Learn how the family business operates.**
- **Get to know the family members**, their personalities, their roles and/or potential roles in the family business, their values and their goals.
- **Encourage a family business to exercise objective judgment** in assessing their operations instead of making decisions based on family emotions and traditions.
- **Encourage a family business to consider using an objective advisory team** made up of nonfamily members possessing a variety of business resources, such as attorneys, bankers and CPAs.
- **Encourage a family business to exercise shrewd foresight.** When a family business plans for both economic downturns and for timely potential expansion opportunities, a family business prospers and survives.
- **Help limit and deal with conflict!** Some conflict is essential for growth—too little can be as damaging as too much. No matter how successful a family business is, or how many generations it has survived, unresolved conflicts can damage the business.

  Common **sources of conflict** include:
  - **Resources**—money, shares and management positions.
  - **Strategy**—is change necessary, or is there no reason to change?
  - **Values**—individual interests and values change; generational differences develop.
  - **Rivalry**—almost inevitable but very dangerous in a business.

How can a family business be successful despite conflict? SSB encourages the following:

- **Write a family creed.** While not legally binding, the creed outlines how family members can join and leave the company, when meetings are held and who makes the decisions.
- **Set up owner agreements** with the help of an attorney. These are legally binding contracts specifying the ownership structure and the means for transferring ownership. They are particularly critical in the event of a death or divorce.
- **Structure ownership holdings.** Who in the family wants or should have a stake in the business? Sometimes we recommend issuing voting and nonvoting stock so some family members get a share, but a core group retains decision-making powers.
- **Appoint independent directors.** The board of directors should also include members outside of the family to offset overpowering family influences. The idea is that the family monitors management while someone monitors the family.
- **Hold family meetings.** Be sure that the meetings are formal and held at regular intervals to discuss business issues and settle arguments.
- **Evaluate performance.** We emphasize the importance of a structured evaluation process that focuses on improvement rather than weaknesses. Appraisals help ensure that jobs and responsibilities are assigned based on skill—not on family relationships.

CPAs
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