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Balancing Family & Business

Family business is not an issue to be solved, but rather a source of tension to be managed, according to this family business specialist.

by ***Kindra Gordon,*** *field editor*

Managing the needs of a family business might often be described by those involved as a seesaw — with it often feeling like when one side is up, the other side is down.

So, is it possible to bring family and business goals and relationships into better balance?

Barbara Dartt, a consultant who assists family businesses with succession strategies, long-term planning and management transitions, suggests that bringing alignment to the two different facets of family and business is possible, but she notes tension will always exist.

She explains: "A family system and business system are fundamentally different, and that creates tension. … It creates a tug-of-war between family expectations and business demands. Thus, that's one of the rules of the game in family business — there will be tension."

Therefore, Dartt, who works with The Family Business Consulting Group, advises: "Being a 'family-first' or 'business-first' family business is not an issue to be solved, but rather a source of tension to be managed."

To qualify the need for balance between family and business tension, she points out that being an extremely family-focused business can lead to a *fail,* whereas being extremely business focused can lead to a *sale.* Either way, a poorly operated family business can have an emotional and economic toll on several generations.

However, the reward of finding that "sweet spot" that balances family and business goals and relationships can mean a stronger family and business.

Coming to a consensus

When it comes to decision-making in a family business, voting often creates winners and losers. Instead of voting, Barbara Dartt, a family business consultant, suggests striving for consensus. She explains that this can create more of an equal playing field and shows value to all involved.

One consensus model that Dartt advocates involves finger polling using the following agreed upon rules.

1 finger = I agree.

2 fingers = I don't fully agree, but I can support the decision.

3 fingers = To support the decision, I need to see more _________.

4 fingers = I don't agree, I block the decision, and I need to see more ________.

In a meeting, if most involved hold up 1s and 2s, you can move on, Dartt says. However, if most involved hold up 3s and 4s, it's a topic that will need more discussion and information to build consensus.

Recognize differing roles

A first step toward finding balance in family and business relationships begins with recognizing — and respecting — the differing roles of family, business and ownership, according to Dartt.

She suggests thinking of each of these categories as a circle, and realizing that the different circles often intersect. Some individuals may have all three roles of being in the family, working in the business, and also owning a portion of the business; while some individuals may only be family and business and are not yet owners. Likewise, some individuals in the business may be non-family, while some individuals may be family and non-business.

With this perspective, Dartt suggests individuals can start to realize that depending on which circles (or roles) an individual is in will influence his or her behavior and decisions.

As examples, the family perspective often has an emotional focus, inward orientation and unconditional acceptance with emphasis on nurturing, developing self-esteem and growing adults.

Conversely, the business or owner perspective has a fact focus, outward orientation and conditional acceptance with emphasis on generating profits and developing skills.

Dartt notes that another big difference between the two systems is that businesses are accustomed to the drive for change, while family systems typically do not seek change.

When out-of-balance

When these different roles and perspectives by individuals are not considered, Dartt says it is common for the family and business goals to become out of balance. She says it is actually quite predictable what occurs when that happens.

For instance, when the business perspective is given the largest focus, a family business is usually faced with a divisive estate plan, a lack of information being shared, a loss of family vision and values, and a distant next generation.

When the family focus has the largest influence on the business, it typically results in unqualified hires, mismatched compensation to employee value, and an informal approach toward the business's goals.

When the owner perspective is overbearing on the family business, there's often challenges with control issues and a tax-driven estate plan without regard to a future successor's ability to buy or continue the business. Dartt says a "sense of entitlement" and attitude of "it's my time" are often evident from the owner.

Strategy and structure are key

How can these "out-of-balance" scenarios be addressed — or prevented in the first place? Dartt shares that research suggests there are several key components necessary for family businesses to work together effectively from one generation to the next. These include:

- Strategic planning with established values, vision and mission for the family business.
- Appropriate and active governance system in place for the family, business and ownership circles.
- Well-run family meetings and opportunities for shareholder education.

Dartt suggests each of these components can help enhance communication and create some checks and balances between the roles and goals of family, business and ownership.

Essentially, she says developing these processes can "get some understanding and structure in place before you need it." Put another way, she says: "Decide how you're going to decide before you have to decide."

Dartt notes that families often avoid strategic planning discussions to plan for the future because they are afraid of what they'll hear, but she questions, "Do you want your business left to chance or do you want to make a choice?"

Regarding strategic planning, Dartt suggests starting by asking for input on some general questions from all involved:

- What is the family's commitment to the business?
- What does the family expect from the business (growth, risk, profitability, liquidity)?
- What do we want to create together?
- What's our purpose?

As the strategic planning process progresses, Dartt suggests there are some specific responsibilities within the ownership, business and family members (See Table 1).

Secondly, with regard to governance, Dartt explains the family business gains strength when a decision-making system is in place and recognized.

"Governance helps mitigate the complexity that exists," she explains. She notes the structure of governance will look different for each circle. For example, the

CONTINUED ON PAGE 168

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Table 1: Family business responsibilities by role

Ownership members are responsible to:

- Determine the purpose for being in business together.
- Set direction by making decisions on growth, risk, profitability and liquidity.
- Determine ownership and management succession — who and how.
- Stay informed and monitor progress.

Management members are responsible to:

- Develop and execute business strategy consistent with values, vision and goals of owners and family.
- Communicate with owners so they stay informed on progress.

Family members are responsible to:

- Set the vision for the family's commitment to the business and the business's support of the family.
- Uncover the values by which the family and related enterprises will operate.
- Help educate successors on the rights and responsibilities of ownership and family history and values.

Additionally, the family business may want to establish specific policies that the business abides by. This is basically addressing why, what and consequences related to specific topics. Policies to consider include:

- Family employment policy — for anyone age 9 or older
- Code of conduct
- Decision-making
- Board membership criteria
- Family meeting policy
- Conflict resolution policy

Balancing Family & Business CONTINUED FROM PAGE 167

ownership governance may be in the form of a board of directors or shareholders. The business governance may be management positions in the areas of operations, marketing, finance and human resources. Family governance may be in the form of family committees and regular meetings — such as a family education committee, a next generation committee, a family vacations and planning committee, a family employment policy committee.

As family businesses embark on this process of developing a governance system, Dartt says items that will need to be considered include: Who has the authority to make what decisions? Who should be consulted before a decision is made? Who needs to be informed after a decision is made?

Additionally, on decisions involving multiple family members or owners or managers, considerations include: What criteria will you use to make the decision? What additional information do you need? Will the decision be made by consensus or voting? When do you need to make the decision?

> **"Communication is easiest when we all wear the same hat, such as manager to manager, owner to owner, sibling to sibling. Life isn't like that, so we need a system in place.**
> ***— Barbara Dartt***

Third, regarding family meetings, Dartt advises having a designated location, a preset time and an agenda. Family meetings should be conducted regularly, she notes, "Osmosis is not a good enough teacher."

Additionally, the family meeting should be looked at as an opportunity to enhance the education of all involved. Dartt suggests some family business education topics may include reviewing family history and core values, learning about business fundamentals and finance, a discussion on defining responsible ownership, focusing on specific skill development, and a discussion on philanthropy.

All total, Dartt notes that through these efforts — of strategic planning, implementing a governance system, and holding family meetings — communication and decision-making should be enhanced.

"Communication is easiest when we all wear the same hat, such as manager to manager, owner to owner, sibling to sibling," she adds. "Life isn't like that, so we need a system in place."

Most important

"What's most important is being proactive, so you know what is best for your business," Dartt concludes. She advocates including a third-party facilitator to "hold the family's feet to the fire" to keep moving forward in establishing a strategic plan, governance system and family meeting schedule.

To that end, she notes that success should not be equated to only continuity to the next generation.

"Not having continuity isn't failure," she explains. If the family decided they did not want the business to transition, that was their decision and vision.

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Editor's Note: *Kindra Gordon is a freelance writer and cattlewoman from Whitewood, S.D.*