

How To Avoid The Common Pitfalls Of A Family Business

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July 11, 2011 Small businesses face plenty of challenges, and family-owned businesses face some unique obstacles to success. Those that overcome them can be a great legacy.

Lack of structure

Family businesses often start as a side job or a hobby that turns into something bigger. Rising to greatness from humble beginnings is one of our favorite American stories; however, it does have its drawbacks.

If you start your family business as a simple hobby, you're not really worrying about your business plan or who will sit on your board of directors, are you? You're just looking to make a few extra bucks.

If you manage to succeed and grow, and keep succeeding and growing, you can find yourself operating as a small to mid-level business without normal business structures in place. Lack of structure creates lack of organization, lost profits, miscommunication, overlapping job responsibilities and a myriad of other problems that combine to make it difficult to keep succeeding and growing.

Even if your family business is just a hobby, do yourself a favor and take it seriously. Business plans don't have to be complex documents, and writing even a simple one will give you a foundation for structure in the future, as you need it. If you are in the place of operating a full-fledged business without structure, stop right now and get some structure in place.

Wrong person in the job

Cousin Jimmy needs a job. Your business needs a salesman. Voila! Cousin Jimmy is employed, and you have a salesman on the floor. The only problem is that Cousin Jimmy is the cousin everybody avoids at family reunions because he talks incessantly and somehow never sees the barbecue sauce stain on his shirt. Congratulations...now he's representing your business.

Most cases of wrong-person-in-the-job aren't that horrific (though there are some), but keeping a family member employed, or employed in the wrong position, despite performance...that happens much too often. And it can ruin a good business.

Even though nobody actually believes that phrase, "It's not personal, it's business," you need to act like you believe it. Firing isn't always the solution, of course, though I am in favor of cutting straight to the bottom line. Family members who are performing poorly may just need to be in a different position.

And when it comes time to pass on the reins to the next generation, don't just assume they're ready or able to take on the leadership of the business.

Failure to plan for transitions

Second-generation family business owner Ted Hofer says that his father took the need to qualify Ted for his position as CEO very seriously. "My father had a five-year succession plan to prepare me and the company for the transition," says Ted. "I learned every aspect of the company over five years, even spending a summer treating lawns for one of Spring-Green's company-owned locations."

Unclear and/or unfair expectations

Of course you'll get to work two hours early for no extra pay! Of course you'll go without a paycheck this week! Of course no one will mind if you show up a little late! Of course it's okay if you borrow the company car for the weekend! Of course the business will pick up your vacation expenses!

It's all in the family, right?

There are blurred lines with family and business. When a family is personally invested in a business, they often are willing to give more than your average employee. But assuming that all family members will happily sacrifice for the business is a bad idea. So is assuming that because you're a family member you can use business assets anytime you'd like. "It's also good to set boundaries," says Amanda Haddaway, who works at family-owned Folcomer Equipment Company with her dad and stepmom. The lines may be blurred, but make sure the lines are there.

Allowing family ties to undermine business roles

Family structure is important. But if you have power struggles because older brother Tom doesn't want younger brother James to be his manager, you've got a case of family ties interfering with business.

When family structure keeps the right people in the wrong jobs, or has everybody distracted over personal relationships when they should be focused on productivity, you've got a problem.

Haddaway says that their key for making family and business work together is in respecting business roles: "Make sure that you clearly define what your responsibilities will be. If the parent will be the child's manager, make sure that you are ready to treat each other professionally and with respect in the workplace."