

# Family Businesses

# Family In The Business

**BUSINESS COMPLIANCE  
SOLUTIONS  
WEALTH PROTECTION  
ADVICE  
BUSINESS LIFESTYLE  
OPTIONS**

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## 1. Employing Family Members

Whilst the goal of employing members of the owner's family may be an admirable one, in practice there are many problems to be overcome if the concept of employing family members is to be beneficial to both the family and the business. Many businesses have adopted the attitude of not employing a family member merely because they are a family member. If they are employed these businesses do not give them any special privileges. They expect them to start on the same foot as anyone else both in the selection process and in the organisation.

Many businesses adopt the attitude that it is best to commence at the bottom and to learn the business and earn respect from the other employees, customers, suppliers, etc.

## 2. 'Apprenticing' To A Non Family Member

Some organisations (which are large enough) have adopted the attitude of 'apprenticing' family members to experienced non-family managers so that they can learn the business from an experienced non-family member.

## 3. Strategy For Employment Of Family Members

Every business needs to determine a strategy relating to employment of family members. This would include: -

- Application for employment
- Interview
- Recruitment process
- Initial training
- 'Apprenticing' to an experienced employee
- Ongoing training as to the unique position that the family member/employee has in the business and the responsibilities that they have to both the business and the family

## 4. Should You Do Business With Family Or Friends?

Many businesses have adopted the attitude of never doing business with family or friends. Business can be fairly ruthless. What needs to be borne in mind is that by being successful in business you could lose your family and friends or you could be less successful in business but keep your family and friends because your decisions are clouded by emotions or personal attachment. You need to give consideration to these issues in developing your strategy for dealing with family members or friends in the business.

## 5. Strategies For Family Members In The Business

- What should be the entry condition?
- What will be the roles of the family members?
- Are family members to be remunerated on external market conditions?
- Do you intend to evaluate performance? If so, how?
- What is the exit mechanism for family members if they do not perform?
- Will you employ in-laws in the business?

## 6. Spouses Of Family Business Operators

Consideration needs to be given to the involvement of the business operator's spouse in the business.

Will the spouse be employed? If so, on what basis and on what remuneration? What will be the spouse's responsibilities? If the spouse is not going to be employed, will the spouse be a Director? If the spouse is not going to be employed and not going to be a Director, is it intended to discuss the business operations in a meaningful way at the end of each day or once a week?

Many expert commentators believe that if a family business is going to succeed, the spouse needs to understand and support the commitments that are being made in the business. Family businesses are hard to operate, therefore the spouse will need access to sufficient information to play his or her role in assisting their partner in the operation of the business and at the same time having a meaningful family life.

Determining a policy as to the spouse's involvement in the business and the regular briefing of the spouse on the business' performance and then implementing that policy, could go a long way to eliminating many of the stresses and the strains that emerge between Spouses in family businesses.

Perhaps the spouse should be involved in attending conferences and seminars so as to gain familiarity with the business activities. Such attendances could assist in the spouse being more responsive to the stresses and strains that are affecting the business operator.

## 7. Relatives

Are you going to employ relatives beyond your immediate family in the business? If so, you will need to define rules for the employment of these external family members.

## 8. In-Laws

Are you going to employ in-laws and if so, what will their relationship be especially to siblings who work in the organisation and the other employees?

## 9. Marriage Problems Affecting The Business

Unfortunately there are a high percentage of marriage failures. For this reason if a couple are planning to commence a business, it is suggested that a written agreement is prepared detailing how they are going to operate the business. Consideration also needs to be given to listing what each partner is bringing to the business and how the business will be valued and distributed in the event of a marriage failure. These documents should be signed and placed in a safe place.

Irreparable harm can be done to the value of a business in the unfortunate event of disagreements between spouses in the operation of a family business. The preparation of an agreement to a set of rules at the beginning of the business can significantly reduce the costs and emotional strain associated with business decisions if there are problems within the marriage.

## 10. Development Of Siblings

To avoid chaos and confusion in a family business it is best to develop detailed job descriptions, training programmes and ongoing objective assessments for any siblings who are working in the business. Promotional opportunities for siblings should be dependent on the assessment. Not every one can be the Chief Executive. Therefore it is important to develop siblings to be competent in various roles in an organisation so that there is not an incorrect expectation from all of them that they will become Chief Executive Officer of the organisation. Promotion should be on merit and ability.

## 11. Payments To Children

Paying wages to children irrespective of whether they turn up for work or not sets a wrong precedent and sends very bad signals to the other family members and employees of the family business. Any children who are employed in the business should be paid on the same basis as any other employee.

If you wish to make additional payments to children, do so out of a family trust distribution not as part of their regular wages.

## 12. Training Family Members

To achieve a sound family business it will be necessary to implement appropriate training programmes not only for staff but also for family members who are working in the business so that they have developed the necessary skills, knowledge and temperament that the founder of the business had to have.

You cannot expect your children to automatically know what to do. They have to be trained. Training of children involved in a family business should commence from the first day they are involved. This is part of effective delegation. No business can operate without a sound policy of delegation by all management personnel including the owner of the business.

Responsible delegation and training of the family members working in the business is one of the key requirements to establishing a sound family business that will be able to be passed down from generation to generation.

### 13. Performance Appraisals And Rewards

Every business should introduce a system of Annual Performance Appraisals. This is just as important in a family business relative to dealing with family members. Following the conduct of the appraisal of the family member, consideration should then be given to the remuneration package based on their performance not on the fact that they are a family member or on the assumption that all family members should be treated equally. In most instances, their performance and effort will not be equal therefore neither should their remuneration packages be equal. Successful businesses reward high achievers because it is by recognition that the business itself achieves much of its success. Family businesses are exactly the same. If high achievers are not appropriately rewarded, they will ultimately peg their level of performance to that of their colleagues or alternatively, they will leave the business in frustration that their efforts have not been recognised and rewarded.

### 14. Recording Career Stages Of Family Members In A Business

It is important to set up appropriate records on the career development of family members so as to avoid accusations of favouritism and to make sure that a high achiever has not been overlooked. A list should be prepared listing each family member's name together with details of their current job description and details of work they have undertaken in the past.

Details should also be included of any other career development activities that they have undertaken. These could be both within the business and outside the business. In many respects, exposure to organisations away from the business can have considerable benefits to the person's performance within the business. These outside activities might include - Service Clubs, Sporting Clubs, Charities, Church Organisations, and Local Government, etc.

### 15. Pre-Nuptial Agreements

Many business people prior to marriage enter into pre-nuptial agreements, which specify agreements that have been reached relative to distribution of assets and liabilities, in the event of a failure in the marriage. The agreement should specify how, assets that existed at the date of the marriage, are to be treated. More importantly, how assets that are created during the period of the marriage, are to be treated, in particular, any business assets that may have been created. How are these to be valued? How are items such as intellectual property, which may have been developed within the business, to be treated? The allocation of liabilities should also be covered. The instigation of a pre-nuptial agreement can significantly assist the orderly and systematic determination of the value of assets and liabilities in the unfortunate event of a marriage failure.

The marriage failure that involves a business can create great uncertainty within the business. The quicker the business issues are resolved, the better. The existence of a pre-nuptial agreement can give Accountants and Solicitors the advice they need to prepare Business Valuations, etc., so that the business issues can be sorted out at the earliest opportunity so as to prevent any devaluation in the business because of the marriage problems.

Key items to be included in a Pre-nuptial Agreement include: -

- Who is responsible for running the business?
- The share in the business allocated to each partner
- What is the family succession in the event of the death or retirement of one of the partners?
- What should happen in the event of a break up in the marriage?
- Should one partner have more than 50% so that the business is never brought to a standstill?
- Who is responsible for the ongoing running of the business in the event of a marriage problem?
- Consideration should be given to the orderly running of the business during the most important time, which is between the breakup and the property settlement
- What will happen in this period? Who is in charge?
- What are the rules relating to signing of cheques?
- What is the agreement relating to signing of any bank loan documentation or lease documents that have to be signed during this period?

The important thing to remember is that you have to look at this from a commercial rather than emotional point of view.

## 16. Overcoming Conflicts

Conflicts in the family can often affect the commercial decision making process for the operation of a sound family business. These conflicts include: -

- The family coming first rather than the business task which has to be completed if the business is going to perform as a sound business
- The family is happy with the status quo, however in the business world the status quo never remains the same. The family business must continue to evolve if it is going to survive

Within the family structure all children would probably be treated as equal. However within the family business, treating all children as equals will ultimately cause problems. People with different abilities must be treated differently. Adequate rewards need to be given to the highest achievers. Most families resolve their problems by having casual family discussions. This might work within the family environment but it is not recommended in the family business environment whereby structured meetings with agendas, minutes and reports need to take place if the family business is going to operate as an effective business unit.

## 17. Family Businesses - Appreciating What They Are

It is important for members of the family and family members involved in the family business to understand the statistics of family businesses and the reasons why they fail and the difficulties relating to succession.

A family business is something to be proud of and brings recognition to the family name. To achieve this however, it will be necessary to work hard to overcome the problems of running the business.

The business should not be seen as the easy alternative for employment for family members. If the family member wants an 'easy life' in employment, then, perhaps they should be discouraged from joining the family business.

Family members will be watched by other employees in the business, therefore family members should set high ideals and standards and work hard within the family business.

The family members need to be committed to the family business' success.

## 18. Turning Off At Home

It is important to create a clear demarcation between work and the family. Every family needs some switch off time when issues other than the family business can be discussed. If at all possible, business problems should be left for discussion at the business and not brought back to the home for discussion. Try to create the home as being a haven away from the business. If that is not possible, create quality time zones each day and weekend wherein no family business matters will be discussed for an hour or so.

## 19. Ownership Of The Business

Another very important matter is ownership of the business. Who will be allowed to own equity in the business? Will they have voting shares? What are the rules re participation in future increases in the business value? What will be the dividend or profit distribution policy? What is the plan for the next generation's ownership of the business? Should family members who are active in the business be treated differently to other persons who do not work on a day-to-day basis within the business?

## 20. Family Business Founder's Problems

Family business founders need to consider the following questions:

- Am I encouraging family members to work in the business when I'm not sure what the final outcome will be?
- Do my family have a choice of whether they work in the business or not?
- Am I giving the business a fair go to achieve success as a business or am I cluttering it with dead wood because of employment of non-performing family members?
- Should the business be sold?

- Can my family really work together and achieve something or do they curse me for starting a family business?
- Will I ever be able to retire and enjoy life and not have to worry about the business?
- What control do I want in my later years? Will I be able to generate sufficient funds to retire without having ongoing reliance on the performance of the business?
- Should I sell the business? Can I really hack it in a family business? Can my family hack it in a family business?