

## Migrating Your Family Business To A 'Business Family'

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Do any of these situations sound familiar?

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- "I don't know why my oldest son (who is not involved in the family business) makes comments when his brother (who is in the family business) gets a new car? Why should he be concerned about what I pay him?"
- "Why can't people be satisfied with their annual bonus? Why do they question how I calculate them or what they can do to get a bigger one next year?"
- "I find it difficult to think about retirement when so many questions at work always end up on my desk. How will this comp without me?"



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All too often, these common questions that frustrate family business owners are signs that they might significantly benefit from migrating their family business to a "business family." We all know what a family business is, but what do we mean by a "business family?" A business family will process every decision through the business needs first, its employees needs next, then the family needs.

Some of you might be aghast at this idea, but consider the competitive disadvantage of not having that priority for decisions. Rest assured, competition is placing the needs of their business and their employees ahead of the needs of the family. Additionally, as much as we have a passion to do it all ourselves, every successful business needs motivated employees to help them compete and win.

There are several fundamental benefits to operating as a business family, including:

- The employees are more motivated.
- The family conflict is reduced.
- The business is more competitive, more valuable and easier to transition.

Human resource experts have concluded that employee motivation increases when employees take part in developing an objective business, including their own success. Imagine the positive effect you will see by telling an employee, "If we achieve the goals in which you helped develop) your bonus this year will be 10 percent of your salary." This is a much better motivator than "Let's all work hard and if we make enough money, we can have bonuses." A clear advantage goes to the companies whose employees know, going in advance, what the expected results are and what the rewards will be if they meet or exceed them. Employees also become more motivated when the decision-making process changes to "business first" rather than "family first," eliminating heredity as a barrier to their career advancement.

There is also reduced conflict in the family for similar reasons. Most family business conflict does not occur over decisions affecting customers or the employees, but rather it appears to revolve around family member compensation and ownership issues. Compensation questions in the business family are openly reviewed within the family as part of a business planning and budgeting process. The conflict where one brother outside the business was jealous of the other brother's frequent new cars can be overcome by creating buy-in compensation and perks that are provided with all positions, whether held by family or not. As a business family, all family stakeholders, regardless of their involvement in the business, should participate in the development of a strategic and financial plan. More importantly, to avoid the conflicts, the plan should contain the financial performance reviews for both family and non-family employees.

Having been involved in hundreds of family business situations, including selling the company to other family members or to a third party as well as planning for the current owners to retire, one truth holds in every case: Companies operated as a business family are more valuable to a buyer and easier to transition to new ownership. The business family is more competitive for several reasons. One is the change in decision focus that begins with the needs of the business and employees, rather than the needs of the family or its members. For example, placing most, if not all, family in all the top positions may not provide the best mix of talent to remain competitive. Another is that it gets increasingly difficult to attract and retain employees when the top management share the same last name, as career advancement may appear to be limited by heredity.

On the subject of increased value. Value is nothing more than a price you would pay based on your confidence that the future of the company you are buying will continue to meet or exceed your expectations. In a business family, plans and processes are well thought out across the company, reducing the dependence on the owner for day-to-day decision making. The employees are also motivated to work hard to receive their bonus or similar incentives. If the buyer sees clearly understood processes in place, employees motivated

objectives and few daily questions requiring the approval of the owner, then the perceived risk of future results decreases while perceived risk greatly increases.

Now that the goals of increased value, employee motivation and reduced conflict are clear, the best way to begin the process is to begin with the necessary stakeholders. Once the stakeholders are on board, the best place to start is by building a strategic plan that very thoroughly identifies the needs of the business.

The best way to begin is to find an outside resource to help you develop a thoughtful plan, which includes objective bonus targets and critical research necessary for the plan to have realism. We recommend that you contact your CPA or attorney to find a firm that is down in the business like a buyer would eventually do, which is invaluable to most companies.

Out of this objective planning process will come an understanding of family issues that will enable more open and effective family communication and the tangible benefits of migrating into a business family. Remember to lead, follow through and put yourself in the driver's seat.

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