

How to Run a Family Business Successfully

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Rob Lachenauer, a partner and CEO at Banyan Global Family Business Advisors in Boston, says there's one thing that makes family businesses different from all others. "In a non-family business, you can quit your job and it's usually a career enhancing move. In a family business, you sure can't quit your family," Lachenauer told me.

As someone who grew up working for my family's business during high school and college, I know what he means. If you're in a family business or thinking about starting one, you'll want to see the advice Lachenauer offered when I interviewed him recently; highlights are below.

I also suggest you check out the new website Familybusiness.org, an offshoot of Entrepreneur and Innovation Exchange (eix.org), a social media platform aimed at improving the success rate of new business ventures. (Full disclosure: The Schulze Foundation, which funds EIX, is also a funder of Next Avenue.)
Next Avenue: What are the biggest challenges family businesses face that other businesses don't and how can families best deal with them?

Rob Lachenauer: One is the complexity of the relationships they are dealing with, and two is that owners are people in a family business. Not institutions. Sometimes you're really dealing with emotional events that happened way, way back when. Every decision in a family business has lifelong implications to relationships in the family. That is one of the biggest things that's different. Try firing your niece and then inviting her to your Thanksgiving dinner.

Add to that that everyone is playing multiple roles. In a nonfamily business, your boss is your boss. Sometimes you love him, sometimes you hate him. In a family business, that one person can be your Dad, also your boss, a trustee, a brother, a co-owner, all of these things.

I liken it to a house of mirrors. You see everyone five times at once. You see several versions of people looking at you. Who am I talking to? Who is listening right now? Are you the CEO, dad, mentor? When you add the confusion of roles to the lifelong relationship, it is fraught with peril.

The other thing that is so different is that owners are people. In family businesses, you will act in a way that others see as 'irrational,' meaning not necessarily for profit-maximizing at every step.

They may be saying, 'What is a greater joy then to come to a business I love and working day-to-day with my son?' Is his son a rock star? No. He's pretty good, but if he was looking after profits, he would hire someone else rather than his son.

What makes some family businesses succeed while others fail?

Managing the family part of the family business is the key. People who are great at this work diligently on keeping the family unified. They communicate a lot. They have experiences-family assemblies once a year, for example. They have fun, and they talk about what the purpose of their family is, why they stay united.

Others can fail, for example, if they don't manage generational transition. It is a vulnerable time when the older generation doesn't want to get off the playing field. They will delay their own retirement and discussions about bringing in the next generation too long, and if you wait too long you can't do it.

Rob Lachenauer, CEO at Banyan Global Family Business Advisors

What's your advice for working with your children in the

business?

The two most valued assets that an owner of a family business will have are: one, her children, and two, her business. But when these two things come together, they can become paralyzed in doubt and bad decision making.

We have seen family businesses overpromote and overpay family members. It's nepotism at its worst. We have also seen them do the opposite - underpromote and underpay. 'It should be an honor to work here, we are going to pay you less.'

Your instincts are a little off when a child is involved. The advice is they should have a family employment policy. You make it a policy, not personal. You can't treat Jack better than Jill. You have to be clear on how to attract the next generation, entice them into the business, and recruit them. How do you hire them? Do they come in on their merit, or do they get a special something?

And you have to be clear on how you develop family members. Do they have an escalator to the top, or do they have to work their way up? How do you evaluate them? Often, they are soft-balled and not developed properly and given clear feedback. How do you compensate them? Is it merit-based, or market based?

Importantly, what are the exit rules? Can you fire a family member? Our experience is they exit from the business and they exit from the family. They are so ashamed. Their whole identity has been taken away from them.

Other advice. Don't have your children report directly to you. And always have them work outside the family business before coming in. They need to learn the real world.

What's your advice for working with your siblings in the business?

The best relationships are the ones who are very good at syncing up. So, for example, every morning they will have an hour sync up and talk about business what's going on, then say, 'OK let's go.' They very actively make sure they overcommunicate with each other to make sure any misgivings can't get in the way of family business.

What's your advice for working with your older parents in the business?

This is probably the hardest one. I would say the majority of family business founders are monarchs, and they never want to leave. Don't expect them to change.

They believe they are the reason the business exists, and they often are. All power to them. They want to be in the chair, not playing golf, or on a charity board. That's their life. It's their place to go. It's a delicate dance.

In what way is starting and running a family business harder these days than in the past?

Attracting family members to your business is getting harder. Why I say that is where do college graduates in business want to work these days? Google, Facebook, Apple! They want sexy, tech businesses. Do I really want to return to Des Moines to run our corn processing factory? Entering the family can be a one-way street with no exit plan. If you exit, you are exiting the business and often the family.

You need to have a really connected family to have a successful family business. Today, family members are more mobile and global. Realistically, it is harder to stay together and connected and they need to do it in person, so they really have that connection. How do you do that when everyone is everywhere around the world? That is just a logistical issue that our families face a lot.

*Kerry Hannon is a contributor at NextAvenue.org (<https://NextAvenue.org>) and has covered personal finance, retirement and careers for *The New York Times*, *Forbes*, *Money*, *U.S. News & World Report* and *USA Today*, among other publications.*

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