

All In the Family: Cultural Challenges in Family-Owned Businesses

By Kellye Whitney

There are any number of unique characteristics that can affect an organization's operations, growth and prospects. A short list might include specific product or service constraints regarding time or speed to market, legal compliance or regulatory requirements, industry competition and the intangible — but oh-so relevant — company culture.

Take the family-owned business, for example. The culture in this type of organization brings its own challenges, and to overcome them, it might require specialized talent management strategies. Clarity can help.

"A family-owned business has a much greater-than-average need for clarity about objectives, processes — on all matters, really, and matters of succession in particular," said Constance Dierickx, Ph.D., senior consultant at RHR International Co., a management psychology firm.

There are several issues that might crop up in this particular company dynamic to trigger internal stress, such as employed family members might share unspoken beliefs and values that nonfamily members don't.

Dierickx said the underlying assumption there — if you're in the family, you have the same objectives and values and operate in a common culture, and non-family members don't — can get employees into trouble and become a source of conflict and contention if all company decision makers are not members of the family.

Clarity on roles and responsibilities, as well as on who holds final decision-making authority can help prevent the disappointment or demotivation that might occur when a key decision is made, and someone's assumptions are violated.

It's no secret that nepotism, a common family-owned business problem, can lead to mismanagement. Employees might see co-workers or managers related to the owner as immune to criticism, which can create problems.

Conversely, to avoid management being accused of playing favorites, deserving family-member employees might not receive appropriate rewards for their successes.

Neither situation works, Dierickx said.

"A person in a role in an organization needs to know what to do in order to be successful. They not only have to be held accountable for doing those things — they have to be given equal access to rewards for doing it," Dierickx said. "If you're in a family, and you're not held accountable, and you get the rewards, that undermines a performance culture in an organization. Have very clear agreements about roles, accountabilities and how to manage performance.

"In a family-owned business, management can get a lot of credibility by being even-handed and fair, driving a performance culture or going after the goals of the company and being seen as extraordinarily capable because people recognize the challenges of managing people that you're related to. People who do it well can get a lot of points for it. But you have to face the difficulty of disciplining, demoting or removing family members who are performing sufficiently poorly that they would be removed if they were not a family member."

When leaders don't hold family members to the same performance standards as nonfamily members, their credibility and integrity is suspect, and those leaders won't have the right leverage to operate effectively, Dierickx said.

Another common issue with which family-owned businesses contend is a perception that family

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roles don't influence the business, but Dierickx said if a close working relationship is required for optimal performance, that relationship and perceptions thereof will affect employees, particularly those in key positions.

"Somebody who's distant and doesn't have power over you is less important," Dierickx explained. "Let's say there's a conflict between the board of directors and the CEO. There may not be any familial relationship whatsoever, but that conflict washes over the organization. People are sensitive creatures and can pick up on it when something is wrong. When there's a familial relationship, there's so much at stake because you can quit your job, but you can't quit your family. You can even not speak to them, but that doesn't do it."

Talent issues also might arise if family shareholders act like managers when they're not. To resolve this issue, owners should be clear as to who has authority.

Dierickx said she has been successful combating this issue in family-owned groups that groom those entering the organization from a young age, teaching them what it means to be an owner and how that's different from being a manager.

"You create a family-owner culture in which effective behaviors are rewarded, and ineffective behaviors are not," Dierickx said. "Let's say it's a retail concern, and you walk into a store and start announcing who you are and complaining about the merchandising. You just create a lot of chaos for the people working in the store.

"It's the family's responsibility to teach people what's appropriate and what's not, and to make sure that if someone does something destructive, they are reigned in very quickly."

She also suggested implementing family councils or an "office of the family" to teach newbies what is responsible and irresponsible behavior, as well as to ensure the organization's future employees and managers understand that if they step out of line, they will be dealt with accordingly.

"We have one organization where there were actual legal documents drawn up, and they stipulate that no one in the family will be in management," Dierickx said. "There are family members on the board, and there's an office of the family. They help keep the family informed so they don't get nervous about what's going on, but they do not meet with management separately, and they do not interfere in the business.

"People who aren't in a family business where there's a lot of money may envy it and think it's easy, but it's a particular role, and there are expectations around that role that people don't realize — it's not all about cashing your check."