

FAMILY-OWNED BUSINESSES

Managing Family Dynamics

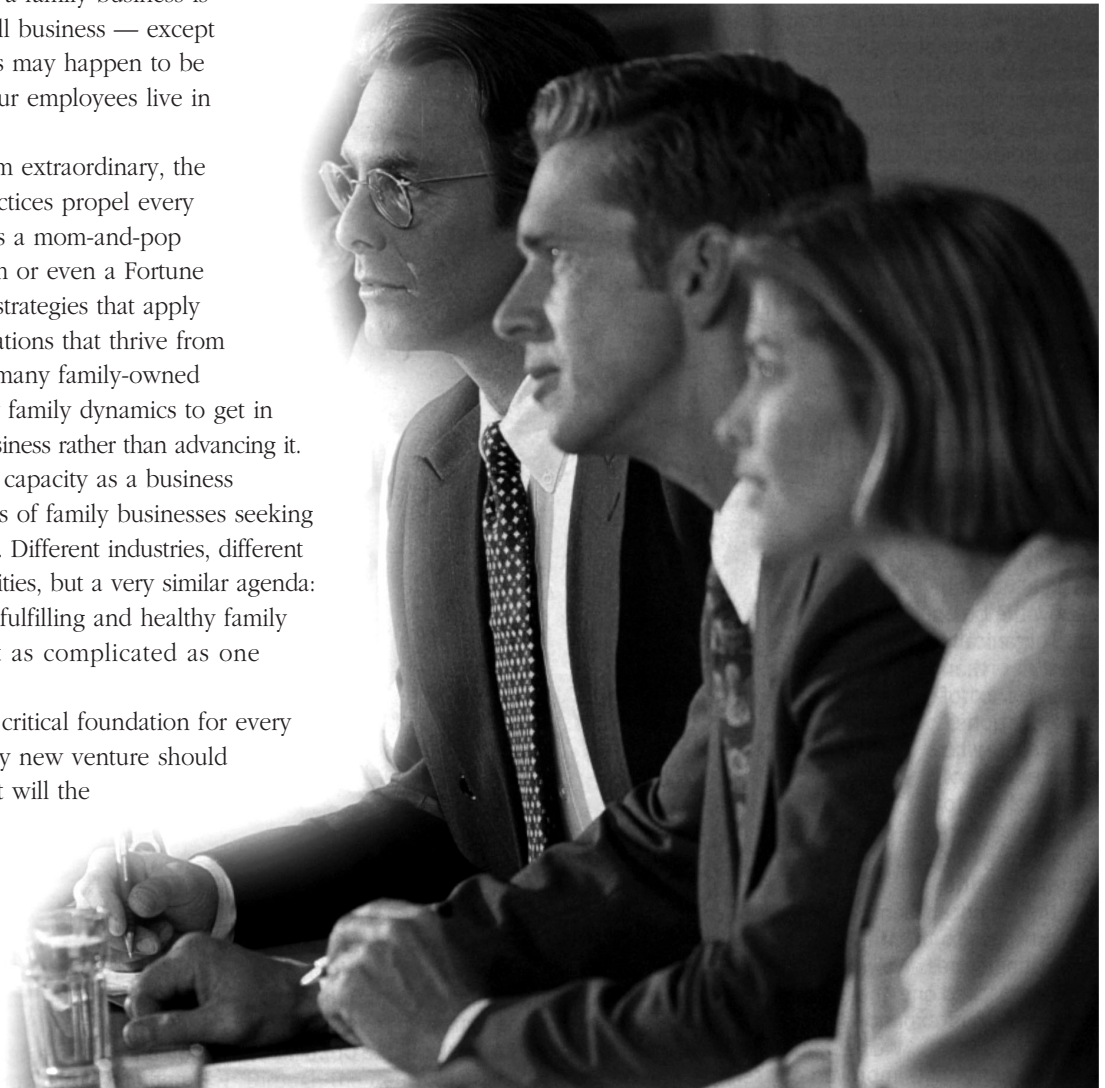
By JAMES E. BARTOLOMEI, CPA

For the most part, running a family business is just like running any small business — except for the fact that your boss may happen to be your mother-in-law or your employees live in the room next door.

While those factors may seem extraordinary, the truth is that the same sound practices propel every successful business, whether it is a mom-and-pop grocery store, an accounting firm or even a Fortune 500. There are proven business strategies that apply universally and distinguish operations that thrive from those that fail. The downfall of many family-owned establishments is that they allow family dynamics to get in the way, interfering with their business rather than advancing it.

I've seen it first-hand. In my capacity as a business advisor, I've worked with dozens of family businesses seeking growth, stability and opportunity. Different industries, different infrastructures, different personalities, but a very similar agenda: How can I operate a profitable, fulfilling and healthy family business? The answers are not as complicated as one might think.

First and foremost, the most critical foundation for every organization is clear vision; every new venture should start with the end in mind. What will the business look like when it's finished, and what will you do with it? Will you keep the business and live off the profits? Will you sell it, or pass it down to another generation? What do you want out of the business — both personally and professionally? Are you looking for a life-long career, a path to prosperity, a meaningful legacy... or perhaps all of the above? These are vital, defining questions for entrepreneurs to consider before they take the plunge. And for many family enterprises,



this is precisely where the challenges begin!

Family businesses are often operated by multiple owners, or shareholders, with varied and potentially clashing viewpoints. For example, one partner may dream about expanding the

FAMILY-OWNED BUSINESSES

business across three states, while another seeks to maintain a small, cozy establishment in his hometown. To make matters worse, they may be completely unaware of the disparity! It may not be revealed for years because they haven't discussed the subject, at which point dissolving the business may be inevitable. On the flip side, when shareholders communicate effectively and work toward a common, inspiring goal, great outcomes can be achieved.

Even so, the potential for conflict remains. Once shareholders have set the course they need to determine who will be steering the ship. Enter problem number two! Many family businesses function as a giant democracy without leadership, roles, or defined responsibilities. Imagine Microsoft operating without a president or job descriptions — it simply wouldn't work. And it doesn't work for most family businesses either.

Right from the beginning, family businesses should appoint a leader, or Chief Executive Officer (CEO), charged with overseeing the organization and moving it in the right direction. This individual is empowered by the shareholders to carry out their vision and governing ideas. From there, shareholders should divide the major responsibilities so that each partner manages certain aspects of the business. For instance, Uncle Joe, the family computer whiz, may serve as the Chief Information Officer, while Johnny, the most creative of the bunch, may act as Vice President of Marketing. In most cases, each shareholder will take on several roles and that is perfectly fine, as long as they are clear, equitable, and respected.

But beware! Things can become sticky if these roles are constantly challenged, especially within family businesses where siblings or children assume positions of authority. It is imperative that families support the

business by supporting one another in their jobs — as they would their colleagues or supervisors in any other work environment. The shareholders cannot question every decision made by the CEO, and conversely, the CEO cannot micromanage the tasks of his partners.

Perhaps the greatest challenge for family establishments is to continually work on their business rather than merely in it. It's not enough to have stellar vision, exceptional talent or a superior product or service; you also need foresight and focus. Many proprietors equate this with an elaborate business plan, but that does not have to be the case. In fact, some of the most successful businesses I've ever seen have no such document. What they do have are clear and concise goals, strategies and systems for measuring their performance.

Family businesses also need to consider options for succession planning, such as transferring the business from a first to second generation or preparing it for sale. This process should begin three to five years in advance so a new leader can be adequately mentored and trained (assuming he or she wants to remain in the business), or the establishment can optimize its value before courting potential buyers.

Importantly, family businesses can sometimes benefit from a little outside help. They can receive valuable insights and guidance from professional business advisors with expertise in evaluating expansion opportunities, prioritizing investments, resolving internal conflicts, developing marketing strategies, and assisting with other complex functions. When looking for an advisor, consider each candidate's credentials, years of experience, professional associations and network affiliations. Ideally, find someone who specializes in small- and medium-sized enterprises.

So what's the bottom line? What are the true keys to success for family-owned

businesses? One of the biggest is to manage family dynamics so they don't manage your business. Open the lines of communication, and keep talking about where you are and where you want to be. Finally, don't be afraid of change ... it is the only way you can get there!



James E. Bartolomei, CPA, is the founding and managing partner of Bartolomei Pucciarelli, LLC, a full service business advisory and CPA firm based in Lawrenceville, New Jersey. He has 22 years experience helping small businesses increase their financial net worth. He is also a proprietor of Allfathers Candy Company, a family establishment in Mercer County, and has owned several other successful enterprises

BARTOLOMEI



PUCCIARELLI
CPAs & ADVISORS
Uncommon Support

2564 BRUNSWICK PIKE
LAWRENCEVILLE, NJ 08648
609-883-9000
www.bp-cpas.com