

BATTLING “OUTSIDER SYNDROME” IN A FAMILY BUSINESS

HOW TO CREATE AN INCLUSIVE WORKPLACE FOR NONFAMILY EMPLOYEES

BY PHILLIP M. PERRY

Editor's note:

Successful family businesses must balance the expectations of family employees while ensuring nonfamily employees feel equally valued and respected. That is no easy task. Read this article from Phillip Perry for advice on how to grow your family enterprise while avoiding dysfunctional teams and unwanted turnover.

Productive employees make profitable companies. However, not every company succeeds in developing a workforce of “A players.” Family businesses in particular face the unique challenge of properly motivating nonfamily workers who too often feel underappreciated, uninvolved, and overlooked for advancement into management positions.

“At too many family businesses, nonfamily employees feel like no matter how hard they work they’re treading water,” said Sam Brownell, founder of Stratus Wealth Advisors. “They feel they will always play second fiddle to the kids or the cousins or whoever it is that gets special treatment.”

Treating nonfamily workers like second-class citizens can erode profits. “People who feel like ‘outsiders’ see no point in putting in 100% effort,” said Brownell. “As a result, customer service can drop off and the business can start seeing issues with inventory management and vendor relations.”

Retain key talent

In some cases, dysfunctional family dynamics can impact retention — an especially costly issue in today’s tight labor market. “People who don’t

feel their efforts and accomplishments are being appropriately rewarded have a motivation to look elsewhere,” said Travis W. Harms, head of Mercer Capital’s Family Business Advisory Services Group. “The worst possible thing is to lose high-performing talent to a competitor.”

Business first

Family businesses thrive when they create a work environment where all employees feel at home. “Any family business that grows at any appreciable pace will very soon become dependent on people who are not family members,” said Craig Aronoff, Chairman of The Family Business Consulting Group.

“And it behooves that company to ensure they feel included rather than excluded.” Equal treatment for everyone stems from a vital principle: The enterprise should be a “business first” rather than a “family wfirst” operation.



10 ways to create a fair and productive environment for all

Creating a work environment that stimulates productivity among all employees — family members or otherwise — is critical to a successful family business. Here are 10 specific steps that can help make that happen:

1 Work hard at fairness

“Nonfamily employees should be treated, managed, evaluated, and compensated on the same basis as family members,” said Aronoff. “It’s also important to maintain clear distinctions within the family group as to each individual’s role, whether that be employee, supervisor or manager.”

2 Prepare the next generation

“There is a temptation for the founders’ offspring to feel entitled, to become less productive than they might be, and to take the business for granted,” said Aronoff. “The younger generation needs to understand they must constantly look for ways to improve operations and to ensure the enterprise remains relevant to its market.”

4 Avoid empty positions

Too often, family businesses create meaningless positions with impressive titles so members of a new generation can be brought aboard. Such a practice creates morale problems and can erode profits.

Instead of gifting family members positions they may not be qualified for, Aronoff suggests providing financial assistance or training opportunities outside the business structure for those employees.

3 Promote for performance

“Advancing the right person to upper management can be a complicated and difficult process,” said Aronoff. “Choosing a family member ... is certainly not a way to build the best possible business, nor is it the best way to help the new generation maximize their own lives and experiences.”

Successful family operations plant seeds of responsibility early on. “Make clear that it’s not your genes that prepare you for a position,” Aronoff said. “Rather, it’s your knowledge, experience, drive, and how you interact with other people. The person who gets advanced into a higher position will be the best person for the job.”

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5 Earn stripes elsewhere
“Assigning family members without adequate experience or training to management positions can create a sense of entitlement, which is frustrating for everyone,” said John Joseph Paul, an Oregon-based family business consultant. “Instead, family members should prove their mettle by working at entry level positions in other, similar types of companies. This experience will give them the opportunity to learn practical skills.”

Many companies today require family members to bolster their credibility by gaining experience at another company for five years before joining the family enterprise.

7 Maintain clear chains of command
Too often, new employees find themselves juggling contradictory directives from more than one family member, which creates operational and morale problems and can lead to possible turnover. “Family businesses must maintain robust organizational charts that illustrate clear chains of command so that no employee ends up reporting to multiple bosses, whether formally or informally” said Aronoff.

8 Distribute perks fairly
Nonfamily employees should share equally in company niceties, such as paid time off, flexible working hours, and work-life balance initiatives. “If family members are given special perks, it is noticed by everyone,” said Aronoff. “And that can lead, again, to morale problems and a decline in commitment. ‘Special’ treatment may not be tolerated by all employees, especially those contributing the most to your company.”

10 Share your success
Equitable pay and promotions are important but so is potential stock in the company. Who benefits financially when the value of the business increases due to employee performance? Too often, it’s only the family members who own shares of stock. Employees who lack equity also lack the ability to equally benefit financially. That may provoke them to jump ship and take their skills to competitors.

“In my experience, frustrations of senior level employees are less about cash compensation and more about the lack of potential to share equity,” said Harms. “Family businesses must develop some alternative means to incentivize nonfamily executives.”

What’s the solution? Just like publicly-traded companies, privately-held corporations have shares of stock that not only represent ownership control but also facilitate the allocation of financial rewards through share appreciation and dividends. Harms said that it’s wise to set in place a financial vehicle that channels such financial rewards to nonfamily executives through equity-like compensation while allowing family members to retain operational control.

One of the most common strategies to accomplish this is through a profit-sharing plan. Other options include classified and phantom stocks. Also, an Employee Stock Ownership Plan can channel appropriate compensation to executive and non-executive employees. Family businesses can consult their attorneys and accountants for more information.

6 Communicate family business policies
Having the right hiring and promoting policies is one thing. Ensuring that every employee, including family members, is aware of them is another. Harms said that nonfamily employees can be frustrated if they feel like their advancement opportunities are limited because a family member will eventually be given the role regardless. “That’s a pretty common frustration.”

This situation can be avoided with appropriate communication. “Clear guidelines on how the family is going to be treated personally and professionally must be clearly understood by everyone,” said Brownell. Having transparent expectations makes a huge difference, he added.

9 Reinvest profits
One of the most critical family issues is financing: Will profits be reinvested into operations, or will it be distributed to family members? “... if shareholders press for large dividend payments or share redemptions, the drain on funds can crowd out otherwise attractive projects. That can be very frustrating — especially for nonfamily CEOs and CFOs,” said Harms.

Smart investment of profits will ultimately benefit family members. Unfortunately, people not intimately involved in daily operations are more likely to want immediate returns. Such conflict can create tension over time, especially if the family tree becomes populated with second, third, and even fourth generation members. “The number of family members can grow substantially, and everybody wants a slice of the pie,” said Harms.

Educating family shareholders that businesses can grow by heavily reinvesting earnings can help. “A dollar distributed or used for redemptions is a dollar that’s not available to make the business succeed.”

Invest in long-term success

Family businesses that follow the guidelines outlined above will ensure that their entire team maintains good morale while remaining invested in the success of the enterprise. “There are many ways to show nonfamily members that you care about their contributions,” said Brownell. “Everyone will perform better when they understand their labor is going toward something greater than just the net worth of the family.” ■

How inclusive is your family business?

Take this quiz to find out

Have you created a work environment that welcomes nonfamily members? Give yourself 10 points for each “Yes” answer, then total your points to assess your success.

1. Do you evaluate and compensate nonfamily members the same as family members?
2. Have you groomed the next generation to understand their business responsibilities?
3. Do you promote based on performance rather than pedigree?
4. Have you avoided creating empty positions for family members?
5. Do family members earn their stripes elsewhere before joining the company?
6. Are family business policies communicated in a transparent way to everyone?
7. Do you maintain clear chains of command?
8. Do you distribute perks fairly?
9. Are profits reinvested prudently rather than distributed to family members?
10. Have you established a way for nonfamily executives to share in the financial rewards of business growth?

What’s your score?

Over 80: Success!

You are creating an effective work environment for nonfamily employees.

Between 60 and 80:

Time to fine-tune your management practices.

Below 60: It’s a good idea to re-gear by instituting ideas from the above story.