Characteristics of Successful Family Businesses  
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A family business is defined as one in which members of a family have a controlling ownership interest and occupy one or more leadership positions. The six characteristics discussed in this article are based on what I’ve learned from some of the top experts in the field of family business and from my own experiences working with participants in The Executive Program for Agricultural Producers and the Texas A&M Family and Owner-Managed Business Program.

1. Shared vision, values and goals; and a well-formulated strategic plan.

In a national survey of over 4000 family businesses, Arthur Andersen and Mass Mutual found that only one-third had a strategic plan for their business. They identified four reasons why most family businesses do not have one. These are that the strategic planning process a) requires sharing information, b) requires senior management to respond to the ideas of others and to defend their own ideas, c) requires a commitment to the plan versus the typical entrepreneurial manager’s style of keeping his or her option open and to themselves.

In contrast, many successful family businesses actually have three strategic plans, not just one. These include a long term strategic plan for the business, a long term plan for the family, and a short term crisis plan. In order to be successful, the family and the business plan need to complement one another, be used to establish priorities and help to identify areas of conflicting objectives. While most farmers and ranchers are good at tactics and operations, the top farm executives recognize that to be successful, they first have to determine what they want to accomplish and then let that determine how they get there. It boils down to recognizing the difference between doing things right and doing the right things. Success emanates from first doing the right things and then doing them well. By way of analogy, hockey great Wayne Gretsky was quoted as saying, “What separates me from the average player isn’t that I’m stronger or faster, but that they go where the puck is while I try to go where it’s going to be.”

It is important to recognize that it is the planning process, not the plan document that matters most. The strategic planning process involves both internal and external environmental scanning. This is often described as a S.W.O.T. analysis, i.e., identifying Strengths, Weaknesses, Opportunities, and Threats. The process can be both threatening and frustrating to action oriented managers who often view the necessary brainstorming by the board or the management team as mostly a waste of time. However, it is only through this process that a clear vision of where the business needs and wants to go, what it will take to get there, what could go wrong, and both implementation and exit strategies can be fully fleshed out. Dwight Eisenhower once said, “In times of crisis I have found that plans are often useless, but that planning is absolutely essential.”
It is equally important to recognize that at least half of the businesses that engage in formal strategic planning never implement the plans that are developed. The problem lies in the fact that the management system (or lack thereof) and management’s operating style often do not support implementation and the planning process serves mainly as a thought provoking exercise. The most successful businesses tend to be those that have a clear vision, encourage communication, have an operational management information system, delegate both responsibility and authority, provide regular and constructive feedback, and have moved beyond merely strategic planning to an organization that operated in a continuous learning, strategic thinking mode.

The development of short term crisis plans involves the owners analyzing different scenarios and developing specific plans for dealing with critical issues before they become problems. Addressing issues such as a death, divorce, disability, or a decision by one of the owners to sell his or her interest, and doing it at a time when things are going well also helps make the discussions less threatening and emotional. In addition to these areas, crisis plans can be developed to address such issues as:

- What if we sold the farm?
- What if a key non-family manager suddenly quit?
- What if we lost a major contract or our biggest land lease?

In each case, the objective is to discuss the issues and develop action or contingency plans. The major issues also need to be readdressed on a regular basis.

Over the long term the success of a family business requires not only a shared vision but also a strong set of common values. As families expand and grow older, goals and values inevitably become more diverse. This is particularly true when the family members involved in the business are cousins or in-laws who grew up under different family influences and not just siblings who grew up in the same family.

Finally, one of the most important practices in achieving long term business growth and continuity is the practice of holding regular family meetings. These meetings are useful for communicating business performance and plans, and for sharing the motivation and rationale behind the decisions that have been made. If such meetings have not been a regular family practice and if there is a potential for conflict, it is often advisable to start with the help of a trained facilitator in order to keep the meeting on track, to keep the discussion objective, to keep emotions in check, and to prevent the dominant personalities from controlling the discussion so that everyone’s issues get out on the table.

2. Clear procedures and expectations regarding family participation in the business.

Successful family businesses normally have clear policies and expectations
regarding the employment of family members. One of the most common is that there must be a real job available, i.e., a position is never created just to make a place for a family member and the person needs to be qualified for the position. Some businesses require that family members have worked elsewhere for at least three years and earned at least one promotion before they are eligible for employment. It is also made clear early on to all family members that a position in the business is an opportunity, not a birthright. At the same time, these businesses stress the “opportunity.” Talented family members are actively recruited and both the family and the business have a culture that instills a very positive attitude about working with family and in the family business.

An important issue related is the business’s compensation system. Remember that compensation doesn’t just involve money, it also conveys a message and that message needs to be kept clear. Salaries and wages should be based on the market value of the job. Base salaries or wages can then be supplemented through bonuses earned by achieving specific performance objectives. Ownership interest should be rewarded separately through distributions or dividends based on company profitability. The most successful family businesses work hard to never confuse compensation and gifts. If compensation becomes less justifiable and more arbitrary, pressures mount to keep information secret which breeds suspicion and undermines both trust and open communication in other areas. It also builds resentment, affects working relationships and hurts morale.

Two other attributes of successful companies are a commitment to conduct honest performance appraisals and to deal with behavior problems. Performance appraisals need to be based on clear cut job responsibilities and objective standards for all employees, both family and non-family. Behavior problems should not be allowed to disrupt or destroy the business. Family troublemakers need to be dealt with and the business should not be used as a means to control or rehabilitate them.

3. Guidelines and a plan for management succession and continuity.

The first thing that successful family businesses practice in regard to management succession planning is that they don’t take the desires of the next generation for granted. Too many business failures and personal tragedies have occurred because the next generation worked in the business or dutifully assumed management responsibility simply to avoid disappointing their parents, to avoid conflict or to avoid being disinherited. This is also another reason why some family businesses require family members to work elsewhere before they come into the business, i.e, so that working in the business is a conscious choice and isn’t simply pursuing the path of least resistance.

Beyond that, there are several critical issues in preparing and selecting the next generation of managers. One of the most important is abandoning secrecy.
Unfortunately, in many family businesses the information is shared only on a need to know basis. Family business consultant Don Jonovic makes the point that many family businesses aren’t just closely held, they are hermetically sealed. If some unplanned tragedy occurs, the next generation is unprepared to take the reins. It is important that management not be learned by osmosis or solely through one’s own experience. Successors need the opportunity to share in the accumulated wisdom and experience of their predecessors. Those who don’t, often learn the business only from an operational and not a managerial perspective. Successor candidates need to be familiar with banking relationships, estate plans, relationships with key customers and suppliers (including landlords), how and why the business makes and spends money, and senior management’s strategic perspective for the business.

Remember that the CEO is the business’s key to link to its external environment. Successful businesses actively promote mentoring and networking opportunities for successor candidates as a way to prepare them for leadership. In order for a business to continue to be successful, each generation needs to bring in new strategic ideas that build on the business’s core competencies.

It is also important that a clear basis for successor selection is established and communicated. This includes the type and style of management needed, the necessary skills and attributes, and how the successor is expected to fit in and work as a part of the management team. Coupled with the need to clearly communicate, the basis for selection is the establishment of a timetable for the transfer of both responsibility and control. This not only reduces the potential frustration on the part of both the incumbent and successor, but it also provides time for transition and for supporting the successor in developing a culture of change. Without this support the successor may be hampered by the fear of making a mistake or disappointing those who placed their confidence in him or her. It also helps the successor in making changes without them being perceived as an indictment of the past or criticism of the predecessor.

Two closely related issues that need to be addressed are first, a plan for what the retiring CEO will do next and second, identifying opportunities and addressing the issues that will be involved for candidates not selected as the successor. Without something meaningful and worthwhile to go to, many incumbent CEO’s either can’t or won’t leave their position. It is also important that the business not lose the talents and experience of unsuccessful successor candidates, that relationship problems do not result and that those who stay don’t lose their motivation.

Finally, there are three things I have observed that can have a major impact on business continuity. Because the majority of the owners’ assets are frequently tied up in the business, it is essential to implement an estate plan in order to minimize tax consequences and to develop a funding mechanism to provide the necessary liquidity as soon as possible. This plan not only needs to be implemented but also
communicated, along with the reasons of why being equitable (fair) may not mean treating all heirs equally. It is also essential that business owners recognize that it is as important for a closely held business to have a buy-sell agreement as it is for an individual to have a will. The buy-sell should at a minimum address ownership restrictions, voting rights, business valuation and buy-out terms. The most successful family businesses also recognize that over time it is important to prune the family tree, i.e, limit ownership. In non-family, publicity owned businesses, shareholders can come and go as the nature of the business suits their needs and expectations. Ownership of family businesses, however, often involves emotional, valuation and liquidity issues. Over time a dilution of ownership, particularly among people not involved in the business, can be a source of major business and relationship problems.

4. Participation by outside advisors, board members and managers.

Owners of successful businesses clearly recognize that they are responsible and accountable for the decisions regarding the future of the business; but, they also recognize their need for continual exposure to different perspectives and new ideas. They realize that however well the business is doing, there is or will always be a better way and that unless the business is changing as fast as the environment it is operating in, it is falling behind. They also understand that in the future, business success will depend as much on how fast they can learn as it does on what they already know. For these reasons they seek out successful people outside the business with whom they can talk openly and from whom they can get feedback. Successful farmers and ranchers have found that this often means getting outside their commodity group and away from their home territory. It also frequently involves interacting with business people outside of agriculture.

In addition to forming peer advisory groups and participating in programs like TEPAP or AAPEX, the approach most often used has been for the business to have a board of directors with independent outside directors and/or an advisory board which can provide access to and input from people who can bring additional experience, expertise and perspective. These outsiders help assure a source of fresh strategic insights. They also have the ability to challenge and question the owner’s strategic assumptions and direction of the business. This is something that insiders often cannot or will not do, particularly if the owner happens to be their parent or grandparent. An outside perspective can also be critical for dealing with lifestyles (business and individual), resistance to change, and the tendency for family businesses to stagnate.

As a variation on and addition to the outside board members, a concept that has been receiving more attention in the past few years has been the use of a board of counselors made up of an insurance specialist, a tax account, an estate attorney and possibly a financial planner to periodically sit down together and review the owner’s estate plan. This results in all of them hearing the same story and set of
objectives from the owner, and then together developing a consistent and comprehensive plan without each getting only part of the story or trying to show up the other experts in an attempt to prove their worth.

Finally, as farm and ranch businesses grow it is often necessary to attract and retain top quality non-family managers. The businesses that have been most successful in this area have recognized that there are at least three key elements. The first is that personnel decisions need to be based on merit. Arbitrary or preferential treatment in terms of pay, promotion or responsibility tend to encourage the most capable non-family employees to look elsewhere. The second is the opportunity for these employees to accumulate personal wealth even if it isn’t through an ownership interest in the business. The third is the opportunity for career growth which may or may not preclude the opportunity to eventually become the CEO, and it may not. Some very successful family businesses have a non-family member as the CEO. A few approaches that have been employed include the use of phantom stock, partnering on new business start-ups or existing parts of the business, or issuing stock with a repurchase (buy-sell) agreement that includes an equity based valuation provision.

5. Open communication and methods for resolving conflicts.

As stated earlier, successful businesses recognize that one of the biggest roadblocks to progress is secrecy. Without a clear understanding of what is going on, a shared vision and a sense of ownership, it is almost impossible to get commitment and a total team effort. Employees and family members want and need to know what they are expected to do, why they are doing it, how they are doing and how they can improve. Top managers have also learned that employee buy-in and commitment requires a clear understanding, a shared vision and sense of ownership. In addition to the answers to the four previous questions, there are four more that they make sure that everyone in the business knows, where is the business headed, how does it plan to get there, what is my role, and what’s in it for me.

It is also important to recognize that disagreement is normal and inevitable. In fact, if the business is going to change and grow, it is essential. Henry Ford was once quoted as saying “If two people in a business agree on everything, then one of them is superfluous.” The problem occurs when a disagreement grows into conflict. Then all other issues may become secondary and it could become the business’s Achilles’ Heel. Unfortunately, conflicts are often suppressed or ignored without being properly addressed. Then they become a cancer that continues to grow. Under a strong authoritarian leader, problems often don’t erupt until the leader dies or turns over the reins. But, by then the differences are often unreconcilable except through the legal system, in which case the only winners are the attorneys.
An important corollary to the issue of addressing conflict is learning to fight fair. This requires focusing on the development of both emotional maturity and interpersonal skills. At a minimum, there are five basic ground rules: avoid personal attacks, don’t drag others into taking sides in the argument, don’t use subversion, focus on the issue(s), and keep heated discussions in private. Bullying or childish behavior may win battles, but the result may be that family relationships and/or the business end up losing the war.

Finally, successful family businesses make it a point not to ignore or exclude their in-laws (children’s spouses) in discussion about the business.

6. Ability to spend time and have fun outside the business.

Last but not least, successful family businesses recognize the importance of taking time off from the business. This isn’t just annual vacation time. Family members need to be encouraged to develop outside interests and to spend time with their own families. Although the business can and will be all consuming at times, healthy family relationships are essential if the business is to remain healthy over the long term. Time away and directed to other interests also allows people to be re-energized and re-focused when they return to work. Periodic extended absences by the CEO and members of the senior management team also allow potential successors to grow by assuming more responsibility. While business is a serious endeavor, businesses tend to do best and achieve the most when people enjoy what they’re doing and are able to have fun in the process. Happy people are more productive, have higher energy levels and are more creative.