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Lawrence Siff, Contributor
"Siff-ting" through the Family Business: I untangle the problems.

ENTREPRENEURS

Putting the Business in the Family Business

`Sometimes it's a business; sometimes it's a family,' lamented one of my clients (who I'll call CEO No. 1) when I asked him what it's like to be an outside CEO running a family-controlled business.

I asked him to elaborate: `Lots of time is wasted with nonsense projects, phone calls, and emails about things that have absolutely nothing to do with the business but are important to family members. Because there are so many family members on the board, the meetings get hijacked easily,' he continued. `Often I react with passive resistance, saying 'that's a great idea' or 'I'm happy to look at this but just get me the data to prove it makes sense for the company.'

More often than not, CEO No. 1 never hears back from them about these ancillary matters, but he's frustrated by the amount of time and energy he spends on non-essential things. For example, setting up just one board meeting can take 50 emails. The business that CEO No. 1 runs is successful, but he is convinced he could do even more for the business—and the family shareholders—if he were allowed to focus exclusively on what's important to the company.

Contrast this with the sixth-generation family-controlled business CEO No. 2 runs: This business has 90-plus family members who are active shareholders. The family has both a family council and a family council steering committee. The council's role is to represent all the family shareholders; just one member of the steering committee is a member of the company's board. There is A (voting) stock and B (non-voting) stock. Just a few family members control the vast majority of the voting shares.

The company only put this structure in place eight years ago, as before that, there was a lot of chaos and confusion. The result of this change, according to CEO No. 2, is `the family and business are run in parallel but there are separate duties and responsibilities for the council vs. management.' He is quick to point out that there are processes and a liaison in place so when crossover between family and business is necessary it's done in an efficient, appropriate way.

Family-controlled or family-owned businesses often come to the realization they need a non-family member with specific expertise, a fresh perspective, and an absence of complicated internal ties to take a business to the next level. It can be an emotional, difficult decision to turn the family business over to someone else to run, and it must be done with great care to maximize the chances of success for both the company and the new head. Here are some ways to ensure you're laying the groundwork for a strong, positive, productive working relationship.

1. Define the new head's role and responsibilities.

This starts with the title. Is your new person President or CEO? Both? This is especially important if the former CEO (likely a family member) assumes (or retains) the title of Chairman. If he or she is still around with a title, it can be easy for people to assume the same working relationship is in play.

Beyond titles, though, are responsibilities. CEO No. 1 says his founder likes that he `acts as if I own the company.' For CEO No. 2, it has been made clear that the family is setting the agenda: `family, tradition and commitment to employees and the community.' `The family sets the stage by deciding what businesses they want to be in, as well as the way they want business conducted. It's up to me to make it happen,' he says.

2. Make sure the chemistry is right.

Another family-business client of mine hired a CEO who was brilliant at turnarounds, as that's what the business needed. He was a real corporate star–but it was a case of the right person in the wrong environment. He was the kind of person who liked to sit in his office with the door shut and strategize by himself. The former CEO (a family member) always kept his door open–when he wasn't walking around the facility, soliciting ideas from employees about the business. As talented as the CEO was, he did not fit within the culture that had been established by the family member and therefore was not successful.

3. Build a sense of trust.

You can't say one thing and do another. If you tell everyone that your new CEO or President is the go-to person, don't undermine his or her authority. At one client, senior management quickly figured out that they could treat the Chairman and the CEO like parents; if one didn't give the desired answer, they could play him off the other. Eventually, the CEO figured out what was going on but it was too late for him to gain the respect of his employees — and too late for him to trust the Chairman.

Also, a new CEO or President should have a contract with a long-term incentive plan. You were family; it would have been hard (if not impossible) for you to get fired! An outsider doesn't have that same job security, so show some faith.

4. Give your new hire space.

When a CEO becomes Chairman we recommend that he or she take time off–immediately, preferably for at least a couple of weeks, and ideally even longer. Your new leader needs a chance to establish their own identity without you, the owner, hovering in the background and smothering them. You cast a big shadow, so get out of the spotlight! And when you come back from your time off, you shouldn't be around on a day-to-day basis.

5. Be sure you're genuinely ready and willing to let go.

You will have to make a mental shift to your new role, whether it's one that keeps you involved at the company, such as being Chairman, or merely leaves you as a shareholder. I've had to advise plenty of former CEOs to give up going to the office or take an office elsewhere. In the case of the Chairman who ran interference for senior managers with the new CEO, he wasn't trying to undermine his successor. He actually thought he was helping.

Some of these issues are also important in businesses that aren't family-owned or controlled. But they are absolutely critical in family businesses as there is a stronger emotional connection to a business that you have started or that has been in your family. You can never be 100% divorced from the place if you still retain ownership, but remember that controlling a business is different than running it.

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Lawrence Siff is a Contributing Editor and Blogger for Forbes Magazine and Forbes.com