

PETER LEACH 

The family business rulebook

Peter Leach Associates Ltd
The Family Business Management Series
Principles for owner-directors

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- **Family Governance in Multi-Generational Family Businesses**
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- **Pay, benefits and incentives in family companies**
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Introduction

In the UK, family businesses of all sizes and types dominate the private sector. Research¹ tells us that as many as 85 per cent of European businesses are family owned. World-wide, some of the most successful and professional companies are family owned and run – many of them household names.

Commitment, culture and pride in the business are typically the inherent strengths of a family business. Together they can produce a significant competitive edge. However, if owners and managers fail to reconcile both the short and long-term needs of the business with those of the family, this can undermine the survival of the business itself.

Rapid social, technological and economic changes are forcing all businesses to review their operations. This can present particular challenges for the owners and managers of family businesses. Every family business is unique, shaped by its own set of distinctive personalities, objectives and relationships. There are, however, challenges that are common to all family businesses.

These are:

- communication
- employing family members
- management of change
- transferring the business to the next generation.

¹ 'Family Ties' by Professor Paul Burns and Owen Whitehouse, 1996, 3i European Enterprise Centre.

Issue: communication

Many family business managers make the mistake of assuming that, as the family is involved in the business, there is free and open communication. This is unlikely to be the case and often the opposite is true.

There is often a hidden agenda covering a whole variety of potentially sensitive family issues that might generate unpleasant conflict. Despite the fact that many family conflicts can only be resolved if they are tackled early enough, the common unspoken understanding is to 'let sleeping dogs lie'.

Consider your own management style. Does it tend to dominate the company and its employees? Do you listen to family and non-family employees alike, and to shareholding family members not involved in the day-to-day running of the business; is your communication two way?

Furthermore, because of links inside and outside the business, family members may find it difficult to air their views. Do you really know what individual family members want? Do they really feel they can tell you?

You need to think about the sort of enterprise the family wants to own and be associated with: one which reinvests all its capital, or one which pays large dividends? Without the family's requirements being clearly articulated, it is difficult for management to run the business.

Remember the first step to solving conflict is recognising it exists.

“Because they’re family, I know exactly what they’re thinking.”

The rules

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- Create an atmosphere for open discussion among family members to identify and document the family's objectives and core philosophies. Listen to each other and give everyone a voice. Recognise the validity of each individual's views.

 - Discuss, with the help of professional advisers if necessary, the different objectives and needs of individual family members, with a view to building a consensus.

 - Go for consensus rather than edict.

 - Make sure the family understands the business is a commercial venture that needs to be run in a professional manner.

 - Focus on objectives rather than personalities.

 - Don't ask others to relay messages for you: speak directly to one another.

 - Avoid laying blame or making personal attacks on other family members.

 - Never agree to anything you have reservations about without voicing your concerns and reasons; encourage other family members to do the same.

 - Remember improving the communication within a family business is a process and in order to make it work, you need to create the right settings for family members to express their views

Issue: employing family members

There can be a tendency for the family business to be regarded as a 'job for life' employer of family members, regardless of their capabilities and commitment. Such an attitude ignores the requirements of the business and may ignore the needs of the individuals.

It is clearly important that the family business maintains appropriate quality staffing at all levels. It cannot afford to carry individuals, whether family members or not, who do not make a full contribution.

Over-promotion of family members is also likely to have a demotivating influence on non-family employees and the company may find it difficult to recruit and retain high-quality outsiders. The company may therefore be depriving itself of resources it may require to remain competitive?

Family members who are employees are likely to be able to contribute more to the business if they have had work experience elsewhere. They may bring new ideas and perspectives to the business and it will also help them to earn the respect of non-family employees and of non-working family?

It is also important not to discriminate on gender grounds as the business may well miss out on potentially valuable family resources.

“The sooner I get him into the business, the quicker he’ll learn.”

The rules

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- All family members should have significant work experience outside the business.

 - Family members should only be employed on merit and in positions that they are qualified to occupy.

 - Remuneration of family members should be no more favourable than that of equivalent non-family employees. Do not confuse remuneration with a return on share ownership.

 - Institute appropriate appraisal procedures for all employees, whether family or not. Use outsiders, possibly non-executives, for appraisal of senior family management.

 - Non-family members should not be excluded from senior positions because of fear of loss of control by the family. If non-family members are more suitable for the job, use them.

 - If there is no suitable employment for family members, employing them is fraught with risks.

 - A job in the family business should be regarded as an opportunity, not a birthright.

 - Don't pressurise family members to join the business – this can cause problems in the long run.

 - Family members should be prepared to work harder than others to prove themselves.

 - Find a mentor for family members both inside and outside of the business.

 - Remember; real authority comes from the respect you have earned, not from the shares you have inherited.

Issue: management of change

If it works, why fix it? – a common view of succeeding generations who can be reluctant to change what earlier generations have done.

The only constant in life is change.

However uncomfortable, it may be better to accept sooner rather than later that change is inevitable.

Family businesses are concerned with change not only from a business perspective but also because of the changing nature of family dynamics. For example, the way an owner entrepreneur operates will be very different to his children in a sibling partnership. This in turn may vary greatly from the next generation of cousins in business together. In particular, the motivational forces driving the different generations are likely to vary?

In the current business environment, we are all faced with an ever-increasing rate of change, especially in the following areas:

- economy
- customer needs
- labour market
- innovation
- regulation
- competition
- lifestyle.

However, in a family enterprise, maintaining a strong family culture and value system often gives such an enterprise an edge over its competitors. Balancing this with the need for change in a fast-moving environment is one of the special challenges facing family businesses.

“If it was good enough for Dad.”

The rules

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- Accept change is inevitable.

 - Do not accept 'it has been done that way since Grandad's day' as an excuse for not making change. When commercial reality requires change, change!

 - Individuals' objectives change over time – respect these changes and ensure they are articulated.

 - Be outward looking. Consider using the services of a non-executive director (not a family member) to provide a more objective view in the planning and decision-making process.

 - Identify which issues relate to family and which to business. As regards business issues, separate internal issues from external ones. Create the appropriate framework to deal with these separately.

 - Recognise and openly appreciate that change may impact on different individuals in different ways.

 - Devote adequate time to thinking about the future – remember, it's where you are going to spend the rest of your life!

Issue: transferring the business to the next generation

This is potentially the most life-threatening stage of the family business and regrettably many businesses do not survive to the second and subsequent generations.

The family business manager cannot start succession planning too early. No one can know with certainty when succession will happen, but failure to prepare may be fatal for the company and disastrous for the family.

Succession planning involves the identification and education of a successor and the gradual relinquishing of control. The latter is one of the most difficult things to achieve, many entrepreneurs being reluctant to recognise that anyone else is capable of running their business!

Succession planning also means facing hard questions such as:

- Are my children the most qualified to run the business or is an outsider better qualified?
- Which child will I choose?
- Do my children want to come into the business?
- Would the family be better off if I sold the business?
- What will I do with myself if I retire?
- Which children should my shares pass to, and when?

Sentimentality has to be put aside and commercial reality faced.

In particular, the taxation implications of succession and tax-planning opportunities must be carefully considered. Professional advice should be taken from specialists suitably qualified in this area.

“When is it time to let go?”

The rules

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- Succession planning needs to be started sooner rather than later. Ten years before a retirement is not too early.

 - Consider all the succession options with an open mind – avoid sentimentality. Discuss them with others.

 - Make sure the family is aware of your succession plans and intentions from the start.

 - Commit your succession plan to paper.

 - Consider the aspirations and qualities of family members to identify whether they are in reality potential successors and consider their training needs.

 - Do not ignore outsiders – professional management may produce higher returns for the family in the long-term than an ill-qualified family member.

 - Take time to train your chosen successor and be patient – let them express their ideas, even if you disagree with them. Build inter-generational teamwork.

 - Be prepared to relinquish control – give your successor a fair chance to prove him or herself.

 - Try, as far as you can, not to be dependent on the business for income post-retirement. This should help you give more impartial advice to your successor. If this is impractical, discuss it with the family and find solutions that work.

 - Smooth succession is not about what you do, it is about how you do it.

 - Go when you say you will!

Peter Leach Associates Ltd

The continued success of the family business sector is critical to the UK economy. Yet, surprisingly, little guidance is available on these unique and complex issues that family businesses face. One organisation, however, makes available the guidance and help family businesses need.

Peter Leach Associates specialises in advising family-owned businesses and the people behind them. With over 30 years of experience in the field, Peter Leach is one of the world's leading family business consultants and facilitators. He has a successful track record of working with and transforming numerous family businesses across the world.

From our experience, built up over many years of working with family businesses we know that no two are the same - nor are the commercial or competitive pressures that affect them. For that reason, we tailor our approach to the specific needs of the family and the business involved in each assignment we undertake.

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Who should I talk to?

Employing an independent, neutral adviser with expertise in the field and, importantly, no family involvement or bias, can be the best way of resolving family business issues. Such an individual can:

- educate all members of the family on the issues affecting family businesses and offer advice based on experience gained from working with other family businesses who have faced similar challenges
- promote discussion among members of the family and guide them towards reaching a consensus.

Notes

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