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Professionalizing the Family Business: It's Not What You Think It Is

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At some point in the life of a family business, the family owners or business leaders might decide that they should professionalize their firm. The term "professionalization" is most often thought to mean "changing from family management of a business to non-family (read professional) management." Sometimes professionalization does occur when a non-family manager has been chosen to lead the business. During these transitions, family members might stay in other management positions or sometimes all family employees depart. But changing to non-family management is only one possible element of professionalizing a family business. It certainly is not a necessary element. If your family business is considering professionalizing, it is vital for family and business leaders to agree about what this process entails.

According to my MBA and executive students a "professional" is an individual with high internal standards of performance and ethics, which they strive to achieve. Professionals, they say, act in the best interests of their company and other stakeholders, like customers and owners, and are not unduly influenced by their own personal needs or goals.

A company is regarded as professional when it has these same high levels of performance and ethics. Organizations achieve these standards by building cultures that emphasize performance while adhering to core values of the company, treat people like adults, are constantly learning, and strive for fairness and consistency in rewards. Professional business

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cultures are nurtured through the efforts of leaders and through "formal" processes like setting clear goals and rules, appraising employee performance and ethics, and hiring and promoting based on the ability to contribute.

Can a family business be professional according to these standards? Of course. Many of the most professional companies I know are family-owned and managed. When one considers that most industry leaders around the world are family companies, we must recognize that many family businesses are doing many things right and are good examples of professionalism. When family owners and business leaders are good stewards of their businesses and encourage high levels of performance and ethics in their businesses, this protective culture increases the likelihood of "professional" management.

So a company can be family-owned and managed and be professional. And a family member-employee of the family business can be a professional manager. It is important to challenge those who refer to "family managers" of businesses and "professional managers" of businesses because that implies that the only way to be "professional" is to be "non-family." Professionalism doesn't have anything to do with family or non-family categories; it has to do with one's attitudes and behaviors.

But what about nepotism, which has to do with favoring one's relatives in employment: Can you favor your relatives in employment and have a professional organization? Can one be a professional nepot? Yes. Family members with the right set of qualities can have certain advantages in running the family's business so that it emphasizes performance, adheres to core values, treats people like adults, constantly learns and strives for fairness and consistency in rewards.

Every employee, including a CEO and chairperson, is a "package" of capabilities, experiences, and values. No two people are the same and no one person is likely to be the best performer in all aspects of his/her job. We routinely hire people in all positions in a company knowing they have strengths and weaknesses but trying to fit the best "package" of capabilities, experiences, and values to the needs of the job. There should be minimum requirements for every role in a business and if a family cannot field family employees that meet these minimum requirements, then non-family talent should be placed in jobs. But family member employees can have advantages over non-family employees, especially in reassuring key stakeholders— family shareholders, employees, key customers, and suppliers —about the stability of the company and preserving their loyalty and commitment. And yes, family members can be exceptional managers and leaders. The best "package" for certain jobs in a family business can be a family member.

Don't fall into the trap of assuming that the way to make your business more professional is to get rid of family

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employees. That step might be needed, but don't start with that assumption.

With these arguments behind us, we still face the question: What does a family business need to do to become professionally managed? There are six pillars to professionalism:

- Attract, develop and retain great family and non-family talent
- Ensure that the organization can always make timely big decisions
- Strengthen family discipline and commitment toward the business
- Respect the management hierarchy and empower employees to make decisions
- Create systems to ensure consistently high performance and fairness
- Guard your core values like a hawk.

Attract, Develop and Retain Great Family and Non-Family Talent

Businesses largely compete on the basis of their talent and a family in business must be honest about its ability to supply key managers and employees to the company. I have seen third, fourth, fifth generation family businesses where family members can still manage the family's company and other situations where it is better for the family to be responsible owners of the business and let non-family executives run the business. If a family produces a business leader with enough of the skills (no leader has them all), good values and an ability to keep shareholders, employees, key customers, suppliers, and others loyal, family leadership of the business can be the best option. But the bigger and more complicated a business becomes, the more likely it will be that the business will have non-family leaders. Why? Because to keep supplying talented top management, a family's talent pool has to keep up with the needs of the business and the family has to remain passionate about the work the business does. A family may not continue to produce children or find in-laws with the particular talents or interests to qualify for top management. The fact that children have considerable freedom to choose their careers today also limits the family talent pool for the business. A family must be realistic about its talents and passions and make rational decisions about who will manage and lead the business.

Moreover, a family cannot take all of the top leadership roles in a company and hope to retain great non-family talent. Ambitious and talented non-family managers will leave (perhaps to join competitors) to be able to find top management roles. A family business that wants to attract and retain the best non-family talent must always have a few senior management roles for non-family managers. And the non-family managers must be seen as having real authority in the business.

The safest strategy for a family in business to perpetuate their ownership and leadership of a business is to try to develop one or a few family members who can be

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very competent managers and exemplary carriers of the company culture. Most successful third, fourth and later generation family businesses either explicitly follow this strategy or are lucky.

Forcing one's children to enter the family business usually backfires. Businesses today need leaders with a passion for their businesses, understandings of their industries and appropriate skills. Forcing someone to join the business typically discourages passion, understanding and even skills. Families in business should introduce their children to the business when they are young and help them see that business is interesting and management can be a meaningful career. Then parents should allow their children's natural interests to determine if they want to work in the family business. At the same time, the family and business must have strict standards for employing family members so only the really qualified ones get jobs.

Ensure that the Organization Can Always Make Timely Big Decisions

It is no exaggeration that a business that cannot make timely decisions about capital expenditures, organization changes, hiring key managers or its strategy will probably fail. Its competition will pass it by. When family companies cannot move because the owners or top managers are stalemated, when there is no way to get them to face issues, break ties or part ways, I suggest they prepare to sell their business. Every family business must have decision processes and tie-breaking mechanisms that foster decisiveness. This is one reason why I strongly advocate having boards of advisors or directors with external members who can raise issues that need to be addressed and press for timely decisions.

Strengthen Family Discipline and Commitment Toward the Business

A family business's chances of survival and success are increased when there is enough family discipline to act responsibly toward the business, and when there is adequate dialogue in the family and business about important family business concerns to respect family and business goals and to build family commitment to the business. Competitions for status, power, control, recognition, and even love can distract a family from the business of running its business and reduce needed discipline and dialogue. All companies are political and all families have politics, but families need to manage their politics and allow managers to focus on business fundamentals. Families need to design ways to have disciplined discussions and be able to make objective decisions that will support their business; I tell families that structure is their friend.

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A few very useful methods to ensure adequate family discipline and dialogue involve:

- developing rules and plans for family involvement as employees and owners in the business;
- appraising family employees so they receive important feedback, encouragement and rewarding them for their contributions;
- building a strong board and forums for management, owner and family discussions that identify their goals and remind members of three groups of their responsibilities to the business.

A family in business must have a professional attitude about its business and do the planning and rule-making to be professional. It's risky not to do these things. How much does family conflict, a lack of professionalism, and especially business failure cost a business, the family, the employees' families, and the community?

Respect the Management Hierarchy and Empower Employees to Make Decisions

In most family business, family members working in the business have special access to company information and discussions about the business, regardless of their rank in the company. This is because family members have more access to one another, at home and at work. This special access is not a problem as long as family members respect the hierarchy of the business and appropriately involve non-family managers in decisions and do not inappropriately involve family members in business decisions.

Like all businesses today, family companies need to empower employees throughout the organization make those decisions they are best able to make. Empowering nonfamily employees to make operational decisions requires trust. A family in business cannot professionalize unless they trust non-family employees to make some important decisions. Employees need to be trained and mentored to be able to make decisions, and then they need to be allowed to decide. Successes need to be encouraged and mistakes need to be corrected with more training and mentoring. This is how people grow in skills and values to become more professional. Sometimes family members believe only they can make the important decisions. I have observed family companies where the top family managers made not only all the big decisions but many of the little ones. The congestion of decision-making at the top of the organization generates passivity, slows progress and stifles creativity. The lack of trust at the root of this practice can kill a business today.

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Create Systems to Ensure Consistently High Performance and Fairness

Family businesses at the founder stage are often systems deprived. The founder is often an expansive personality who likes having maximum discretion in responding to opportunities and charting the course for the company. Typically he or she does not devote much effort to planning, budgeting, appraising or controlling, or developing consistency in the company's practices. When a business becomes larger and more complex, management needs to be more systematic. Systems are often the fundamental driver of professionalism, raising standards of performance throughout an organization and creating consistent methods of appraising and rewarding employees.

Guard Your Core Values Like a Hawk

The ethical dimension of professionalization is as important as the performance dimension. Employees must embody the core values of the business (such as commitments to quality products, customer responsiveness, caring for employees, long-term investments) as well as basic ethical standards of honesty, respect and fairness. While the managers of the business are the most visible and active stewards of the company, the owners of any company must support the goals and culture of a business. It is the ownership group that ultimately determines the nature of a business. The family must prepare its members to be informed and committed shareholders who will protect the values of the company. Many family business issues arise because the family shareholders are not well educated about basic business topics and informed about their business and they do not accept their responsibility to guard the core values of the company. Too many family businesses miss this important ingredient for success and for professionalization, thinking that this is just a management process.

Resistances to Professionalization

There can be many reasons why family owners and managers can resist strengthening standards of performance and ethics. To begin, professionalizing a company isn't cheap. A business may have to increase compensation to attract new employees or invest in new technology or introduce planning, control and performance management systems. But money usually isn't the biggest obstacle to professionalizing a family company. The biggest obstacle is when powerful people in the family business system—who can inhibit these changes—feel their power and status are threatened or feel disrespected by these changes.

Professionalization involves the acceptance of new and sometimes alien management, ownership and even family practices. This

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process often occurs around the passing of ownership and management authority from one generation to the next, which is already a sensitive time. The senior generation can feel insulted by attempts to professionalize, because it involves a different style or methods of management and feels like a rejection of their approaches.

Resistances to professionalization can be addressed through persuading powerful individuals of the need to change, celebrating the accomplishments of the outgoing administration, and committing to certain fundamentals in running the business that has worked in the past. Families in business often confuse their traditions with their core values. Reliance on certain traditions can weaken a company’s ability to adapt: We have never had debt; Father told us to always count the inventory by hand; Only family members can sit on the board; etceteras. Practices and traditions need to change as times change. On the other hand, values that make the company great—commitment to quality, taking care of customers, treating employees with respect—can endure for generations. Smart companies live by values that make them strong and help them learn. Families need to honor their core values and let their traditions evolve. Like so many aspects of family business management, professionalization requires a keen appreciation of family influences.

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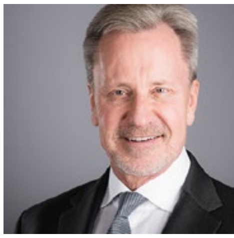

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About Cambridge Family Enterprise Group

Cambridge Family Enterprise Group (CFEG) is a global advisory, education, and research organization that serves family enterprises with growth aspirations—enabling them to flourish across generations. As a go-to trusted partner for the world's enterprising families, CFEG offers a wide range of services to navigate changing times, build pathways for continued growth, and achieve lasting success. Its pioneering thought leadership, strategies, and programs are used by families, family businesses, and family offices worldwide. Since its founding in 1989 by Professor John Davis, CFEG has advised and educated thousands of families from more than 70 countries.

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