

3 Challenges Family-Owned Businesses Face

Businesses that are run by and employ family members sometimes face unique hurdles. Here are some of the most common ones we've seen – and some ideas on how to handle delicate relationships.



ROI GROUP
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Running a family-owned business has many positive benefits. The ability to work side-by-side with loved ones can be very rewarding. And the opportunity to build a business and then pass it on to future generations is also attractive.

However, owners of family-run companies many times face challenges that leaders of other companies don't face. Having helped and worked with many businesses run by fathers and sons, husbands and wives, and even in-laws, we've seen common pitfalls that can ruin companies - or even worse, ruin relationships.

Here are three common problems that owners of family-owned businesses face routinely.

Informality

Avoid a slippery slope towards diminishing productivity and business success by treating your family employees just like any other employees.

- **Roles & Responsibilities:** It's not uncommon for business owners to want to hire family members. When doing so, however, it's important to define and communicate the person's role within the organization - just as with any other employee. This helps ensure that everyone is on the same page and can help prevent confusion that could lead to rifts in the company.
- **Salaries:** Obviously this is up to the business owner, but from our experience keeping salaries in check for family members is better for the company in general. Offering bloated salaries, especially ones not in line with defined roles and responsibilities, can work against the business in various ways (financially and otherwise).
- **Performance Evaluations:** Again, as with any other employee, it's recommended both for the company and the family employee that performance evaluations be executed. Keeping these formal by addressing issues, acknowledging successful work, and reviewing roles and responsibilities can ensure employee happiness and productive business operations.

Tunnel Vision

Businesses who only employ family members run the risk of being short-sighted, lacking creativity, and not keeping up with market, industry, or competitor trends that could negatively impact business growth.

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- **Market Factors & Competition:** It's not uncommon for employees at any company to get in a groove of comfort and become complacent in their job roles. When this happens, a company could gain "tunnel vision" - focusing only on what's working and what's comfortable, and losing sight collectively of what's going on in the industry. Factors like new legislation and document changes could cause a market shift, and new product launches or marketing campaigns from competitors could threaten your model. Especially with family-run businesses where it's easier to get comfortable, it's critical to keep an eye on what's going on in your market so you can keep your competitive edge.
- **Business Valuation:** The worth of your business is important to understand as a business owner. Many times we see that owners of family-run businesses have an inaccurate view of what their company is worth because of informal accounting and expenditures. For instance, if the family's country club memberships, vehicles, and other items are paid for by the business, this can affect profit and loss statements. Outside investors or potential buyers may end up with a different business valuation than what the company or family owner projected, which can make for a sticky situation if the business is intended to be exited.
- **Vision & Future Planning:** Every company should have a business plan - and ideally, an exit strategy. You might be surprised to learn that many companies do not have these basic elements in place. It's even more common among family-owned and operated businesses in which outside factors distract leadership and employees. Make sure that you maintain a vision for your company and a supporting plan that continues to outline roles, responsibilities, market positioning, and all other factors that help your business thrive today.

Business Transition

Many owners of family-owned businesses look forward to keeping their companies in their families. There are various options to do so, and communication is key to helping keep delicate relationships intact.

- **Plan Early:** No matter whether you plan to sell your company to outside investors or transfer it to family members afterwards, it's best to start planning as early as possible. A general rule of thumb is to plan three to five years in advance of a transfer so that you can get financials in order, grow the business a bit more if needed, and finalize a transition plan. This also helps avoid political conflicts and internal family struggles down the road.
- **Tax Implications:** As a business owner you no doubt understand that complexities of taxes. When transitioning a business, unfortunately it doesn't get much easier. No matter how you choose to transfer your family-owned business, and each has a different tax consequence to you, as the seller/transferor, and any benefactors/buyers/transferees. Planning early and doing your research can help you determine what the best strategy is for both parties to retain as much money as possible after a transfer.

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Various Options: There are various ways to transfer your family business. You could gift pieces of the company over time, sell the business outright, transfer your interests with a buy-sell agreement, develop private annuities, creating family limited partnerships, and many more. What's right for you depends on your goals and your relationships, but it's important to know that you have many options.

Learn More

We invite you to read our blog "The ROI Factor" at www.theroigroupllc.com/the-roi-factor, to learn more about these and other business issues.

If you are interested in a free, no obligation discussion with one of our experienced business advisors who have helped family-run businesses prosper, please contact us at info@theroigroupllc.com.

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