

GOERING CENTER

Creating Real Value by Migrating Your “Family Business” Into a “Business Family”

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“I faced many of the issues described in this article when we were structured more like a Family Business. Now, we preserved all the great advantages of providing a family atmosphere, but are enjoying the immense benefits of becoming a Business Family.”

Eric C. Hill, President,
Cincinnati and Chattanooga Laser Cutting



Do any of these situations sound familiar?

- “I don’t know why my oldest son (who is not involved in the family business) makes comments when his brother (who is in the family business) gets a new car? Why should he be concerned about what I pay him?” or,
- “Why can’t people be satisfied with their annual bonus? Why do they question how I calculated them or what they can do to get a bigger one next year?” or,
- “I find it difficult to think about retirement, when so many ques-

tions at work always end up on my desk...How will this company run without me?”

All too often, these common questions that frustrate family business owners are signs that they might significantly benefit from migrating their “Family Business” into a “Business Family.” We all know what a “Family Business” is but what do we mean by a “Business Family?” A Business Family will process every decision through the business needs first, its’

employees needs next, then the family needs as summarized below:



Some of you might be aghast at this idea, but consider the competitive disadvantage of not having that priority for decisions. Rest assured the competition is placing the needs of their

Business and their employees ahead of the needs of the family. Additionally, as much as we have the passion to do it all ourselves, every successful business needs motivated employees to help them compete and win. A client of our firm once said, “We own a company with over 1,000 vehicles on the road every day, but there are only four family members who can only drive four of them. So I spend my time helping our people achieve their goals. If we do that well, we all win.”

So What are the Real Benefits to Creating a Business Family?

There are several fundamental benefits to operating as a Business Family, including:

- The employees are more motivated
- The family conflict is reduced
- The business is more competitive, more valuable and easier to transition

Human resource experts have concluded that employee motivation increases when employees take part in developing an objective plan for the business, including their own success. Imagine the positive effect you will see

by telling an employee “If we achieve the goals in our plan (that you helped develop) your bonus this year will be 10% of your salary.” This is a much better motivator than “Let’s all work hard this year and if we make ‘enough’ money, we can pay bonuses.” A clear advantage goes to the companies whose employees know, going into the year, what the expected results are and what the rewards will be if they meet or exceed them. Employees also become more motivated as they see the decision-making process changing to “business first” rather than “family first,” eliminating heredity as a barrier to their career advancement.

There is also reduced conflict in the family for similar reasons. Most family business conflict does not occur over decisions affecting the customers or the employees, but rather it appears to revolve around family member compensation and ownership issues. Compensation questions in the Business Family are openly reviewed

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within the family as part of a business planning and budgeting process. The example above, where one brother outside the business was jealous of the other brother's frequent new cars, can be overcome by creating buy-in as to the compensation and perks that are provided with all key positions, whether held by family or not. As a Business Family, all family stakeholders, regardless of their involvement in the business should participate in the development of a strategic and financial plan. More importantly, to avoid the conflict described earlier, the plan should contain the financial performance expectations for the business and the key employees running it. A successful Business Family sets the same employment standards, from hiring qualifications through performance reviews for both family and non-family employees.

Having been involved in hundreds of family business situations, including selling the company to other family members or to a third party as well as planning for the current ownership to retire, one truth holds in every case.

Companies operated as a Business Family are:

- More competitive,
- More valuable to a buyer, and
- Easier to transition to new ownership

The Business Family is more competitive for several core reasons. One thing is the change in decision focus that begins with the needs of the business and employees, rather than the needs of the family or its' members. For example, placing most, if not all, family in all the top positions may not provide the best mix of talent to remain competitive. Another issue is that it gets increasingly difficult to attract and retain employees when the top management all share the same last name, as career advancement may appear to be limited by heredity.

Now, on to the all-important subject of increased value. Value is nothing more than a price you would pay today based on your confidence that the future income from the company you are buying will continue to meet or exceed your expectations. In a Business Family, plans and processes are well understood across the company, reducing the dependence on the owner for day-to-day decision-making. The employees are also motivated to achieve specific objective goals to receive their bonus or similar incentives. If the buyer sees clearly understood processes in place, employees motivated by clear objectives and few daily questions requiring the approval of the owner, then the perceived risk of future results decreases while perceived value greatly increases.

So How Do I Begin Creating Value as a Business Family?

Now that the goals of increased value, employee motivation and reduced conflict are clear, the best way to begin the process is to discuss the benefits with the necessary stakeholders. With benefits this clear and compelling, you should be able to get buy-in. Once the stakeholders are on board, the best place to start is by building a strategic and financial plan that very thoroughly identifies the needs of the business.

We are not suggesting the typical, and commonly ineffective, business planning process, where you take last year's performance and eyeball a 10% growth in the top and bottom line. The best way to begin is to find an outside resource to help you develop a thoughtful plan, which includes objective bonus targets and other critical research and data necessary for the plan to have realism. We say an outside resource, for one fundamental purpose = objectivity. Involving an outside resource yields the best results since most individuals are unable to be truly objective when it comes to evaluating the realism of their own plans... including this author. We recommend that you contact your CPA or attorney to find a firm that can really drill down in the business like a buyer would eventually do...which is invaluable to most companies.

Out of this objective planning process will come an understanding of family issues that will enable more open and effective family communication and the tangible benefits of migrating into a Business Family.

Remember...

- **Lead** – All employees and family members through a thoughtful strategic and financial planning process, that they “own;” and understand; then
- **Follow Through** – Follow through on your commitment to support the Business Family decision priorities; then
- **Put Yourself in a Position to Get Out of the Way** – Be patient and watch the motivation grow adding greater value to your Business Family, while seeing eventual retirement as a realistic alternative that does not damage the value of your company.

Mark Signorelli is a partner with Cincinnati Growth Partners LLC, a local Family business advisory firm providing Business Valuation, Capital Sourcing and Succession & Exit Planning services. For more information on creating a Business Family, Mark can be reached at mark@cincygrowth.com.