Navigating the Minefield

Family members in management (2): Success factors and advice

by Felix B. Waldeier

In the previous article "A Blessing or a Curse", we dealt with the typical challenges, problems and risks faced by family members as managers in their own family businesses. In order to avoid such critical situations for the company – and for the family members working within the business – clear structures and rules of the game are required. At the latest in the second generation, a family business must clearly separate the roles and responsibilities of owners and management. First of all, the basic understanding and attitude with which the family members perform these tasks is important. This is easier with family members who are only owners or managers. In many cases, however, someone is both a (co-)partner and a manager in their "own" company. In this scenario, it is important to adapt one's behaviour to whether one is wearing the "partner's hat" or the "manager's hat" at a given moment. This is much easier if appropriate corporate governance structures are created.

The supporting pillar of these structures should, as already described elsewhere, be primarily an advisory board or, depending on the legal framework, another appropriate supervisory body. The advisory board is the central instance in which the interests of the shareholders are discussed, decided and communicated to the management. The advisory board is the forum in which the company is seen, evaluated and aligned from the perspective of the owners (and thus "the family"). To this end, the advisory board does not necessarily have to be "armed" by transferring essential shareholder rights. If the circle of shareholders is clear enough or is made capable of action by a shareholders' committee, a considerable leap in quality can be achieved if the topics are analysed, evaluated and thought through in a professionally staffed advisory board. The final decisions can then be left to the "owner".

Another essential element in the structure of family businesses are the contracts of the family members working in the company. It is highly recommended that they stand up to a third-party

comparison, i.e. that family members do not receive a "free meal" and must be measured against the same standards as non-family managers. The comparison should be made with corresponding managers from other companies. Especially when using external managers, equal treatment of these and the family members is highly recommended and should therefore also be ensured by an advisory board made up of respected, competent and external members. This is not only about ensuring an appropriate level of performance, but also about strengthening the credibility and "standing" of the family member as a manager. A high degree of transparency is important here (instead of, as is sometimes still found in family businesses, an almost compulsive "secrecy"): the more openly the matter is handled, the higher the confidence of the other managers – and the other family members – in the performance of the family member active in the management of the company.

A further important point is a systematic succession and talent management approach which includes the appropriate preparation of family members before entering the management of the company. Of course, this includes relevant training but, in our experience, it is also beneficial (almost essential) to gain work experience outside the family business. This is not only about broadening your horizons and gaining management experience, but also about qualifying for management tasks beyond the protection of the family interest. This is a filter in the selection process, but also an important source for the self-confidence of the junior manager, and for their reputation in the family business vis-à-vis employees and family. If the junior manager then continues his or her career in the family company, care must be taken to ensure that he or she is faced with real and growing, but also "achievable" challenges. It must be possible to make mistakes, but failure "in front of running cameras" must be avoided.

From the perspective of the family member working in management, there are a few useful rules of thumb. It is helpful to consciously deal with the different spheres – e.g. the management, the advisory board, the shareholder circle and the family – in which the family manager operates. Of course, there are overlaps between these spheres and some people belong to more than one of them. However, it's important to separate these spheres intellectually and to adjust to each individually. One is – rightly – a somewhat different person when one tackles a day-to-day operational problem in a management meeting versus the consideration of a strategic trend in the Advisory Board. Or if you explain to a passive member of the shareholder circle what is going on in the company (e.g. why the profits unfortunately have to be retained next year), versus sitting with the family at the kitchen table.

Another helpful rule of thumb is to deal consciously with emotions – both your own and those of other family members and stakeholders. Emotions play an important role in family businesses and in order to manage them you have to accept and understand them. Communication is of central importance in any case, but especially in family businesses because the family is so important for the company, and vice versa. And there are typically a number of people who are interested in something they don't understand and where they want to have a say – and often are allowed or even obliged to have a say. Those who do not communicate carefully, respectfully and frequently will be tripped up sooner or later. Trust plays an important role. Those who want to be successful in a family business have to learn to earn trust, to reward trust, to claim trust

and to give trust. This is in close interaction with good communication and a good handling of emotions. And it helps combat the feeling of “CEO-loneliness”. What also helps in this context is mentoring and the exchange with peers. Many family entrepreneurs find great benefit and solace from networks and business associations that consciously promote such an exchange.

Last but not least: You also have to make the jump. Great entrepreneurial achievement is not only building – but also handing over. Think about what you want to do next, find the right time to hand over the reins with a good feeling, and consciously prepare for that moment.

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