Management Problems in Family Owned Businesses

By Thomas W. Bowden

The Cox Family Enterprise Center at Kennesaw State University publishes the following set of 10 facts about family owned businesses:

- 80% of the world's businesses are family owned.
- In the past five years, Americans have started more than 3 million family businesses.
- Family-run businesses account for half of the nation’s gross domestic product.
- Nearly 35% of family-owned businesses are Fortune 500 companies including Ford, Wal-Mart and Anheuser-Busch.
- Approximately 60% of all public companies in the US are family controlled.
- Family-owned businesses account for 60% of total US employment, 78% of all new jobs, and 65% of all wages paid.
- Many family businesses were started after WWII.
- There has been a significant increase in new family businesses since September 11, 2001.
- More than 25% of family firms expect the next CEO to be a woman.
- More than 30% of all family owned businesses survive into the second generation.

In many ways, the management problems that face the manager of a family owned business are the same as those that confront the manager of any small company. However, as a product of a family owned business, I think it is safe to say that management problems in many family owned businesses can be somewhat different as well. Whenever family members work together, emotions can interfere with business decisions. In some family owned companies, control of business operations is a problem. In others, high employee turnover among non-family members is a problem. In still other companies, growth is a problem. Lastly, in nearly all family owned small businesses, compensation is a problem.

**Control:** Just because someone has the title of “manager” does not mean that they necessarily have “supreme management authority” in a family owned business. This is especially true in family owned businesses with “elder statesmen.” **Possible Solution:** Don’t fight it. Include these company founders in advisory roles. Even if they were not great managers, founders tend to instill commitment into the entire workforce.

**Employee Turnover:** Finding good employees is a challenge for any small business. Finding key employees in a business that has obvious limitations for advancement for non-family members is daunting. **Possible Solution:** One of the most common problems in a family business is the hiring of relatives who do not have talent. In these cases, try placing these family members in non-key positions and hire outside talent to fill key positions for the long term good and morale of the company.

**Growth:** As relatives in a family owned business grow older, they may be unwilling to reinvest profit back into the business. **Possible Solution:** It is common that as relatives in a family owned business grow older, they develop an attitude of status quo. In this circumstance, one course of action would be to dilute their influence in management decisions.

**Compensation:** Paying family members and dividing profits among them can also be a difficult affair - especially if there are family members that are not perceived as “pulling their weight.” **Possible Solution:** Salaries are best handled by being competitive with those paid in the area. Determine the local salary ranges for various management jobs and use these ranges as a guide for paying both family and non-family personnel. When you tie pay to the type of work that the individual does, you can place an objective value upon an individual’s job. Fringe benefits can also be useful in dividing profits equitably among family members.

The old adage goes something like this: “The founder works and builds a business, the son takes it over and is poorly prepared to manage and make it grow but enjoys the wealth, and the grandson inherits a dead business and an empty bank account.”

Prepare now and help your grandson avoid the poorhouse.

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