Successful family run companies keep business and family separate

BY MELANIE PLENDA

When Michael Braun left the world of finance, he had no immediate idea that his experience would give him insight into family dynamics.

But it did, and led to a career change that finds Braun one of the pre-eminent scholars on family-run businesses in the country.

Braun is associate professor of management and the Poe Family Faculty Fellow at the University of Montana; the founder of the Family Enterprise Montana Forum; and North American editor for the Journal of Family Business Management. He is also the keynote speaker at a family-business symposium at Keene State College in January.

Braun's research is published in numerous scholarly journals, including the Academy of Management Review, Journal of Management and the Family Business Review. He is co-author of Mastering Strategy: Workshops for Business Success (2014), Praeger Publishers.

Braun's early career was much different, spent mainly in business development in publishing, direct marketing and e-commerce in Los Angeles, New York and Europe, working with clients such as Staples, Autobytel, and Condé Nast Publishing.

Then he moved into the investment banking world. As a director with a merchant bank, Braun was responsible for developing strategies for leading private equity firms and managing acquisitions and divestitures for private and publicly traded corporations. Braun says his firm was responsible for $250 million in assets. Part of that responsibility, he says, included buying and selling businesses, many of which were family owned.

"What I saw was that it gets a little fuzzy when you throw family into the mix," Braun says. "It gets complex because many times family dynamics start to come into play."

He eventually took these observations and started studying the phenomena of family business, that which makes it work and that which can undo it.

Family businesses make up more than one third of the S&P 500 and account for 18 percent of outstanding equity, according to a 2003 study conducted by Ronald Anderson and David Reeb, published in the Journal of Finance.

However, on average, only 10 percent of family businesses make it to a third generation, Braun says. That's because when family businesses don't work, they "really" don't work. One of the major troubles encountered, Braun says, is, naturally enough, nepotism.

"It's one of the biggest problems," Braun

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says. "Particularly when someone is put into a position that (he or she) is unequipped to do the job."

And once that person is in place, it's difficult to make a change without it disrupting the family. It's also detrimental to non-family members, who can feel there is no potential for upward mobility in the company because higher echelon positions are reserved for family, Braun says.

This nepotism can also lead to companies holding onto a family employee after he or she has "outlived their usefulness," Braun says.

Which leads to another major challenge families face: Keeping the business and the family separate. One need only look at the recent calamity at Market Basket in the struggle to control the supermarket chain to see what can happen when family dynamics run off the rails.

Another issue is many family businesses have no succession plan in place.

"In fact, in some businesses, it's a taboo subject," Braun says. "They just refuse to talk about it.

"You know you have certain roles. Your family and you end up bringing these roles into the workplace. It's a poor way to govern, and it will lead to family conflicts."

All of this said, the Anderson and Reed study found that family businesses tend to perform better than non-family firms. And that's because when they work, they "really" work.

One reason? The family owners have "a lot of skin in the game." What happens to the business, happens to them all. Their livelihoods and even the family reputation may be at stake.

So, in terms of investment, these companies tend to take a long view and avoid risks, Braun says. The downside of that risk aversion, Braun says, is that this can lead companies to under-invest in the operation, particularly when it comes to innovation.

To prompt innovation, Braun says, families need to separate the needs of the business from the needs of the family; they must be committed to keeping a clear line between the two. "Managing around the dinner table - you're not doing anyone any good," Braun says.

Families need to put systems in place that will help them keep business and family issues separate, avoiding the temptation is to bring these matter together. That begins, Braun says, with creating a team of non-family advisors. These can be legal and financial advisors, a board of directors with various committees and subcommittees, a mediator, even a psy-

chologist. When family tensions flare over a decision that needs to be made, it can be taken to one of those third-party advisors for resolution. This takes the family dynamics out of the situation. These third parties can also help with succession planning, which, Braun says, should not be avoided.

Moving a family owned company from one generation to the next can be managed, Braun said, but it takes planning, a willingness to keep family issues out of the board room and a willingness for open and honest dialogue. ■