

# 10 TIPS

## FOR GROWING YOUR FAMILY BUSINESS



The Los Angeles Regional  
Small Business  
Development Center  
Network

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*You've got questions.  
We've got answers.*

Family businesses bring special rewards, such as inherent trust, the camaraderie of working with loved ones and the joy of building a lasting legacy. However, running a family business also poses some special challenges. Perhaps that's why, according to the Family Business Institute, fewer than one-third of family businesses last beyond the first generation and just 12 percent survive to the third generation.

How can you make sure your family business doesn't fall victim to those odds? Follow these 10 tips.

- 1 RUN YOUR FAMILY BUSINESS LIKE A BUSINESS.** If most or all of your key employees are family members, it's easy to get sloppy about things like keeping your corporation in compliance, properly documenting decisions or maintaining accurate financial records. Always treat your business like a business.
- 2 CREATE A SUCCESSION PLAN.** If you want your business to survive, you must develop a plan for what will happen when you retire, die or otherwise exit the company. But a recent PricewaterhouseCoopers survey found that nearly half of family businesses had no succession plan. Enlist your accountant, attorney, key employees and family members in developing a succession plan that details who will take on key roles.
- 3 DEVELOP LEADERSHIP AMONG ALL EMPLOYEES.** Hold regular performance reviews for family and nonfamily employees alike. Provide training in-house, through local community college and adult education programs, or through industry associations to develop employees' strengths and streamline the succession process.
- 4 DON'T PLAY FAVORITES.** If non-family employees believe they have no chance of moving up in the company, they'll quickly become resentful and unmotivated. Set a clear path to promotion and advancement for both family and non-family employees.
- 5 SEPARATE BUSINESS AND FAMILY EXPENSES.** You might be tempted to make loans from the company to family members, or to let them write off personal expenses (such as the purchase of a car or vacation home) as business expenses. Even if such actions don't get you in trouble with the IRS, they will foster resentment among non-family employees.
- 6 SET BOUNDARIES.** Decide when discussing the business is allowed and when it's off-limits (such as during dinner, or at holiday gatherings). This helps ensure that family relationships don't revolve solely around business and aren't poisoned by business conflicts.
- 7 COMMUNICATE OPENLY.** Non-family employees often feel they're kept in the dark about the inner workings of family businesses. Whenever possible, share information openly with family and nonfamily employees alike.
- 8 DON'T GUARANTEE EMPLOYMENT.** Each family member should have an opportunity to work in the business, but not everyone will be suited to continue doing so. Base hiring decisions on the business's—not the family member's—needs. Talk to your attorney about structuring the business so that nonemployee family members can still have some ownership.
- 9 LEARN TO RESOLVE CONFLICTS.** Business conflicts can infect family relationships; family problems can flare up disguised as business issues. Develop a plan for dealing with business-related disagreements between family members, both those who work in the business and those who do not.
- 10 GET OUTSIDE INPUT.** Whether you're dealing with personal conflicts or trying to make business decisions, seeking opinions from trusted outsiders such as your board of directors or an SBDC Business Advisor can give you much-needed perspective.

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