Employing Family Members

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Sooner or later, every business owner asks: "Should family members join the business?" Whether it's your spouse, your siblings or your children, hiring family members has both advantages and disadvantages, and it is perhaps the biggest challenge a business owner faces regarding management.

To sort through the complexities of this decision, we recommend you evaluate both sides of the Issue.

Advantages

- Improved customer relations through family contact
- Intergenerational continuity
- Long-term stability
- Shared values
- Loyalty and commitment
- Inherent trust
- Willingness to sacrifice for the business

Disadvantages

- Possible managerial incompetence
- Lack of exposure to other businesses
- Inability to separate family and work
- Patterns of conflict rooted in early family experience
- Communication breakdowns
- Inability to retire and let go
- Nepotism
- Sibling rivalry

Before hiring a family member, review both the pros and cons with a trusted member of senior management, a board member or a professional business counselor.

Statistics tell us that 87 percent of all owners select a family member as the next president. If you are considering this step, make sure your successor is both competent and emotionally ready to take on the challenges of leadership.

Successor competency deals with broad-based knowledge of the business and capability as a manager. This is critically important to overcome the inherent problems of nepotism. The tendency to show favoritism to family members undermines the growth and development of non-family managers within the family business.

Above all, potential successors must develop their own sense of personal authority and be competent in carrying out their roles and responsibilities as the future leaders of the family business. This requires that they develop a strong sense of their own self-esteem. To encourage the development of self-sufficiency, family members should establish themselves as separate and independent from the business before applying for full-time employment.

Also, clarify compensation issues for family members. Compensation levels for family members should be based on good business practices rooted in industry standards or regional pay rates, as well as being tied to the level of performance of family members in carrying out the roles and responsibilities of the business.

While the general public may feel that family members are highly compensated when they work at family businesses, research data indicates that family members are typically under compensated.
It is often assumed that this lower level of pay will be made up by the equity opportunities provided through stock ownership. In many family businesses, family compensation is not directly tied to performance or market values, but rather is established for reasons of family equality.

Take time to consider how you will compensate family members in the business, and use those criteria as a guidepost for future employment decisions.

Your family business should consider establishing rules of entry -- or a more thorough family participation plan that clarifies the requirements family members must meet before gaining full-time employment at the company.

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