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Unique challenges family managers of family-controlled business have including impartiality among family

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Abstract
This study explores some of the unique challenges family managers of privately held, family-controlled businesses face, including dealing with impartiality among family members. This research project focused on case studies of small, privately-held family firms that typically arise from a sole proprietorship to include firms with multiple family members.
The methods used for this study included personal interviews, direct observation, and analysis of public information regarding the case study subject firms. An interview process was established that consisted of specific questions regarding the topics of interest discovered during the review of the literature section. One or more individuals in each firm were asked to answer the interview questions, including the open-ended questions to allow the subjects to provide their perspective. Individuals interviewed consisted of family members and non-family employees.
The data indicates that family-owned firms have dynamics that differ from non-family-owned businesses. These dynamics affect many aspects of management organization, strategic decision-making, and competitiveness.

Keywords: Family business, family-controlled business, family, impartiality, privately held

Introduction
Family-owned and managed businesses dominate the economic engine in most nations throughout the world (Hoy & Sharma, 2010) [5]. Family business is the foundation of U.S. business, often employing multiple generations of family and frequently exhibiting the family name. The long-term survival of family-owned businesses has proven to be a challenge as second and third-generation family members become involved with daily activities and take over management duties. Family firms have a unique dynamic because the family and business are intertwined in many ways. It is essential that family members are prepared to deal with these intricate dynamics to handle the interactions that occur between the business and family. These dynamics and interactions are highly impactful to stakeholders and customers.

Background of the Study
Over 80% of all U.S. businesses are family-owned, including 35% of Fortune 500 companies. Family businesses account for approximately 60% of all employment in the United States and create 75% of all new jobs. Long-term survival of family-owned businesses has proven to be a challenge, as only about 30% survive into the second generation, while 12% exist into the third generation and just 3% remain as family-owned businesses in the fourth generation (Lesonsky, 2015) [9]. Despite the unique challenges, family-owned businesses have better survival odds than small businesses that are not run by a family team (Lagorio-Chafkin, 2010) [8].
Family firms have dynamics that differ from non-family-controlled business. These dynamics impact many aspects of management organization, strategic decision-making, and competitiveness. Family managers of family-controlled businesses have unique challenges, including dealing with and trying to maintain impartiality among family members (Rousseau, Kellermanns, Zellweger, & Beck, 2018) [16].

Significance of the Study

This study seeks to bring awareness to the unique challenges' family managers of privately-held, family-controlled business have when dealing with family members. With 60% of U.S. employment provided by family-controlled business, the majority of U.S. employees are impacted either directly or indirectly by the dynamics between family members and family managers (Lesonsky, 2015) [9]. Identifying these challenges and examining how these challenges may impact the family business is important to the success of the firm because most family businesses share the same problems (Ward, 2004) [20].

Purpose of the Study

This study seeks to identify some of the unique challenges family managers of privately-held, family-controlled businesses have when dealing with and maintaining impartiality among family members. Many family businesses are started by entrepreneurial individuals who have relatives as employees, business partners, and debt or equity partners. Over time, additional generations are often brought into the business as employees and partners. Families that work together have both family and business intertwined; thus, they experience unique challenges as a result. The goal of this paper is to aid families in identifying and addressing these unique challenges.

Review of Literature

The dynamics of privately-held, family-owned and controlled businesses vary considerably between firms; however, many firms experience similar issues resulting from nepotism. Unique challenges and conflicts appear when situations are unclear. Conflict management becomes the key to business survival and positive family dynamics. Figure 1 illustrates the three family dimensions consisting of the family, owners, and management in the three-circle model, which views a family firm as a complex system containing each of these interrelated sub-systems (Nasser, 2014) [14].

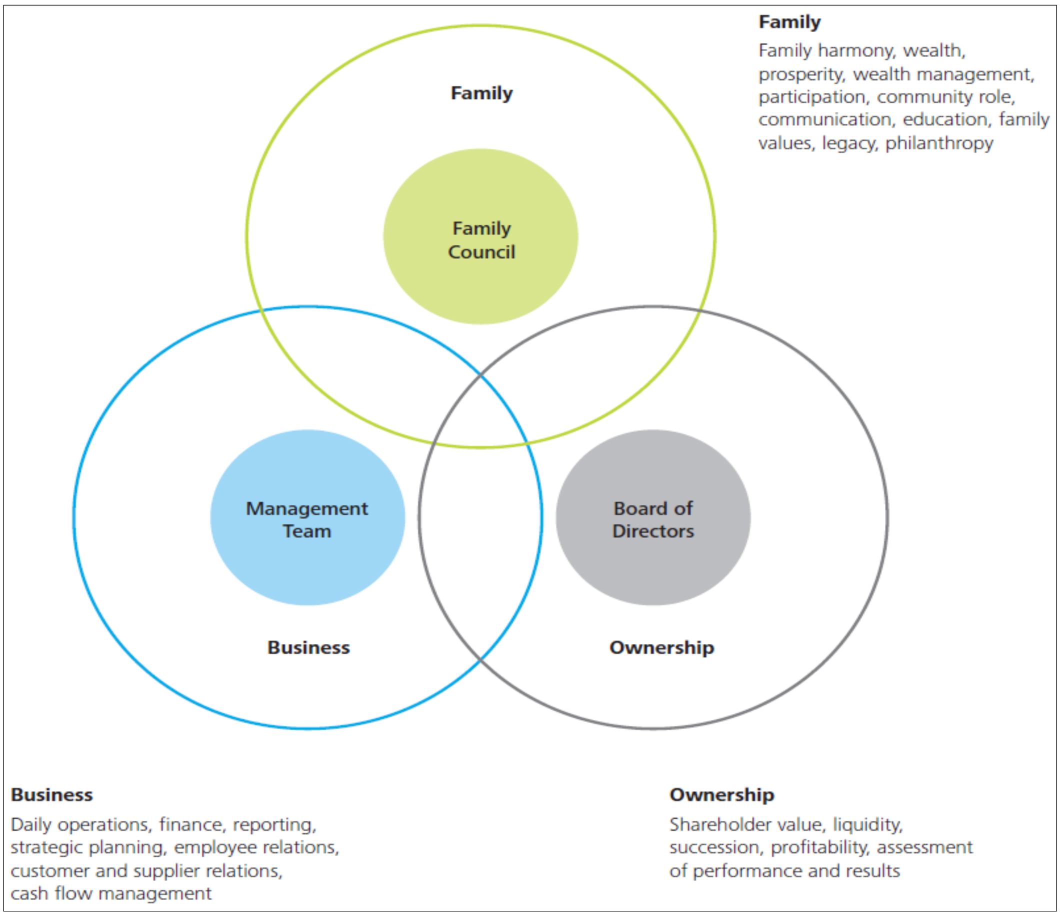

Fig 1: Kofi, V., Guihur, I., Morris, T., & Fillion, G. (2014) [7]. Family business succession: How men and women predecessors can bring credibility to their successors?. Entrepreneurial Executive, 19.

A family-owned business has the challenge of deciding who-in the present and future-part of the family business is. That decision can be made collectively by the family as a business or with CEO-created policies. Impartiality among family members can be maintained by deciding what qualifications are necessary. Should family members have outside experience? Do family members need to have an education? Will everyone in the family be able to be employed in the family business? What are the boundaries? (Lagorio-Chafkin, 2010) [8]. A leader of a third-generation U.S. family business stated that, "If they [next-gen] want to be in business, they have to be capable of being in the business and know that while there is a little bit of a thump on the scale, it's not a very big thumb" (PwC, 2018) [15].

Family members have varying degrees of competence and expertise that qualify them for business roles; however, family members may feel that their qualifications or rights to positions are different than what family managers place them in. Firms that use human resource tools such as the classic job description are more successful at putting family members in roles that they excel in. It is important that the human resources sector create every employee's job description—including family members' positions-and outline and define every individual's responsibilities in the business, including their job title, description, and performance standards. This process helps family managers remain impartial to family members' competence for the job and the roles they hold (Lagorio-Chafkin, 2010) [8].

Family-controlled businesses must have an employment policy that includes compensation standards as well as expectations for employees. Whether the family business is a small business without any formal HR policies or a larger firm with official HR policies, this practice helps to give everyone a job title, description, and performance standards. An employment policy provides rewards and compensation, sets parameters in advance, and minimizes conflict (Lagorio-Chafkin, 2010) [8].

Family members often enjoy benefits that are not afforded non-family members. Family members receive benefits such as greater freedom on job duties, more flexibility for time off, and higher job security. Family members involved with small, privately held family firms tend to be very informal with time away from the place of business for procurement of supplies, outside business dealings, and personal family events.

The challenge for family firms is to be impartial with the time family employees take off from work. Family members must have procedures for paid time off, such as advance notice. Lack of adequate policies cause the non-family employees to cover for family employees, which may cause resentment. Executive-level family members often trade benefits for lower compensation, as their emotional attachment to the privately-held family firm creates a situation where the family member is not likely to seek employment outside of the family firm even if a more lucrative offer is available (Juyoung & Woochen, 2019) [6].

"The dynamics of conflict in family businesses are complex and distinctive because of the unique interdependence between family and business systems," (Memili, Chang, Kellermanns, & Welch, 2015) [13]. The emotional dimensions of family feuding, sibling rivalries, and petty jealousies can cause a rollercoaster ride that makes it difficult for families to work effectively with each other. The conflict can become particularly intense because "Families are social groups with long histories and enduring memories, and the personal costs of exiting either the family or firm are high" (Schulze, Lubatkin, & Dino, 2003) [17, 18]. Impartially resolving conflicts may be accomplished using the family council or a family mediator to aid in obtaining a resolution.

Family councils are a recommended method for family firms to deal with the challenges of mixed business and family issues (Le Van, 1999) [10]. A family council is a formalized process that attempts to settle differences in an impartial manner. A family council provides a forum for discussion where members can accomplish five things: a) secure a respectful hearing, b) express themselves safely, c) listen to others openly, d) discuss issues constructively, and e) make decisions thoughtfully (Le Van, 1999) [10]. The council usually has no power to make binding decisions; however, in some families, the council has the ability to make recommendations that carry the weight of the family influence. Family councils insulate the board of directors from a family conflict, which is especially essential if outside directors are part of the board. While management or the board may solicit family opinions or direction, the final decisions are made by management, the members of the board of directors, or shareholders (Le Van, 1999) [10].

The makeup of a family council depends on the desires of the family. Besides family members who are active in the business, the council generally includes non-active members who benefit from the family business. Some families choose to include spouses who may or may not have voting privileges. The age at which children gain a seat and voting rights on the council depends upon their duties, responsibilities, and financial stake. Eighteen-year-old children generally have a seat and a vote; however, those younger with considerable responsibilities may also be granted a place. Participation by children at college may be an issue that needs to be addressed (Le Van, 1999) [10].

The family should create and agree to a set of rules addressing key ownership issues regardless of whether the family firm uses the family council concept. These family protocols are sometimes referred to as a family constitution and are used to help deal with strong intergenerational business relationships. Being parents and children, brothers and sisters, cousins, or in-laws may not be enough when difficult situations arise (Nasser, 2014) [14].

Individual financial distress, irresponsible conduct, and marital strife or divorce are issues that severely disrupt and challenge a privately held family business. Individual financial distress can cause problems that directly impact a family business, as the individual may desire or need additional monetary funds. The unique challenge for the family firm is to decide if the situation warrants some type of financial assistance. If so, the firm must decide if the assistance will be in the form of a dividend or draw that is made equally to all members, in the way of a loan, through the redemption of shares, or through a sale or transfer of shares. Irresponsible conduct is a challenge for the family business when a family member acts in a way that harms themselves or the family business. Harmful behavior often arises from substance abuse, gambling, or shifty financial deals. These acts can lead to theft from the business, crimes, or scandals. Marital strife can cause mayhem even without a divorce occurring (Le Van, 1999) [10].

Divorce can disrupt the family business, especially if ownership or shares transfer from the family to a spouse. The use of a prenuptial agreement regarding keeping family ownership and shares in the family has become widespread (Le Van, 1999) [10]. Unique challenges that disrupt the family business can cause individual financial distress, irresponsible conduct, and marital strife or divorce. The case of Community Farms-to be discussed in a later section—shows how one family was impacted because of individual financial distress and irresponsible conduct. Remaining impartial when these issues disrupt the family business can undoubtedly challenge the best family relationships.

Families become invested in the business; thus, family members have SEW attached to ownership of the family firm. The non-financial aspects such as the identity of the firm, the capability to apply family influence, and preservation of the family reign hold significant value to family members. Family members often have a heightened sense of individual self-worth related to the family firm because the family name or family identity is often associated with the integrity of the firm. The capability to apply family influence to all aspects of the organization is an attribute that contributes to the SEW felt by family business managers and owners. Another element of SEW involves family control. Often, family managers will direct, influence, and control the daily actions of employees in accordance with the desires of the business culture. The non-financial aspects of a firm, or its SEW, can bias family managers and lead to emotional-based decisions that are partial to their family and firm. These aspects make it difficult for family managers and employees to make impartial decisions (Gomez-Mejia, *et al*., 2007) [4].

Sustainability of the family firm is a challenge that many privately held family firms face. Family members often end up in key managerial positions "due to birthright and altruism that can be detrimental to the sustainability of the business" (Schulze, Lubatkin, & Dino, 2003) [17, 18]. A result of only having worked for the family firm is the lack the experience, as these employees have never been employed outside the family firm. This can lead to opportunistic behaviors that collectively become a shortage of managerial resources and experience (Schulze, Lubatkin, & Dino, 2003) [17, 18].

Case Studies

Several case studies provide insight into how some family firms have dealt with the challenges of being a privately-held, family-controlled businesses. At Hanson Silo of Lake Lillian, Minnesota, family nepotism is such an issue that potential new hires are repeatedly asked if they can function effectively without having problems with nepotism. The firm employs between 35 full-time individuals and up to 75 seasonal individuals. Founded in 1916 by Emil Hanson, the company is now in the fourth generation of family employees. At one point in the early 2000s, Greg Hanson was the CEO and president while his brother-in-law was the director of finance, his son was the vice president of sales, another son was vice president of service and shipping, and numerous other relatives worked for the business. Hanson Silo recognized that nepotism existed and made a point during the hiring process to inform potential non-family employees so the individual understood that family partiality and favoritism do exist within the organization (Hanson, personal communication, 2002).

Family firms such as Hanson Silo have a propensity for social responsibility and philanthropic behavior supporting community activities (Campopiano, De Massis, & Chirico, 2014). Hanson Silo's behavior is ingrained in the Hanson family culture, and employees are encouraged to support community activities as well. Employees are urged to sign up for payroll deduction to facilitate regular charitable contributions to the United Way. Besides the visibility created for the Hanson family and Hanson Silo, the family firmly believes that it has a social responsibility to the community. The Hanson family has given generously to not only the United Way, but also to the Community Christian Outreach—their local church—and supported school and youth activities. The firm's management believes that employee buy-in towards philanthropic behavior helps create the culture that the firm seeks to foster (Hanson, personal communication, 2002).

In 1867, the Revier family homesteaded their Renville County farm south of Olivia, Minnesota. Today, fourth-generation brothers Tom and Dave—both graduates of Concordia College in Moorhead, Minnesota—work together to manage Revier Cattle Company and Revier Farms. The brothers have different interests, competencies, and desires within agriculture; therefore, Tom manages Revier Cattle Company and Dave oversees Revier Farms' crop operations. As a team, the brothers have successfully balanced and supported the complex operations and economics of a successful family farm (Revier Family, personal communication, 2019).

Revier Cattle Company is Minnesota's largest cattle feedlot and directly sells the Revier Cattle Company brand of purebred Black Angus high quality, sustainable beef to more than 47 restaurants, 30 retail stores, and 11 distributors nationwide, including the Super Value chain. (Revier Cattle, 2019). The Revier brothers have successfully navigated the complexities of family, ownership, and management due to their formal education, segmentation of duties, and recognition of individual strengths, which allows the brothers to maintain impartiality within the family business, (Revier Family, personal communication, October 2019).

In 1980, Owner Mike Schweiss of Schweiss Doors in rural Fairfax, Minnesota began building bifold doors for aircraft hangers and farm buildings. Today, Schweiss Manufacturing employs about 62 people full-time and up to 76 people on a seasonal basis. Approximately 75% of the aviation industry is comprised of the total sales of custom-built hydraulic, bifold, and designer doors. The balance of bifold door sales is used in agricultural, commercial, and industrial buildings along with residential homes (Schweiss, 2019) [19]. Mike Schweiss has employed his brother, several cousins, his wife, and children. As the lead salesperson, Mike's wife goes by her maiden name Julie Schafer at work and even signs sales contracts as such. Julie is able to maintain anonymity as a family member and respect and protection is afforded to the company's employees as a result.

However, Julie can be an emotionally charged individual, often shouting to her husband to pick-up the phone and deal with a rude person on the line. In the immediate days after the September 11, 2001 terrorist attacks, Julie unilaterally made the decision to lay off several employees. Her reasoning was that Schweiss' install crews were locked out of the grounds at a large commercial airport. Despite employees suggesting that a fear of travel on commercial aircraft could spur increased use of small airplanes and an additional need for Schweiss bifold doors-as would be confirmed within the next year-Mike simply told his now-former employees that he had to live with Julie. This case is an example of how a single-family member's impartial strategic decision impacted the privately-held family business (Schweiss family, personal communication, September 2001). As a result, Schweiss Doors lost the skill and knowledge-base of several dedicated employees that were difficult to replace in the short-run.

Bill Kibble was the owner of the highly successful John Deere dealership called Kibble Equipment Inc. in Montevideo, Minnesota. In 1995, Bill expanded Kibble Equipment with the purchase of another John Deere dealership with locations in Redwood Falls and Bird Island. At that time, other family members had joined the dealership, making it a multi-generation family management team. In 2001, a decision was made to sell the business to Brandt Holdings, Inc. of Fargo, North Dakota. At that time, Kibble Equipment employees were told that the sale would ensure adequate capital to grow the business and still allow for the Kibble family to remain as managers of the agricultural division (B. Kibble, personal communication, 2001). Today, Bill Kibble's son, Butch Kibble, remains the manager of the agriculture division of Brandt Holdings-who kept the Kibble Equipment Inc. name-making the acquisition indistinguishable to customers. Brandt Holdings proceeded to acquire additional John Deere dealerships; today, 22 locations have the Kibble Equipment Inc. name as a division of the privately-held family organization, Brandt Holdings Inc. (Brandt, 2019) [1]. The Kibble family was able to meet the challenge of obtaining capital to ensure their legacy name was maintained and the family members remained employed in a management role.

Community Farms Partnership is the pseudo name for a multi-generation family farm that experienced considerable distress and challenges resulting from a family member's individual financial distress and irresponsible conduct. Family members involved in the farm's crop and cattle-feeding operation include a third-generation farmer with multiple sons. The sons have varying levels of post-secondary education and degrees ranging from a Vo-Tech diploma in production agriculture to bachelor's degree in business. The son's skill sets complement each other very well. The eldest son has knowledge of production agriculture and he is very good at crop and livestock marketing. The eldest son is also outgoing and social; therefore, he is a natural connection to the numerous contacts the family has in the cattle industry. The other son is detail-oriented, has advanced computer skills, has training in both financial and accounting, and is business savvy.

The challenge that tested the Community Farms family occurred when the eldest son experienced financial distress as a result of a gambling problem at a casino. The father and eldest son agreed to an increase in the monetary draw for the eldest to help decrease the eldest son's financial burden. The father and eldest son initially cited that the son needed a wage increase to meet the needs of his large family. When the additional wages were not enough, the eldest son stole and deposited a check that was the payment to the partnership for a semi-load of fed cattle. He deposited the check into his personal bank account and tried to hide the diversion of funds from the other partners. Since the cattle were mortgaged property, the rerouting of funds meant that the loan wasn't properly satisfied, nor was the agreement with the lender. The action caused even greater strife when the father wanted to overlook the incident and let the eldest son keep the money that he took (Community Farms, personal communication, September 2019). The use of a family council would have been a better method to deal with this transgression. The investigation by additional family members into why this conflict took place, combined with the feedback from multiple points of view, may have provided an acceptable resolution along with a plan that to prevent a recurrence.

Methodology

This study focused on the unique challenges of small, privately held family firms that typically arise from a sole proprietorship to include multiple active family members. The subject of interest for these case studies were firms of local notoriety in southern Minnesota that met the study criteria and became a leader in their industry. Consideration was given to firms that had family members who would be willing to grant interviews and answer questions or allow the authors to observe daily activities. This study included firms that met the criteria and offered insight into how the firm handled one or more unique challenges.

The methods used for this study included personal interviews, direct observation, and research of public information regarding the case study subject firms. An interview process was established that consisted of specific questions regarding the topics of interest discovered during the review of the literature section. One or more individuals in each firm were asked to provide their personal perspective to those questions, including open-ended questions to allow the subjects to provide their perspective. Individuals interviewed consisted of family members and non-family employees. Emphasis was placed on interviewing multiple generations of family members when possible. The authors were able to directly observe daily activities in some of the firms included in the case studies. The objective was to observe if interactions between family members differed from their interactions with non-family employees. The study aimed to determine how these interactions differed.

Conclusion and Findings

Privately held, family-owned and controlled businesses often have unique challenges because of many family members being part of the business. The dimensions of family, owners, and management weave a complex system. Management of the challenges and conflicts that arise from the family dynamics are the key to the survival of both the business and the family. Determining who part of the family business becomes is one of the biggest challenges that family firms face. Family members have different skill-sets and varying degrees of competence and expertise, and may see their qualifications differently than others who are assessing them. It is a challenge to successfully place family members in roles that excel in. Job descriptions and responsibilities aid family managers in remaining impartial when placing family members in jobs and roles that family members can be successful in.

Use of formal human resource policies that include expectations and compensation standards set specific parameters that provide impartiality and help managers avoid conflict. The small, privately held family business tends to have very informal policies, greater freedom of job duties, and more flexibility for time off, which can cause resentment from non-family employees. Nepotism exists and must be dealt with; one method is to be forthright and open about the issue when interviewing potential new hires.

Family firms also have the emotional history from past feuding, sibling rivalries, and jealousies that can make working together difficult. The use of a family council to deal with mixed business and family issues with an impartial, formalized process is a recommended method used by many family firms. The family council can aid with protocol for dealing with issues such as equity stake, voting rights, intergenerational issues, and spousal participation.

Disruptive challenges to the family firm include individual financial distress, irresponsible conduct, and marital strife or divorce. Having processes in place to deal with these issues-such as the family council-can help alleviate the stress that can challenge the best family relationships. Families experience SEW as they become invested in the family business. Along with ownership, the family name is often tied to the identity of the firm and the integrity of both the business and family. The socioemotional ties can lead to emotional-based decisions that are partial to the family and firm.

The case studies provided insight into how some privately-held, family-controlled businesses have dealt with various challenges. Hanson Silo addresses the issue of nepotism upfront during the hiring process. The firm also provides leadership for social responsibility and philanthropic behavior.

Revier Cattle Company has managed the successful transition of generational ownership and management to become Minnesota's largest feedlot, offering the Revier Cattle Company brand of purebred Angus beef to restaurants, retail stores, and distributors nationwide. Schweiss Doors grew from a small entrepreneurial welding business to one of the largest suppliers of aviation hanger-doors despite the challenges of intimate family management. Bill Kibble, the owner of Kibble Equipment, capitalized on his reputation and ensured the legacy of his firm's name while ensuring that a family member could remain in a management position after the firm was sold to another privately-held family firm.

Community Farms was tested when an individual family member acted irresponsibility and diverted business income into a personal account. Dealing with this conflict without a family council in place caused greater strife and hard feelings, and failed to provide a plan for future avoidance. Family managers of privately-held, family-controlled businesses must remain impartial among family members. Family firms have dynamics that differ from non-family-controlled businesses; these dyanmics affect many aspects of management organization, strategic decision-making, and competitiveness.

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