Steps for Maintaining a Thriving Family Business

"In a family business, every decision and policy has to be evaluated based both on how it works for the business and also how it will affect the family dynamic – and that adds an extra dimension," says Daniel Prebish, Director of Life Event Services for Wells Fargo Advisors. Here are six steps he suggests you can take to ensure your family business is positioned to thrive and survive:

1. Put people in jobs based on ability. It's best to hire when you have a business need for a position, not because a family member needs a job, Prebish says. Then choose the candidate whose talents, not lineage, best fit the job. "The most successful family business owners are very honest about the talents of their family members," Prebish says. "The oldest child may be a better fit in a sales role rather than CEO. Or maybe a child is better off being an artist and not affiliated with the business at all." Sometimes, recruiting talent from outside the company is the best way to fill a job.

2. Clarify and define job responsibilities. Family firms tend to be more informal than other companies, and that can lead to misunderstandings about expectations. Take the time to write formal job descriptions that detail each employee's responsibilities and goals, and establish regular reviews. The older generation should also refrain from micromanaging. "Parents tend to constantly second-guess what a child is doing, and then the child never feels like he is actually contributing," says Jim McKown, High Net Worth Strategist for Wells Fargo Advisors. "You need to think, 'If they weren't a family member, how would I be handling this situation?' And that's how you should handle it."

3. Leave work at the office; leave your personal life at home. Try not to talk shop during family gatherings, especially at holidays, weddings, and other special events. And refrain from bringing personal drama into the office.

4. Groom the next generation. Invest in education and experiences for young family members, sending them to industry conferences and getting them training to develop a skill the business can use. McKown recommends encouraging them to work elsewhere before joining the family firm.to establish themselves as employees and giving them an opportunity to mature and make mistakes outside the business. Having the next generation develop a solid background in business may help secure your investment as you pass it on.

5. Outline your succession plan. Passing a family business on to the next generation can be tricky, and that's why it's important to have a strong succession plan. "It should start with how you define success: Is it keeping the business as a family entity over many generations, or are you comfortable selling it to another firm with more resources that could build it into something better?" Prebish says. You will also need to consider how to pass along ownership in a tax-efficient manner, how company founders will be taken care of in retirement, how to replace the current talent and adapt it for a changing market, and how the business may be a part of your personal retirement plan.

6. Know when to seek outside help. Many business owners consult with outside estate and financial planning experts to help with succession planning. But a disinterested third party can also help resolve disputes and look at the business rationally because there is no emotional attachment, McKown says.

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