

## Finance | Accounting | Expert



## Family Business - In the Eye of the Storm

In my line of work, I often guide family businesses. Usually, the family patriarch is the founder of such a business, and the term “business” can range from manufacturing facilities and law firms, to private schools and more. A few years down the line, father recruits son and they manage the business together. In time, father recruits daughter to join the management team, and so a “family business” is born, with the “founding father” at the helm. But is blood really thicker than water?

By **Shmuel Rosenblum,**  
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**W**hen I interview such founders, they usually sing the many praises of running a family business:

“I only trust family.”

“Our business is based on professional secrets, a unique bond, nurturing special relationships with clients and maintaining our integrity with various authorities. There’s no way I could trust a stranger with all that.”

“My children would never do anything to hurt the business. They’re my own flesh and blood.”

It’s a disaster waiting to happen!!

Instead of implementing a system to monitor proper business conduct, founding fathers rely on the ties that bind - a strategy they believe guarantees financial integrity.

“Managing a business with family is easy and simple.”

Founding founders believe that family members contribute to smooth and efficient running of a business. Why? Because children have to do whatever their parents say. (Honor your father and mother, right?)

[After biting my tongue for what seems like forever, I ask founders if - when they were grown men of 55 - they would have liked to be at the mercy of their father, still obeying their father’s every command. But more about that later on.]

“When I reach the end of my days, I’ll know I left a fine business for the next generation.”

The official mantra of all founding fathers says that if they don’t involve their children and grandchildren in the family business, the family will be deprived of a valuable asset!

I’ve accumulated quite a cache of family business cases, and while there may be advantages to running a family business, I’ve witnessed numerous businesses (and warm family relations) come to a tragic end.

**Let’s touch on some of the disadvantages and risks of running a family business:**

● **WHAT’S THERE TO TALK ABOUT AT THE SHABBOS TABLE?**

Businesses have their ups and downs, and that usually means that any after-business-hours family gathering soon evolves into a brain trust or business meeting. Conflicts from work continue at home.

This phenomenon can damage a fam-

ily business. No one can ever speak their mind or focus on anything other than the business!

● **TRANSITIONING THE BUSINESS FROM ONE GENERATION TO THE NEXT - WHAT IF IT GOES AWRY?**

What happens when the founder is no longer competent to manage the business? Would any son, daughter, brother-in-law or grandchild dare to show up at his office and announce: “It’s time for you to retire, for the sake of the business”?

Similarly, the elevated status of one family member in the business could harm the business. (No one would feel comfortable pointing out their mistakes.)

**Future disputes between second generation family members are bound to arise. This is an incontestable fact.**

● **EQUALITY AMONG FAMILY MEMBERS IS ECONOMIC SUICIDE FOR A BUSINESS**

Family involved in a business usually demand that compensation for each member be identical - a demand that completely contradicts judicious economics! In family businesses, it’s difficult to apply a mechanism for

remuneration according to each individual’s contribution. This leads to jealousy and rivalry, and impaired motivation amongst employees (who are all family members).

● **SETS THE STAGE FOR FUTURE DISPUTES**

Future disputes between second generation family members are bound to arise. This is an incontestable fact. Family not involved in the business feel their relatives “were handed a thriving business without lifting a finger,” and refuse to acknowledge that the success of the business could be due to diligence and hard work. Meanwhile, family members who poured their heart and soul into a business feel that they are the reason the business even exists! A dispute with no foreseeable conclusion.

● **G-D CREATED MAN INHERENTLY HONEST**

This is true. But financial anomalies can crop up even among family members. Monitoring, however, could prove problematic. It’s just not possible for family members to audit their own relatives.

With all the obstacles involved in running a family business, can it actually work? The answer is yes.

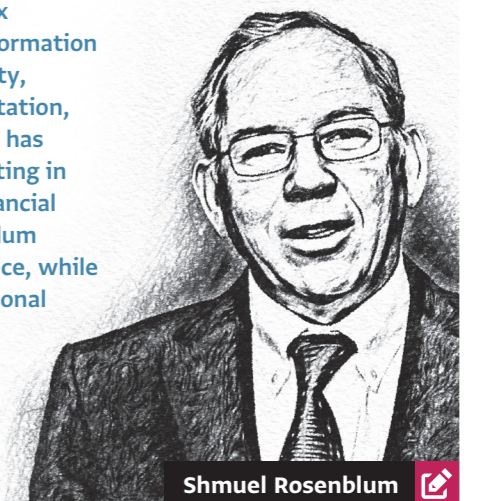
More than any large corporation, family businesses require prudent planning and advice from various professionals including accountants, economists and lawyers. More on making a success of your family business - in the next edition of Bizness Magazine!

**ABOUT THE COMPANY**

Rosenblum Holtzman, CPA was founded in 1981. The firm provides a wide range of services to corporations, kibbutzim, non-profit organizations and private clients. These services include auditing annual financial statements, representing clients before the tax authorities, tax planning, internal auditing, information systems, risk management, information security, financial consulting, Sarbanes Oxley implementation, and evaluating corporate governance. The firm has special expertise in forensic auditing and assisting in legal proceedings involving accounting and financial evaluations. With over 100 employees, Rosenblum Holtzman provides a top tier professional service, while simultaneously allowing clients to receive personal attention from the partners.

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