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ORGANIZATIONAL DESIGN FOR FAMILY-OWNED BUSINESSES

Family-owned businesses account for over 60% of all private sector firms in Canada[1], yet research suggests that only 30% successfully transition to the second generation[2]. The uniqueness of family businesses lies in their strong entrepreneurial spirit, familial culture (both actual and effective), and values. However, they are also often perceived to lack formalized organizational infrastructure and to have limited institutionalized know-how beyond that contained within the minds of key family members.

> "A lack of planning and infrastructure inadvertently creates a barrier that hinders and constricts the growth of the family's business."
>
> – Tasso Lagios, Managing Partner

An informal organizational structure and overreliance on key family members can foster uncertainty and inefficiency across team members, pose challenges in hiring and retention, and create succession ambiguity, among other risks to business growth. Additionally, it can promote intuitive decision-making instead of dedicated strategic decision-making. While we are acutely aware that for family businesses, business is never "just business", an informal organizational structure can further blur the lines between family and business, hindering scalability and long-term sustainability.

This article explores general guidelines, the benefits and potential impediments, as well as some leading practices of organizational design for family-owned businesses.

[1] Conference Board of Canada – The Economic Impact of Family-Owned Enterprises in Canada
[2] HBR - Avoid the Traps That Can Destroy Family Businesses

What Is Organizational Design and Why Does It Matter?

Organizational design extends beyond human capital – it is how people, processes, and technology are intertwined to deliver and create value within an organization. It entails shaping and aligning an organization's structure, workflows, people, and culture to achieve its goals. Simply put, it's a way to get the most out of the people in the organization today, while creating an infrastructure to scale to meet the needs of the organization tomorrow.

An organizational structure will dictate the roles, responsibilities, and reporting relationships for a team's day-to-day operations. Elements include chain of command (hierarchy) and reporting structure, separation of tasks (departmentalization) and interaction models, and managerial structure – both in terms of the number of direct reports per leader (spans) and number of management levels (layers).

The benefits of effective organizational design permeate the entirety of an organization and have internal and external impacts. It can drive efficiency gains today while supporting scalability for tomorrow and can increase perceived attractiveness as it relates to key hires and career progression, partnership opportunities, and when considering a sale of the company. Clearly defined roles and responsibilities ensure the right work is being done by the right people. This can help minimize low-value work, expedite new initiatives and priorities, and clarify hiring and capacity planning. A formalized reporting structure hierarchy supports effective issue escalation, risk mitigation, and efficient decision-making. Similarly, a well-understood interaction model eliminates communications ambiguity. This will increase productivity as employees and processes leverage optimal means of collaboration and information flow. Effective managerial structures help bring the full organizational design together. Managerial spans (i.e., number of direct reports) and layers (i.e., number of managerial tiers) directly impact speed of decision-making, employee empowerment, and responsiveness.

> "Effective organizational design is one of the factors, among others, we have observed that contributes to a premium valuation in a sales process. It allows a buyer to seamlessly take over and rely on the infrastructure already built to maintain and eventually scale company operations and performance."
>
> – Brett Miller, Partner

For family-owned businesses, organizational pain points are often a symptom of the underlying problem of an ineffective (or absent) organizational structure. These pain points – typically the other side of the coin of the noted benefits of organizational design – can manifest in many ways, such as:

- **Staffing challenges** such as high turnover and difficulty recruiting top talent may indicate a sub-optimal structure that hinders culture and organizational attractiveness;
- **Internal inefficiencies** such as miscommunication and process bottlenecks – from responsibility overlaps or confusion over accountabilities and/or reporting structures – can reflect inadequate team structures and ill-defined processes;

- **Sustained commercial mistakes** may be the result of improper performance management and unstructured training rooted in informal ways of working that don't align with implied expectations; and,

- **Decreased productivity** and improper use of management time may manifest from workload imbalances and a lack of alignment between expected role activities and actual skillsets/interest.

Organizational structures should evolve as the organization grows; however, triggers to review and / or refine an organizational structure can also arise from change. New business priorities, external pressures / competition, new technology, and more often necessitate an organizational response. Acknowledging the pain points and the catalysts to capitalize upon is often the first step of enacting positive change through organizational design.

Barriers to Organizational Design

We appreciate that there are often unique barriers that family-owned businesses face when considering an organizational design process. These barriers often take the form of personal perceptions and those rooted in inertia. Personally, one may fear losing the special family dynamics and company culture, or the discomfort associated with transitioning into discrete roles from previously all-encompassing positions. Barriers from inertia often stem from a position of "well we've always done it that way" alongside a hesitation towards change. It can be understandably difficult to invest in the future when it may look different than what has historically led to success.

"The most successful organizational structures are those that reflect the family values and aspirations while taking into consideration the unique realities of Family-owned businesses. A well-designed and implemented organizational structure contributes to building a solid foundation for future generations. The clear reporting structure, roles and responsibilities allows the family to focus on what is required to drive the business forward and create a healthy and collaborative work environment."

– Heidi Lange, Partner – Human Capital

When multiple family members are involved in a business, opposing ideas of what benefits the business and what fulfills each individual's unique desires may arise. How does one reconcile the business goal of aligning the right person to the right work, with the family goal of involvement, cohesion, and legacy?

Growth often necessitates a formalized organizational structure. The infrastructure spanning people, process, and technology that was sufficient for the prior generation may not align with the realities of the organization today and in the future. While the commercial aspects of a business are often understood to naturally evolve over the years, barriers persist when considering the optimal way to ensure the organization can evolve in tandem.

CASE STUDY

Context

This case study focuses on a Canadian family-owned multi-generational company that was challenged while preparing for organizational growth. Despite a history of success rooted in the family's strong commitment to their business, leadership identified a critical gap in structured processes that hindered their ability to efficiently support expansion and future succession. Recognizing the need for better structure and governance, Richter advised the company through an organizational design process to address many acute pain points and create a strong growth platform. The process was highly collaborative and engaged the first-gen shareholders, second-gen management team, and key non-family stakeholders throughout the business.

Richter's Approach

Richter advised the client – as a family, individuals, shareholders, and management – to address the situation they faced through a facilitated organizational design process. We consulted with the family and key staff to document the challenges they faced, looking past the discrete symptoms, and identifying the root causes. Industry research across their peer group informed a range of options and leading practices to consider, with an emphasis on how the organization could evolve to achieve their growth aspirations and continue their family legacy. Our recommendations to enhance their organizational structure were founded on integrating their family values and industry best practices.

Client Pain Points

The lack of a clear management structure and absence of clearly defined roles and responsibilities caused confusion between employees and management, and amongst management / the family themselves. The pain points were further exacerbated by a flat organization with no middle management layer, requiring the family's direct involvement and supervision of employees, involvement across all layers of the business, and limited separation of personal / family matters from business matters. The second-gen management team sought to stay true to the business' founding principles; however, this manifested as a cautious aversion to change and impediment to the generational transition.

These issues directly impacted operations. Uncertainty and confusion caused commercial mistakes, including bloating inventory, shipping errors and delays, and customer and vendor penalties. Informal managerial approaches created staff tension and unprofessional conduct. The absence of a performance management program, coupled with the informal organizational culture, heightened ambiguity around what uniformly "good work" meant, leading to staff underperformance that was not being corrected via disparate review processes.

Outcome

The new organizational structure provided clarity on how teams interacted and were managed. One key element was to create a targeted middle-management layer to remove many day-to-day activities from the family, leverage the strong skillsets and capabilities of existing staff, and enable family members to have strategic oversight of the business (vs. operational responsibilities). We developed role profiles, including specific performance metrics that were foundational for the client's future performance management program. Ultimately, the role profiles enabled the family to ensure that work was being properly allocated to their team based on their competencies.

Richter also developed an implementation roadmap and hiring plan to prioritize and sequence the activities into palatable steps. The family's initial reaction to our recommendations centered on the cost of hiring and the other organizational initiatives. As such, it was critical to reframe the cost aversion as an organizational investment to create value. Our approach quickly generated a direct and demonstrable ROI when a new senior hire, in a newly created role that was one of the first to be filled, identified $250k+ of immediate cost savings within their first 1-2 months. This reinforced the importance of having the right people in the right roles and creating an environment for them to excel.

The family continues to execute the plan, providing regular updates on their progress and expressing satisfaction with the outcomes. Notably, performance has significantly improved across various aspects within the organization. For example, staff are more satisfied with their work environment, management has more time to dedicate to high-value activities, commercial mistakes are reduced through higher awareness and controls, and the company is in a better position for growth.

Organizational Design Leading Practices

In the complex landscape of family-owned businesses, creating a resilient organization that can react to change while remaining sustainable for years to come is paramount to lasting success and generational continuity. The delicate balance between family relationships and business imperatives necessitates a structure that ensures the seamless transmission of values, strategies, and success across generations. Navigating the unique dynamics that blend familial ties and history with professional responsibilities requires a strategic approach rooted in leading practices.

Below are several considerations for family-owned businesses when developing an organizational structure:

1. **Focus on long-term strategic objectives.** By prioritizing long-term objectives over immediate, short-term solutions, a company can position itself for greater success, fostering sustained growth and resilience.
2. **Define how to measure success.** Success at every organization looks different, and it is critical to clearly articulate and document what metrics are important for the organization.
3. **Engage with key stakeholders.** Don’t re-design the structure in a vacuum; ensure that key personnel feel heard and can share their perspective (the good and the bad).
4. **Define roles and responsibilities for the needs of the organization, not specific individuals.** Employees come and go, and it is crucial for long term continuity and success that the right structure is in place to support the business regardless of who sits in the role; the skills and competencies required of each role must be clearly defined.
5. **Define how functions/departments interact.** Role-level clarity can often be hindered by unclear expectations around intended scope of each function and how functions must interact.
6. **Understand the impact of span and layers.** The structure can’t be so broad such that management loses control of the business, but not too narrow where they must complete every task themselves; it must empower employees while ensuring sufficient guidance and high-value use of management time.

Organizational Design Leading Practices (cont'd)

7. **Establish performance management mechanisms.** Ongoing assessment of workforce skills and competencies ensures that a company's personnel as well as its organizational structure itself continues to be fit for purpose.
8. **Prioritize the future state changes and phase the roll-out.** To minimize disruption and enhance adaptability, it is imperative to strategically prioritize implementation and adopt a staged approach.
9. **Drive change with consistent and targeted communications.** Effective communication with employees, external stakeholders, and the family promotes transparency, mitigates resistance, and enhances collaboration – all critical components for strong change management.

Planning and implementing structural changes may appear straightforward in organizational design, but it proves challenging to execute effectively. Any new structure inevitably alters the daily work dynamics, requiring employees to realign their personal connections within the organization and adapt to novel ways of working. The effort and perceived significance of change is substantial and should not be underestimated. To mitigate the risks associated with such transformative change, it is crucial to communicate early, ensuring employees understand the impending impact and prepare for the future. Just as owners should ensure strong engagement from leadership teams, leadership teams should actively engage employees throughout the process.

"Creating an effective organizational structure within a family business should not lose sight of family. It should incorporate the family's goals, traditions, and desired involvement within the business, while still maintaining familial relationships and a lasting support structure to grow the business itself."

– Joanne Elek, Vice President – Executive Search

It is difficult to overstate the impact of effective organizational design. By strategically aligning structure, processes, and culture, family-owned businesses can overcome communication challenges, enhance internal efficiencies, and build a robust foundation for future growth.

Richter has close to 100 years of experience advising at the intersection of family and business. We evaluate the current state of your business, including the people, processes, and technologies, and provide recommendations and a roadmap forward based on our evaluations. We accompany you through your business and personal journey and have developed an approach that helps define your long-term vision and ensure that your family and business interests align. In a world of constant change, it is important to have a firm that understands your needs and supports accordingly.