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# How to Manage Investor Relationships With Family and Friends

by Frank Williamson

We've all heard the advice many times before: Don't do business with friends and family.

The reasons why are obvious. You don't want to risk damaging close personal relationships because of a misunderstanding over money, or because of philosophical differences in how a business should be run.

In spite of this, the mixing of personal and business relationships still happens frequently — as I've seen firsthand in my career advising business owners. It's not uncommon that a portion of a fledgling company's initial funding comes from friends and family, some of whom may never have invested money before.

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Sometimes these businesses succeed out of the gate and everybody walks away with a profit. But other times things don't go as planned, and a company's original six-month plan is still being reconfigured after a year and a half.

The Securities and Exchange Commission (SEC) mandates that publicly traded companies maintain a respectful level of communication to shareholders. But private businesses aren't subject to these same legal requirements, which can result in business owners placing less of an emphasis on communication than they should.

Here are the most common problem areas I've encountered, and some thoughts on how business owners can address them:

## 1. Don't leave investors hanging when times are tough.

Nobody likes to be the bearer of bad news. But, from the investor's standpoint, it's even worse to be left out of the loop.

When you're all hunkered down and working out the logistics of your business's future, it's understandable that your focus is temporarily turned away from your investors. But you don't want to create uncertainty and anxiety among the very people who are providing the lifeblood of your business. So sit down with your loved ones and have an unvarnished conversation with them, even if it's a tough one to have.

## 2. Constantly measure yourself against your original set of expectations, and be honest if you're not measuring up.

From the very outset, be precise with your investors about how and when you expect to repay their money. Your family and friends may be unfamiliar with the specifics of how a business is actually run, so you need to try to explain those concepts as simply as possible. If it becomes clear that you won't be able to meet your investors' original expectations, don't try to construct an alternative narrative that attempts to make the situation sound better than it is.

You need to be candid about your company's failure to meet its goals, and if your management choices played a part in that, you need to admit those too, together with a plan of how you'll avoid repeating those mistakes.

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## 3. Always do accurate, complete bookkeeping.

When you run your own business, it's very easy to underinvest in bookkeeping and other administrative tasks. It's a pain and it's expensive, but it is essential.

When family and friends start wondering where their money is, the correct response is not a shrug. You need to be able to demonstrate, though the accuracy and completeness of your records, that you've used their money in a respectful, appropriate way. And that goes double if you ever entertain the possibility of going back to them with a pitch for additional capital.

## 4. Until you repay your investors, it's their company, not yours.

I've encountered entrepreneurs whose businesses are running on other people's money, but who seem to conveniently forget that fact and start behaving as if that money is theirs.

When other people entrust you with their money, even a small amount, it's not just a nagging obligation to pay them back. It's your absolute highest priority.

Investors in general are imminently reasonable, and aware on some level that the road to a successful business is not always a straight line. They're often willing to give you the benefit of the doubt as long as they feel that you've got a strong sense of where you're headed.

Regardless of whether you have an existing personal relationship with your investors, you need to treat them with respect and maintain an open line of communication. Doing so is smart business — it can minimize possible misunderstandings and engender good will — but on top of that, it's just the right thing to do.

*Frank Williamson is the founder of Oaklyn Consulting, a strategy consulting firm with a financial focus. Oaklyn Consulting helps the owners of lower and middle market businesses and investment funds with corporate finance, mergers, acquisitions, capital raising and succession advice. The consultants at Oaklyn Consulting do not work as brokers; they act as counselors to their clients.*