The Family Factor in Family Business--Does Your Family Add or Subtract

Imagine yourself at a holiday cocktail party, on the sidelines of your children's soccer field, or the school PTA meeting—anywhere you meet new people and strike up a conversation. In those situations, the conversation often turns to work. "What do you do?" is a common icebreaker question. When I mention that I work with family businesses, I get a range of reactions. But one that I NEVER get is "That must be boring." People think either that I must have one of the most interesting and rewarding careers or that I'm crazy…. It all depends upon their experience with family businesses.

Another interesting part of these conversations is that almost everyone has a story about family business, even if they don't belong to one. People share stories about their families or a neighbor or their in-laws or a college roommate. I suppose this is not surprising, given the large role (often unrecognized) that family businesses play in our economy.

In thinking about why people's reactions are so different, I have come to the conclusion there is an element in family business, which I will call the family factor, that frames peoples' perspective on family business. The family factor is a measure of the family's impact on the business whether the family is a contributor or detractor. The people who tell me that my job must be very rewarding are those who have been exposed to a family business with a positive family factor. Those who think I'm crazy have been exposed to the "dark side" of family business.

Most family business situations are not black and white. There are some positive elements that the family brings to the business and some negative. The key to success is to manage the family's impact on the business so that the net impact of the family is positive. Although some elements may seem out of your control, you can determine, to a large extent, whether the family is a contributor to or a detractor from the business. And, most important, it is the family's job to manage the family's impact on the business.

Understanding how the family contributes to or detracts from the business is the first step in managing the family factor. Here are some examples of the family's positive and negative contributions.

Positives

- Families often treat their employees like family, creating a culture where non–family members feel valued and enjoy working.
- Families who are committed to their business for the long term make investments in people, facilities, etc., that owners who do not intend to own a business for several generations may not make.
- Families are typically conservative in the amount of debt they accumulate, reducing the risk of the business facing financial difficulties due to being overleveraged.
- Family businesses are able to make decisions quickly because the owners and managers are often the same people.
- Family businesses typically have a deep understanding of their industries, due to multiple generations of experience in the business.
- Family managers have a vested interest in making the business a success, since they are investors as well as managers.
- Many stakeholders (customers, suppliers, etc.) like to do business with family businesses because they trust that families will want to do the right thing to uphold their reputations.

Negatives

- Families may be so committed to employees that they are not willing to let underperformers go.
- Families may employ family members in positions for which they are not qualified. This can be discouraging to non-family managers and limit promotion opportunities for qualified non-family employees.
- Conflict within families can distract the family from business issues that need to be addressed.

- Families who lack a means for gaining outside perspective (e.g., an employment policy forcing family members to gain outside experience, board of directors) may not keep up with changes in their environments.
- Families may underpay senior management, reducing their ability to attract the best non-family managers.
- Families often operate their businesses more informally than non-family businesses (e.g., no job descriptions, management meetings at the dinner table, no performance review system). Although too much structure can slow a business down, lack of structure can cause poor decision making.

If you read carefully, you will notice that some strengths of a family business can also be weaknesses. For example, families can place such a high value on loyalty to employees may be unwilling to let underperformers go. Or families might have no experience outside their industry may be unwilling to listen to outside advice (the "not invented here" syndrome). The key is to understand these factors and manage them so they provide a positive rather than negative contribution.

Now that you are more aware of the impact your family can have on the business, what should you do about it? The next time your family gets together, schedule some time to talk about the family factor. See if you, as a group, can articulate the impact your family has on the business, both positive and negative. Then you can figure out where the opportunities and risks are for your family. Perhaps you have never promoted the fact that you are a family business to your customers. Maybe it would be a good selling point to demonstrate to them how committed you are to the industry. Or maybe it is time your family put an employment policy in place to ensure that family members working in the business bring in best practices from other companies. Whatever your opportunities or risks, put them down on paper and outline a plan for how you will address them. Some may be the responsibility of the family members working in the business. Some may belong to the family itself (e.g., minimizing the impact of family disagreements on the business). The key is not to bury your head in the sand. It is ok to admit that your family may have a negative impact on the business—every family does in one way or another. But if you are aware of the impact your family has on the business, you can create a plan to turn your family factor from negative to positive or make an even greater contribution to the business if you are already adding value.

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