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Family Businesses Must be Run More 'Professionally'

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FOCUS ON FAMILY-OWNED BUSINESS: TAKE 5

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Rich Rovito

Fallout from the lengthy recession has affected nearly every type of business and has added to the challenges facing family firms.

Family-run companies, which tend to be smaller, often don’t have the time or resources to invest in consultants to tackle their unique problems – succession planning, growth, sustainability and conflict among relatives – let alone the challenges of finding the best ways to deal with sudden dips in revenue during a recession.

Alex Stewart

Alex Stewart, an associate professor of management and the Coleman Chair in Entrepreneurship at Marquette University in Milwaukee, keeps tabs on family-run businesses. Stewart also is director of the Kohler Center for Entrepreneurship at Marquette and serves on the editorial board of Family Business Review, a scientific journal devoted exclusively to exploration of the dynamics of the family firm. In addition, he served as a board member for the Family Enterprise Research Conference, which Marquette hosted in 2008.

Stewart, who is co-editing a book on family business, recently answered questions via e-mail about the challenges family businesses face.

The following is an edited transcript of his answers:

What are some of the most difficult challenges for family business owners as a result of the recession?

“Family firms outperform nonfamily firms in both accounting and financial terms, but only if they also operate quite like ‘professionally’ managed firms. That way they can gain the benefits of kinship involvement, such as trust and easier communication, and avoid the costs, such as unqualified managers and decisions that overly prioritize personal rather than economic considerations.

“In a recession they may find this harder. There may be more pressures to make economically unwise decisions, such as hiring a cousin who’s just been laid off. There will also be more, not less, need to run the business professionally.”

How has the economic downturn affected succession planning for family businesses?

“The most obvious way, I suppose, is just like everything else: it gets deferred. That is, succession is also (usually) the retirement package for the departing generation and this may be harder to pull off. There also may be more desire on the part of the younger generation to get into the business.”

What are some of the keys to sustaining a family business?

“Managing the family and business openly and professionally, and recognizing the contributions that different family members bring to both, not just the business side. Preparing the next generation so that they are not just competent but in some ways overly competent, because non-family managers, customers, bankers and so on may view them as less capable. Having a business that is attractive enough to the next generation, preferably not simply with golden handcuffs so that the younger members stay only because of the opportunity costs. Also, continuing to innovate and to manage strategic change.”

What is the importance of a strategic plan for a family-owned business?

Are family firms any different? In two ways: Some family members will have more temptations to avoid difficult conversations because both business and family are involved. So the planning process, which requires more explicit discussions, can help. Further, the need to consider both family and business systems introduces a complexity, at least at certain times such as successions, that can be better managed by the planning process. Note that I say ‘planning process,’ not the plan as such.”

What are the opportunities for the use of social media in family-run businesses?

“Many family firms have strong social network linkages and customers may feel more comfortable hooking up as ‘friends’ of a family business.”