Avoiding Traps That Can Destroy Family Businesses

– *George Stalk, Jr. and Henry Foley*

Family businesses have low survival rates beyond three generations. Data suggests that 70% of family businesses fail or are sold by the time second generation comes into leadership position. Only 10% remain active by the time the 3rd generation takes up leadership.

While the average CEO tenure for a publicly owned company is six years, family business leaders continue to head the business for 20 to 25 years. Though long leadership tenures bring stability and continuity in business, these could also lead to inertia and create difficulties in bringing the required changes in technology, business models and organisational structure.

In this article, the authors identify the traps in which family businesses commonly fall and threaten their own survival. The authors emphasize the importance of recognizing these traps and the need to avoid them for ensuring long-term business survival.

Traps that destroy family businesses

The authors identify three crucial traps to which family businesses are susceptible.

Trap 1: "There's always a place for you here"

Many family business leaders emphasize too much importance on their children joining the business. In fact, they make the children feel obligated to join the firm. This may backfire when the children who are not interested in the business compelled to join.

Another variant of this is when the family business leaders present joining the business as an unconditional option to their children. This may lead to complacency on part of the next generation as they treat the business as an ever-available fallback option.

Both these scenarios lead to either an uninterested or an incompetent leadership that increases the chances of failure of the family business.

Trap 2: "The business can grow fast to support everyone"

Business families frequently under-appreciate the fact that family growth can often overtake business growth. For instance, if a business founder has three children, who grow, marry and produce three children each and these next generation children also produce three children each, then by the third generation, the family will have 26 members (including the spouses).

Many family firms do not grow fast enough to have sufficient number of positions to employ all the family members. In case where the family members are somehow accommodated in the firm, the business is overburdened. Such ‘overcrowding’ strains finances, creates role conflicts and leads to disastrous fallouts in future.

Trap 3: "Family members remain in silos according to bloodline"

The next-generation members in the family often tend to specialize in the area in which their parent(s) specialize. This limits the family members to their respective silos. They fail to gain a cross-functional experience, which is essential for effective leadership.

In addition, close family members may not provide objective feedback to the next generation members, which may hinder their training. These factors may create a leadership vacuum in the next generation, forcing senior generation leader to extend his/her tenure thereby affecting the firm's adaptability to change.

Ways to Avoid these Traps

Authors give specific suggestions to avoid these traps to ensure that family businesses last long.

Avoid Trap 1: Conduct proper training and screening

Job in the family firm should not be an entitlement. Formal education and relevant professional experience gained outside may be made necessary pre-requisites to join the family firm. Competition with non-family applicants is also practiced in some family businesses.

Avoid Trap 2: Manage family entry and scale for growth

Business growth strategies and plans must be made in time to create new responsibilities for family members joining the business. This will not only provide additional revenues to support the increasing number of family employees but also give them the charge of distinct and meaningful areas of operations.

Avoid Trap 3: Appoint non-family mentors

In small family firms, it may be unavoidable to prohibit family members from supervising next-generation members. This can be addressed by minimizing work time under immediate relatives. Experienced non-family mentors maybe brought in to groom the next-generation members and give them diverse knowledge about various aspects of the business.

Practical Implications

For long-term survival of family business, it is important to establish and implement formal policies of employment, grooming, performance evaluation and promotion. A strategic roadmap for business growth will make it capable of accommodating new family members. At the same time, a systematic approach of creating appropriate roles and responsibilities for next generation members will address their growth aspirations. These measures will balance the family and business interests and make them long lasting.

Source: *Harvard Business Review (Jan.-Feb. 2012): pp. 25-27.*