

Professional Management: the key to the success and perpetuation of family businesses

Family businesses are the most prevalent form of business the world over and the key driver of the global economy. Though pervasive, however, most family businesses do not last for long. Only one third of family businesses survive the transition from first to second generation, and only one out of ten of the second generation make it to third generation. Family businesses that could successfully survive across generations are usually the ones that are professionally managed. Professionalizing the management of a family business is the decisive factor that eventually determines its success and longevity.

Theory sounds good, but what does the data show? Recently, a team of researchers in Harvard, Stanford, and LSE surveyed several thousands of medium-sized firms in 20 countries to examine the relationship between management practices and firm performance. They found that firms, across the globe, that well apply accepted management practices perform significantly better compared to firms that do not (for more details about the study, visit www.worldmanagementsurvey.org). They also found that professionally managed firms tend be larger, highly productive, more profitable, grow faster, and have higher survival rates. On analysing the data based on the ownership type, they found that primogeniture family firms (firms that are family-owned and managed by descendents, particularly, the eldest son or grandson of the founder, not considering merit) are worst performers on average; whereas, professionally managed family firms (firms that are family owned, but managed by external CEO) are one of the top performers. Hence, the findings of the study suggest that performance of a firm depends to a large extent on whether its managers, regardless of whether they belong to family or non-family, are professionals and appointed based on sheer merit.

The key takeaway for family business owners from the findings of this study is that to ensure the successful continuation of the business they must take necessary steps in professionalizing their management. As owners of the business, their main responsibility is to create conditions that are favourable for the institutionalization of best management practices. They must wholeheartedly embrace meritocracy as the guiding principle for managing their family business, which entails that any involvement of the family members in the management is based on the competence of the family member, and not entitlement.

Source: www.worldmanagementsurvey.org