

Hello. This is Dennis Engelbrecht with The Family Business Institute. Today we're going to talk about one of the big issues or problems we find in family business.

Recently, we did a study of the 100 or so companies that are involved in our construction peer group program. And one of the things we found was that the family businesses among that group actually underperformed the non-family, multi-owner systems. So, started to wonder why that is. What are the issues that cause the family businesses not to be able to keep up with the non-family businesses?

So, what we found in looking at this is while family business has several tremendous advantages, particularly for the family, kind of works as a homing advice ... device to keep people, you know, near the hometown. If you have folks working in the family business, they may go off to college, but then return, which is great, once the grandchildren, things like that start coming. You don't have your family spread all over the country. So, it does offer opportunity for those folks, offers opportunity for family members, a place to fall back on perhaps. But also, a place for your smart children and your aggressive children to find an opportunity in the business world. So, it really is a great thing, family business.

So where is the problem, though? Well, what we found about the problem is a couple of things. First of all, with multi-owner systems, one of the simple reasons that they may perform better is that it's the old 'two heads are better than one'. Or it might be five heads are better than two or three. So by having multiple people with a stake in the company, we find that they're able to actually drive more growth and accomplish more things than maybe a more limited ownership or leadership base.

So that's part of it. And that sort of held true also for single owners. We definitely found that the individual owners, who own 100 percent of their company also underperformed. And it's probably just the limitation of having that one single person versus two to four people that might be contributing to it.

The other thing, when we began to look deeper, is that the non-family businesses had more of a meritocracy involved. And a meritocracy, put simply, an opportunity for the best and brightest to succeed and move forward in the business. Unfortunately, in the family business, if you make 'being a family member' a criterion for being in senior leadership or ownership, that does limit your sphere of candidates, so to speak, among the best and brightest, simply to your family. And, you know, frankly, in some cases, they may be the best and brightest, or among the best and brightest, but in other cases, they may not be.

So think for a few minutes of what that does. First of all, you can look at the leadership side. And of course, if you have the best and brightest in leadership in your company, you know, very simply that would, hopefully, mean that there's more opportunity. They make better strategies. They follow through better. And they lead better. If you look down through the organization, it may have even a bigger impact. And I think part of the biggest problem family businesses face is people view, at least as they come into the business, and from inside the business, that there may be a glass ceiling. If you're not a family member, you may never have the opportunity to rise to leadership or to ownership.

So, if you think about motivation, retention, what's going to happen to those folks? Well, if they're really among the best and brightest, they probably do have those opportunities out there in the world. And inside your family business, they may find it's limited. And they may end up simply leaving and pursuing better opportunities elsewhere.

I think as you go over time, it's even harder to bring in the best and brightest to the company, in the first place. Because they can look and, you know, they may look ahead and they may see, "Okay, you've got Junior in there. They're 34 years old. And they're in this position. And I'm probably never gonna get ahead of Junior." So, people can see that and they sense that.

So, family businesses probably have a tougher time recruiting the best and brightest and retaining the best and brightest, simply because, you know, folks see the limited opportunity that's there. So, within the family business realm, though, can you actually have a meritocracy and will that benefit you?

Think about it for a moment just inside the family itself. Very frequently in family business, the oldest child, oftentimes the oldest son, frankly, is the one who is tended to rise in leadership. And that happens for several reasons. You know, you could get into the dynamics of families and oftentimes that first son is the one that has more responsibility naturally, if you believe what you read.

But oftentimes, it's simply they're the oldest. They enter the business at the soonest point. They had a chance to rise up the organization chart. And they're sort of the next in line when that opportunity comes. And sometimes it's simply for that reason that the oldest is the one that gets it.

If we go back in time, of course, the males might be looked at as having more leadership potential than the females. Certainly, we're in a different age today where, you know, we're finding that not only shouldn't that be the case, but very often, it isn't the case anymore. And so you got to look at it differently from that standpoint.

And what if you have three or four children and you have to make those decisions? When I tell the one person that's gonna rise to the top that they're the best and the brightest, what message am I giving to the other children that may be involved in the business? And what difficulties can that create within the family system and everything else? And of course, there are many issues with that.

But some of that arises from the very start. Recently I was in a strategic planning meeting with a large cross-section of the company. All the company leaders, family and not family. And had the now retired dad, who, incidentally, didn't own any shares of the stock at all, state very clearly that no non-family member would ever own stock in the company.

Well, I was in the position to be able to see the faces of the senior non-family leaders when he made that statement. And you could immediately see that that was a psychological problem with those folks. All right? So

you know, first of all, you've got to recognize the messages you're sending. If you want it to be a meritocracy, then truly you have to recognize the best and brightest, regardless of whether they're your children or not.

And break the bounds of your thinking. I mean, ultimately, your company is going to produce the most wealth for your family, the most opportunity for family and non-family, if it has the best and brightest in leadership and it continues to reward those.

Even with your own family, you actually do them a disservice when you elevate them without having to prove their merit, without having to, maybe, get the education, and get the training, and the leadership development that, maybe, they need to be among the best and brightest or be the best and brightest.

Now, that certainly doesn't mean that as part of the solution, you can't make sure that all of your family members get those opportunities. That they get every opportunity to participate in the family business, the opportunity for experiences, the opportunity for the training, development. There's nothing wrong with giving them a leg up.

Ideally, you want to make that training and development is available to everybody, but you certainly can look out for your family members and motivate them that way. And if they take advantage of the opportunities and they happen to rise to the top, that still works, as long as everybody senses they have opportunities to grow also.

And if you have multitude of talented people there, the company itself will offer more opportunity for the others. So, it's really a win-win situation. And you know, going family first has its advantages. But you also have to think about, "If I really take a family first attitude, at what cost is that?" Both to yourself, the family, and the family business. So, I will encourage you to keep a family first idea in your head, but try to make it more of a meritocracy.

Thanks for listening today, and don't forget to send us your questions and comments. Thanks a lot.