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Highlights from the Laird Norton Tyee Family Business Thought Forum™ with John Ward.
Perpetuating the Family Business, January 22, 2009

As part of our recent Family Business Thought Forum, author and consultant John Ward spoke to a packed house of area business leaders about the unique challenges and advantages facing today's family-owned enterprises. John is a world renowned expert in family business and the author of five books on the subject. He also teaches and studies family enterprise continuity at Northwestern University's Kellogg School of Management, and serves as a consultant to family businesses.

John's discussion centered on family business perpetuity, as he explored both the family-related challenges that lead many family businesses to fail and also the advantages family businesses have that make them more successful and enduring than their nonfamily-owned counterparts. As part of his discussion on continuity, John included helpful tips on how families and business leadership can resolve conflicts that arise in the family business.

John pointed out that traditionally, family businesses have been more successful than nonfamily businesses. Their success and longevity is predicated on several advantages they have over their nonfamily-owned counterparts. According to John, those advantages include the long-term perspective adopted by family businesses, the different way family businesses view risk, the better preservation of culture and values within family enterprises and their ability to adapt quickly and resolve conflicts.

Through his studies of family- and nonfamily-owned businesses, John observed that most nonfamily businesses view their main purpose as maximizing shareholder value, which gives them a short-term perspective. Meanwhile family-owned businesses view their main purpose as persevering and enduring. This gives family businesses a long-term view. He noted that family businesses also tend to hold on to their strategic expenditure levels better through different business cycles and tend to have less balance sheet debt than nonfamily enterprises.

The view of risk is also different at family firms. Nonfamily firms tend to think of risk in terms of maximizing the firm's risk/return profile. In other words, they think of risk in terms of "what is the upside?"

Family firms, on the other hand, think of risk in terms of protecting the downside. But once they know the downside is protected, they have more courage and conviction about taking a particular risk. "Because the thought process is, `can we handle the downturn,' when you answer that question with a yes, you are emboldened to do different things," John shared.

John also believes family businesses do a better job of preserving the culture of the business, in part because the CEOs and top management teams at family businesses tend to have less turnover than at nonfamily businesses.

The adaptability of family businesses is another advantage to preserving their longevity. When family businesses are faced with any sort of strategic dichotomy, they are better at balancing the two opposing viewpoints to the benefit of the firm. The dichotomies run the gamut from balancing teamwork and individuality, centralization or decentralization, innovation or tradition, or balancing between a family being informal or professional about the business. Family business leaders are naturally better at balancing those different strategic views for the business because they have spent a lifetime balancing the conflicts that naturally arise from mixing business with family.

While the strategic advantages outweigh their unique challenges, John said business leaders cannot afford to overlook some of the common obstacles that cause family businesses to fail. He explained that the predominant reasons family businesses fail are all family-specific issues. Either the next generation lacks the competence to lead the business successfully, the senior generation holds on to control for too long, sibling conflicts divide the business or the attention given by disinterested cousins drags the company down.

According to John's research, half of family businesses facing issues with sibling conflict end up failing, 40% of family businesses facing issues with disinterested cousins end up failing and a third of family businesses facing the issue of the senior generation holding on too long fail to extend their business. He did not offer statistics on how many family businesses fail due to next-generation incompetence.

While he acknowledged that next-generation incompetence is a reason that some family firms fail, he doesn't believe that leadership must be found outside of the family. In fact, he encourages families to prepare their children to lead the business. If properly prepared to take over, that son or daughter could wind up being the best choice possible to lead the business because of the knowledge they have gained from growing up around it. That child has a unique perspective on the long-term consequences and benefits of business decisions because they have seen the effect of those decisions first-hand. "They've grown up with the synthesis of a value system and ethics system that is integrated into a real world entity," John said. "It's something they see day in and day out. They've seen it work. They've seen it challenged."

Before parting, John introduced the Thought Forum attendees to a new way of resolving conflicts within their business. He advised them to use a polarity map for making business decisions. A polarity map looks at both sides of a strategic dichotomy.

For instance, if a family business was weighing whether or not they should hold on to traditions or be more innovative, they would list those subjects as innovation and tradition. The family business leaders would then look at both sides, writing out the advantages of tradition and the advantages of innovation. The group would then list the disadvantages of being too traditional or trying to be too innovative. After viewing both the advantages and disadvantages of each subject, business leaders would write out the actions they could take to preserve tradition and the actions they could take to encourage innovation. They would also list the warning signs that tradition has gone too far, and the warning signs that being too innovative was causing problems for the business. Mapping out the conflicting views in this way and developing a plan around that map, lets people with each viewpoint contribute. It ensures that each side is heard and validated, and creates not only action plans but "yellow lights," or warning signs for when actions have gone too far.

The polarity map can be used to resolve a number of strategic or philosophical differences within the business. Resolving those conflicts, and leveraging the unique advantages of family businesses that John highlighted in his presentation, can help a family business thrive for generations to come.

For questions about this recent Family Business Thought Forum or if you would like to know more about Laird Norton Tyee, please contact Rich Simmonds or Ross Henry at 206.464.5100.