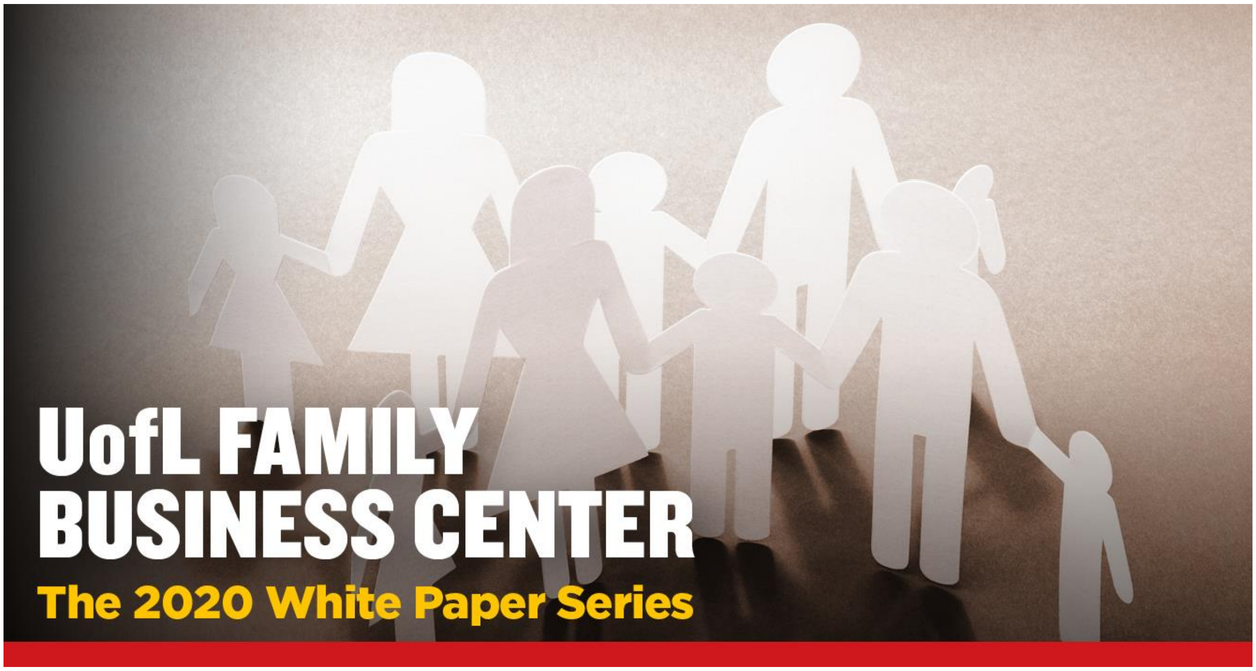

Family Business Strong

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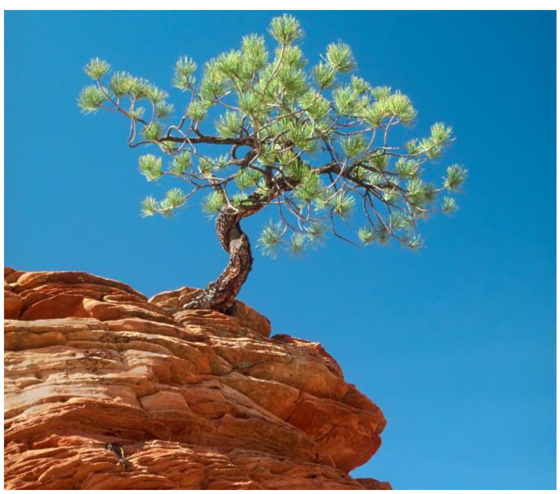
UNIVERSITY OF LOUISVILLE
FAMILY BUSINESS CENTER

Enterprising families and their businesses are the most important economic force around the world. In the United States, 90% of all the businesses are family owned or operated, they employ over 60% of the workforce, and generate over 70% of the new jobs[1].

Even though family enterprises have a significant positive influence on our economy and society, people often view the involvement of the family in the business a negative characteristic of a firm that brings only problems. Those who take this approach argue that family's involvement in the enterprise is problematic because:

1. There is an increased possibility of family conflict that can harm the business.
2. These companies are often unstructured in their governance and procedures, which creates inefficiencies in the management and use of resources.
3. Companies that are family owned lack in transition planning, which makes it difficult for the incoming generation to be successful in the management of the business.
4. Family enterprises have difficulty with clarity of roles, responsibilities and how they are tied to the compensation and reward system for family and non-family employees, which creates transparency and fairness problems.

However, those that view the involvement of the family in the businesses in a negative way fail to acknowledge at least three important factors. First, every business model has strengths and weaknesses. Thus, it is not only companies who are family-owned that face the problems described above. Other forms of enterprises also do. Second, considerable variation exists among family enterprises[2]. Therefore, while there are some family businesses that may need work, there are others that are very well organized and competitive. And third, the involvement of the family in the business can also provide an important source of strength and differentiation that can help a business thrive.



[1] Updated number by Author to reflect 2018 data – Astrachan, J. H., & Shanker, M. C. (2003). Family businesses' contribution to the US economy: A closer look. *Family business review*, *16*(3), 211-219.

[2] Steier, L. (2009) Where do new firms come from? Households, family capital, ethnicity, and the welfare mix. *Family Business Review*, *22*(3), 273-278.

So… how can the family make a business strong?

The connection between the family and the business brings at least three important strengths to a business: Long-term orientation, commitment to stakeholders, and a focus on legacy. Great family enterprises are characterized by their focus on long term continuity[3]. As a result of the influence of the family these great companies embrace a mission that matters. They are relentless in the way they pursue their core capabilities. Family enterprises are able to invest and sacrifice patiently, and they understand the importance of stewardship. Thus, the involvement of the family can strengthen and discipline the organization to be able to focus on the long term of the company and weather difficult situations in the environment.

Thriving family enterprises are also characterized by their commitment to their different stakeholders. The family connection to the essence of the company often brings a sense of responsibility towards those who are connected to the business in multiple ways[3]. For example, family enterprises that prosper develop strong teams that embrace the values that come from the family. They socialize team members to ensure that there is loyalty, initiative, and collaboration within these teams. Prosperous family enterprises also aspire to be good neighbors in their communities, and develop mutually beneficial relationships with business partners, customers and their community. In this sense, the involvement of the family in the business can help to champion values and behaviors that strengthen the community.

Therefore, family enterprises focus on much more than doing economically well. They also focus on their impact their communities, the preservation of the family influence in the business, and the well-being of employees and business partners.

The family's involvement in the business can also promote a focus on legacy. In a general sense, a legacy encompasses important features, values, attitudes, beliefs, and perceptions that are transferred from one generation of a family to another. A focus on legacy is important because it can affect the types of goals a company chooses to pursue. Research has shown that the involvement of the family in the business results in embracing goals that move beyond a purely financial focus to include non-economic components[4]. Therefore, family enterprises focus on much more than doing economically well. They also focus on their impact their communities, the

[3] Miller, D., & Le Breton-Miller, I. (2005). *Managing for the long run: Lessons in competitive advantage from great family businesses*. Harvard Business Press.
[4] Chrisman, J.J., Chua, J.H., Pearson, A.W., & Barnett, T. (2012). Family involvement, family influence, and family-centered noneconomic goals in small firms. *Entrepreneurship Theory and Practice, 36*, 267–293.
Gomez-Mejia, L. R., Haynes, K. T., Nunez-Nickel, M., Jacobson, K. J. L., & Moyano-Fuentes, J. (2007). Socio-emotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly, 52*, 106–137.

preservation of the family influence in the business, and the well-being of employees and business partners. Factors that make these businesses good at what they do.

It seems then, that the involvement of the family can create an environment in which organizations can survive and thrive for very long periods of time. The involvement of the family in a business, especially during volatile conditions, promotes key behaviors that make family enterprises resilient[5]. These behaviors include adaptability (i.e., adaptability to repurpose existing resources), self-regulation (i.e., capacity to manage threats to avoid collapse), redundancy (i.e., capability to support or replace systems in an emergency), and diversity (i.e., access to a range of capabilities and resources).

So, for those who believe that family involvement always results in a weakness, please know that this is not always the case. The family can provide endurance, purpose, and strength to a business to make it family business strong.

#FamilybusinessStrong

About Contributor:
Isabel C. Botero, Ph.D., is the Director of the Family Business Center and an associate professor of entrepreneurship at the University of Louisville. She is a Fellow for the Family Firm Institute and has an Advanced Certificate in Family Wealth Advising. Her research focuses on strategic communication processes and next-generation issues in family enterprises. She is an associate editor for the journal of family business strategy. She is a past FOBI Scholar, and has over 40 publications in journals such as Family Business Review, Journal of Family Business Strategy, Journal of Family Business Management, Journal of Management Studies, and Management Communication Quarterly.

About the University of Louisville Family Business Center
The Family Business Center (FBC) at the University of Louisville is one of the oldest and most respected centers of its kind in the country. The center equips family-owned businesses in the Kentuckiana region with the tools necessary to maintain, sustain, and grow their enterprises through all phases of ownership. Members receive access to professional resources and combined insights of established family-owned businesses, acclaimed family business experts, and the university's College of Business.

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[5] DeCiantis, D. & Lansberg, I. (2017) Resilience in Family Enterprises. Accessed from: https://www.lgassoc.com/writing/2017/3/30/resilience-in-family-enterprises-lessons-from-emerging-and-frontier-markets