



Family Business: Disaster or Generational Legacy

By Todd Sutton

You're a fulltime working man/woman. You're consistently working 60-70 hours a week to provide your family a comfortable home and lifestyle while still preparing for your future retirement.

After a long day at work, you come home, give your spouse a kiss on the cheek, help finish dinner, play with the kids, and settle down for a nice evening with your loved ones. You deserve this time with the people you care most about.

You strive to teach your kids the hard lessons that you have come to know are true. You raise them in a home with values that will help them to be happy and serviceable. Your entire desire in providing

for their wellbeing is that they will grow up to be productive, kind, and important individuals that will make real change in society.

But what happens after you die?

There will be a house and some left-over cash in your checking account, but what else?

You work hard to ensure your kids have opportunities and values, but what if you could extend that to your grandkids or your

great-grandkids? What if you could extend your legacy 300 years—or maybe even 700?

The key is incorporating family into your business. I know this might cause a visceral reaction as you remember your failed attempts to start a business with Uncle Rick, but if done correctly, family businesses can perpetuate values and provide generations with opportunities they wouldn't otherwise receive.

***“Family and business are
two of the most powerful
forces in the world....***

***When combined, family
and business amplify their
impact, and their
complexity”***

***- HBR Family
Business Handbook***

There are regular individuals who have done just that. Many family-run companies in Japan have lasted for over 300 years. There are wineries in Italy and Spain that have been owned by the same family for 700+. That's 60 years after the invention of

gunpowder in Europe. Most countries don't last that long.

The purpose of this paper is to persuade business owners that incorporating family into your business can be beneficial for both parties, that family and business can be enabling and complementary forces instead of doomed to destruction, and that incorporating family into business is the best way to ensure that your posterity grows up with opportunities and values that you approve of.

To properly explore the nature of family business, I will examine the following using family business expert studies and long-time family business consultants:

- I. Benefits of family in business
- II. Boundaries and tools to successfully integrate family into business

Benefits of Family in Business

While there are many benefits of family businesses, I will focus on three: driving culture and values, the strong governance structure leading to a greater likelihood of value sustainability, and greater depth of meaning and purpose in growing the business.

Driving culture and values

Family businesses have been a topic of study since the 11th century, but whether family businesses are more effective than non-family entities is still up for debate. Sultan cited that after reviewing 41 studies comparing family to non-family businesses, 25 found that the family outperformed non-family; 5 reported the opposite; and 11 found no significant difference.

These differences can be attributed to different industries, different business

approaches, and innumerable factors in the marketplace.

Instead, Sultan found that the successful family businesses tended to incorporate their family values and culture into their strategies, policies, practices, and employee actions.²

A family business can choose to abstain from investments because they believe that humanitarian work, childhood development, poverty reduction, etc., are more important.

This is an advantage because non-family companies are tied to making the next quarterly report and appeasing unconnected shareholders which can lead to foolish mistakes (ethically or financially) for a short-term benefit.

Family businesses tend to have longer term goals over non-family enterprises because the outlook isn't for the next three months or one year, but for the next several generations.³ They choose to focus on building the next generation with education or investing in local communities because their family name and experience is rooted in people—not markets. By keeping their family involved, a family business builds off the reputation of their name by maintaining work ethic, good employee treatment, investing in wholesome family-oriented social programs, or whatever the family holds dear.

Business with family enables the perpetuation of priorities, goals and beliefs of your choosing for potentially hundreds of years.

This family and business incorporation hints at the real impact that can happen instead of just financial profit.

Strong Governance and Value Sustainability

When compared to non-family firms, it's inconclusive which type is more effective financially, due to a myriad of factors, but the benefits of family businesses extend beyond that.

Family businesses are characterized by a strong connection between ownership and governance. Most family businesses are created by the father and then passed along to the children. This succession varies between each family group, but the ownership passes along to close individuals that maintain tight control and interest not only in the financial success but also the spirit of the business. As Suess-Reyes says,

“This shared business family identity leads family members to see the business as an extension of themselves and to enjoy family business success as personal success while suffering from business defeats.”

Family businesses may have a fluctuating board room, or swap out CEOs every so often, but the ownership of the company is always in the hands of the family, and they make the last call.

This strong governance, which isn't found in non-family businesses, allows for a focused long-term approach guided by a set of values that the founding family members chose to build their legacy on, conveying generational value perpetuation.

Deeper Benefits from Growth

All this isn't to say that strong governance and family value incorporation rob the family business from growth and success in the marketplace. It only expands the importance of growth.

Long-lived successful family businesses still need to use good business sense and be competitive in the marketplace to survive. But the benefits of financial success extend beyond happy, faceless shareholders.

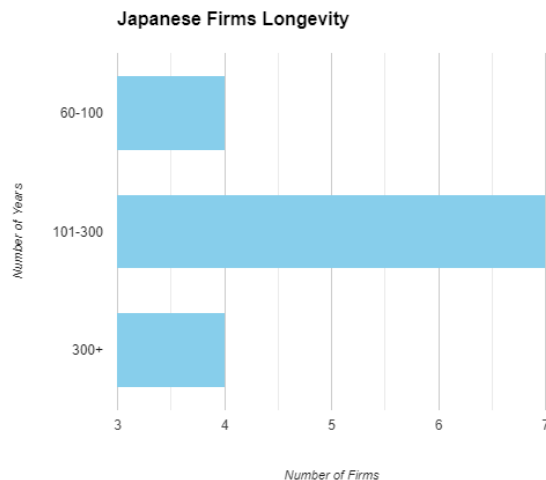
As family businesses develop ways to expand into the market, they offer more employment opportunities to succeeding generations, greater dividends to loved ones who are disabled or weak from age, and stronger ties between cousins as they seek their place in the family business and become the future of the family legacy. As Calabro says, “Growth is not only a measure of business success but also of the well-being of the family over time.”

Many entrepreneurs say their business is like their child. Now imagine that “child” growing up to be an eternal caretaker that provides teaching, sustenance, and opportunity to your children. It can stand in your place after you have gone and perpetuate your vision for generations. That is the enhanced meaning of growth for family businesses.

Boundaries and Tools

Longevity in a family business can prove difficult. Critics of family businesses often cite that only 30% make it through the third generation. However, publicly traded non-family businesses don't last that much longer: the average lifetime is 15 years. It seems that managing a business is inherently difficult—with or without a family. However, Japan has a higher percentage of long-lasting family businesses

than anywhere else in the world, and Chirapanda found similarities between each of them. Figure 1 below shows the sample they drew from 15 Japanese-based family firms.



Data from Chirapanda, Suthawan: [Identification of success factors in family business](#)

What Chirapanda found is that long-living family-owned Japanese firms combined good business practice (brand differentiation, cost reduction, innovation, human capital increase and local community engagement) with a solid governance structure that enhanced family unity and diminished family contention. This combination enabled several to last 300+ years. That is far longer than the vast majority of non-family companies and is only possible with good business practice as well as correctly controlled integration of family.

Three tools to enable this integration:

- I. Owner Statement
- II. Four-Room Model
- III. Succession Planning

The Owner Statement

Building a business is already very difficult, but incorporating family members can become complicated very quickly.

Founders may have a vision for the state of the business and what values they want to perpetuate, but how will the next generation know that and be compelled to follow through with it? That's where the Owner Statement comes into play.

The Owner Statement consists of three parts: purpose, goals, and guardrails.¹

The purpose answers why you own the business. This could be to provide value to communities, harness green energy, build good-quality houses, etc.

The goals are what you want to accomplish through shared ownership. These are specific statements like providing liquidity to future generations, focusing on growing the size of the company, etc.

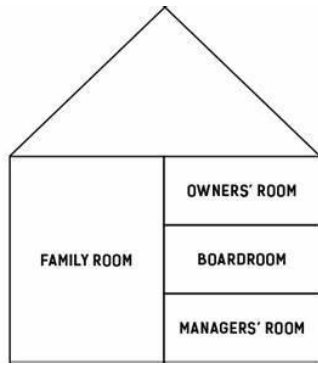
Guardrails are policies you place around the business to ensure your goals are accomplished. These could include a certain type of succession, a specific dividend ratio to family members, or anything of the sort.¹

All this is compiled into a one- or two-sentence statement that is clearly understood by your board room and management. This will help center your vision and perpetuate it through generations of management.

The Four Room Model

Along with the Owner Statement, correct guidelines on the relationship between family, management, and ownership are important.

Figure 2 below demonstrates the relationship between the "four rooms:"



Courtesy of <https://www.farmersweekly.co.za/tax-and-management/managing-for-profit/run-successful-family-business/attachment/the-four-room-house-model/>

At the top, you have the Owner Room. This is where family ownership is perpetuated, i.e. future generations buying their shares of the company from the previous owners. The Board Room is next because they are subject to whatever guardrails or goals the Owner Room sets out in their Statement. The Board Room can contain other family members, owners, or outside participants. The Board Room then manages the Manager's Room. The Manager's Room contains the CEO and the operational side of the business. Alongside all three is the Family Room. The Family Room provides the culture, values, and resources for the sustenance of the business. It's where relatives or descendants get to know the business, get hired, or raise individuals in the value system and subsequently enrich the business with their influence. They can be involved at every level depending on what the owners want¹

This structure enables a smooth-functioning integration of family and business. The chain of command is clear and frees up the owners from menial management while still allowing them to maintain a hand on the wheel.

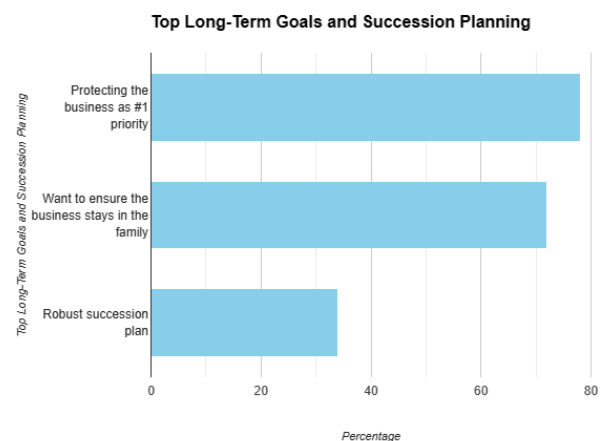
It also allows for outside input and growth, which is essential for the sustainability and financial success of the business.

Succession Planning

As Bojan Dolar says, “The goal of intergenerational succession is to keep the ownership and management of the company within the family, while ensuring its smooth operation and... simultaneously maintaining the harmony of the family, where the latter can also be an important strategic opportunity.” An important part of this is succession planning.

Succession planning is something that takes a lifetime. It involves socializing successive generations, which means involving them in all aspects of the business, and then slowly giving them leadership.⁶

Figure 3 below illustrates the disconnect between intention and actual planning.



Data from [2023 survey of US family owned business: PwC](#)

It shows that 78% of family business owners have “protecting the family business as a long-term asset” as their first priority. 72% want to ensure it stays in the family. However, only 34% have a robust succession plan.⁷ As stated earlier, only 30% of family businesses make it through the third generation, while according to this

study, 72% want it to. Succession planning is vital in perpetuating your business across generations.

One of the big mistakes in succession planning is maintaining too tight of a grip on information and control.

In Palestine, family businesses were underperforming their peers because they kept such a tight hold on information that they never innovated and grew.²

Other companies exclude in-laws that could provide benefit to the business and are raising the successive generation.¹

Some founders keep too tight of control for too long, so when they finally leave the children have no idea what the business is, how it functions, or how to work with each other. The business eventually crumbles and is liquidated.

To get succession planning right, there needs to be a clear path of requirements (status as a family member, years in the industry, desire to participate, etc.) and then time for them to get to know the business and the other owners they will be working with. When the time is taken properly plan succession, there will be a smooth transition from one generation to the next safeguarding what you have created.

Conclusion

Now, this all may seem overwhelming especially as you finish your long day at work and balk at the idea of the extra work of incorporating family into already impossible work, but it is possible.

Remember, the family business is your ideals and vision enabled across generations. Start with showing your kids the work that you do. Write your Owner Statement and start drafting how you want

your business to function. Mark down requirements, vision, purpose, and dreams so that you can remain on course and your posterity can take the reins.

As you build a family business with correct boundaries, succession plans, and delineated responsibilities, your business will grow in the long-term. You will avoid a loss of vision, identity, and short-sighted mistakes. You won't only provide for your family and employees for 30 years, but for hundreds more. Your choices will bless countless descendants, and impact the world over centuries.

Authors Bio



Todd Sutton was born and raised in Lander, Wyoming. He grew up raising chickens, turkey's and rabbits; rock climbing; and kayaking when he had the chance. He studies finance at BYU and has been fascinated with family businesses ever since his father dreamed of creating one. He is the youngest of five siblings, and he hopes to incorporate each of them into his own family holding company and enable their families to grow there and flourish.

<https://www.linkedin.com/in/nathanaeltoddsutton/>

End Notes

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