

FAMILY POWER

Mark Miller, Success Magazine

Conventional wisdom says you don't mix family and business. But who ever said conventional wisdom was always right?

When Kevin Levi and his wife had twins a few years ago, one of them had health issues that needed to be dealt with immediately. "I just took the weeks that I needed to deal with it," says Levi. "No extensive paperwork. No hassles. No problems. I couldn't do that anywhere else."

Levi works for the family business, 149-year-old cigar retailer Iwan Ries & Co., the oldest continuously family-owned business in Chicago.

"Loyalty and the ability to be flexible like that are a lot of what makes being in a family business worthwhile," says Levi, the store's general manager.

Most family businesses are small, but their flexibility is likely to decrease as the business gets bigger—say, the size of a Dell, Michelin, Ford, Levi Strauss, Wal-Mart, or The New York Times, companies still owned or controlled by families. But any size, family businesses have one thing definitely going for them: higher profitability than non-family businesses.

In a recent study published by *Family Business Review*, author Jim Lee found that family firms tend to experience higher employment and revenue growth over time and are, overall, more profitable than non-family businesses. The average profit margin for family businesses was 10%, two percentage points higher than non-family companies.

Family firms are also more willing to invest. Lee, a professor at Texas A&M University-Corpus Christi, who works closely with local communities on

business and economic development issues and spent three years researching the report, found that family firms invest 3.6% of their gross revenues in capital expenditures, compared to 2.6% for other firms.

One of the main reasons for the success of family firms, says Lee, is trust or altruism, which is generally extended to non-family employees. "This gives a sense of stability and commitment," he says. "The employees who are working for a family business tend to be happier, more loyal. That's part of the key. Morale seems to be higher in a family business."

Lee's report also points out that family-controlled businesses (like Ford) are the backbone of the global economy, making up 35% of the companies listed on the S&P 500 or the Fortune 500 index.

"What I love about it is the ability to be around my children and grandchildren," says Ira Langlois, owner and operator of the 141-year-old, four-employee Langlois Pianos. "My biggest problem is delegating," he says. "I know how to do everything and want everything a certain way but if I don't delegate, who will learn how to do these things?"

Lee says this is a big issue. "Having a family member as your manager can be a problem, particularly if they're not suited for the job," he says. "Rather than hiring someone from outside, the family gives it to the son and the other employees get jealous and upset. That is not a good situation."

While the study says that 30% of family businesses don't make it past the first generation, Barbara Spector, editor in chief of *Family Business* magazine, notes that this isn't such a bad stat. "When you think about it, most businesses in general don't last that long, whether they're family businesses or not."

For those that make it over the first generational hurdle, the real increase in value begins. “Once you get past that early part when companies are cash-poor,” says Lee, “you’re usually going to start building a long-term profitable business due to the relationships you’ve created with both customers and other vendors.”

Frank Hoy of the Centers of Entrepreneurial Development, Advancement, Research and Support (CEDARS) at the University of Texas at El Paso, attributes the success of family-owned businesses to three factors; long-term horizon, trust, and culture. He agrees that family firms tend to look beyond the next quarterly report, “particularly as the business matures and the owners consider their legacy.” The ability to trust and rely on family members to pitch in and help when necessary is significant. “This often occurs in the early stages when firms are cash-poor and need family members to help out with minimal or no compensation,” he says.

Kosmas Smyrnios PhD, professor and director of research at RMIT University’s School of Management in Melbourne, Australia, warns that one of the dangers of a family business is when family leadership stays in the business for too long and doesn’t plan for and encourage succession at the appropriate time.

Hoy also notes that generational conflicts can cause problems. “This can occur when a child feels that he or she is ready to take over, but the parent doesn’t think so.” he says. Other times the child is ready to take risks, while the parent is concerned about retirement and only willing to make conservative decisions. Another kind of friction can occur between spouses when one spouse feels that the other is married to the business at the expense of the rest of the family.

“When spouses disagree over commitment to the company,” says Hoy, “either the business or the marriage is likely to fail.”

Joseph Astrachan, director of Kennesaw State University’s Cox Family Enterprise Center, warns that a family can be destroyed by going into business. “The feelings that happen when a family breaks up due to a major conflict is almost the worst thing,” he says. “Usually the poor communication is what leads to the fighting; in a family that is full

of poor communicators, unless they simply don’t hold grudges, a business will hasten family fighting and family demise.”

Making the transition from one generation to the next can be rough. “My dad was president of the industry’s association, a very well-respected and well-known guy,” says Levi of Iwan Rites & Co., “and it took a few years for vendors to take me seriously and not think of me simply as my dad’s son. You can’t just cruise in, you to feel like you’ve got to work extra hard so people know you mean it.”

Succession should be a rational decision, but with anything related to families, there is a deep emotional component. Sometimes the reluctance of a business leader to designate a successor occurs because it forces the leader to face his or her own mortality. Or, it could be that “The leader does not want to single out one child over the others or...admit that none of the children are capable of leading the business,” says Spector.

Hoy points out that among the strengths of family firms are shared cultural values and a tacit understanding about how to handle money, customers and employees. “Thus, they are more able to stay on track and operate with consistency,” he says.

But while it’s nice that family businesses make a little more cash than non-family businesses, it’s still no cakewalk. “We had a guy leave last year who had been here for 20 years,” says Levi, “and that meant that either my dad or I had to be here every day for a while. That’s hard to do when you have outside meetings and trade shows. You need a support staff that you’ve trained to take care of things themselves. Otherwise, you’re on your own.”

Headaches and heartaches notwithstanding, Ira Langlois, of Langlois Pianos, says it’s all worth it to him. “I love what I do and not everyone can say that,” he says. “Financial profit is obviously great and what keeps the business going but the fact that I still want to get up and go to work after being around this for 55 years is a feeling I don’t think I could have anywhere else.”