Advantages and disadvantages of family businesses

[Family](#)

Familyownership or management of business is predominant in different countries. Family businesses exist in different sectors such as agriculture, manufacturing and services. Many of today’s prominent business firms that provide popular products and services and own respected brands are family businesses. Some businesses also start out as family businesses before shifting to other forms of business organisation. Family businesses are also significant contributors to economic growth. Firms owned or managed by families can be small, medium or large.

Regardless of the size and scale of operation, the sheer number of family businesses translates into a diverse range of consumer products as well as employment opportunities and household income. However, like other forms of business organisations, family businesses have advantages and disadvantages that require consideration to support justifications for suitability in the present businessenvironment.

Advantages of Family Businesses

Family businesses offer a number of advantages. These advantages explain the predominance of family businesses and the increase in firms owned and operated by families. The first advantage is the commitment towards the business that family members exhibit (Leach & Bogod 1999; Longenecker et al. 2006). Firms established and operated by families enjoy the commitment of family members involved in managing the business.

There is a strong attachment to the business, as an outcome of direct and personal efforts. There is also the strongmotivationto keep the business going. This leads to prudent decision-making over expenditures and investments (Longenecker et al. 2006). The business has high value to family members as a source of family pride and a legacy passed on from one generation to the next (Fleming 2000).

The second advantage is flexibility over a wide range of areas, particularly work arrangements and responsiveness to change (Leach & Bogod 1999). Family members managing the business are flexible when it comes to the time and effort they give to their work. As a highly valued venture, the family business becomes a priority to ensure business success (Fleming 2000). Family businesses also exhibit flexibility in responding to changing conditions in the business environment. Direct involvement in operations supports immediate recognition of problems and emerging opportunities (Sonfield & Lussier 2009).

Decision-making over solutions or in tapping into opportunities also happens fast to respond to issues and needs. The third advantage is long-term planning fuelled by the goal of sustainability (Leach & Bogod 1999). The intention for family businesses is to continue across different generations (Fleming 2000). This intention influence strategic planning to ensure the stability and sustainability of the business. There is better anticipation and control of risks. Contingency plans are set in place. There is also high reliance on business knowledge and skills acquired by the family (Lee, 2004).

The fourth advantage is the exercise of direct control over the business by family members (Sonfield & Lussier 2009). The management of the business by family members supports speedy decision-making (Leach & Bogod 1999). Direct knowledge of operations provides information needed to support sound decisions. Decision-making can happen on the spot as problems emerge or comprise an expedited process. Moreover, family businesses are able to transmit family values into the corporatecultureto ensure that operations align with thegoalsenvisioned by the family (Fleming 2000).

The last advantage is the achievement of employee motivation (Leenders & Waarts 2001). One source of employee motivation is the trust (Tagiuri & Davis 1996) emerging in the relationships within the business adopted from the fiduciary relationship among family members. Employees are extended trust to create the perception of value to the business.

Another source of employee motivation is good channels ofcommunication(Tagiuri & Davis 1996) that create a pleasant work environment. Communication not only eases work but also ensures the necessary support for the conduct of work. Appreciation and recognition are also easily communicated.

Disadvantages of Family Businesses

Family businesses also have disadvantages. Even if family businesses comprise the predominant form of business organisation worldwide, there are also family businesses that fail when the disadvantages overshadow the advantages. The first disadvantage is the rigidity of business structure and culture (Leach & Bogod 1999). Family businesses have the tendency to stick to tradition. While traditional practices may have led to the success of the firm, the changing business environment may require change.

The value accorded to traditions and the fear of losing control may work against needed change. The second disadvantage is the impending conflict between family values and business interest (Leach & Bogod 1999) and conflict between personal life and the business (Longenecker et al. 2006). There is an overlap between family and business interests. Conflict emerges in areas when there is deviation between family and business interest such as in decisions to bring in external investors or change business practices. Decision-making can also become emotional when personal considerations intertwine with business (Fleming 2000).

The inability to find a point of compromise can result to serious problems. The third disadvantage is the difficulty of continuity or succession (Leenders & Waarts 2001). Succession is a process charged with strong emotions and high stakes (Fleming 2000). Conflicts can arise when there are different family members aiming to become successors. The process requires consideration of competence apart from membership in the family to ensure not only the continuity of the family business but also the sustainability of the business itself (Lee, 2004). Unaddressed emotional issues can lead to thefailureof the business.

The fourth disadvantage is the threat ofleadershipcrisis (Leach & Bogod 1999). A problem in the allocation of power can emerge when there is reluctance to allocate greater power to one member of the family to facilitate decision-making. There is likely to be preference for equal sharing of power, which can delay decisions during a deadlock (Sonfield & Lussier 2009). Problems with leadership can also relate to succession. There may not be good leaders in the family but there is preference for family members to lead the business (Fleming 2000).

The last disadvantage is difficulties in achieving efficiency and profitability because of the preference for equity to the detriment of efficiency (Lee

2004). The placement of unknowledgeable and inexperienced family members in key positions instead of hiring external experts to take charge, while the family member gains experience, can lead to irrational or rash decisions that affect the performance of the business (Fleming 2000). Similar situations focusing solely on equity can result to inefficiency that has a direct adverse effect on profitability.

Conclusion

Family businesses have advantages and disadvantages. The family business, as a form of business organization, suits today's business environment through the advantages that are inherent or prominent in family-owned or managed firms such as commitment, flexibility, control, long-term planning, and employee motivation. Addressing the disadvantages can be by finding the strategic balance between family and business concerns or interests that work for the business at present and in the future. In doing so, family businesses can ensure sustainability even in the fast-paced business environment.