Family Fortune Telling

Why Most Family Businesses Come Through Economic Downturns Successfully

Family businesses believe that if they achieve the goal of serving others successfully, they will ultimately be serving themselves.

Family businesses are considered by many economists to be the backbone of the U.S. economy. From Ford Motor Company, with 40% of the voting stock (virtual control) held by the Ford family, to John Bordman, Inc., a father/son contracting business in Concord, most family businesses respond more positively through economic downturns than non-family businesses.

This phenomenon is not a coincidence; it can be explained by the innate characteristics of most family companies.

Although many family business consultants and advisors have thoroughly documented the myriad of family business succession problems, they have rarely espoused the ability of most family companies to rebound successfully after recessions. Here, then, are six characteristics which have enabled many family businesses to snap back from economic downturns:

The Ability to Make Quick Decisions

Most family businesses are either small companies (sales under $10 million) or mid-sized companies (sales between $10 and $100 million). Larger companies (sales over $100 million) are usually public, have layers of management, include outside investors and most likely have outside directors as well. In addition, 35 percent of the Fortune 500 companies are family controlled, according to Bloomberg Business Week magazine.

Let us assume for this article that we are discussing small or mid-size family businesses and that the companies' senior management is largely comprised of family members. Through the course of daily, weekly and monthly operations, important decisions are confronted. When the business climate is suddenly impacted negatively, all steps to curtail the overhead expenses are open for discussion.

The senior management team and ownership, frequently comprised of family members, meets to address the above issue. Many of them have worked in the business since they were teenagers and through their frequent communication have learned to address problems as they surface. They also come together less formally than non-family businesses would and, as though gathering at a family dinner table, present the problem and are not afraid to act quickly. Nor do they have the burdens of the politics of board or directors or extensive layers of management.

A WIllingness to Retrench Drastically

Members of most family businesses do not view working for the company as just a job, but rather as a responsibility to protect the family heritage, which is almost always the family's largest asset and source of livelihood. Most family business executives will do whatever it takes to ensure that the company survives during difficult times. Not only will they lay off employees or cut employee salaries, but they will also cut their own salaries or forego their compensation entirely until the business is sufficiently improved. This behavior sends a very powerful message to their suppliers, customers and employees about their commitment to the family enterprise. In addition, because of their operating skill, family businesses can cut their overhead to the bone and still manage to break even at 50 to 60 percent of their normal revenue.

A number of years ago, Superior Baking Company of Brockton, then the largest Italian baking company in New England, was considering selling in order to reward five members of the second generation family business with a "liquidity event". When the family realized that the new owner might fire the founder's two grandsons after acquiring Superior, the family members called off the sale in order to preserve the family heritage. Such a decisions is an example of a family business retrenching in order to preserve its history.

Driven by More than Profits

Perhaps no other economic adversity is as conceivable as a business establishment burning to the ground. A few years ago, Verrill Farms, a large retail establishment in Concord, had such an experience. Most proprietors would, at age 70, collect the insurance settlement and retire. Not Steve Verrill, head of this multi-generation family. His family not only felt an innate responsibility to the business, but also a cultural responsibility to preserve the family's heritage, which also served its community and neighborhood.

Memory of History

Because economic downturns happen at least once in a decade, multi-generation family businesses are served by their memory. Family business owners may worry, but they do not panic. They understand that they have been through economic downturns before and that they have the experience, knowledge and belief that they can do it again. And so, they do!

A Long-Term View

While public companies are forced to focus on their short term quarterly results to satisfy Wall Street, their stockholders and the compensation of their CEOs, family businesses, concerned creating wealth as opposed to short term gains, think in terms of decades.

For example, the Ford Motor Co., a publicly traded but family-controlled company, started to address its financial problems three years earlier than General Motors and Chrysler. Consequently, it did not have to take any stimulus money and returned to profitability much sooner than the other major brands. Ford's stock went down to $1 when the auto industry tanked. However, the stock rebounded to $15 and continues to hover in the teens.

Unlike venture-financed companies, which place huge incentives on CEOs to double or triple their companies' growth in five years, thus putting the company at risk of failing, family businesses, which are frequently the entire source of the family's income and the source of the family's eventual wealth, tend to pass up short term gains in order to assure long-term success.

Family members of family-owner businesses also have an emotional connection to the business. It is a source of their identity as well as a way of life. They take great care to keep the business stable and frequently reinvest their profits. They abhor debt and consequently have very conservative balance sheets. They do not put the "family jewel" at risk by relying on debt or overleveraging.

Family businesses' long-term prospective may result in slower, more methodical growth, but because they don't "bet the ranch" on a risky acquisition or a risky new project, they can withstand economic downturns more successfully.

Enduring Values

Family businesses believe that if they achieve the goals of serving others successfully, they will ultimately be serving themselves; or, as the saying goes, "A business has to be good for the customer, good for the company, and good for the employees."

A strong commitment to both family and business has allowed family businesses to survive for generations and has created a toughness not found in other businesses where commitment and loyalty, when tested by tough times, can waver and default to self-interest, versus the interest of the business or its shareholders. In the family business, the interest of the employees, the ownership and the business are by definition aligned. It is the alignment of goals, focus and toughness that explains their ability to survive economic downturns better than most. ■

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