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Family Business: Back in Fashion

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It's cool being a family business these days. But what is the key to success?

Family businesses have come back into style, says **Joseph Astrachan**, a professor at Kennesaw State University who specialises in family business. Astrachan's research has found that in today's economy, consumers tend to feel a personal connection with family-owned companies. When consumers understand that there are real people behind the brand, they find it easier to relate to the company. "Family businesses tend to be more trusted by consumers," he told Perspectives@SMU on the sidelines of the launch of the SMU Business Families Institute recently.

According to Astrachan, there used to be a sense that family businesses were less professional than their peers. However, he noticed a shift about a decade ago when companies in Europe went from hiding the fact that they were a family business to being open about it. He recalls, "There were a couple of big families that decided to incorporate 'we are a family company' into all their advertising. Once one did so and proved they were successful, others came on board."

In the internet age, it is easier than ever to communicate the story of the business to customers, says Astrachan. "You are not just limited to the one-page advertisement in a magazine or the 30-second television spot. You can actually tell a whole story on the internet and do so cost effectively. We see a lot of people saying: 'Here's our family and our history; here are the people who run the business' as a way of promoting and developing the brand," he argues.

European and American companies were the first to catch on to this trend. Many family businesses ranging from restaurants to consumer product manufacturers are using their family story as part of their marketing strategy. Astrachan notes that Asia is slowly coming round to this way of thinking. "In Asia, it is a little less fashionable to be branded a 'family business' than say, in Europe, but it's beginning to become more fashionable in this part of the world."

Key challenge

Astrachan says that the success of family businesses depends largely on their ability to transition from one generation to the next. This issue will become increasingly significant in Asia because family businesses here tend to be younger than their American and European counterparts. In these younger companies, the patriarch tends to play an important role. According to Astrachan, this has both positive and negative consequences. "This can be great for the short term. The patriarch makes a lot of the decisions which allows things to move quickly."

Problems occur when the business needs to undergo a transition to new leadership. "The patriarch wants to maintain control and power. They tend not to see the value of making the transition, which is unfortunate," he says. Astrachan's research indicates that the optimal time for a patriarch to take a leading role is between 14 and 16 years. If the family business does not transition to new leadership in this time frame, the next generation of leaders finds it hard to take over.

This is where family dynamics come into play. Astrachan explains that family relationships have everything to do with the success of the business.

"The younger generation does not want to disagree with the parents, but in order for a transition to happen, the younger generation really needs to take control," Astrachan says. "This means doing things that the parents don't necessarily agree with." These are very difficult interpersonal challenges. According to Astrachan, while some families have made this transition well, most have a very hard time. "It is a huge challenge."

Success secrets

Astrachan has some practical tips for family businesses that are facing the prospect of transition. He suggests that families develop a tradition of strategic planning. "This means having a lot of conversations about where the business is going and why the business should go where it is going," he says. In other words, communication is key. It is important to become adept at resolving conflict and learning to disagree.

He also thinks that it is important to develop policies about the role that each family member should play in the business. "Everyone must be very clear about what their obligations to the business are." This will encourage younger family members to feel a sense of loyalty and investment in the collective work of the business, rather than just taking a passive role and following the patriarch's lead.

Finally, Astrachan suggests that family businesses set up a board of directors. "It is vital to have some mechanism to provide accountability for the business apart from the founder," he says. According to Astrachan, research indicates that these three factors consistently appear to be the keys to a successful transition for a family business.