

## **Family-First Businesses**

In family-first family businesses, employment in the business is a birthright. The stereotype of nepotism, which still dominates most people's views of family businesses, derives from this not-so-infrequent suboptimization of the family business system. Clearly, if employment is based solely on the applicant's last name, merit and other important criteria in the selection and succession processes are devalued or entirely irrelevant. Understandably, nonfamily managers with high career aspirations are often reluctant to join family businesses out of concern for their future prospects. Unless their exercise of due diligence assures them that their career ambitions will not be thwarted by a lack of family connection, high-potential nonfamily managers may choose never to join family-owned or family-controlled firms.

Because a family-first family business exists primarily for the purposes of the family, perks that transfer from the business to family members are often extensive. Financial systems may be obtuse by design, and secrecy is often paramount. After all, lack of transparency supports the ability of family members to reap rewards beyond what would be deemed reasonable under standard human resource, compensation, and benefit policies. Consequently, the business often becomes part of a lifestyle. The Rigas family and Adelphia Communications were ultimately prosecuted by the SEC and other federal and state authorities as a result of a tangled web of relationships between the business and the family that were deemed to represent extensive self-dealing to the benefit of Rigas family members.

While well-managed and well-governed family businesses may have sound reasons for paying all the members of the next generation in top management equal or nearly equal salaries, family-first businesses are prone to equalize compensation regardless of responsibility, results, and overall merit. Ironically, because their primary concern is family, the level of commitment of family-first businesses to the continuity of the business across generations depends on the agendas of individual family members and the levels of conflict associated with running the business. Family-first businesses are likely to choose continuity only if members of both generations aspire to this goal and if the current generation has sufficient resources in retirement to make this possible. In cases where neither generation dreams of continuity or sees value in having the enterprise be a legacy for the next generation, the business will most likely be sold at the end of a generation. And, even if family members aspire to perpetuate the company, family-first businesses have great difficulty in providing for continuity, since successor selection, strategic renewal, and governance of the relationship between family and business all require a strong commitment to sound business management principles.

Poza, Ernesto J. Family Business. Mason: South-Western, 2004.