The Paradox of Family Business Decision-Making

By Wayne Rivers

The conventional wisdom with regard to family businesses is that an advantage they have over their larger competitors is that they’re more nimble and are, therefore, capable of making faster, better business decisions. After observing business families attempting to make decisions over the years, we’d like to respectfully challenge the conventional wisdom.

Let’s begin with a caveat. Let’s stipulate that, when it comes to operations, family businesses typically do have excellent decision-making. Because of the depth of their experience in their particular fields and the fact they’ve specialized in their industries over one or more generations, they are capable of making speedy decisions when it comes to operations. When it comes to other areas – particularly strategy and long-term direction for the family business – their decision-making abilities erode significantly.

Most family businesses in the first generation have one primary decision maker who functions as both owner and general manager of the enterprise. First generation family business owners are often like battlefield generals issuing directives left and right and watching lower ranked soldiers execute their decisions. However, when the founder has aged and the successor generation has entered the business in a significant management role, big picture decision-making gets bogged down and, as the senior generation ages, grinds almost to a halt. Why?

Most family businesses which are beyond the peak earning years of the founding generation make strategic family business decisions by “consensus.” (Remember what Margaret Thatcher said about consensus decision-making: “Consensus is the absence of leadership.”) After many years, we still are not certain exactly what consensus means in the context of family companies. As near as we can determine, consensus decision-making in family businesses really means unanimous decision-making. This desire for unanimity gives effective veto power to anyone who dissents from a group decision. Think about how destructive this might be for family businesses trying to make important, strategic, long term decisions that relate to the health and vitality of the future of their company!

Here’s an example. A family business is populated by five family members: Dad, the founder, age 80, Mom, age 77, the oldest son, age 50, who is the president of the company, the next...
son, age 48, who is the vice president, and the youngest child, a daughter, age 46, who is also vice president. The family has been considering for several years some strategic decisions that could modernize the business and allow them to resume faster growth. Most of the five family business members are either very enthusiastic or somewhat enthusiastic about the idea. The difficulty is that the second son, the vice president of operations, is not enthusiastic about the proposed changes at all, and has made his displeasure known through several heated exchanges. Given the fact that 80% of the family members are on board for the proposed initiatives, what is this business family likely to do?

The answer seems simple. Most laymen would observe this situation and say because four of the five stakeholders have made themselves clear that the project should be a go, the decision is a no brainer. However, when it comes to the paradox of family business decision-making, odds are that this family will NOT move forward with any strategic initiative, at least in the short run.

Why is this phenomenon so prevalent in family businesses? Why would people endowed with good minds and common sense give any one person in a group of five effective veto power over decisions that the group would likely make?

The reason they won’t move forward with their strategic plans is they don’t want to upset the child who is vice president of operations. In their pursuit of family business harmony, families often determine that it’s better to live with things as they are in an uneasy equilibrium rather than undertake a project which one or more family stakeholders oppose. While this may seem short sighted, it’s common behavior. In this case, four people out of five will put their dreams and aspirations on hold in order to avoid stepping on the toes of the one dissenter. In other words, in order to preserve family harmony and to avoid conflict, virtual veto power is arbitrarily handed out to anyone who diverges from the wishes of the larger group.

If this dissenter continues to veto family business initiatives, he will create much greater conflict than would have otherwise been experienced. As the dissenter’s power grows, and he becomes the de facto leader of the company through his willingness to use his veto power, resentment and frustration builds in the other members of the group. Ultimately, this convoluted effort to preserve short-term family harmony actually serves to undermine good relations over time by allowing an imbalance of power to accrue to anyone who chooses to prevent or obstruct unanimity.
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The unrealistic desire for perfect harmony is a shortsighted strategy for preserving peace and will result in increased family business conflict and disharmony over time if it’s allowed to take place repeatedly. This is only a strategy for deferring conflict, not dealing with it constructively.

What should families in business together do when faced with group decisions and an absence of unanimous agreement? There are several steps they should take:

1. Recognize that not making a decision is, in fact, a decision.

2. Embrace change. It’s inevitable, it cannot be halted, and it’s usually good and necessary for both family and business. Once people accept that change is simply a fact of life, it somehow ceases to be as threatening and problematic.

3. Take steps to understand yourself and your other family members (and other key family business employees) better. There are many instruments available to help you assess your own personality as well as the personalities of those you work and live with. Use them to see what you can learn about how to communicate better. Remember, the golden rule is out of favor; the platinum rule for getting along with others is “do unto others as they wish to be done unto.” If you don’t fully understand how others wish to be treated, you can’t deliver communications to them in a way they’ll appreciate.

4. Determine in advance what you as a family and a business will do in the event of ties, deadlocks, or absence of unanimity on decisions.

5. Resolve the decision-making conflict; don’t avoid it! While it might not make sense to force a decision immediately (let’s face it, sometimes sleeping on an issue for a week or two is a good way to gain greater perspective), it doesn’t mean that you should avoid making decisions altogether. Conflict resolution is healthy for families and businesses.

The biggest danger in family business decision-making is letting the pot boil for too long. Successful family businesses take action steps to make real, thoughtful decisions. Making no decision at all is still a decision, and the resulting lack of resolve and clarity penalizes a family
business in the long run.

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