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What Family Businesses Can Learn From Public Companies and Startups

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Family businesses can strengthen governance, financial discipline and accountability by adopting proven practices from public and investor-backed companies.

Early in my career, I joined a private equity-backed company and, before long, found myself helping prepare it to go public. What I remember most wasn't the mechanics of the transaction, but how much the company changed along the way. Reporting became more rigorous, governance matured, new executives arrived, and expectations of the leadership team changed. The pressures of becoming a public company were changing how we operated well before the company actually became one.

Over the next three decades, I worked in family businesses, public companies, venture-backed firms, startups, and companies navigating both rapid growth and significant financial challenges. I don't believe one ownership model is inherently better than another, but each has practices that are worth borrowing.

Family businesses have an opportunity to do something particularly valuable: They can be proactive about adopting some of these practices, rather than waiting for outside circumstances to impose them.

Prepare for Public Scrutiny

The mechanics of becoming a public company -- SEC filings, reporting requirements, and quarterly deadlines -- are all expected. What's surprising is how quickly those external pressures changed the way the organization operated.

One company, preparing for an upcoming quarterly earnings release, was projected to come in a couple of cents below analysts' quarterly EPS expectations, and there was considerable pressure to meet them. My first thought was, *How are we going to find two cents?* I quickly realized that wasn't just a finance question.

We went back through the numbers and revisited some of the estimates and accruals that required professional judgment. Accounting isn't entirely black and white, so we looked carefully at whether the underlying assumptions were still appropriate. Where the facts supported an adjustment, we made one.

Public companies operate under constant scrutiny. Analysts, investors, regulators, and the press all have access to the numbers, and management knows those numbers will be scrutinized. Every quarter becomes a public scorecard as forecasts are compared with guidance and actual results. Credibility is earned or lost one quarter at a time.

When every penny of earnings mattered, assumptions that might otherwise have gone unchallenged received another look. Forecasts, estimates, and operating results all had to withstand questions from people inside the company before they would eventually face analysts and investors outside it.

Family businesses rarely experience this level of external scrutiny, but they can intentionally create many of the same benefits. Consistent reporting, regular operating reviews, and an advisory board willing to ask hard questions can create some of that constructive pressure internally. The objective isn't to replicate life as a public company. It's to make sure important assumptions and decisions receive enough scrutiny.

Maintain Credibility With Stakeholders

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One company's sales pipeline had been materially overstated, creating unrealistic expectations about future performance. The overstated pipeline eventually led to a missed forecast, but the more lasting damage was the loss of credibility.

As a result, some existing investors decided they would not participate in the next round of funding, forcing management to seek new capital under far less favorable circumstances. Imagine explaining to prospective investors that your current investors aren't investing. That's an awkward conversation.

It didn't take long for the questions to change.*What else is wrong? What else can we no longer trust?*

Investors understand that businesses don't always perform as planned. Markets change, customers are lost, and new competitors emerge. What investors struggle to accept are surprises, unrealistic expectations, or the belief that management hasn't been completely transparent. Once investors begin questioning what they can trust, raising additional capital becomes much more difficult.

Many family businesses have relationships with lenders, shareholders, employees, and other stakeholders that have been built over decades. This accumulated trust can be put at risk pretty quickly when the information coming from management proves unreliable.

An overstated sales pipeline may begin as an internal forecasting problem, but it doesn't stay there. Eventually a forecast is missed, a lender asks why results fell short, or a shareholder begins questioning other assumptions. The lesson is to challenge optimistic assumptions internally, before someone outside the company has to.

Develop a Sense of Urgency

Late one Wednesday evening, an organization responsible for moving our clients' money failed.

Within hours, we were trying to understand what it meant for our clients, our company, and the client funds entrusted to us. There was never any discussion about whether our clients would be protected. The only question was how we were going to make it happen.

Although the funds belonged to our clients, we immediately put our own balance sheet behind them to minimize disruption while we worked through the uncertainty.

By the next morning, we were in full crisis response alongside attorneys, bankers, crisis management professionals, and our internal leadership team. What began as an after-hours crisis stretched into months of recovery and ultimately years before all of our funds were returned.

Although the circumstances were unique, it wasn't the first time I'd seen an organization transformed by crisis. Years earlier, I was brought into a turnaround situation. There's nothing quite like your lender telling you that they're going to seize your company and sell it for pennies on the dollar.

Few things create that level of urgency. The pace picks up when you are in survival mode. Decisions that would normally take months get made in days. Meetings become shorter and priorities become crystal clear. Politics often disappear too because everyone knows what matters.

Urgency quickly changes the way organizations think about cash. Every dollar becomes precious. Customer collections become a priority. Expenses that previously escaped scrutiny are relentlessly questioned. Decisions become simpler because priorities become obvious.

You don't need to wait for a crisis to develop a sense of urgency, and you certainly can't operate that way constantly. It's exhausting and unsustainable. But some of the disciplines a crisis creates should outlast it.

Family businesses can intentionally create many of the same disciplines without creating constant urgency. They can make priorities unmistakably clear, maintain a clear understanding of cash, and address important issues before they become emergencies. Crisis has a way of creating operational crispness. Good management shouldn't have to wait for one.

Embrace Discipline as a Part of Stewardship

When people think about stewardship in a family business, they often think about preserving ownership or preparing the next generation. But it also means recognizing that no single business environment has all the answers. The best stewards borrow the disciplines that strengthen their businesses.

Family businesses often have considerable freedom to put that philosophy into practice.

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Family businesses operate under a different set of pressures. Quarterly earnings rarely determine success, and investor expectations don't dominate every decision. The time horizon is often longer, with decisions shaped by protecting the family's legacy, preserving its independence, and positioning the next generation for success. Those priorities are strengths, and they're part of what makes family businesses unique.

Those same strengths can also delay the development of certain management disciplines. Without analysts asking questions every quarter, lenders demanding projections, or investors scrutinizing every assumption, it's easier to postpone improvements that don't feel immediately necessary. Good businesses continue to perform well, and there may be little external pressure to change.

Years ago, when I joined a family business, I was surprised to discover that it didn't have cyber insurance. The company was entrusted with an enormous amount of sensitive information, and that exposure was significant and growing. No customer was asking about cyber insurance. There hadn't been a major incident. Purchasing additional coverage represented a meaningful expense for a risk that many assumed would never materialize. Nonetheless, the company chose to make the investment.

At the time, there was no way to calculate the return. Waiting until after a cyber incident to strengthen your cybersecurity is much like waiting to secure financing after a liquidity crisis or succession planning after the founder retires. The process forced us to take a harder look at our risks, evaluate our controls, and think more intentionally about protecting the business. It also changed how we approached improvement more broadly. We began making other investments as well, because customers, prospects, lenders, insurers, and business partners increasingly notice how businesses are managed.

The strongest family businesses don't wait for outside forces to tell them where they need to improve. Whatever the next challenge may be, they prepare before it becomes obvious. They identify vulnerabilities and make improvements while they still have choices, rather than waiting for circumstances to dictate the response. They borrow what works and make it their own.

Conclusion

Organizations respond differently to the pressures around them. Public companies reinforce the value of accountability, investors show how quickly credibility can be damaged, and financial distress demonstrates how quickly priorities become clear when survival is at stake. Every business environment has something to teach and none has all the answers.

The strongest family businesses have never been afraid to borrow those ideas. They don't wait for circumstances to force better management. They borrow the best disciplines, make them their own, and build stronger businesses while they still have the freedom to choose.

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