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# Too Much Love in the Family Can Hurt

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In a family business, family dynamics can make the business run smoothly or run aground. Many researchers have studied how family members relate to one another and how that affects company performance. While it's generally accepted that family discord is harmful and that strong family relationships are good for business, rarely has this been quantified with hard data.

However, our study of family-owned firms in Spain (https://www.sciencedirect.com/science/article/abs/pii/S1877858518300160) , published in 2019 in the Journal of Family Business Strategy, measured the strength of family relationships against firms' return on equity. The upshot: while too little family harmony can be bad for business, so can too much, especially if it leads the family to become insular and distrustful of good advice from outsiders. At high levels, strong family relationships within the business create a family orientation lock, to the detriment of performance. But, if one or more family decision-makers have good relationships with other businesses and organizations, it can have a moderating effect.

We looked at 163 family-run food manufacturing companies in Spain, where family businesses are common and where nearly 90% of food companies are family-owned. Food is an important sector in Spain because it's the fourth largest one in Europe and it accounts for more than a fifth of total industrial employment there. European governments have shown a keen interest in increasing innovation at these firms.

Our study looked at firms that had at least 10 employees. We excluded microfirms to ensure a minimum size to possess enough family and non-family relationships. On average they had four family members involved in the firm. Using interviews and a questionnaire, we measured the degree of "Family Social Capital," (FSC), a snapshot of the resources derived from family relationships across three dimensions: structural, relational and cognitive. The questionnaire asked respondents to agree or disagree on a scale of one to five with 12 statements that explored the degree of family ties across those three dimensions. The statements on the questionnaire included "Family members who work in this firm engage in honest communication with one another;" "Family members in this firm show a great deal of integrity with each other;" and "Family members who work in this firm are committed to the goals of this firm," among others.

The questionnaire also asked respondents to respond to five statements depicting the strength of their Organizational Social Capital (OSC) —the firm's resources that stem from relationships with outside businesses and organizations. Those statements included, "This company is well connected to other companies in its industry," and "This company has a good reputation for fair dealings," among others. Finally, the study measured the firms' return on equity (ROE), the family's payoff from its investment of its wealth and time.

Here's what we found: families that scored low in both FSC and OSC did not have strong returns, since family dysfunction prevented them from processing outside advice and running the company effectively. Better scores in the measure of FSC and OSC helped them improve returns.

However, too much of one dimension of FSC, structural, can blind the family to good advice that may help it run the business better. Structural FSC is all about the patterns and strength of ties among the family members within the firms and captures the magnitude of the interaction and communication of information among them. While some structural FSC helps a family firm run professionally, functionally and fluidly, too much structural FSC can create a rigidity that closes off the family to new ideas and knowledge held outside that group. This is a problem when the firm needs to change and adapt quickly. Very often, at high levels, very strong family relations can cause the family firm to rely too much on family bonds, becoming ineffective over time as knowledge and ideas stagnate without exposure to those of others.

Moreover, since building and maintaining structural FSC takes time and energy, it leaves less time to build productive relationships with outsiders. Stated differently: we can only hold, invest in and manage so many productive relationships! The survey respondents with the highest degree of structural FSC also saw diminishing returns on equity (ROE). In fact, we saw that the benefits of structural FSC peaked after a point, resembling a bell curve, and that companies with too much of it saw their ROE decrease. This is why, in excess, family social capital can be too much of a good thing.

“At high levels of the structural dimension of FSC, there is likely to be conflict against new external knowledge because of the inertia caused by the insulated, close-knit and protective nature of the family group,” our study points out.

## The Takeaway

Our advice for family firms: family discord is harmful because it keeps you from making rational decisions in the best interests of the company, but so are family ties so tight that they blind you to best practices and to the realities of the outside world and the new resources, knowledge and ideas that reside there.

Companies with moderate levels of both external and internal relationships (structural FSC and OSC) had the best returns in our study. It is really important to balance family ties and relationships with outside entities. This balance allows for new outside knowledge -- and in turn, healthy family relationships help the business benefit the most from that knowledge.

We suggest that family members work on forging productive relationships with businesses and organizations outside the family, to improve their OSC. Some family members, called “boundary spanners,” are better equipped than others to do this. These are technically competent people who cultivate and nurture connections inside and outside the company. They are capable of connecting teams of individuals within the company to encourage innovation, and they can bring an outside perspective because of their connections with others outside the organization. Leadership in family businesses should identify the boundary spanners within their firm and give them a stronger role in shaping company strategy.

## References

Ines Herrero and Mathew Hughes, "When Family Social Capital is Too Much of a Good Thing," (https://www.sciencedirect.com/science/article/abs/pii/S1877858518300160) Journal of Family Business Strategy, Volume 10, Issue 3, September 2019



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