

Trust: The Basis of Family Business Advantage

By The Family Business Consulting Group, Inc.

Our experience and research suggests that family businesses have several competitive advantages. You've read in the Family Business Advisor about the patience that permits long-term strategies, the "family effect" that reduces capital costs, commitment to quality and service, loyalty among employees and other factors which seem to be more frequently found in family businesses that have survived into second or third or fourth generations than in other businesses.

Frequently we are challenged to summarize exactly what makes family businesses different from other businesses — what makes them special? Obviously, family businesses seek to achieve both family and business goals, though such goals frequently seem contradictory. A family's passion, commitment and stewardship in relation to its business can be greater than that of those who toil for anonymous stockholders. But if we had to boil the differences down to a single concept, a single word, the one thing that underlies all the competitive advantages and distinctiveness of family businesses, the word would have to be "trust." Trust is the source of long-term perspectives, the "family effect," loyalty, commitment, stewardship and much more.

That trust can provide such a powerful advantage to family businesses is well established by behavioral scientists who have studied the phenomenon. Max Weber, the great German sociologist/economist, maintained that the exchange of goods "is possible only on the basis of far-reaching personal confidence and trust." The distinguished modern sociologist, Peter Blau, found trust to be "essential for stable social relationships." Researchers Golembiewski and McConkie in the field of organizational development

have found: "There is no single variable which so thoroughly influences interpersonal and group behavior as does trust."

Trust, or lack thereof, can be found in all relationships. Its importance in business environments — among executive teams, between superiors and subordinates, with suppliers or customers — is obvious. Relationships reinforced by both business and family bonds are often characterized by greater trust than is available to mere business associates. And the values that a family may bring to the business it owns can establish trust as a more meaningful and viable dimension of the business's culture.

Unfortunately, too many family business leaders take trust for granted. When questions arise, when strategies go awry, when performance slips, they are quick to say "trust me. I'll set things right." Under such circumstances, family business leaders use trust rather than build trust. Sometimes, there is no other choice.

But family business leaders would be wise to view trust much as they view capital. Like capital, trust can be accumulated or depleted. And as with capital, the extent of trust available is directly related to risk. An action that is acceptable under conditions of high trust, would not be tolerable when trust is low.

Obviously, not every family business is characterized by trust. The kind of family businesses that make juicy reading in the popular press are usually of the trust-depleted kind. Indeed, the competitive advantages that we see in family businesses are available only to those who consciously cultivate and nurture trust among family business constituents.

How is trust nurtured in a family business? Behavioral scientists offer a useful roadmap toward accumulating trust. They identify five components of trust:

Integrity - having a reputation for honesty and truthfulness

Competence - possessing technical knowledge and interpersonal skill required to get the job done

Consistency - acting with reliability, predictability, good judgment

Loyalty - willingness to protect, support, encourage

Openness - freely sharing ideas and information, freely allowing others access to one's thoughts.

When actions and behaviors are consistent with these components, trust is enhanced. When those components are contradicted, trust is depleted. Business cultures that stress these values reinforce trust. Business cultures that ignore them lose the competitive advantages that trust engenders.

A family business leader who rejects accountability,

refuses to share information, and defines loyalty as obedience by others, is unlikely to create a legacy to future generations. The fundamental advantage of trust will have been destroyed — and with it, the basis for successful business and family relations.

We have known many entrepreneurs whose way of working was not too different than that just described. Ultimately, however, they or their children determined their goal to be multigenerational family business success. Behavior changes. Accountability for honesty and truthfulness becomes accepted. Competence becomes the prime criteria for rewards, promotion and success selection. Arbitrariness is driven from decisions and actions. Loyalty becomes a two-way street. Information and patterns of thought become routinely shared with family and appropriate others.

Trust becomes the new basis of the family business. A new generation with reinvigorated values and relationships can then build even greater successes on the foundations provided by the generations that went before.

To learn more about The Family Business Consulting Group and how we serve families like yours, call us at (773) 604-5005 or email us at info@thefbcg.com. There is absolutely no obligation.

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