

Weakness of Family Business

As it is said in Gujarati that "ત્રીજી પેઢી તીકમદાસ " i.e the Third Generation comes back to square one or even down. This is also proved by many studies including one done by Fred Neubauer and Alden G.Lank in 1998.As per the study on 5% to 15% percent of the family business continue into the third generation in the hands of the descendants of the the founder.

There are numerous reason for this .Some of them like poor management , poor cost control , bad macro-economic scenario , are same that can make any business to fail irrespective of the ownership structure .However , Family Business do show the following special reason for their failure .

1. Complexity - "Family" before the word business make it more complex in terms of governance than any non-family business.Emotion's , Expectation's etc of family business make it very complex.Since the roles of different family members and their commitment levels differ , hence many a times there are issue of family members being given incentives.
2. Informality - Since most of the family business are run by the families themselves ,atleast in the first and second generation , hence SOP's are not developed properly .This leads to much confusion in the future.
3. Lack of Discipline - This is mostly seen in the second and third generation of family members , who have got a decent lifestyle due to the hard work of their elders.Not coming on time to office , putting less number of hours in business etc are most common traits showing lack of discipline.
4. Delaying of strategic decisions by the First and Second generation owners - There is most of the time a delay in decisions like appointment of a CEO , attracting and retaining outside talent , succession planning on the part of the first generation and/or second generation family business owners which leads to its failure.