

3.5: The Three Threads

Learning Objectives

1. Explain how a family business adds to customer value.
2. Explain how being a family business can positively and negatively impact cash flow.
3. Explain how technology and the e-environment are impacting family businesses.

Customer Value Implications

When people think about family businesses, they usually think friendly, “quality, wholesome, and continuity.” Customers feel that they have a connection to the business because they also have a family. It is something customers feel they can trust. “Promoting Family Brand Linked to Companies’ Financial Success,” *Austin Family Business Program*, September 15, 2008, accessed October 8, 2011, www.familybusinessonline.org/index.php?option=com_content&view=article&id=38:promoting-family-brand-linked-to-companies-financial-success-&catid=13:latest_news&Itemid=39. Customers are reminded that there is a family behind the business, not a faceless corporate entity. Sahil Nagpal, “Family Businesses Perceived of Greater Value by Customers,” *Top News*, August 15, 2008, accessed June 1, 2012, topnews.in/family-businesses-perceived-greater-value-customers-259364. These are important sources of customer value.

The high priority that family businesses place on community involvement and the “reputational capital attributed to the family name” also translate into a perception of greater value by the customer. Sahil Nagpal, “Family Businesses Perceived of Greater Value by Customers,” *Top News*, August 15, 2008, accessed October 8, 2011, topnews.in/family-businesses-perceived-greater-value-customers-259364. “Family business’s identification with the family name motivates a greater emphasis on serving customers and consumers effectively, such as through providing quality products and customer services.” Justin B. Craig, Clay Dibrell, and Peter S. Davis, “Leveraging Family-Based Identity to Enhance Firm Competitiveness and Performance in Family Businesses,” *Journal of Small Business Management* 46, no. 3 (2008): 351–71. The emphasis of the family business on its family identity may, in fact, contribute to its competitive advantage. “It is conceivable that family businesses who promote their familiness build a reputation in the market place related to customers’ positive perception of the family.” Justin B. Craig, Clay Dibrell, and Peter S. Davis, “Leveraging Family-Based Identity to Enhance Firm Competitiveness and Performance in Family Businesses,” *Journal of Small Business Management* 46, no. 3 (2008): 351–71. The long-term source of value for the customers of family businesses may rest with the belief that the businesses are customer-focused.

Cash-Flow Implications

A family business can help or hurt its cash flow depending on whether it compensates family members at market value. If a family member’s compensation is based on “family values,” such that the parents’ compensation is excessive and the children’s compensation is much less than their fair market value, this would give an inflated picture of the company’s profitability. Bernard J. D’Avella Jr. and Hannoeh Weisman, “Why Compensation for Family Members Should Be at Market Value,” *Fairleigh Dickinson University*, 2010, accessed October 8, 2011, view.fdu.edu/default.aspx?id=2344. However, it will help the company’s cash flow because they will have more money to spend on the business. If, however, the children’s compensation is excessive, often based on housing and family needs of the family members as opposed to their worth to the business, this would give an unrealistically low portrayal of the profitability of the business. Bernard J. D’Avella Jr. and Hannoeh Weisman, “Why Compensation for Family Members Should Be at Market Value,” *Fairleigh Dickinson University*, 2010, accessed October 8, 2011, view.fdu.edu/default.aspx?id=2344. This will hurt the company’s cash flow because the amount of money available to spend on the business will be reduced.

Digital Technology and E-Environment Implications

It is estimated that about 40 percent of US family-owned businesses survive into second generation businesses, but only about 13 percent are passed down successfully to a third generation. One of the main reasons for this is that technological change moves so swiftly that it bypasses the older generation. “Unless the next generation is poised to update, and can get buy-in from longtime employees wedded to ‘the way we always did it,’ a business can quickly become obsolete.” Karen E. Klein, “When the Third Generation Runs the Family Biz,” *Bloomberg BusinessWeek*, April 9, 2010, accessed October 8, 2011, www.Bloomberg.com/smallbiz/content/apr2010/sb2010049_806426.htm. It is understood that family businesses will have different technology needs depending on their size, industry, and growth objectives. For many family businesses, however, the move to greater technology integration should be seen as a natural part of business evolution.

With respect to e-business and e-commerce, the commitment of a family business to digital technology will be a necessary precursor to the integration of e-business solutions. E-business is discussed in more detail in Chapter 4. The commitment to e-commerce should also be seen as a natural part of business evolution and a necessary response to the ubiquitous nature of the Internet. E-commerce for the small business is also discussed in greater detail in Chapter 4.

KEY TAKEAWAYS

- Family businesses offer increased customer value because they are associated with families instead of impersonal corporate entities.
- Not all family businesses may choose to integrate digital technology, e-business, and e-commerce into their planning and operations. The level of integration will occur on a continuum. Given the extent to which digital technology pervades business, however, it will be difficult to ignore it. The same is true for e-business and e-commerce.
- Overpaying or underpaying family members has an effect on cash flow.

EXERCISES

1. Select two family businesses in your area. Interview each business owner about how he or she currently uses technology in the business and what the plans are for future technology integration. Prepare a three- to five-page report on your findings.
2. Select three family businesses that you patronize. Think about what you see as the source(s) of customer value for each business. Interview the owner(s) of each business and ask them to describe the customer value that they offer. Compare your thoughts with what the owners said. Are they different? How? If they are different, what might account for the differences?

Disaster Watch

What Happens Now?

“From the day he opened his jewelry store in 1980, Michael Genovese, 57, expected his son Joseph, now 32, to come into and eventually take over the business. Joe started working there part time while still in junior high, engraving and polishing. ‘Dad offered me a job, and I jumped at it,’ he recalls. He did repairs, made jewelry, and worked in sales. ‘He worked hard and did the dirtiest jobs’ as he learned the business from the bottom up, says Mike.”

“After graduating from college, Joe returned to the store, although Mike had urged him to first ‘get some different experience working in another job.’”

“Back in the store, Joe was soon out-selling the other salespeople. Mike also began gradually training him in management duties—i.e., buying, working with vendors, personnel duties (like hiring and firing), financial matters, and managing sales staff—as he groomed him to lead the business. ‘I never had a written [transition] plan, says Mike, ‘but in my mind I planned this from the time he was a kid working here.’”

Then disaster struck. Mike had a serious heart attack. He was incapacitated by bypass surgery and months of recovery. Everything started going haywire. Joe’s older brother, who never before had any interest, has now expressed an interest in the business. He has had several years of experience in another job and feels that it would be appropriate to come into the business at a high salary. In the meantime, the other salespeople are beginning to express dissatisfaction with their compensation and benefit plans, feeling that Joe has always received special treatment. There is a lot of dissension at the jewelry store. Joe is ready to tear his hair out. What should he do? William George Shuster, “Family Business in Crisis: Letting Go,” *JCK Magazine*, March 2003, accessed October 8, 2011, www.jckonline.com/article/282706-Family_Business_in_Crisis_Letting_Go.php.

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