1 Why Family Businesses Struggle

Dysfunctional, prone to nepotism and family conflict, uninterested. This is how family businesses are often seen. Even in the business press, the family business model is regularly portrayed as outmoded or problematic. However, recent evidence shows that family firms tend to outperform their widely traded competitors. A research study in the *Journal of Finance* found that family businesses outperform public companies on key dimensions such as stock price and return on equity. The Credit Suisse Bank’s global index shows that family firms have outperformed the MSCI World Index by 4.8 percent since January 2007.\(^1\) How can this disparity be explained? Our work as researchers, teachers, and consultants suggests that family businesses can indeed be both the best and the worst: the best because they have some unique strengths (long-term vision, strong values, committed ownership); the worst, because they are more complex than other businesses, and they require more attention, better planning, and governance – which they do not always receive.

Typically, family businesses have sound strategies for their businesses, but planning for the families is mostly neglected or driven by conflicts that need to be resolved. Indeed, in our experience, many business families do not appreciate the value of planning, or are afraid of the emotional minefields that such planning may expose. Many fear that the process itself may raise questions that no amount of planning can resolve.

The central theme of *When Family Businesses are Best* is that high-performing business families need planning that provides rigor and consistency to drive their thinking, alignment and actions for both family and business. We call this *Parallel Planning* and advocate a process-driven approach. We argue that the best results come when a

R. S. Carlock et al., *When Family Businesses are Best*  
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family work together to craft their own plans based on their unique situation and their family business goals.

But do families really need to plan? We think that the case of Farview Electronics offers a cautionary tale for planning skeptics. Back in the mid-1990s, this Hong Kong-based manufacturer of low-cost electronic components had been a nice little earner for the founding family for several decades – with little or no planning for the business, let alone the family. But complacency always comes at a cost.

**FARVIEW ELECTRONICS TO BE SOLD?**

At fiscal year end 1996, the Farview Electronics Company completed 30 consecutive years in the black since its founding. The company motto was simple, “We produce low cost electronic components for everyone!” And the business strategy was even simpler: If it ain’t broke, don’t fix it! The two brothers who managed the family-owned Hong Kong firm – Lee and Charlie Tang – could be forgiven for their attitude. Their limited investment in capital expenditures for new products or equipment had enabled them and their two sisters to receive continually larger dividend payments for several years.

Things couldn’t go on this way. And they didn’t. June 2001 found the company looking back at five consecutive years of red ink, with the previous fiscal year the worst. During the 1990s the Tangs’ sales shrank as many of their customers moved to China for lower-cost parts. Nor did it help when a competitor acquired a large parts distributor in Taiwan, threatening Farview’s established sales channels in that market.

Charlie Tang, the 74-year-old chairman, says, “For 30 years, we were a profitable company, so nobody questioned the informal way things were done, and people had confidence in the family management.” Charlie Tang continues:

The problems really started three years ago when my older brother died and we split the business, and his two sons took ownership of the factory that their father had managed. My nephews, recognizing the changing market, started producing higher-margin components for manufacturers like HP and IBM. In the past I could have made it with one factory but now many of our old customers are reducing their number of suppliers – preferring to buy from companies that produce electronic sub-assemblies rather than just the component parts. Unfortunately it would require both plants working together to meet their needs.

Tang has not spoken to his nephews or their families for over two years.