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Productivity and Resilience in Family Businesses

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Family firms are often cited as part of the UK's productivity problem. In 2017 an Office for National Statistics report said that firms with family at the helm were 20% less productive than those with outside managers.

This implies that the simple way to improve productivity in UK family firms would be for more of them to hire non-family leaders, but is it really that simple?

Many family businesses with non-family leaders are well governed by owners who are actively engaged in overseeing management. This is ignored because policy makers and commentators generally do not understand the dynamics of family business ownership.

These owners often attribute value to non-financial returns on investment that support their long-term financial goals. This might immediately provoke a response that this is part of the problem. If family firms were driven more by short term financial measures, such as productive output per hour, they would be more successful. But hang on a minute.

During the Covid crisis governments were lauded for providing unprecedented amounts of state aid to protect jobs (furlough payments). This helped preserve the productive capacity of many jobs during a temporary disruption, even if in the short-term productive output crashed.

Now compare this. Family business owners with a long-term investment horizon may choose to invest in developing and retaining staff because it builds up knowledge and experience in the business. This helps to avoid the disruption and costs associated with high levels of staff turnover. The family may also want to preserve jobs in a local community.

As a result of making these choices, some family businesses do not always return good data when the measure of productivity is limited to the output in each fleeting hour. However, the owners of these businesses do build resilient businesses that generate sustainable profits over the long term.

It is ironic that it seems acceptable for governments to fund job retention schemes using taxpayer's money in the short term, while it is apparently unacceptable for family firms to do this using their own money in pursuit of long-term sustainability.

I struggle to understand why the willingness of family business owners occasionally to sacrifice short term productivity to create more resilient organisations is a problem. Resilience funded by the

business owners rather than taxpayers could be lauded as commercially savvy, but no, the easier headline is that family businesses are less productive.

Anyone really interested in business resilience should focus on multi-generational family-owned businesses. Remember that leadership in these businesses will have changed many times and involved family and non-family, so the focus of attention should include the attitude and behaviours of owners who have prevailed over decades and endured several different challenges.

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