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Don't Send Your Kids to Work Outside the Family Business Just Yet!

Abstract

Should family members work outside the family business before joining? Experts have long recommended that this is the best (and only!) way for the next generation to learn the skills and knowledge required for a job, develop vocational self-confidence, receive honest and objective feedback, and learn what “work” really means. And despite there being no empirical evidence to support this claim, many family businesses require their next generation members – in particular, prospective successors – to work outside anywhere from two to 10 years. But does it make a difference, in the real world, to have the next generation work on the outside? We researched this topic and found some surprising insights.

Disciplines

Business

Don't Send Your Kids to Work Outside the Family Business Just Yet!

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Should family members work outside the family business before joining? Experts have long recommended that this is the best (and only!) way for the next generation to learn the skills and knowledge required for a job, develop vocational self-confidence, receive honest and objective feedback, and learn what “work” really means. And despite there being no empirical evidence to support this claim, many family businesses require their next generation members – in particular, prospective successors – to work outside anywhere from two to 10 years. But does it make a difference, in the real world, to have the next generation work on the outside? We researched this topic and found some surprising insights.

Downsides to Working Outside the Family Business

Before we dive into our findings, we want to briefly discuss the potential downsides to spending time outside the family business. What can be wrong with gaining outside experience? As with many things, time is the ultimate constraint. Say the candidate finishes their bachelor’s degree at 22 and then spends a few years working so they can more easily get into a good MBA program, which they finish at age 30 (the USA average[1]); then spends seven years working outside (now they are 37); and then 10 years in the company getting ready or putting in their 10,000 hours[2]. At this rate they would only be barely ready at the age of 47. To be really seasoned, they’d be getting close to retirement age (and their parents would likely be in their 80s)!

Therefore, at the very least, outside work experience

delays entry into the business and the successor’s acquisition of industry- and business-specific knowledge needed. Likewise, unless they are working for a competitor, it keeps the successor from developing a large and helpful network with industry experts, customers and suppliers of capital and materials. With customers, this may be a particular threat to business success, since it takes time and care to transition the deep relationships family businesses have with their customers and suppliers. Similarly, time spent working outside also postpones the lengthy process of earning the trust of employees and shareholders. And lastly, it can sometimes lead the next generation to lose interest in returning to the family business as they can develop their own track record of success, which makes it far less tempting to “start at the bottom” again when coming back to the family company. Of course, we should also mention adult development[3] effects: the younger generation is most willing to listen to the older generation before they are in their late thirties.

Empirical Findings: What We Learned

Now, let us look at the findings from our research. When comparing the experiences of those with and without prior outside experience, our results[4] indicate that while most successors prefer outside work experience, it is not required for personal and business success. Our data show there are other, more powerful drivers of success. They include family functioning, business and other support, and feedback and developmental systems.

- *Family functioning* pertains to the family's ability to deal with conflict, to communicate effectively, and to remain aligned and unified even in the face of pressures. Without this foundational element, the effectiveness of all other kinds of preparation is diminished greatly.
- Candidates that receive *ample support*, both from within the business (that includes from leadership, mentors, as well as the broader workforce) and outside the business (such as peer group and educational programs) tend to fare better than those who do not report having access to such support.
- The presence of *systematic feedback and developmental systems* -- such as employment committees, regular evaluations, and career development programs -- greatly enhances the likelihood of candidate success.

What is more, regardless of whether successors spend time working outside the business, successful successors systematically build and develop skills in the following competence areas[5]:

- **Business** – In the business space, next-generation family members know how to successfully perform their role (i.e., task competencies), and how to interact with others in a business setting (i.e., social proficiencies). They have deep business knowledge (i.e., strategy, finance, HR), and they understand the family business culture.
- **Family** – In the family space, next-generation members understand the family system and are able to manage it. They understand how to relate to family members, how to help the family remain functional and make decisions that are aligned with the shared family goals, and help the family adapt to internal and external changes.
- **Ownership**- In the ownership space, successful next-generation members have a deep understanding of the formal and informal governance in the family and the business, of family goals and the meaning of the business to the family.
- **Personal** – In the personal space, successful next-generation members are good at decision-making, critical thinking, communication and personal conflict management. They can understand their environments, analyze a

situation and understand different points of view.

The following table summarizes the advantages and disadvantages to working both inside and outside the family firm:

	Advantages	Disadvantages
Inside	Provides next-generation leaders with important skills and insights regarding how the family operates; provides tacit knowledge about the business; and builds the next generation's credibility among family-business employees, particularly non-family members.	May lead to a smaller network (outside their industry), fewer external support systems, limited knowledge base, and feelings of uncertainty and self-doubt.
Outside	When the external workplace has more competent leadership and organizational operations, external work experiences build successor competencies in business in ways not found in their family business. When family support and functioning are dysfunctional, external work may help develop perspective and personal maturity or may just delay the consequences of family conflicts.	May lead to a delayed start, higher chance that the child will not come back to the family business at all, a longer and more difficult integration period as they misapply lessons and experiences from other organizations, and, perhaps paradoxically, a greater sense of entitlement, particularly when they had significant success outside the firm.

Table 1: (Dis-)Advantages to working inside and outside the family business

Actionable Recommendations for Family Business Owners

Our research findings challenge the empirically unsubstantiated assumption that outside work experience is a necessary requirement for further success, and that it is necessary in each individual case. Please consider the following recommendations:

Don't underestimate the importance of family functioning to succession success. You can have all the policies in the world for successor development, but if the family is fragmented and misaligned, it will negatively impact the next generation development and success no matter which route you take. Prioritize building alignment and cohesion by systematically investing time and financial resources in bringing your family together. Create a shared understanding of the family's values and objectives, and establish common expectations with regard to family employment and beyond. When expectations and consequences are clear, a greater sense of fairness will result, encouraging achievement and good family relations.

Set your candidates up for success. Provide your candidates the inside and outside work and other experiences and opportunities to succeed (or potentially fail). This will help them earn legitimacy in the eyes of key stakeholders inside and outside the business. But remember, full legitimacy is only earned after handing off managerial and board level control to the next generation.

Have a process in place. Consistently and transparently bring on, evaluate, and promote family candidates (consider using a family employment committee). This is important both for the family and the broader workforce, and prevents claims of nepotism. Also make sure that you have a system in place to identify misfits, and not allow people to continue in roles that harm the organization.

In addition, as with all policies and processes, systematically review all the requirements you have in place. Have regular conversations with other family members about whether certain requirements or policies still support you on the path to becoming the family and business you want to be.

Food for Thought

Here are some questions that can help you on your journey to developing competent successors and positive succession outcomes:

1. What are the knowledge and skills the next generation needs so they can thrive as individuals, as well as owners and leaders in your family business?
2. Are there opportunities for the next generation to acquire knowledge and skills inside your family business and through parallel experiences, mentor relationships, and peer groups?
3. What assistance beyond what is available in the business might be needed to develop the next generation (e.g., courses, advisors, or educational forums)?
4. How might the next generation benefit from staying in the business?
5. What might we risk by requiring them to work outside our business?

[2] And as Malcolm Gladwell reminded us, it takes at least 10,000 hours (or seven years!) to become an expert.

[3] Levinson, D. J. (1978). *The seasons of a man's life*. Random House Digital, Inc.

[4] Our sample consisted of 11 multigenerational families across the United States. The in-person interviews were all conducted in 2016, and we interviewed at least two firm representatives, including the CEO as well as at least one other family member and a non-family member who work closely with the CEO.

[5] These are consistent with <https://www.familybusiness.org/content/developing-competent-owners-and-stewards-for-a-lasting-family-bu>

[1] <https://www.vinciaprep.com/en/blog/average-age-mba-applicants-us>