

Managing Your Critical Operations (*Entrepreneur Magazine* – December 1, 2003)

If you own a family business, you probably worry even more than the average entrepreneur about ensuring that your company not only survives, but also thrives to nurture the next generation. In "Managing Resources: Linking Unique Resources, Management, and Wealth Creation in Family Firms" (*Entrepreneurship Theory and Practice*, Summer 2003), David Sirmon and Michael Hitt examined the strategies behind successful family businesses. They found that success is tied directly to how well a company manages the five unique resources every family business possesses.

1. **Human capital:** The first resource is the family's human capital, or "inner circle." When the skill sets of different family members are coordinated as a complementary cache of knowledge, with a clear division of labor, the likelihood of success improves significantly.
2. **Social capital:** The family members bring valuable social capital to the business in the form of networking and other external relationships that complement the insiders' skill sets.
3. **Patient financial capital:** The family firm typically has patient financial capital in the form of both equity and debt financing from family members. The family relationship between the investors and the managers reduces the threat of liquidation.
4. **Survivability capital:** The family company must manage its survivability capital-family members' willingness to provide free labor or emergency loans so the venture doesn't fail.

5. **Lower costs of governance:** The family business must manage its ability to hold down the costs of governance. In nonfamily firms, these include costs for things such as special accounting systems, security systems, policy manuals, legal documents and other mechanisms to reduce theft and monitor employees' work habits. The family firm can minimize or eliminate these costs because employees and managers are related and trust each other.

Clearly delineating these unique family resources and leveraging them into a well-coordinated management strategy greatly improves your business's chances of success compared to nonfamily-owned companies.