HST Business Insights

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Nurturing Family Businesses
Building Ethical Foundations for Long-Term Success

by: Solomon Gizaw

Family Tree

Nurturing Family Businesses: Building Ethical Foundations *for* Long-Term Success

by: Solomon Gizaw
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In today's world, the livelihood of modern societies is significantly reliant on the existence and growth of businesses. Business assumes a central role in society, shaping various aspects of economic, social, and even cultural development.

The importance of business to society can be understood from multiple perspectives: economic growth and employment, innovation and technological advancement, as well as sources of revenue for governments; skill development and training, global trade, interconnectedness, and more.

While major private corporations make substantial contributions through ground-breaking innovations and the accumulation of considerable wealth, family businesses also play a vital role in employment and economic growth across both developed and developing economies.

In contemporary society, governments strive to regulate business activities through a spectrum of laws and regulations designed to shield society from detrimental business practices. However, laws and regulations alone prove insufficient in effectively governing businesses.

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The sheer complexity of prescribing intricate rules to oversee the operations of every business within diverse sectors of the economy makes this approach nearly impractical. Thus, genuine self-discipline in the form of ethical

practices becomes imperative for the sustainable well-being of society in the long term.

While innovation and profitability undoubtedly drive the growth of various business ventures, this article places particular emphasis on the paramount importance of ethical business practices for ensuring the enduring survival of family businesses. This is rooted in the understanding that unless a family business aligns with the values of society, its eventual decline becomes inevitable.

Beyond nurturing continued growth and profitability, ethical practices within family businesses are pivotal in maintaining extended family harmony, attracting, and retaining external family talent, securing ongoing support from capital providers, and minimizing avoidable penalties related to compliance with laws.

Considering the pivotal role of ethics in business, why do some family businesses grapple with upholding these principles? Addressing this question is intricate, as conducting a comprehensive field study is nearly impracticable due to the unwillingness of individuals to disclose illegal or immoral activities to outsiders, even close friends. However, scrutinizing the operations of family businesses can yield logical and plausible hypotheses.

Beyond the realm of questionable ethical practices, numerous family businesses exhibit reluctance to share critical business model information outside the family or with close confidants within the business. Valid concerns encompass the preservation of competitive advantage, safeguarding intellectual property, maintaining family privacy, upholding family

values and traditions, apprehension regarding misuse, and concerns about trust and reliability. However, more serious concerns can also involve an inherently questionable business model.

If a family business model hinges on corrupt practices and/or inappropriate and covert political support, as is prevalent in many developing economies, constructing a thriving, intergenerational family business that necessitates the backing of strategic growth partners and professional talent beyond the family becomes infeasible.

The challenge of establishing ethical practices within family businesses is further compounded by factors such as the informal nature of family enterprises, the intertwining of business and personal interests, the absence of external oversight, allegiance to family

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members, and the fear of conflicts within the family. Moreover, the presence of divergent values and priorities among different family members can lead to conflicts when attempting to establish a unified set of ethical practices aligned with everyone's perspectives. From a practical standpoint, family businesses often exhibit deep emotional attachments to their historical legacy, potentially introducing biases that cloud objective judgment when making ethical decisions.

Family businesses practicing corruption and favoritism might experience swift growth within their chosen industry, as long as these practices remain concealed from the broader community and stakeholders. However, over time, the significance of business governance becomes a central concern, not solely for the benefit of society and the environment, but also to ensure the continuity of family businesses across generations.

Given the backdrop of numerous business and governance scandals over the years, it has become imperative for all businesses to adopt acceptable governance practices and transpar-

ent business operations. The challenge lies in the fact that effective governance structures and best-practice management systems necessitate a strong ethical foundation throughout the family business. The encouraging news is that, with determination, a committed family business leadership supported by cooperative family members can design and implement ethical business practices programs with the guidance of trusted advisors such as HST. ∎

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