DEBATE AND TRANSPARENCY ARE KEY TO GOOD DECISIONS

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Do family businesses make worse decisions than other kinds of firm? Many economists think so. They will tell you that the one thing family firms have going for them is that people's interests are locked into the business – if they harm the firm they harm themselves, unlike many public firms where executives can walk away from any havoc they wreak. Otherwise, they'll tell you families are beset by temptations and hazards that undermine the rationality and consistency of key decisions about strategy, ownership and finance. Maybe, but it is not failures of willpower that derail them so much as errors of judgement.

It is in the crossover zone between economics and psychology that the biggest problems arise. It seems, as decision makers, we are great at charging towards our chosen goals, but when it comes to reason we are poor. Decision making can be broken down into four stages. Things go wrong in each at each stage.

Stage one is data appraisal – how we pay attention to what is going on inside the firm, and outside in the business environment. The problem starts because people just don't look in the right places for information or at the right kinds of data. Instead of dispassionate analysis of systematically gathered data, too often we trust to instinct and over-rely on hearsay, gossip, and personal experience.

We pay attention to what is memorable and familiar, and neglect the mundane. Uncle George's observations about the business climate are taken more seriously than reports in the *Financial Times*. Are family firms any worse than others at this stage? Maybe they are, to the extent that they may make more use of their family and social networks than recourse to more impartial sources of evidence.

Stage two is weighing the evidence. There are bear-traps on every side. One bunch of hazards is where the numbers lie. Our eyes may glaze over when looking at the financials, but even looking at the headline figures what do we see? Even people with financial training make elementary errors when assessing changes over time, frequency information and relative magnitude.

Things get worse when we move into the realm of probability and risk assessment. We focus on what is most threatening and tend to exaggerate the improbable, often overlooking what is commonplace. Family businesses' aversion to debt comes from an exaggerated sensitivity to unlikely risks.

But on the positive side, they are superior in their ability to take a long-term view of decisions, and not be blown about by every scrap of good or bad news. It also helps to have more than one pair of eyes looking at the situation. Families can be much blunter in challenging each other, and to a degree this can be healthy (see *Families in Business* May/June 2005, p80). It gets unhealthy when everyone is of like mind and no one dares to challenge the boss.

Stage three is implementing the decision. In taking a course of action there are lots of ways of screwing up. One is following the herd – see what other businesses like us are doing and do the same. Whole industries have vanished on this principle, and what does "like us" mean anyway? Family businesses are, happily, often a lot more aware of their uniqueness than other firms and better able to resist this hazard. More of a problem is "groupthink" – too much agreement about a specific action and too few dissenting voices. Although families are quite good at shouting at each other, they are often less good in taking a different perspective. This is where you need independent voices. This is a weakness in family governance systems – too many people who are either under the benign or not so benign authority of the family chieftains, and too many old retainers posing as advisors.

Finally, stage four is the aftermath. When you look at the outcome how do you react to success, or assess the damage? What do you learn? How does it change your behaviour? Again the gloomy psychologists' answer is that unless big warning bells are ringing we're inclined to find ways of sticking with what we're comfortable with. Too often this means congratulating ourselves when things go right – even when we were just lucky; and blaming forces beyond our control when things go wrong, even though we played a part in them. Worse, often it means throwing the dart, moving the target and then shouting "bull's-eye". Are families worse or better here? Probably better to the extent that they are less reactive to external pressures.

So what are we good at in decision making? Our strength lies in making snap judgements, intuitions, getting flashes of insight, and tuning in with other people – elements that drive creative entrepreneurship. Family firms are often good at these, because of their informality and high levels of open communication. All they need is the occasional strait-jacket, more genuine diversity, and a good dose of healthy self-criticism.

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