



## **Entrepreneurial Lives**

*Friends, family and fools: A help or a hindrance?*

### **MariaLaura DiDomenico**

Guinness, Ford, Rockefeller and Trump. These are brands you'll probably know well. What all these examples have in common is that they were, or are, family businesses. And in all of these cases they are also family names. Since being founded, many family firms remain in the family for successive generations. Some grow and are then sold on, but still retain the significant involvement of original family members on the board.

What part can family and friends play in the launching or running of a new enterprise? Should they be approached for capital, or help with the actual nitty gritty of work tasks? How could they, in turn, be affected by this business relationship? And what are the possible tensions when the boundaries between work and personal lives become blurred?

I'm MariaLaura Di Domenico from the Open University Business School and this podcast is part of a series called 'Entrepreneurial Lives'. We'll address these questions and consider the benefits, drawbacks and dilemmas involved in running a business with family members or friends.

The expression 'friends, family and fools' is commonly used in discussions about raising capital for new start-ups. Private investors are approached, usually in return for an equity stake. And they are very far from foolish – rather, they are often highly experienced and skilled business people. But they lack previous social bonds with the entrepreneur and often work on the basis of risking their own money with the aim of big returns – a lot of bang for their buck!

But this may not be the right choice, or even a realistic option, for the majority of new businesses – particularly if they're not seen as potentially high-profit, high-growth. So, let's put the external private investor to one side, and devote our attention instead to what is the realistic alternative for most entrepreneurs without the good fortune to be self-financing – family and friends. Many entrepreneurs go to them to get hold of much-needed money, time, skills or other resources. Family and friends are also usually easier to persuade. Sharing a history and a social bond means they are more likely to support and buy into the vision of the entrepreneur.

But tensions may arise from accepting money from family and friends. Rarely is it an outright gift. And there are differences between family and friends giving a loan but having no involvement in business dealings and decisions, and being actual business partners. The idea of running your business with your mother or your cousin may horrify you. On the other hand, you may have a supportive relationship that would be beneficial to the business.

I spoke to Natalie McKenna who runs her own cleaning business 'Perfect Maid'. She also works alongside her parents in their cleaning businesses:

### **Natalie McKenna**

If you work for an employer you have to do as you're told, whereas I can compromise with my clients for different times and days and things, which is nice.

### **MariaLaura DiDomenico**

What it is like working alongside your Mum or your Dad?

**Natalie McKenna**

We kind of have quite fun times actually really. We do have a laugh. Working with family you know how far you can push them, you know how they are going to react to something you say and also we kind of know what each other is thinking - so say we go into office, straightaway one person will see something that's needs to be done and I'll see another thing and then we'll meet in the middle and we'll all stand there and say ok 'let's do a quick check, everything done, right lets go' and its nice, you think on the same wavelength and you can also tell each other off and not get too offended.

**MariaLaura DiDomenico**

For Natalie the close-knit kinship bond was key to having a high level of trust with both family members and customers:

**Natalie McKenna**

If you are grumpy when you go into work people are less likely to speak to you - everybody speaks to me all the time and my dad and my mum and they know a little bit about us as well. That's all about trust isn't it?

**MariaLaura DiDomenico**

Family and kinship ties in the UK have been researched by scholars for some time now. For example, back in 1957 Elizabeth Bott's classic study of families in London, showed the important link between family and marriage patterns, and social networks. She distinguished two kinds of networks that exist around different family types. The more 'close-knit' network involves multiple close ties among extended family members where everyone knows everyone else. And there's the 'loose-knit' one, where relationships are less dense. In the case of close-knit networks, relationships among kin tend to be relatively permanent, and stable and there are many more strong ties with kin than with non-relatives. However, in industrialised societies such as England, 'loose-knit' networks are now more common. The importance of wider kin in economic affairs has generally lessened and is now associated with less frequent and intense contact among relatives. However, following on from Bott's work, we can say that this has often strengthened a couple's bonds and their wish to set up a joint venture. As I've found in my research, many of the small businesses run by couples were first set up to realise their entrepreneurial ambitions of going into business together.

So, where the business is run by a couple or various other family members rather than being a sole endeavour, careful thought needs to be given to what could be a delicate boundary between business and personal spheres.

We must consider this also when friends are involved. Close bonds are held not only with chosen family members but also with close friends as an important part of the entrepreneur's social network. In my research on small hotel and Bed & Breakfast owners, I found that friends helped them in many diverse ways. Apart from finance, intangible assets such as knowledge, advice, recommendations and emotional support were often supplied by friends and were, in fact, described as 'key to successful business'. And these need not cost anything other than an implicit notion of 'doing a friend a favour'.

This was the experience of Kate Hopewell-Smith who runs her own photography business.

**Kate Hopewell-Smith**

I think you have to be very clear about where your strengths are and where your weaknesses are and to seek advice. There are a lot of people who are incredibly generous - not just other mums doing this but friends, people, who have been in business for a long time and they are willing to help and I have asked for advice, taken advice and acted upon it and just be prepared to ask.

**Jo Winchcombe**

I mean this is really where it all happens, having moved on from a very manual system when we started up 10 years ago, we're now highly automated and the printer prints them in great big sheets of metre long media and then we cut them, bag them down into small bags which then get sent out to the customer.

**MariaLaura DiDomenico**

I visited Jo Winchcombe at her factory where her company Simply Stuck produces labels for children's clothing. She's also found that it's important to seek out advice wherever you can, such as from friends or members of your local community. Essential for the cash-strapped business.

**Jo Winchcombe**

Initially when we set up, we had no personnel resources and there was a lady in the village who worked in personnel and people are very kind and will give their time and they'll direct you in terms of what's the best way to do things and the best way to set things up and so we got a lot of advice from Jane which helped and again, when you are employing people, the best way of setting up their contracts and the terminology used has got to be done properly otherwise you can end up in deep water but when you're on a shoestring, then again, it's a matter of getting hold of the right people and they are very willing to help when you're setting up a small business in giving help and direction.

**MariaLaura DiDomenico**

So, non-financial but often vital help such as this is also a form of social exchange. But goodwill often carries with it the unspoken idea that kindness could be returned in some other form in the future. Interpersonal interactions are infused by the 'trading' of benefits and mutual support. Of course the practice of exchange is deeply embedded in society. Social relationships are created and maintained in this way. French sociologist and anthropologist Marcel Mauss wrote the classic work 'The Gift'. He argued that gifts are never free in reality. There's always the expectation of reciprocity - the notion of 'if you scratch my back I'll scratch yours'. The very act of giving creates a social bond. The person receiving the gift is then under an obligation to reciprocate in some way.

But even where friends and family don't have a direct involvement in the business, tensions can arise between business and family relationships, as Kate Hopewell-Smith has found.

**Kate Hopewell-Smith**

I do find it very difficult at times to give my family the kind of attention that they need from me and I think that if anybody is currently suffering, it's probably my husband. We're probably not spending enough quality time together.

**MariaLaura DiDomenico**

So how do you deal with that?

**Kate Hopewell-Smith**

Because it was my birthday on Monday, I had a date night, when we actually had a babysitter and went out and we did talk about the business as well as the children and everything else, but you have to allocate time to it and often we don't and I think we probably need to get better at it and as much as I'm very good at timetabling "children time", I think I probably need to do the same for my husband because what's happening at the moment is that once the kids are in bed, we eat and then I go straight back to the office and I may well be there until 10 or 11 o'clock at night, when actually he would like me to be with him.

**MariaLaura DiDomenico**

So it's drawing those boundaries?

**Kate Hopewell-Smith**

Yes. I think they're probably not at all clear at the moment and I think it's my responsibility and I think I need to get better at it.

**MariaLaura DiDomenico**

So family members can influence and are affected by the work choices we make. Even if we don't actually work with them. Of course, some people choose to actually work alongside their spouse as co-preneurs. This has advantages and drawbacks. My research has shown that people who run their own businesses with a spouse tend to have clear roles drawn up, and know when to focus on business as opposed to personal issues. Natalie McKenna again.

**Natalie McKenna**

Me and my mum work together during the day but if something else is going on in my life, I'd be like "oh did you know so and so", you know, we'd have a bit of a gossip, but if there's like financial difficulties or anything, anything like that, we don't talk about it in work but as soon as we get in the car or we go up to the town or we go to the pub for a drink, we can talk about that, but then we do talk about work life in our personal life, but we never talk about our personal life when we are at work really, unless we're having a joke about it, because, I think when you've been working as your own boss or with your family for so long, you get to know the boundaries of what you can speak and who you can speak about it to and what time you can speak about it. There is always a time to speak about something like that and you've just got to know what it is.

**MariaLaura DiDomenico**

Of course challenges face those working with anyone with whom they have social as well as business relations. The business relationship may not always be on an equal footing. Some entrepreneurs employ friends or family members to work for them as employees. This may cause a power imbalance. For example it could be quite difficult to sack your spouse if you didn't think they were up to the job! I recall interviewing the owners of a grocery business who employed their nineteen year old son. But they soon found that because the business belonged to mum and dad, he would often turn up late, arrive looking scruffy and generally not giving a good impression. He would even turn up for work still in his pajamas and slippers! On other occasions he would raid the petty cash leaving his parents 'I owe you's'. Needless to say, he didn't last long in the business!

So it's important that others who are brought in share the same values.

Problems often arise in family businesses in terms of succession and inheritance. Subsequent generations may not see carrying on with the family business as their preferred career path. They may feel only a sense of duty or even feel under pressure to take it forward. The dream of mom and dad may not be shared by their descendants. This brings to mind the saying ; 'The first generation starts the business. The second generation grows the business. But the third generation blows the business'. So, its stability and durability and whether it's kept in the family may with time become open to question. This is also the case if a family firm is sold or acquired as a commercial concern.

The idea of patronizing a company that is a family business is appealing to many customers. The family ethic can also be very important in terms of the bond created within the firm. It becomes more personal and even meaningful if you're working for an individual or family rather than a faceless bureaucracy for example. Workers may feel more committed. Many companies that have never been family businesses, try to emulate this by using other techniques almost as a proxy for the family bond. Gaining commitment through share ownership for instance so that everyone has a personal stake in the business. Take the John Lewis Partnership, a major UK worker cooperative. Employees are known as 'partners' , receive a share of annual profits and have a say in the running of the business regardless of their role is in the organizational hierarchy.

But, from a critical standpoint, it is also important to acknowledge that there is also sometimes a dark side to entrepreneurship, even in the context of a family business. As a parody of the dysfunctional family, the mafia is an example of a close-knit extended quasi-family grouping involved in various illegitimate business activities. The mafia even adopt 'family' metaphors such as the infamous 'godfather' terminology which is vivid in the public imagination as a result of films such as Francis Ford Coppola's crime dynasty drama trilogy.

Even with legitimate business interests, there can also be a negative side to the entrepreneur's character as it is conceivable that the single-minded individual may be ruthless to the extent that they may take unfair advantage of their friends and family and exploit their willingness to help. Alternatively, family and friends may take unfair advantage of their ties to the entrepreneur. Non family members may also feel excluded or marginalised if working in a family firm where close knit bonds exist. So, this is a potential emotional minefield requiring careful management and consideration.

This podcast has explored the boundaries between business and family and friends and the issues that may arise when these boundaries are blurred. In many ways co-opting help from family and friends demonstrates the resourcefulness of the entrepreneur who makes the most of the people around them. Following on from this, in my next podcast, I will look at entrepreneurs as bricoleurs, and how they go about acquiring much needed resources for their businesses.