



Family Firm Resources

Family Business Strategies • Assessing the Present • Assuring the Future

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The Secrecy Time Bomb

Robert Caldwell

At our recent Family Business Center meeting Ernesto Poza, who literally wrote the primary textbook used in the Wake Forest MBA family business class, made an interesting comment and one with which I heartily agree. He said that “secrecy is the great single enemy of family business continuity.” It’s a bomb that generally goes off at the time of succession. This is something I’ve discussed with a number of my family business clients over the years and an issue I’ve seen blow up for business families more than a few times. What does Ernesto mean by this? What is so toxic about secrecy in your family business? From my experience there are three major reasons secrecy is such a problem in the context of family business.

- First, a culture of secrecy keeps important and necessary information from flowing throughout the organization. For instance, if family members who work in the business are not informed about the finances of the company, assumption takes over. Every dollar of revenue is assumed to be a dollar of profit to those who don’t know any better. Lack of information about expenses, investment and future uses of funds limits access to vital statistics that can hamper growth. This can cause jealousy, resentment and poor decisions.
- Second, a culture of secrecy, where the CEO keeps all relevant information to him or herself, leads to feelings of mistrust and distrust that run both ways. No one is really sure what can be discussed or what questions can safely be asked. Once anyone feels mistrusted their level of commitment goes down. Isn’t it true for you that if you don’t feel trusted you shut down and don’t want to participate anymore? If the founder/owner keeps his or her plans for succession secret, everyone lives in doubt about their future in the company.
- Third, excessive secrecy, while protecting proprietary information from competitors, limits the development of the next generation of leaders. Part of developing successors is to involve them in important decision making functions, sooner rather than later. When succession time rolls around uninformed next generation members are often caught off guard and haven’t had time or incentive to prepare themselves for the rigors and demands of taking over leadership positions.

By sharing information on a regular basis and thoroughly exploring questions and concerns, family business members and key non-family employees feel more connected to the company, more empowered to make good decisions and more committed to doing a good job. There, of course, need to be ground rules about what is done with shared information, but once a foundation of trust is built the bomb can be defused and become much less likely to explode at the least opportune time. Find ways to share information with each other. Learn to trust. Teach the next generation that there is responsibility that comes with access to important information, but with that responsibility comes a higher level of performance that can benefit all involved.