

## Family Business

### Learning Outcomes:-

Understand and explain the significance of family firms in any national economy, qualitatively and quantitatively. Examine the advantages and constraints of the family business form. Assessment of the economic significance of family-run firms. Critical appraisal of the special attributes of these firms

**Video case study**      “I’ll show them who’s boss”      BBC television  
Businessman Gerry Robinson is notorious for transforming vast companies by sacking the bosses. In this series focusing on the problems of family business, he shares his international business genius with small companies who are crucially in need of help.

### Family businesses      -      why are we so interested?

Various estimates:-

UK	70% of <b>ALL</b> firms are family owned
EU	85%
Italy	90+%
USA	90%      In USA, family firms make up > 1/3 of Fortune 500.

Examples:-      Mars      (2<sup>nd</sup> / 3<sup>rd</sup> generation family corp.)  
Lego  
Levi  
Morgan Car Co.  
Agnelli  
Pirelli  
De Benedetti  
Benetton

Locally      Mackays – 3<sup>rd</sup> generation hardware retailer  
Marshall's Group – 4<sup>th</sup> generation company

In 2003, I attended a meeting of the Royal Aeronautical Society in Cambridge to mark the centenary of the Wright brothers' first powered flight in 1903. Sir Arthur Marshall, early member of the Marshall Group, gave a short speech. He reminded us that he was born two months before the Wright brothers' first flight, he was 100 years old. He is still interested in the family business even though he no longer has his office at the company. The Marshall Group employs 2000-3000 people locally and elsewhere in the UK. I met Robert Marshall, the 4<sup>th</sup> generation, at a business network meeting recently.

So family business is hugely important in the economy.

## Reading – this is a very specialist area and is sadly neglected by most writers in the entrepreneurship subject area:-

Entrepreneurship & Small Business Paul Burns, Palgrave, 2001, chapter 13

Enterprise & Small Business Edited by Carter & Jones Evans, FT Prentice Hall, 2000  
Chapter 9 “Family & Enterprise” by Denise Fletcher

Mastering Entrepreneurship Edited by Birley & Muzyka, FT Prentice Hall, 2000  
Section 5 “People, Family & Teams”

Guide to the Family Business (BDO Stoy Hayward)  
Leach & Bogod, Kogan Page, 3<sup>rd</sup> edition, 1999

Strategic Planning for the Family Business – parallel planning to unify the family and business  
Carlock & Ward Palgrave, 2001

Working with Family Business  
Bork, Jaffe, Lane, Dashew & Heisler, Jossey Bass, 1996

Perpetuating the Family Business – 50 lessons learned from long-lasting successful families in business  
Ward, J Palgrave MacMillan, 2004

Generation to Generation – life cycles of the family business  
Gersick, Davis, Hampton & Lansberg  
Harvard Business School Press, 1997

Sustaining the Family Business – an insider’s guide to managing across the generations  
Paisner, Basic Books NY, 1999

## Family Business – useful websites:-

The BDO Centre for Family Business <http://www.bdo.co.uk/>

### **The BDO Centre for Family Business**

What are the key issues faced by family businesses?

<http://www.bdo.co.uk/BDOSH/Website/bdouk/websiteContent.nsf/450808a98b02c3e38025695a00467ea3/2e02d4664265de5180256dfd003be664?OpenDocument>

### **The BDO Centre for Family Business**

A balanced approach to family business management

<http://www.bdo.co.uk/BDOSH/Website/bdouk/websiteContent.nsf/450808a98b02c3e38025695a00467ea3/d25beb80e784a48e80256dfd00420f16?OpenDocument>

Family Business Network

<http://www.fbn-i.org/fbn/web.nsf/Pages/Homepage?OpenDocument>

Institute for family Business <http://www.ifb.org.uk/>

Institute for family Business

Events and conferences

- interesting list of meetings & conferences, gives flavour of family business issues

<http://www.ifb.org.uk/events.html>

## Family Business Solutions

Dr Barbara Murray (director of the Centre of Family Enterprise at Glasgow Caledonian University)

[http://www.bgateway.com/startup\\_case\\_study.asp?csid=44](http://www.bgateway.com/startup_case_study.asp?csid=44)

## Family business sayings (centuries old):-

### English

“There nobbut three generations atween clog and clog” (old English)

Clogs to clogs in three generations

(A clog is a wooden shoe, worn by labourers 200 years ago)

### Jewish

Rags to rags (in three generations)

### Chinese

Wealth does not pass three generations

### Spanish

Padre Bodeguero  
*Tavern owner*

Hijo Millionario  
*Millionaire*

Nieto Pordiocero  
*Beggar*

### Portuguese

Pai Rico  
*Rich farmer*

Filho Nobre  
*Noble son*

Neto Pobre  
*Poor grandson*

### Italian

Dalle Stalle  
*From bar n stalls*

Alle Stelle  
*to the stars*

Alle Stalle  
*to bar n stalls*

### German

Erwerben  
*Earn it*

Vererben  
*bequeath it*

Verderben  
*wreck it*

### Chinese

Builds success

Live like gentlemen

Nothing left

### Dutch

erven (heir)

verwerven (obtain)

sterven (die)

Based on Ward, J (2004) “Perpetuating Family Business – 50 lessons learned from long-lasting, successful families in business”, Palgrave MacMillan

### Universal formula:-

1<sup>st</sup> generation founds the business

2<sup>nd</sup> generation takes over and grows it.

3<sup>rd</sup> generation takes over and destroys it

Family Business - no real theory here, but observations:-

Strengths based on family relationships (based on Leach\* cited by Burns, 1996)

Sense of belonging, trust, support

Common purpose family values

Flexibility                      *unity* of mgt & shareholders  
    quick decisions  
    rapid change

Pride

Stability

Long term thinking

Commitment

*The attributes above are very valuable.*

BUT in excess, strengths can become weaknesses

Strengths	=	PROBLEMS
Sense of belonging	=	internal focus reject external influences
Flexibility	<i>unity</i> of mgt & shareholders	= internal focus
	quick decisions	= lack of thought
	rapid change	= can go in the wrong direction
Pride		= arrogance
Stability		= resistance to change
Long term thinking		= rigidity
Commitment		= rigidity

## Family business issues

Unwilling to respond to changes around the firm = a big cause of failure.

Exclude ideas from outside = inward looking - ignore market trends

Ageing founder = lack of vitality - risk of ill health or dying

Family goals and Business goals may conflict  
Best for family = best for business?

Recruit a family member or professional outside manager?  
Nepotism can be a problem!!

Family member may not be competent!

Conflict between growth and ownership  
Growing a firm needs delegation to professional managers

Unwilling to recruit outside managers

Loss of control = BIG ISSUE

Pay and incentives  
Conflict from pay policies!

How to reward family members & other staff?

Reward based on shareholding or contribution (productivity)?

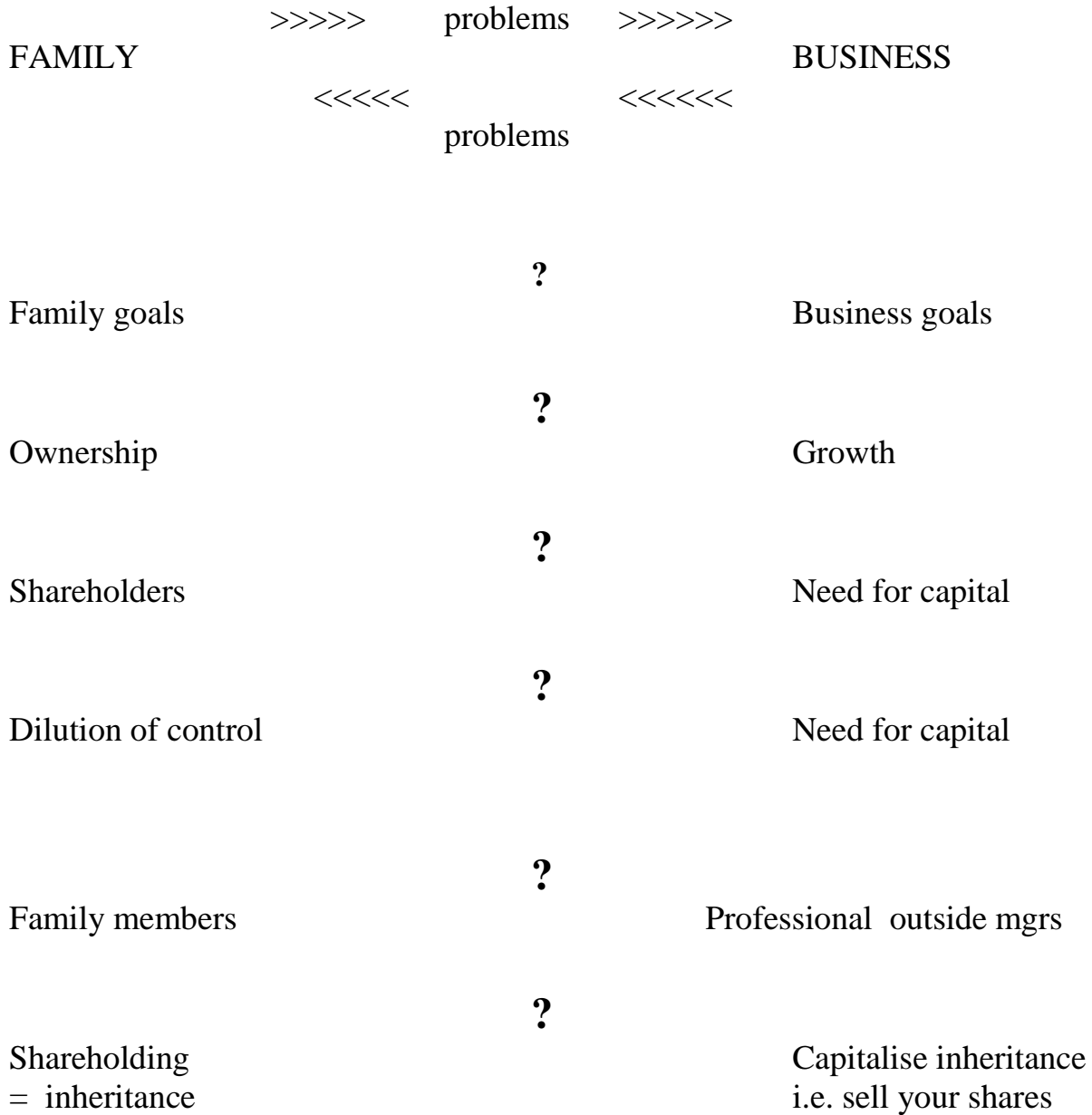
= Family rate of pay or = market rate of pay?

### Case Study

Pay is a real issue. Robert Jones's friend Charles is MD of his third generation family enterprise in which four siblings all have an interest. They each control 25% of the voting shares. Two of the founder's grandsons (Charles and his older Andrew) work full-time in the firm and earn approx £40k, with a nice Mercedes company car – they are paid a market rate according to their productivity. The third grandson Edward and the granddaughter Anne do not work in the firm but they expect to be paid £40k plus nice Mercedes company car – this is the family rate of pay. The granddaughter Anne attends one annual board meeting for her pay and perks. This is a real family / business life and causes real tensions.

Family business **tensions:-**

The family and the business are the same thing:-



This final issue is very significant now in the 2000s . Many family firms change ownership because the younger generation does not want to inherit the enterprise. Sons and daughters wish to capitalise on their inheritance and sell their shares and make their own lives

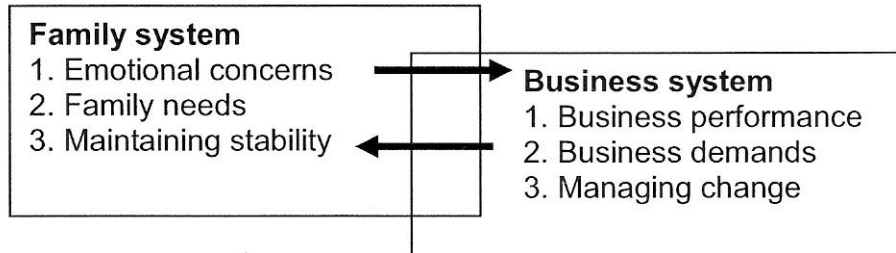
## Research into Family business

Study of family business started in 1960s and 1970s, with identification of typical problems that hindered these firms e.g. nepotism, generational rivalry, sibling rivalry and unprofessional management.

Gersick, Davis, Hampton & Lansberg, (1997)

Generation to Generation – Life Cycles of the Family Business, HBS Press

The basic model has two systems – the family and the business, each with its own attributes. Problems arise because the same individuals must fulfil obligations in both systems – over-emphasis in one area leads to problems in the other area:-

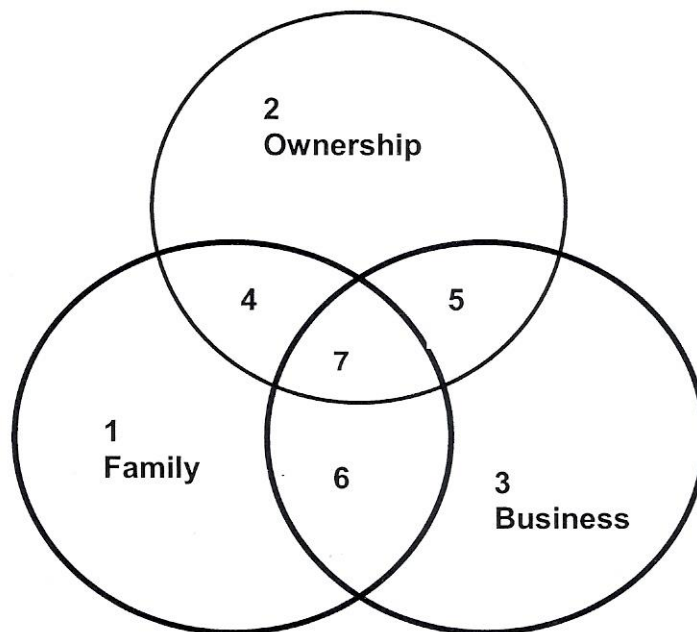


e.g. Carlock, R.S. & Ward, J.L. (2001)

**Strategic Planning for the Family Business – Parallel Planning for the family Business**, Palgrave

Satisfying both systems is the key challenge.

The two-system model was further developed in the 1980s by making a distinction between management and ownership and so implying a three circle model:-



## The Three Circle Model of family Business

This illustrates some of the complexities of family businesses – there are at least 7 different contexts of family business in which individuals can operate.

Tagiuri, R. & Davis, J., cited by Ward, J. (2004)

**Perpetuating the Family Business – 50 Lessons Learned from Long-Lasting, Successful Families in Business**, Palgrave MacMillan

## Role of the external agent of change

### External agent of change can help to formulate a Family Firm Constitution

Based on values, beliefs & philosophy:-

- Objectives for the family business
- Share ownership – voting, control & disposal
- Board membership – voting rights
- Selection of chairman and MD
- Jobs and Pay rates
- Family council meetings
- Procedures for changing the constitution

### The Five Insights

Ward, J. (2004) *ibid.*

Insight #1 We respect the challenge

Insight #2 Family Business Issues are common and predictable, yet perspectives on the same issues will be different.

Insight #3 Communication is indispensable

Insight #4 Planning is essential to continuity

Insight #5 Commitment is required of us

### The Four Ps

Ward, J. (2004) *ibid.*

Policies formulate policies before the need

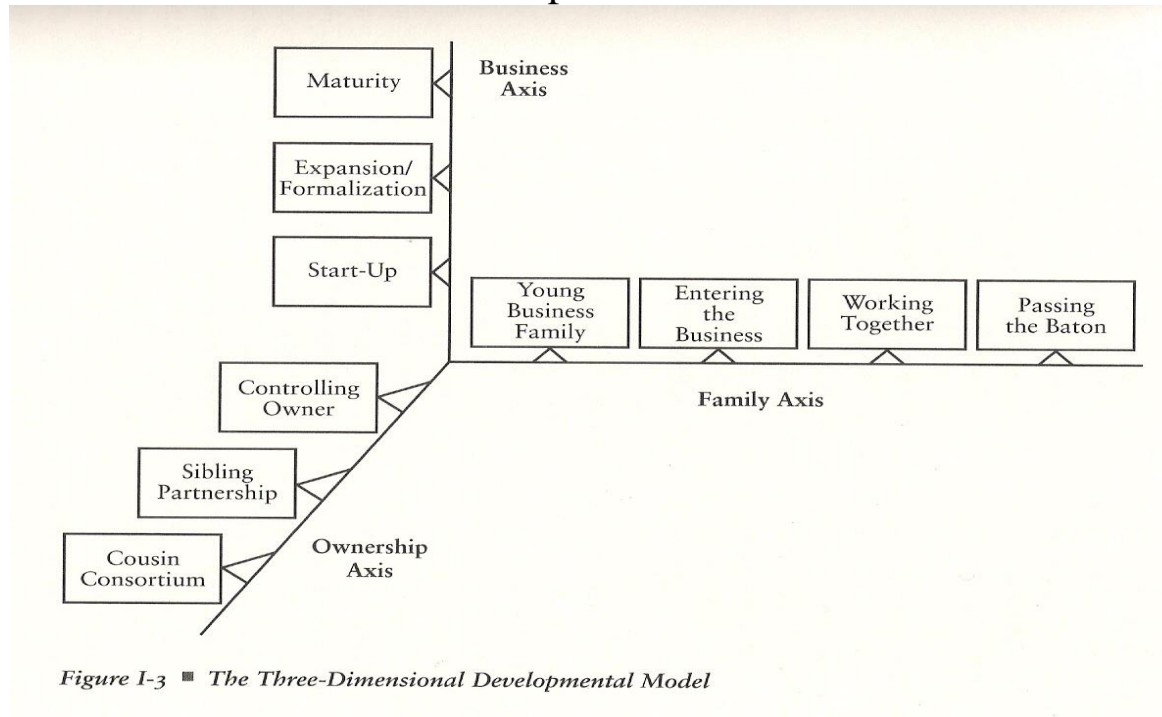
Purpose a sense of purpose is vital

Process decisions are part of a process, not events

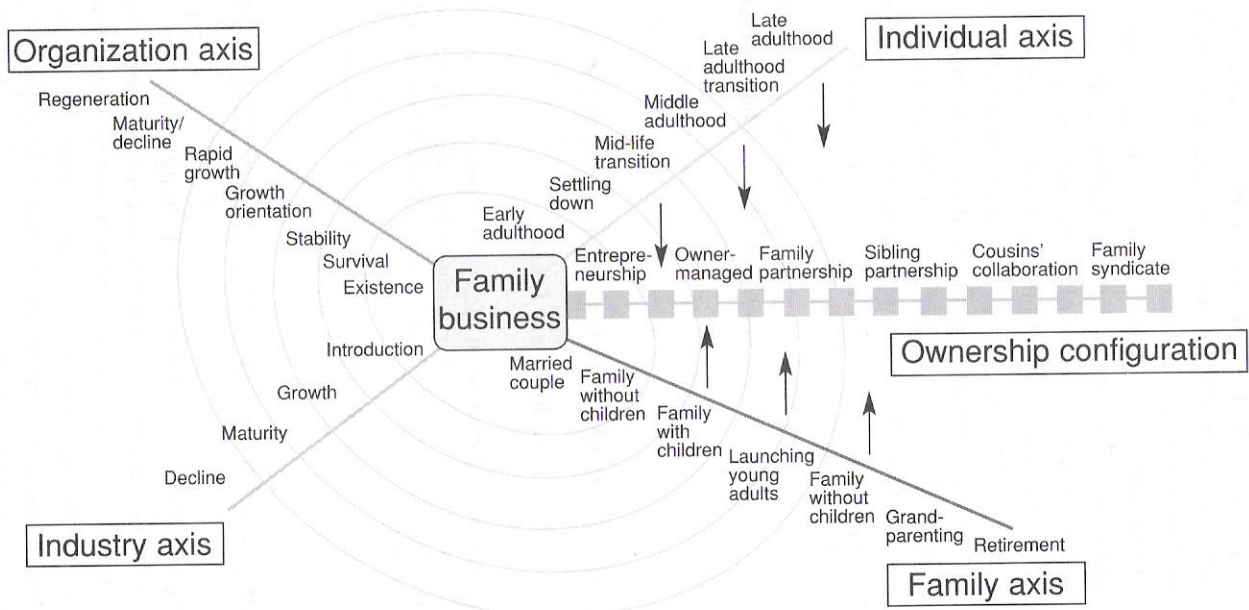
Parenting the younger generation should be nurtured in a business sense as well



# The Three Dimensional Developmental Model



Gersick, K.E., Davis, J.A., McCollom Hampton, M., Lansberg, I. (1997)  
**Generation to Generation – Life Cycles of the family Business**, Harvard Business School Press



**Figure 2.3** Life cycle forces influencing family businesses

Adapted from: R.S. Carlock, *Family Business Management Course Materials*, University of St. Thomas, 1995; C.K. Sigelman and D.R. Shaffer, *Life-span Development*, Belmont, CA: Brooks/Cole Publishing, 1991; D.J. Levinson, *The Season of a Man's Life*, New York: Balantine Books, 1978; J.H. Eggers, K.T. Leahy, and N.C. Churchill, 'Stages of Small Business Growth Revisited: Insights into Growth Path and Leadership/Management Skills in Low and High Growth Companies', in W.D. Bygrave, S. Birely, N.C. Churchill, E. Gatewood, F. Hoy, and W.E. Wetzel (eds) *Frontiers of Entrepreneurship Research*, Boston: Babson College, 1994, 131-44.

Carlock, R.S. & Ward, J.L. (2001)  
**Strategic Planning for the Family Business – Parallel Planning for the family Business**, Palgrave

# But the biggest issue is SUCCESSION

- handing on the business from one generation to the next. Succession is a key cause of closure of family business

**Why?** Families do not plan for it. Then ill-health or death of the founder threatens the continued existence of the firm.  
Disputes between family members e.g. Littlewoods stores, Clarks shoes  
Can lead to the death of the business

## Survival rates:-

1 <sup>st</sup> generation	2 <sup>nd</sup> generation <33%
2 <sup>nd</sup> generation	3 <sup>rd</sup> generation 10%
3 <sup>rd</sup> generation	next generations <5%

## For successful succession:-

- Start planning early
- Inter-generation teamwork
- Devise a written succession plan
- Involvement & communication
- Take outside help
- Training process
- Plan for retirement
- Agree exit style and role for parent

Universities are active in research, advice and consultancy in this area.

- + succession planning
- + developing a family constitution
- + training for the next generation
- + retirement planning & finance
- + communications
- + tax advice

Succession within the family is *one* option.

## Other options are:-

- Sale to a competitor
- Mgt buy-out
- Mgt buy-in
- Appoint a professional manager
- Appoint a caretaker manager
- Liquidate

## Examples of recently former family firms:-

These all went through difficulties with succession before selling out to investors and becoming PLCs:-

Marks & Spencer

Tesco

Sainsbury

W H Smith (Strat Mgt seminar example)

Cadbury

## In future years, watch these family organisations:-

Benetton

Virgin

Body Shop

News Corporation

Royal family

Richard Branson

Anita Rodick

Rupert Murdoch

!

Also watch: Mittelstand firms in Germany