

Entrepreneurial Management

Chapter 5

The Family Business

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*After studying this chapter,
you should be able to...*

1. Explain the forces that can keep a family business moving forward.
2. Describe the complex roles and relationships involved in a family business.
3. Identify management practices that enable a family business to function effectively.
4. Describe the process of managerial succession in a family business



What Is a Family?

- Family

- A group of people bound by a shared history and a commitment to share a future together, while supporting the development and well-being of individual members.

- ❖ Nuclear

- ❖ Extended

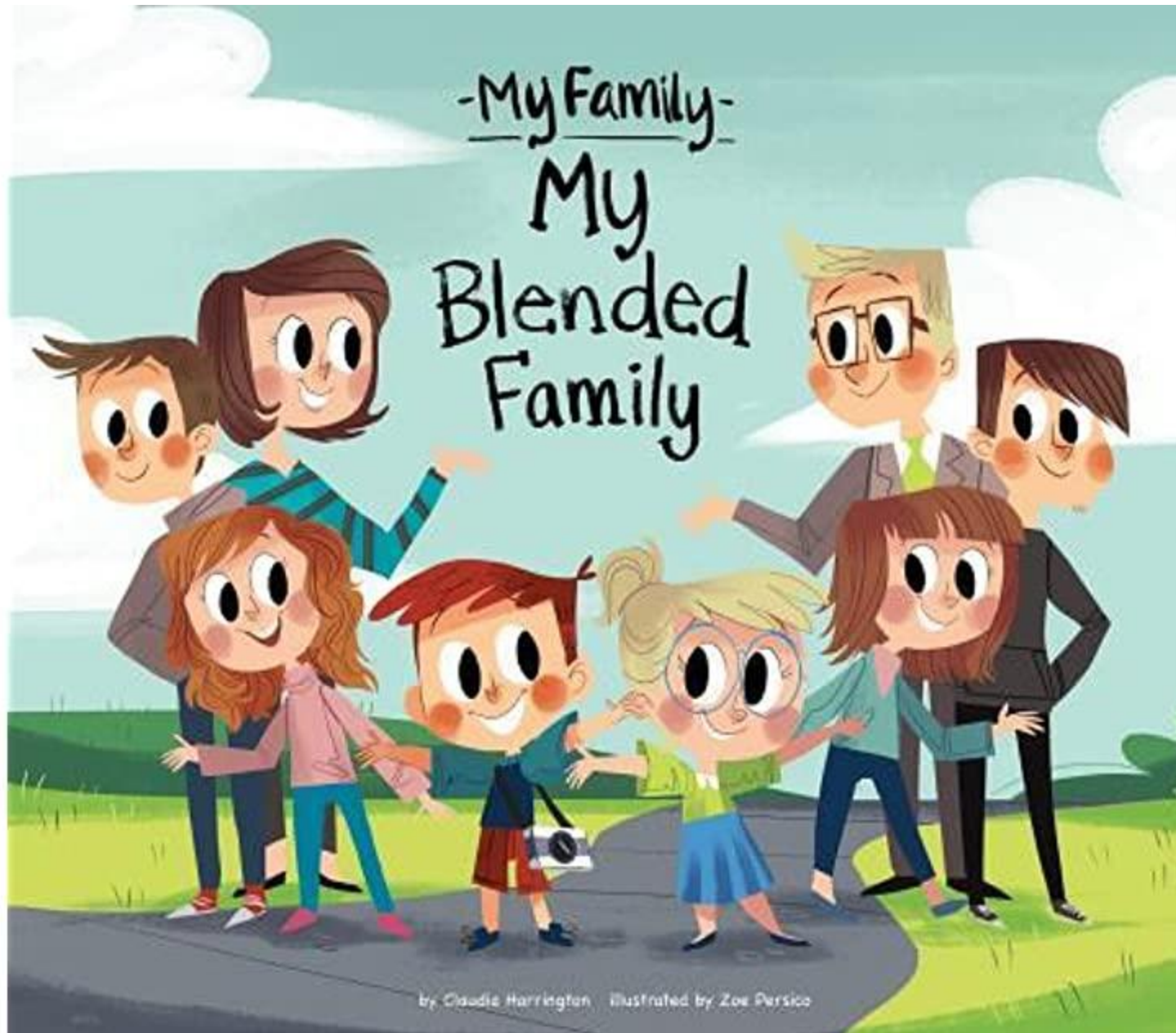
- ❖ Blended

Nuclear Family



Extended Family

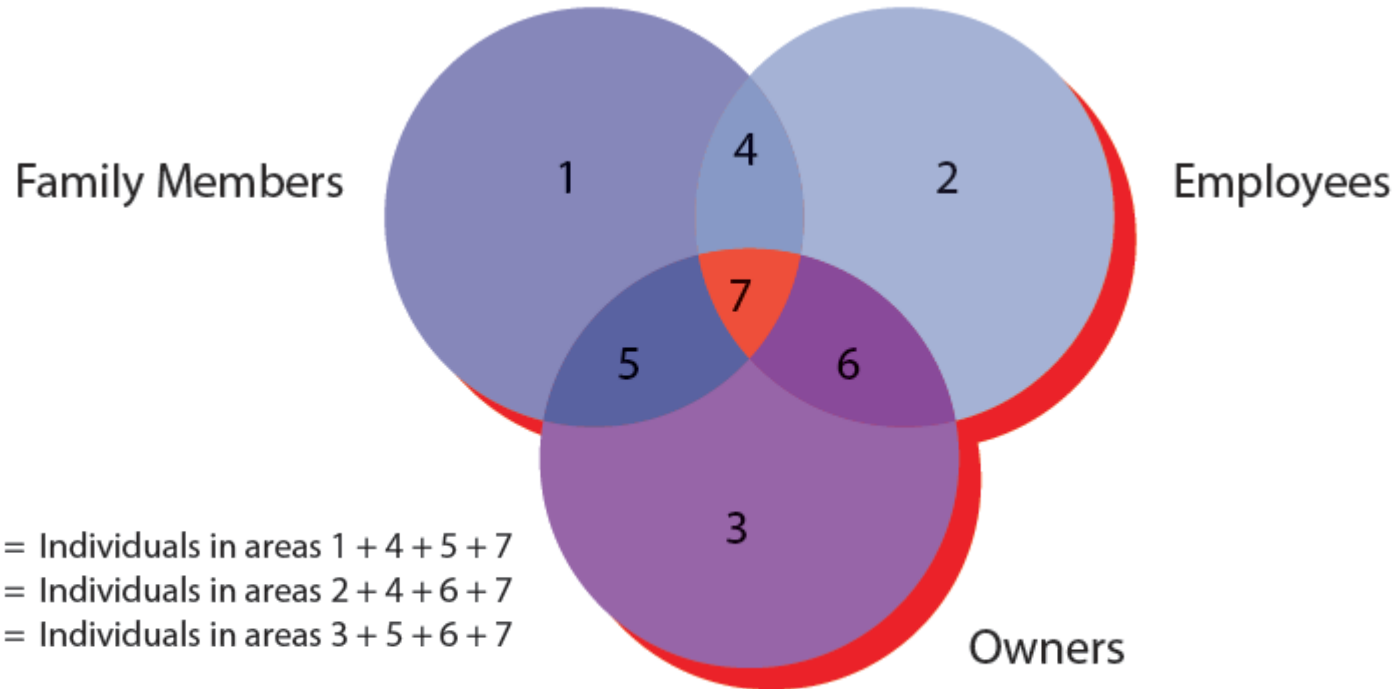




What Is a Family Business?

- Family Business
 - An organization in which either the individuals who established or acquired the firm, or their descendants, significantly influence the strategic decisions and life course of the firm.
- Types of Family Businesses
 - Owner-managed business
 - Sibling partnership
 - Cousin consortium

The Three-Circle Model of Family Firms



FAMILY MEMBERS = Individuals in areas 1 + 4 + 5 + 7

EMPLOYEES = Individuals in areas 2 + 4 + 6 + 7

OWNERS = Individuals in areas 3 + 5 + 6 + 7

Legend:

1. Family members (not involved in business)
2. Nonfamily employees
3. Nonfamily owners (not involved in operations of the business)
4. A family member employee (not an owner)
5. A family member owner (not involved in operations of the business)
6. An employee owner (not a member of the family)
7. A family member owner and employee

Family and Business Overlap

- Family Concerns

- Care and nurturing of family members
- Employment and advancement in the firm
- Loyalty to the family

- Business Concerns

- Production and distribution of goods and/or services
- Need for professional management
- Effective and efficient operation of the firm

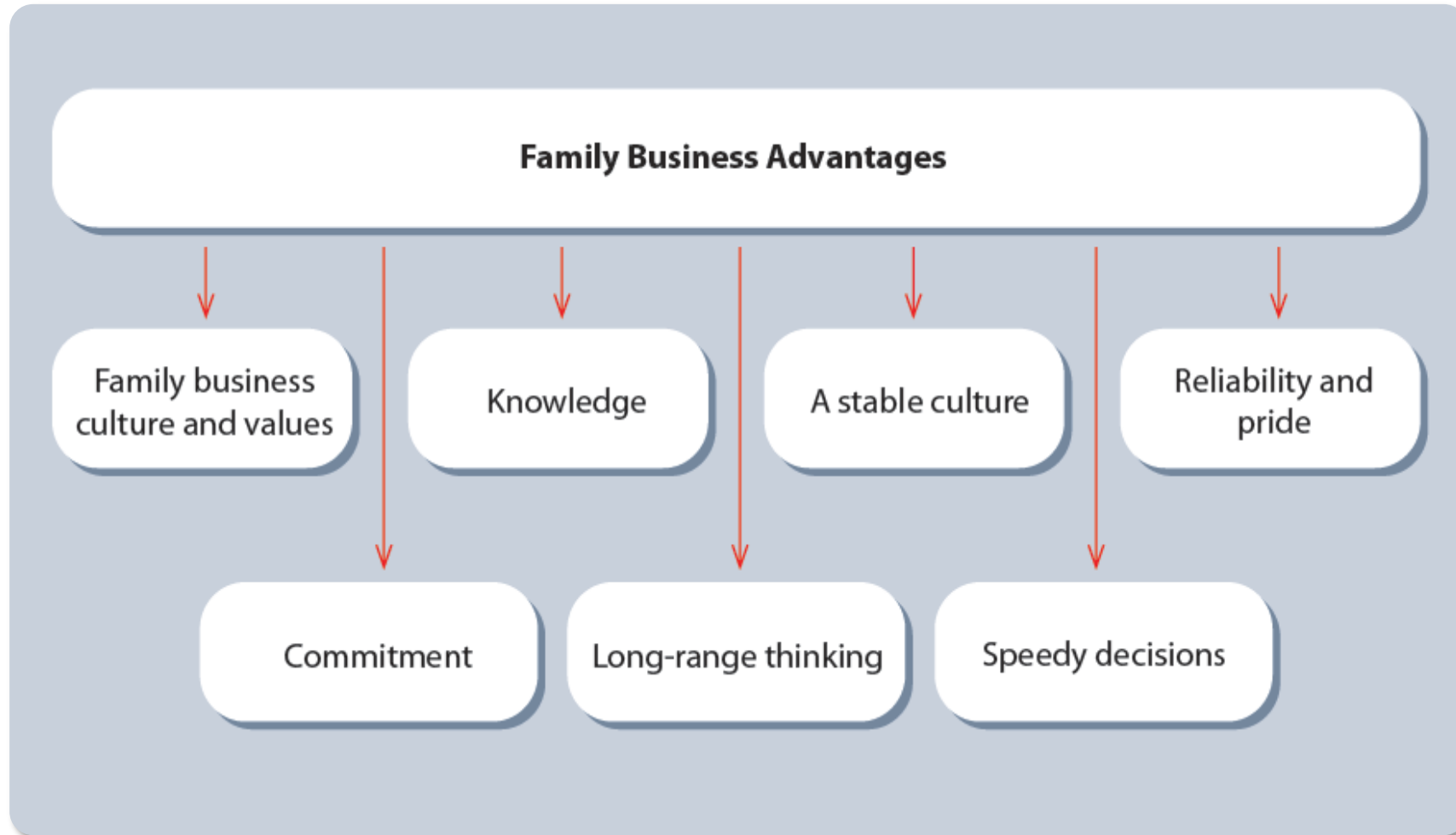
Advantages of a Family Business

- Strength of family relationships during challenging periods of business change
- Financial sacrifices that family members make for the good of the firm
- Operation as a family business distinguishes the firm from its competitors
- Higher levels of concern for its community and non-family employees
- Capability to plan and prepare for the long haul
- Emphasis on quality and value

Advantages of a Family Business

| Positives (+) | Negatives (-) |
|----------------------------|---|
| Trust among family members | Mistrust by nonfamily employees of incompetent family employees |
| Loyalty to the family | Lack of loyalty to the firm |
| Commitment | Entitlement |
| Knowledge | Lack of knowledge |
| Long-range thinking | Demand for instant gratification |
| Close communication | Failure to communicate |

Advantages of a Family Business



Disadvantages of a Family Business

- Conflict among family members about:
 - Risk (consequences of failure) to the family in launching a business
 - Nepotism and the differences in competencies and merit of family members involved in the business
 - Family traditions versus the business need to innovate and seize opportunities
 - Unity and cooperation of family versus business need to foster diversity and competition
 - Family loyalty versus the necessity to provide opportunities for non-family employees

Dynamic Family Businesses

- The Founder's Imprint on the Culture

- The founder's core values become a transmitted part of the culture (for better or worse).

- Family Business' Organizational Culture

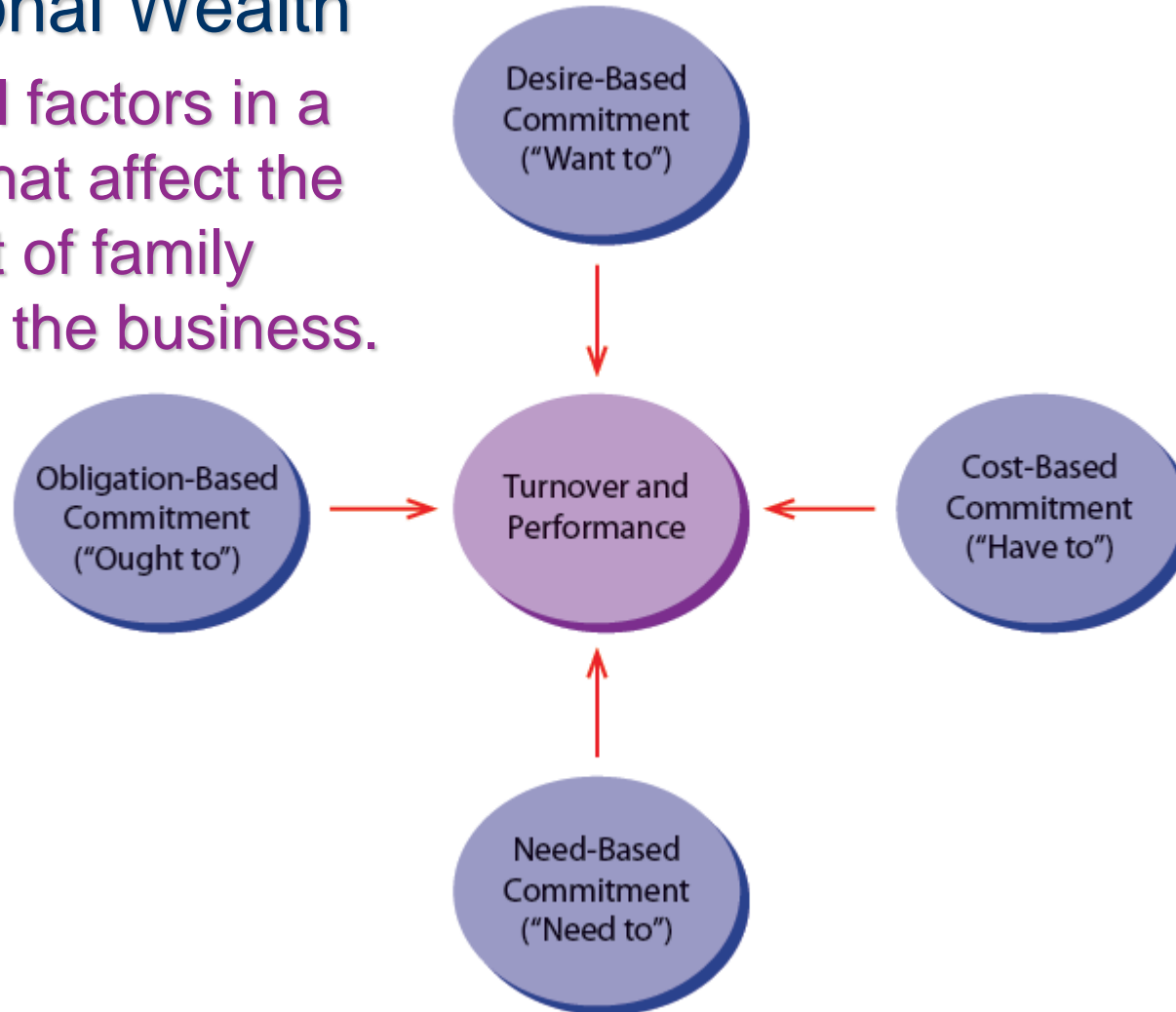
- Cultural Values

- ❖ Mutual respect
- ❖ Integrity
- ❖ Wise use of resources
- ❖ Personal responsibility
- ❖ "Fun"



The Commitment of Family Members

- **Socioemotional Wealth**
 - Nonfinancial factors in a family firm that affect the commitment of family members to the business.



5.3 Dimensions in Socioemotional Commitment

F *Family control and influence.*

Specifically, family members exert control over strategic decisions.

I *Identification of family members with the firm.*

The firm may be seen as an extension of the family itself.

B *Binding social ties.*

Family members feel closeness and solidarity.

E *Emotional attachment of family members.*

The history and knowledge of past events influence and shape current activities.

R *Renewal of family bonds to the firm through dynastic succession.*

There is an intention to hand the business down to future generations.

The Fear of Commitment

1. **Fear of failure.**
If I really take ownership of my life, I might fail.
2. **Fear of success.**
If I succeed, others will expect more of me in the future.
3. **Fear of commitment.**
If I never really try, then I will never really fail.
4. **Fear of disappointing parents.**
It would break their hearts if I worked for another firm instead of the family business.
5. **Fear of disappointing others.**
If I don't follow my friends, I might lose their friendship.

Commitment Through Unity

- Family Unity

- Is the oneness of mind, feeling, and action among family members.
- Is critical to family business success.
- Is reflected in the feelings of family members being completely or very unified as an ownership group.
- Is significantly associated with the firm's past growth and expectations for its future growth.
- Makes owner families more likely to share their values with customers and employees.

Family Roles and Relationships

- **Co-preneurs (Husband–Wife Teams)**

- Opportunity to share more in each other's lives
- Business differences interfere with family life
- Work doesn't leave time for family life
- Sharing family responsibilities eases the load

- **Sons and Daughters**

- Personal preferences different from the business
- Personal qualifications insufficient to assume role in business
- Desire for personal freedom to choose another career

Family Roles and Relationships (cont'd)

- Parental Concerns in Passing the Business On:
 - Does my child possess the temperament and ability necessary for business leadership?
 - How do I motivate my child's interest in the business?
 - What type of education and expertise will be most helpful in preparing my child for leadership?
 - What timetable should I follow with my child?
 - How can I avoid favoritism in managing and developing my child for a leadership role?
 - Is sibling rivalry a problem, and can it be avoided?
 - How can I prevent the business relationship from damaging or destroying the parent–child relationship?

Family Roles and Relationships (cont'd)

- **Sibling Cooperation, Sibling Rivalry**

- *Best case:* siblings work as a team, each contributing services according to his or her abilities.
- *Worst case:* siblings compete as rivals and disagree about their business roles.
- **Predator/parasite conflict**
 - ❖ Outsiders view family members working for the firm as predators taking advantage of their family position.
 - ❖ Insiders view outsiders as parasites making claims on the business without contributing to its success.



Family Roles and Relationships (cont'd)

- In-laws In and Out of the Business

- Disagreements about how to treat and reward in-laws and family members/children
 - ❖ Assign to different branches or to different business roles

- The Entrepreneur's Spouse

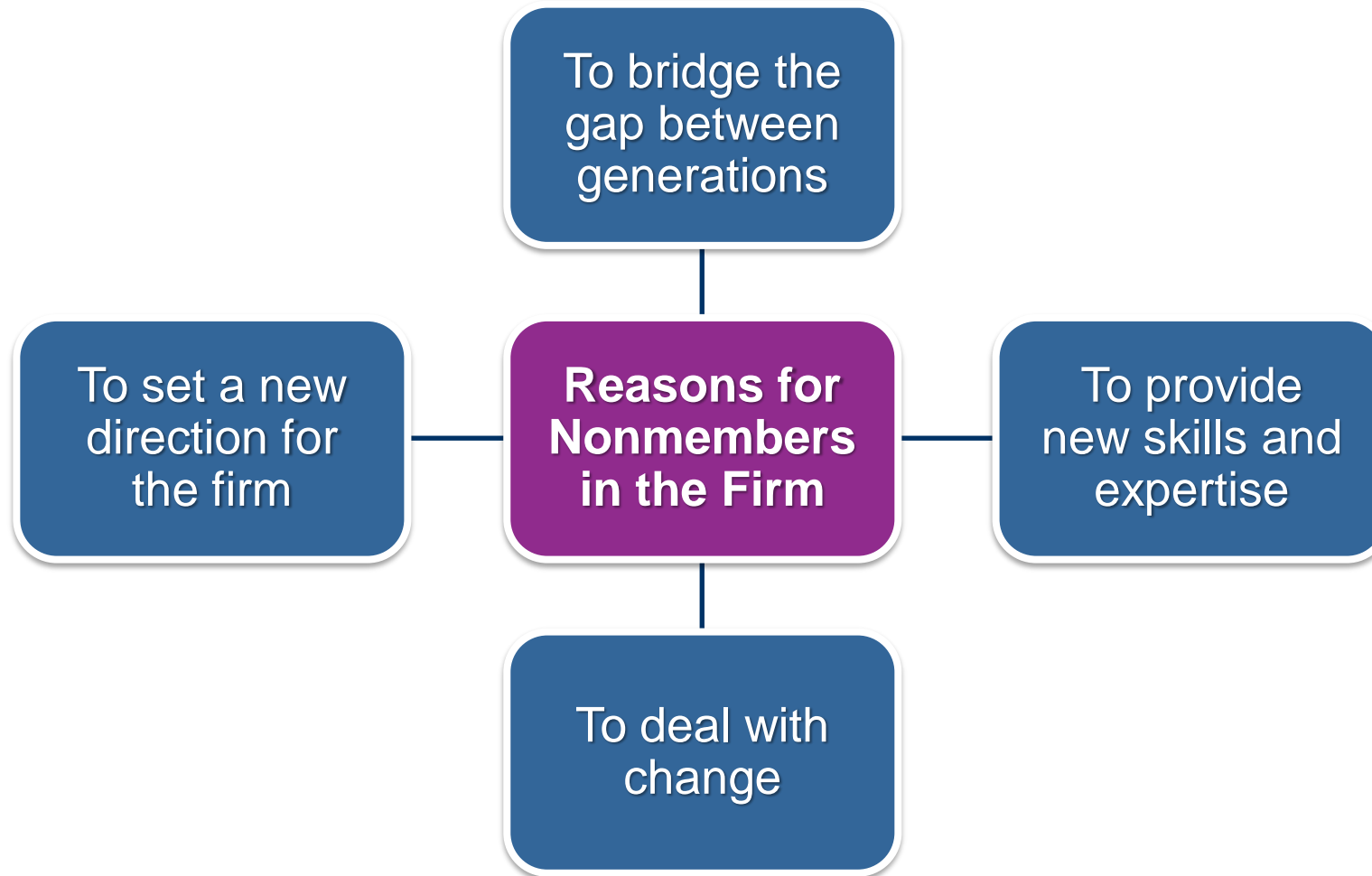
- Communication between entrepreneur and spouse is critical for their performance as an effective team for both the business and the family.



Best Practices for Family Businesses

- Promote learning to stimulate new thinking and fresh strategic insights.
- Solicit ample input from outsiders to keep things in perspective.
- Establish channels for constructive communication and use them often.
- Build a culture that accepts continuous change.
- Promote family members only according to their skill levels.
- Attract and retain excellent nonfamily managers.
- Ensure fair compensation for all employees, including those outside the family.
- Establish a solid leadership succession plan.
- Exploit the unique advantages of family ownership.

Bringing Nonfamily Members into the Firm



Good Governance in the Family Firm

- Nonfamily Employees in a Family Firm

- Hazards:

- ❖ Competition with family members for advancement
- ❖ Getting caught in the crossfire and politics of family competition within the firm

- Solutions:

- ❖ Identify family-only reserved positions in advance.
- ❖ Treat both family and nonfamily employees fairly in matters of reward and promotion.

Governance in the Family Firm (cont'd)

- Family Retreats

- A gathering of family members, usually away from the firm, to discuss family business matters.
- Use of an outside facilitator may be necessary.

- Guidelines

- Be clear about the purpose of the retreat.
- Set small, attainable goals.
- Use an agenda and stick to it.
- Give everyone a chance to participate.
- Know the difference between consensus and agreement.

Governance in the Family Firm (cont'd)

- Family Councils

- An organized group of family members who gather periodically to discuss family-related business issues.
 - ❖ Represent the family to board of directors
 - ❖ Useful in developing family harmony
 - ❖ Increases understanding of family traditions and interest



Good Governance in the Family Firm (cont'd)

- Family Business Constitution

- A statement of principles intended to guide a family firm through times of crisis and change.
 - ❖ The core values that all family members should follow
 - ❖ A process for decision making
 - ❖ Benefits that family members may receive from the business
 - ❖ A mechanism for introducing younger members to the family business and its governance structures
 - ❖ A dispute resolution procedure
 - ❖ The philanthropic ambitions of the family

The Process of Leadership Succession

- Available Family Talent

- Mentoring

- ❖ Guiding and supporting the work and development of a new or less-experienced organization member.

- Competency

- ❖ Allowing only qualified competent family members to assume leadership roles in the firm increases the value of the firm for all who have an ownership interest in it.



Preparing for Succession

- Responsibilities of the Senior Generation

- Communication
- Planning
- Accountability
- Owner development
- Long-term planning

- Responsibilities of the Junior Generation

- Be open to communication
- Develop a personal action plan
- Implement the personal action plan
- Prepare for ownership
- Design life plans

Conditions Favoring Successful Leadership Succession in a Family Firm

- A sound, profitable business
- Stable, healthy family relationships
- Advance planning for leadership succession
- Positive family leadership and a team-oriented management structure
- Presentation of career opportunities without pressure
- Open communication on family business issues

Reluctant Parents and Ambitious Children

- Transfer of Ownership

- Passing ownership of a family business to the next generation involves deciding:
 - ❖ Who will inherit the family firm? When?
 - ❖ Should each heir receive an equal share?
 - ❖ Should ownership be transferred gradually?
 - ❖ How are tax considerations to be handled?
 - ❖ What to do with other wealth and assets of the founding entrepreneur?

Key Terms

co-preneurs

cousin consortium

family

family business

family business constitution

family council

family retreat

mentoring

nepotism

organizational culture

owner-managed business

sibling partnership

socioemotional wealth

transfer of ownership