Looking AHEAD

After you have read this chapter, you should be able to:

1. Discuss the factors that make a family business unique.
2. Explain the forces that can keep a family business moving forward.
3. Outline the complex roles and relationships involved in a family business.
4. Identify management practices that enable a family business to function effectively.
5. Describe the process of managerial succession in a family business.
What Is a Family Business?

• Family Business
  
  A company that two or more members of the same family own or operate together or in succession.

Smith Family Hardware
Est. 1935
Competing Interests in the Family Business

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

Family Business Advantages

- Strong motivation of family members to see business succeed
- Developing firm-specific knowledge among family members
- Focus on the long run
- Reduced cost of control

- Ability to use family theme in promotions
- Shared social networks among family members
- Preservation of the firm's reputation based on maintenance of high standards
Family Business Momentum

• The Founder’s Imprint on the Culture
  ➢ The founder’s core values become a transmitted part of the culture (for better or worse).

• Organizational Culture
  ➢ Patterns of behaviors and beliefs that characterize a particular firm.

  ❖ Family Business Cultural Values
    – Mutual respect
    – Integrity
    – Wise use of resources
    – Personal responsibility
    – “Fun”
Commitment to the Family Business

Family Roles and Relationships

• Parental Concerns in Passing the Business On:

- Does my child possess the temperament and ability necessary for business leadership?

- How can I, the founder, motivate my child to take an 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 in employing and promoting my child?

- How can I avoid favoritism in managing and developing my child?

- How can I prevent the business relationship from damaging or destroying the parent–child relationship?
Family Roles and Relationships (cont’d)

• 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)

• 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.
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.
Professional Management of the Family Firm

• The Need for Good Management
  ➢ Best Practices:
    ❖ Stimulate new thinking and fresh strategic insights.
    ❖ Solicit outsiders’ input to keep perspective.
    ❖ Attract and retain excellent managers.
    ❖ Create a flexible, creative organization.
    ❖ Create and conserve capital.
    ❖ Prepare successors for leadership.
    ❖ Exploit unique advantages of family ownership.
• 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

➢ Solution:

❖ Identify family-only reserved positions in advance.
❖ Treat both family and nonfamily employees fairly in matters of reward and promotion.
• Family Retreats
  ➢ A gathering of family members, usually at a remote location, to discuss family business matters.
  ➢ Use of an outside facilitator may be necessary.

• Guidelines
  ➢ Set a time and place.
  ➢ Distribute an agenda prior to the meeting.
  ➢ Plan a schedule in advance.
  ➢ Give everyone a chance to participate.
  ➢ Keep it professional.
Professional Management of 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

• Family Business Constitution

- A statement of principles intended to guide a family firm through times of crisis and change.
The Process of Leadership Succession

• Available Family Talent

  ➢ Mentoring

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

  ➢ 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.
Stages of Succession in a Family Business

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

- 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

- family business
- organizational culture
- desire-based commitment
- obligation-based commitment
- cost-based commitment
- need-based commitment
- family retreat
- family council
- family business constitution
- mentoring
- stages in succession
- transfer of ownership