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Part I
The Scholarly View of the Modern Family Business
1
The Family Business

Lorna Collins

Introduction

Family businesses are all around us: from local ‘mom-and-pop’ stores and the millions of small and medium-sized companies that underpin many economies to household names such as BMW, Samsung and Wal-Mart Stores. One-third of all companies in the SandP 500 index and 40 per cent of the 250 largest companies in France and Germany are defined as family businesses, meaning that a family owns a significant share and can influence important decisions, particularly the election of the chairman and CEO (Caspar, Dias and Elsdrodt, 2010).

Family business research is dominated by a small number of scholars from a relatively small number of academic institutions (Debicki et al., 2009). This concentration of scholars is focused in the US and Canada with 17 of the 25 top business schools for family business studies being located in these countries (Debicki et al., 2009). Five years ago in the UK, family business as subject of study was relatively unheard of in management studies circles. While academics in the US have been investigating and studying the phenomenon for years, interest in the subject has only just begun to filter into the UK management academic’s psyche and vernacular. UK academics have begun to recognize the unique qualities and managerial challenges that family businesses face and are beginning to give more time to investigating these challenges and characteristics. While the US has taught family business courses for many years, and it has an active network of family business advisers and a national recognition that family business is important to the US economy, the UK and Europe have lagged behind. This book is a response to this situation and also hopefully a contribution to the discussions about management issues facing the modern
family business. The view taken here is to look at the ‘family’ aspect of the family business.

It has been more than 30 years since the phrase ‘copreneurs’ was coined to describe couples who had gone into business together. In 1994 Marshack also used the term ‘copreneurs’ and compared them with ‘dual-career’ couples and her study concluded that the two types of couple define their work and home boundaries differently. Marshack (1994) describes the family business as a ‘closed system’ which reinforces the roles women play in the family and in the workforce. Recently in family business studies, some empirical work has been done on copreneurs but little attention has yet been focused on family businesses managed by other family groupings, such as brothers, sisters, cousins. In this book we shed some light on these other family groupings in the hope of taking forward the debate about the new nature of modern ‘familiness’.

The modern family business is different from the traditional view within family business academic circles of the dynastic family with multigenerational ownership of a global conglomerate. The newly formulated definition of family business agreed on by the European Commission somewhat reflects this old view but also acknowledges the emerging modern family business which may now be in the second generation and about to move to third generation.

Noting that family firms are perceived to behave differently than non-family firms but that a theoretical rationale for such differences was lacking in the literature, Habbershon and Williams (1999) use the RBV of the firms in an effort to understand the competitive advantages and disadvantages of family firms. They contribute to the literature by introducing the concept of ‘familiness’, which is ‘the unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members, and the business’ (11). They further contribute by outlining a process and research agenda for identifying and examining the unique resources, capabilities and strategies of family firms.

Habbershon and Williams (1999) suggest that it is the ‘familiness’ or the idiosyncratic internal resources built into a firm as a result of the involvement of family that makes family firms distinctive. Further, they argue that ‘familiness’ can be used either as a source of strategic competence (distinctive) or encumbrance (constrictive) by family firms.

What are the contributions of family businesses and why are they important to study?

Family businesses are crucial to many economies as they produce large revenues and contribute to Gross Domestic Product (GDP) (Shepherd and
Zacharakis, 2000; Bornheim, 2000; Miller, Steier and Le Breton-Miller, 2003; Sharma, 2004; Dyck et al., 2002). In the US 80 per cent of corporations are either controlled or owned by one family (Dyck et al., 2002) and contribute 29–64 per cent of national GDP (Sharma, 2004).

While this picture shows that family businesses are of significant importance, it is also true that family businesses are confronted with a constant battle to survive. Around 30 per cent of family firms survive past the first generation (Wang et al., 2004; Lee, Lim and Lim, 2003; Miller, Steier and Le Breton-Miller, 2003; Dyck et al., 2002) while only 10–15 per cent survive to a third generation (Davis and Harveston, 1998; Morris et al., 1997).

In the past few years, questions have been asked about whether continuity of a family business is always a good thing (Kaye, 1996). Although the author’s first inclination is to point towards a negative answer to this question, systematic conceptual development of this issue has not yet been undertaken. Some authors have made suggestions for adopting broader definitions of ‘success’ of succession (Kaye, 1996) and differentiating between elements of a family business that should and should not be transferred across generations.

In an analysis by Anderson and Reeb (2003) of a sample of 403 SandP 500 companies which investigated how family and non-family firms differed and whether these potential differences were owing to the age of the firm, level of family ownership or family status of the CEO, some interesting results were uncovered. Family ownership might serve to mitigate owner–manager agency costs because concentrated ownership among family members with a long history of involvement may lead to more efficient monitoring of managerial agents. However, family owners might possess, and be in a position to pursue, objectives that conflict with shareholder-value maximization. Consequently, owner–owner agency costs might be enhanced through family ownership. Anderson and Reeb (2003) found that family firms outperform non-family firms with the following qualifications.

First, the relationship between the level of family ownership and performance is nonmonotonic because performance initially rises then declines as family ownership increases (Morck, Schleifer and Vishny, 1988). Second, profitability among family firms is related to having a family CEO, but market performance is improved only by having a founder or an outsider serve as CEO. Anderson and Reeb (2003) contribute to the literature by providing one of the first comparisons of the performance of large, publicly traded family and non-family firms and thereby providing initial clues on the relative importance of managerial and owner opportunism.
This work by Anderson and Reeb opened the doors for further investigations, which have extended their conclusions (e.g., Miller et al., 2007; Villalonga and Amit, 2006) but, with the exception of Sciascia and Mazzola (2008) have, unfortunately, not been followed by studies of small, medium-sized and/or privately held companies.

The ownership structure, measured through voting rights, of large publicly traded companies around the world, showed that outside the US, fewer firms are widely owned than one would expect (La Porta, Lopez-de-Silanes and Shleifer, 1999). Block owners, particularly families, have effective control of the majority of the large corporations in the world far in excess of their cash flow rights. La Porta et al. (1999) confine their analysis to large firms in the 27 richest countries in the world but suggest that ownership concentration is even more prevalent in poorer nations. They find that pyramidal ownership structures and involvement in management are the two primary means by which families maintain corporate control. They also suggest that family control is more prevalent in countries with weaker legal protections for minority shareholders.

La Porta et al. (1999) emphasized the relatively greater importance of owner–owner agency problems than owner–manager agency problems in large family firms around the world. They illustrated the differences in governance issues across the world and showed that the situation in the US is more an exception rather than the rule. Their study suggests that cross-national generalizations must be done with caution and that family firms may have negative as well as positive implications for corporate governance.

It is a given that family business literature works implicitly under the assumption that family firms are positive contributors to the economy of a nation. Taking La Porta et al.‘s (1999) cautionary statements a step further, Morck and Yeung (2003) give a case as to why that may not always be true. They suggest that in most countries, except the US and Great Britain, economies are dominated by large family groups, which are often organized in pyramidal structures. Unfortunately, these structures tend to lead to agency problems such as entrenchment, moral hazard and tunneling. Furthermore, self-interest may motivate these family business groups to engage in political rent seeking at the expense of innovation and economic development.

Morck and Yeung (2003) specifically deal with the costs rather than the benefits of the family form of organization and draw attention to the characteristics of governance structures outside the US. They also show that the owner–owner agency problems in large family firms may have implications that extend far beyond the boundaries of the firm.
One stream of effort aimed at finding the source of distinctiveness in family firm studies was directed towards comparative studies of family and non-family firms (e.g., Anderson and Reeb, 2003; Lee and Rogoff, 1996; Littunen, 2003; Zahra, Hayton and Salvato, 2004). Mixed results were revealed with family and non-family firms being different on some dimensions (e.g., entrepreneurial activities undertaken, performance, perception of environmental opportunities and threats) but not on others (e.g., strategic orientation, sources of debt financing). These studies have helped to improve our understanding. No set of distinct variables separating family and non-family firms has yet been discovered. It would seem appropriate therefore to highlight here the need for a meta-analysis of this research stream to determine what these efforts have collectively disclosed in terms of distinctions between family and non-family firms.

Sharma (2011: 6) notes that scholars are beginning to tackle the heterogeneity among family enterprises. Researchers are beginning to differentiate between family-owned and family-managed firms as attempts continue to develop and validate scales to capture the varying degrees of family’s involvement in the firm (Holt, Rutherford, and Kuratko, 2010). For example, Cascino, Pugliese, Mussolino, and Sansone (2010) distinguish between concentrated ownership from family control in listed firms to reveal that earnings of family enterprises are of higher quality than those of nonfamily listed firms. Differentiating between family-owned and family-managed firms, Block’s (2010) study of the largest 500 listed firms in the United States revealed that family-owned firms are less likely to downsize than nonfamily firms or family-managed firms, even under conditions of low profitability. This is the first scientific evidence to indicate that family-owned firms are more stable employers even in economically depressed conditions than other types of firms.

To conclude there is much about family businesses that is uninvestigated and much that is not well understood. We know they contribute to GDP in every country and we know they differ from other commercial businesses which are shareholder owned. The differences are unique and constitute the fundamental reason for the study of family businesses – each one is unique. However, in our efforts to work towards an understanding of the nature of this phenomenon, we must at least agree on a definition of what it is we are seeking to investigate, understand and theorize about.
Agreement on a definition of family-owned businesses is however, as we shall see in the next section, somewhat elusive.

What is a family business – towards a definition?

Regardless of the vast quantities of research concerning family business, there is no single widely accepted definition (Sharma, 2004; Chua, Chrisman and Sharma, 1999). Academic literature indicates that family businesses differ from non-family businesses due to the unique involvement of the family members (Chua, Chrisman and Sharma, 1999). Chrisman, Chua and Sharma (2003) and Chua, Chrisman and Sharma (1999) suggest that researchers in family businesses consider the key topics of family business as ownership, governance, management and succession. The predominant themes occurring within family business literature on a general basis include succession, family dynamics, operations and business performance (Carlsen, Getz and Ali-Knight, 2001). However, a recent paper by Basco and Rodriguez (2009) states that many authors have now categorized family business into four key areas: strategic process, governance, human resources and succession, thus the only commonality between various calls is succession and governance. It is true that the relationships between family members and the business systems have been recognized as the key feature distinguishing them from other businesses (Sharma, 2004). It is also true that family businesses face unique and complex problems that are not found in more traditional businesses (Davis and Harveston, 1998).

In reviewing the various definitions of family business, Chua, Chrisman and Sharma (1999) conclude that

the field must first develop a theoretical definition before it can effectively develop an operational definition. In addition, they argue that the theoretical definition must be based more on the essence of family influence than the components of family involvement because the important distinguishing feature of family and nonfamily firms is their behaviors. They propose that intentions and vision of a dominant family coalition and the potential transgenerational sustainability of that vision are the theoretical features that distinguish family and nonfamily firms.

(Chrisman et al., 2009: 5)

This is an alternative approach to defining family firms – one that is not based on only family involvement and makes it clear that a theory
of the family firm must emphasize the differences between family and non-family firms, and among family firms, to understand the family form of organization.

From an academic perspective, ‘family’ and ‘business’ are presented in terms of contradiction, opposition and tension in much of the family business literature. The concept of ‘family business’ blurs the separation of ‘market’ and ‘home’, as the family and the business are inextricably intertwined (Fournier and Lightfoot, 1996). Fourier and Lightfoot suggest that there is a possibility of a powerful new conceptualization in the study of family business, placing ‘family’ at the heart of the enquiry and of the business. Other writers have also proposed a broader view of family and enterprise, arguing for a stronger link between the dynamics of the family and the workplace (McCollom, 1988).

Taking a pragmatic approach to defining the family business, it is relatively straightforward to explain ‘what the difference is between a family-owned and a non-family owned business’. Developed from the vision and hard work of the founder, family businesses take on their unique character as new members of the family enter the business. At best, the internal environment of the family business can be inspiring and motivating. At its worst, it can result in routine business decisions becoming clouded by emotional issues. A non-family-owned business has a character that may be a reflection of the historic founder figure for instance in the case of McDonalds, or it may have entirely different character and organizational culture.

A family business is in essence just like any other business. It aims to create wealth by providing a product or service. However, a family business differs from other businesses because it has to cope with the fundamentally different demands of the business and the family. Businesses are task-based and built around contractual relationships in which people perform agreed jobs in return for agreed remuneration. Consequently, the emphasis is on performance and results. Businesses need to innovate and embrace change to ensure their survival. Families, on the other hand, are emotion-based. Members are bound by deep emotional ties and relationships. They can be introspective and place high value on long-term loyalty and nurturing family members. Often, keeping change to a minimum preserves the equilibrium of the family.

In non-family businesses, the demands of the business are rarely impacted upon by emotion. In a family business however, the objectives and priorities of the business and the family can differ widely, producing friction and conflict.
On one level a family business might be defined as a business in which one of the following applies:

- a single family holds more than 50 per cent of voting shares
- a single family supplies a significant proportion of the business’ senior management and is effectively controlling the business
- more than one generation of the family is involved in the business
- most importantly, the family regards the business as a family business.

However in the search for some kind of consistency in definition use, the European Commission-adopted definition for a family business found in *Family Entrepreneurship: Family Enterprises as the Engines of Continuity, Renewal and Growth Intensiveness* (February 2006) states that a firm is a family enterprise, if:

1. The majority of votes are in the possession of the natural person(s) who established the firm, in the possession of the natural person(s) who has/have acquired the share capital of the firm or in the possession of their spouses, parents, child or child’s direct heirs. The majority of votes may be indirect or direct.
2. At least one representative of the family or kin is involved in the management or administration of the firm.
3. Listed companies meet the definition of a family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the right to vote mandated by their share capital.

The European Commission definition seems useful and provides some guidance around which to frame a discussion of family business. The debate about definitions and the academic impetus to agree on one will no doubt ensure that in future academics revisit this topic. However for the purposes of this book and in keeping with our ‘modern’ approach, we have taken the approach that a family business is a family business if it thinks that it is. While pragmatic this approach gives us a clear foundation upon which to build a picture of the emerging modern family enterprise.

**Why are family firms different?**

The question of what makes family firms different is a source of continuous comment and conjecture. Invariably the answer depends
on which list you consult. However few authors have succeeded in compiling a more comprehensive list than Kets de Vries who wrote eloquently about the dynamics of family-controlled firms in ‘The Good and the Bad News’ (1993). Drawing on his work the author feels it is worthwhile to revisit what were perceived to be the important aspects, advantages and disadvantages of this unique business form in light of the contemporary developments in research which they spawned. The advantages that Kets de Vries (1993: 314) highlighted were:

- Long-term orientation
- Greater independence of action
- Family culture as a source of pride
- Greater resilience during times of economic hardship
- Less bureaucratic and impersonal
- Financial benefits
- Knowing the business – early training for family members

Each advantage will now be discussed and an update provided on the current research contributions and areas and focus of study.

**Long-term orientation**

Fundamentally family businesses are perceived to have a number of significant business advantages over non-family businesses. It has been considered for a long time that family businesses take a long-term orientation to business activities and this has many advantages, such as giving strategy a long-term view thereby not being too susceptible to ‘quick wins’ at the expense of long-term advantage. This of course can also become a disadvantage if action in the long-term does not translate into market advantage or sustainable competitive advantage. Taking a long-term view can result in enforced stagnation.

Successful family companies usually seek steady long-term growth and performance to avoid risking the family's wealth and control of the business (Caspar, Dias and Elstrodt, 2010). This approach tends to shield them from the temptation of pursuing maximum short-term performance at the expense of long-term company health. A longer-term planning horizon and more moderate risk-taking serve the interests of debt holders too, so family businesses tend to have not only lower levels of financial leverage but also a lower cost of debt than their corporate peers do.

The longer perspective may make family businesses less successful during booms but increases their chances of remaining in business during
periods of crisis and of achieving healthy returns over time. Despite the
unique challenges facing family businesses, from 1997 to 2009, a broad
index of publicly traded ones in the US and Western Europe achieved
total returns to shareholders 2–3 percentage points higher than those
of the MSCI World, the SandP 500 and the MSCI Europe indexes. It is
difficult to provide statistical proof that the family influence was the
main driver. The results were surprisingly stable across geographies and
industries, however, and indicate that family businesses have performed
at least in line with the market, a finding corroborated by Anderson
and Reeb (2003).

This long-term focus implies relatively conservative portfolio strate-
gies based on competencies built over time, coupled with moderate
diversification around the core businesses and, in many cases, a natural
preference for organic growth. Family-influenced businesses tend to
be prudent when they do M and A, making smaller but more value-
creating deals than their corporate counterparts do, according to an
analysis of M and A deals worth over $500 million in the US and
Western Europe from 2005 to late 2009. The average deal of family
businesses was 15 per cent smaller, but the total value added through
it was 10.5 percentage points, compared with 6.3 points for their non-
family counterparts (Caspar, Dias and Elsdrodt, 2010).

Nonetheless, too much prudence can be dangerous. Family owners,
who usually have a significant part of their wealth associated with the
business, face the challenge of preventing an excessive aversion to risk
from influencing company decisions. Excessive risk aversion might, for
example, unduly limit investments to maintain and build competitive
advantage and to diversify the family’s wealth. Diversification is impor-
tant not only for overall long-term performance but also for control
because it helps make it unnecessary for family members to take money
out of the business and diversify their assets themselves.

That is why most large, successful family-influenced survivors are
multi-business companies that renew their portfolios over time (Caspar,
Dias and Elsdrodt, 2010). While some have a wide array of unconnected
businesses, most focus on two to four main sectors. In general, family
businesses seek a mix: companies with stable cash flows and others with
higher risk and returns.

**Greater independence of action**

Family businesses which are privately owned have a greater independ-
ence of action over strategic, operational and functional activities because
they do not answer to shareholders but instead to family stakeholders.
This independence can result in the ability to act on opportunities where other firms may struggle to gain organizational momentum to act. This greater independence can also result in acting in haste. Being first to market or being an early adopter is not always best.

With greater independence comes its own set of challenges. Long-term survivors usually share a meritocratic approach to management. There is no single rule to govern all family businesses as policies depend partly on the size of the family, its values, the education of its members and the industries in which the business competes. A common approach to deal with these challenges is to ensure that new entrants to the family business experience the outside world before committing to the family firm. One such example is the Australia-based investment business ROI Group, which spans four generations, encourages family members to work outside the business first and gain relevant experience before seeking senior-management positions at ROI (Caspar, Dias and Elsdrodt, 2010). Any appointment made is approved both by the owners’ board, which represents the family, and the advisory council, a group of independent business advisers who provide strategic guidance to the board. As families grow and ownership fragments, family institutions play an important role in making continued ownership meaningful by nurturing family values and giving new generations a sense of pride in the company’s contribution to society.

Family culture as a source of pride

Family culture as a source of pride is a little investigated aspect of family businesses but in terms of providing sustainability and long-term competitive advantage the culture of a family business is unique, hard earned and inextricably connected to the values, attitudes and beliefs of the family members who are part of the business. Culture studies notwithstanding, there are few which have considered the values and how these contribute to differences in family businesses in terms of performance and sustainable effectiveness.

Astrachan et al. have developed the Family Power Experience Culture Scale (F-PEC) to measure family involvement (Astrachan et al., 2002). The scale has subsequently received some validation by Klein et al., (2005) and Holt, Rutherford and Kuratko (2010). F-PEC has the advantage of being a continuous scale of family involvement and therefore avoids the problem of artificially dichotomizing family and non-family firms (Chrisman et al., 2009: 5). The three elements of the F-PEC scale include power (family ownership, governance and management), experience (the generation and the number of family members
involved in the firm), and culture (family commitment to the firm and the overlap of family and business values).

This is a useful contribution to the academic debate and also provides an instrument for assessing the involvement and influence of a family in a firm that can be used to investigate how different levels and types of involvement and influence affect firm behaviour and performance. It does not address the culture question completely but is an attempt to account for the cultural effects in family business and their impacts on the firm’s behaviour and performance.

Again, focused on organizational culture in its own right, the work of Aldrich and Cliff (2003) has attempted to focus on the need to better conceptualize the relationship between the family and the business. Since family and business are inextricably intertwined, in order to conceptualize this relationship, they introduce the idea of ‘family embeddedness’.

Changes in the composition of families that have occurred over time are altering the opportunities and resources available for venturing and they argue that in the study of entrepreneurship this change needs to be further developed. They have highlighted the importance of discussing the trends in family members’ roles and relationships and have emphasized the importance of considering family embeddedness in the conceptualization and study of entrepreneurship. In addition by explaining how the changing roles of women, children and relationships among family members are developing and accelerating, they have highlighted how these changes might affect the process of new venture creation and new venture performance. Notwithstanding their focus on the entrepreneurship literature, the author would argue that these changing roles are an outcome of the changing nature of the modern family and as such should be a focus for future family business studies research.

**Greater resilience during times of economic hardship**

Another advantage that family businesses are thought to have is that during tough economic times family businesses seem to exhibit greater resilience. Certainly during the latest recession family businesses seem to have fared better, managed to maintain market share and been able to hold on to employees when other firms have faltered. Recent studies in this area have shown that during the latest financial downturn the family businesses performed very well. The 2011 National Family Business Report on UK SMEs reported that 80 per cent of firms responding to the survey reported increased market share and a surprising 40 per cent experienced an increase in turnover during the period 2007–2010
(Goutas, Collins and Smith, 2011). This study also showed that family businesses tend to have low gearing and less than 17 per cent identified raising finance or the availability of finances as a significant challenge.

Successful family companies usually seek steady long-term growth and performance to avoid risking the family’s wealth and control of the business. Even during the recent recession SMEs in the UK reported that while merger and acquisition activity was relatively high, less than 20 per cent of the family businesses surveyed stated their expectations that their ownership would change in the next two years (Goutas, Collins and Smith, 2011). In fact in this same report not a single respondent identified the short-term maximization of shareholder returns as a driving force of their business.

Less bureaucratic and impersonal

It is believed, although it may now be entirely a myth, that family businesses are less bureaucratic and impersonal than their non-family-owned counterparts. Family businesses often do have informal cultures but they are just as likely to have ‘patriarchal’ cultures characterized by some very ‘old fashioned’ views.

Recall the earlier discussion about what makes the family firm different and how ownership structures differ in family firms. The ownership structure, measured through voting rights, of large publicly traded companies around the world, showed that fewer firms are widely owned than one would expect (La Porta et al., 1999). Family block owners have effective control of the majority of the large global corporations in the 27 richest countries in the world far in excess of their cash flow rights. There is however a suggestion that ownership concentration is even more prevalent in poorer nations (La Porta et al., 1999). Pyramidal ownership structures and involvement in management are the two primary means by which families maintain corporate control and family control is more prevalent in countries with weaker legal protections for minority shareholders. It is the case that few large publicly traded companies have wide ownership are widely owned. It is also the case that in the richest countries family block ownership is typical. However, in poorer nations ownership concentration is prevalent. Pyramidal ownership structures and involvement in management are primary means of maintaining corporate and family control in countries where minority shareholders have limited legal protection. It is true that in most countries, except the US and Great Britain, economies are dominated by large family groups, which are often organized in pyramidal structures (Morck and Yeung, 2003). While there is little
evidence to support Kets de Vries’ (1993) assertion that family businesses are inherently disorganized, there is equally little evidence to support that they are well organized.

**Financial benefits**

There are financial benefits that family businesses have which other commercial enterprises do not. In recent work the manifestations of these financial benefits are being extended beyond the typical interpretation, namely that family businesses have high levels of capital and primarily fund growth from retained capital (Steier, 2007). Steier (2007) suggests that the evolution of start-ups which may not necessarily be directly related to a family firm but which may be started by a family member may benefit directly from the ‘family network’.

Steier (2007: 45) explains:

> The early evolution of the network came about by accessing a dormant network (that of the father's firm) plus personal relationships. Drawing upon the family's reputation and prior experience in the industry, they were able to successfully solicit friends and contacts developed in the previous family business. Investor FM became the major shareholder and a significant influence on the fledgling business. Significantly, he was a customer and friend of Don's father, and had met Don whilst he worked in his father's firm. This prior relationship and a pre-established level of trust in the founder were significant factors in convincing FM to invest. This investor, a respected player in the industry, provided a substantial portion of the initial financing. Don and Toku recognized this vote of confidence as instrumental in motivating others to invest. Over time this semi-retired investor developed a keen interest in the firm, becoming a valued mentor who shared his knowledge and contacts. Another interesting feature of the initial financial network was that each of the five clusters had a familial dimension.

In terms of financial benefits, family acts as a conduit in accessing ‘weak ties’ and expanding the social network (Granovetter, 1983). In other words, each of the initial points of contact could be leveraged to bring in other investors. It is clear that family social networks provide a wealth of resources to the family members and the business, many of which have yet to be investigated empirically.

Burkhardt et al. (2003) and Morck, Wolfenzon and Yeung (2005) argue that business practice rests on family networks in developing economies
mainly because of weak economic and legal institutions. Family firms face a variety of uncertainties when transacting with other firms, such as trustworthiness. Family networks may help to provide information and enforce contracts, thus reducing those uncertainties. A growing body of literature shows that family ties indeed play an important role in shaping the business organization and its efficiency (Bertrand et al., 2008; Bennedsen et al., 2007).

An example of the financial power of the family social network in practice was highlighted recently in *The Mail on Sunday*. Sam Branson, son of Virgin founder and billionaire Richard Branson, recently launched his own new production company, Current Sponge, which aims to produce programmes that will help educate people about climate change (Simon Lewis in *Live*, a supplement to *The Mail on Sunday* magazine, page 10) Forswearing the bank Sam sought funding for his new venture from the ‘family’ bank and borrowed money from Richard to launch his company.

In the interview, Sam Branson is quoted as saying: ‘I am aiming to keep Current Sponge completely separate from Virgin. Instead of taking a loan from a bank, I’ve taken a loan from my family. When Current Sponge breaks even, I’m aiming to pay that money back and then everything after that will be profit. Then it won’t matter what anyone else says about me. I’ll know that I’ve set up a company and slogged and sweated and cried over it and got to the place where it’s viable’ (*The Mail on Sunday*, 3/2011: 13). On the one hand this shows that networking within the family can be a useful source of financing a new venture, but on the other hand it poses the question of whether or not such a venture would have been launched at all if it had to go to the market for funding in the way that non-family ventures do. This is the double-edged sword for ventures spinning from the family business. On the one hand the funding source is secured based on family allegiances; on the other hand the enterprise is not subject to the same acid test that would be applied to those looking for funding on the High Street.

While the Branson example must be common enough among family business networks, academic research into this phenomenon is relatively nascent. Certainly from an entrepreneurial theory perspective there is much to consider from both the start-up and new venture creation aspects by considering the power and scope of such networks.

There is increasing evidence to suggest that the networks which family businesses create are the source of financing of new ventures, source of funding for expansion and the source of expertise for business activities. So while Kets de Vries (1993) did not mention that networks for family
businesses were a source of advantage, the work by Steier (2007) opens our eyes to the fact that the network may well be just the tip of the iceberg of the intangible competitive advantage which family businesses possess.

Furthermore competitive advantages that are hard to imitate and difficult to replicate are the most desirable (Barney, 1999), yet little research has been conducted on the social capital that is locked within such family networks. It does seem that new ventures are developed from family firms at a higher rate than from ‘pure’ start-ups. There is also anecdotal evidence that these start-ups are more successful and grow more quickly. Could it be that the network advantages of families possess greater depth of capital than those of nascent start-ups? Intuitively it seems right that they would. Little empirical work has been developed in this area.

**Knowing the business – early training for family members**

A final advantage identified by Kets de Vries (1993) as something unique possessed by the family business is ‘knowing the business’, that is, having early training for family members within the business environment which serves to uniquely prepare them for later life as a family business member. Considerable academic attention has been focused on this area of advantage and significant studies have been developed to look at the training and education of family members as preparation for succession. The succession literature has largely been developed around the father-son succession dynamic with lesser attention on the father-daughter, mother-son and mother-daughter dynamics. This book is a response to this insofar as it attempts to explore other succession relationships and leadership dyads beyond the well investigated pairing of father-son.

An interesting finding in the literature on self-employment is that the probability of self-employment is two to three times higher among the children of business owners than among the children of non-business owners (see Lentz and Laband 1990; Fairlie 1999; Dunn and Holtz-Eakin 2000). Although the intergenerational transmission of business ownership is strong, its underlying causes have not been identified. Among the potential influences are general business or managerial experience in family-owned businesses, the acquisition of industry- or firm-specific business experience in family-owned businesses, inheritances of businesses, and a correlation among family members in preferences for entrepreneurial activities.

Several explanations for the intergenerational transmission of business ownership have been offered in the previous literature. First, the informal learning or apprenticeship-type training that occurs in growing up in
the context of a family business may provide an important opportunity for the acquisition of human capital related to operating a successful business (Lentz and Laband, 1990). Family business experience can be classified into two types, which we term ‘general business human capital’ and ‘specific business human capital’. General business human capital includes ‘general administrative and personnel management skills’ and ‘general managerial expertise’ (Lentz and Laband, 1990; Dunn and Holtz-Eakin, 2000). Specific business human capital includes ‘enterprise specific skills’, ‘information specific to the firm’s production’ and ‘job- or industry-specific knowledge’. Interestingly, Dunn and Holtz-Eakin (2000) found that self-employed sons follow their father's occupation in only 32 per cent of cases, suggesting that the business expertise being passed within families is not only specific to the types of business chosen by these sons.

Another possible explanation for the observed intergenerational link in self-employment is that family members tend to share preferences for entrepreneurial activities and entrepreneurial ability. That is, the correlation may simply be due to similarities among family members in preferences for autonomy or self-employment, or similarities in other personal characteristics that are associated with self-employment, such as entrepreneurial ability and attitudes towards risk. Using the National Longitudinal Surveys (NLS), Dunn and Holtz-Eakin (2000) found, however, that the intergenerational correlation in self-employment is strongest for successfully self-employed parents, suggesting that what drives the relationship between parents’ and children’s self-employment propensities is the transmission of business skills rather than similarities in tastes for the self-employed lifestyle. Related to the issue of correlated preferences and ability, intergenerational links may also be created if self-employed parents’ role modelling encourages their children to become business owners. Observing the example of a successfully self-employed parent may improve a child’s confidence in his or her own entrepreneurial ability.

According to Chrisman et al. (2007: 1007) the critical role of family in the launch of new ventures has been repeatedly stressed in the literature (e.g., Aldrich and Cliff, 2003), but research on the various ways in which family may influence the cognitive schemas and resource acquisition for new venture creators has not been frequently undertaken. Drawing on Ajzen’s (1991) theory of planned behaviour, Carr and Sequeira (2007) hypothesize that the influence of prior family business exposure on entrepreneurial intent will be mediated by an individual’s attitudes towards entrepreneurship, the perceived support from the family for engaging in
entrepreneurship and entrepreneurial self-efficacy (ESE). They found that attitudes, perceived support and ESE all partially mediated the relationship between prior family business exposure and entrepreneurial intent.

In addition to the direct impact family firms have on the economy, family firms can serve as incubators and models for other entrepreneurial activity. Prior family business exposure helps shape attitudes and feelings of self-efficacy among would-be entrepreneurs (Carr and Sequeira, 2007). Perceptions of family support can also further strengthen or weaken intentions to engage in entrepreneurial behaviour (Carr and Sequeira, 2007). All of this suggests that the influence of a family's involvement in business extends far beyond that of the immediate family business to include subsequent entrepreneurial efforts by family members and is therefore even more pervasive than might have originally been imagined. It also highlights how training within the family business may have a more significant impact on entrepreneurial outputs than previously imagined.

To conclude, having highlighted the advantages that family businesses enjoy over their non-family contemporaries, it is appropriate to turn to consider the disadvantages that they suffer. This book does not intend to paint the picture that family businesses are a preferred format for commerce but rather to highlight that among the myriad of management challenges faced by business in the complex and dynamic modern world, family businesses are no better or worse placed than any other to ride the tides of change. In some cases there are disadvantages as well. But from our view as researchers, we seek to shed light on those areas where family businesses excel and where they might fall short.

What are the disadvantages of being a family Business?

It is not all positive and good news if you are a family business. There are any number of disadvantages which were appropriately highlighted by Kets de Vries (1993) and which are experienced by family businesses. It is safe to say that while the predominant amount of work conducted in the field of family business research is focused on what happens when the business is doing well, there is a growing desire to investigate those aspects of family business which are eternally problematic.

The disadvantages of the family business form identified by Kets de Vries (1993) included the following:

- Less access to capital markets
- Confusing organization
• Nepotism
• Spoiled child syndrome
• Conflict
• Financial strain
• Succession dramas

The following section will highlight each disadvantage in detail and attempt to shed some light on the contemporary research approach to each one.

**Family firm performance and access to capital**

A considerable body of work in the family business literature has been devoted to assessing, investigating and evaluating the performance of family firms against non-family firms. One disadvantage recognized by Kets de Vries (1999), and highlighted by others, is that family firms have less access to capital markets.

Ward (1987: 3) says that family business owners typically reinvest most, if not all, of their funds during the early stages of the life cycle of their business. However, in later years, because of the families’ growing financial demands, owners tend to use company profits rather than reinvesting capital for additional growth. An understanding of organizational structure and environment, such as levels of ownership and management control (Boyer and Roth, 1978), years of business establishment (Stanworth and Curran, 1976), and business owners’ plans and objectives are required to assess these issues. There is a dynamic interaction of elements within and external to firms, including factors that have an impact on firms such as owners’ business, social and behavioural goals (McMahon and Stanger, 1995); family values and aspirations (e.g., succession); corporate and business planning (Storey, 1994); and industry considerations (Carleton and Silberman, 1977).

Barton (1989) also identified financial, personal and social variables that influence family business owners’ capital structure decisions. Factors singled out included entrepreneurs’ prior experiences in capital structure; preferred ownership structures (e.g., employee stock options); use of internal financing (e.g., to clear debt); views regarding control, debt–equity ratios, and short- vs. long-term debt; age of the firm; perceived key sources of funding for growth (e.g., retained earnings vs. debt); attitudes towards debt financing; and perceived risk.

According to a number of scholars (e.g., Bates, 1991; van der Wijst, 1989; Waldinger, Aldrich and Ward, 1990; Ward, 1987) size, industry, age of firm, age of CEO, extent of family control, business planning, owners’
business objectives and plans to achieve growth influence family business owners’ financing decisions. It has also been shown (Romano et al., 2000) that family businesses derive their funding from a number of sources; and decisions regarding type of finance are based on a complex array of social, behavioural and financial factors. For example, Romano et al. (2000) show that service industries and firms whose owners’ aim to create a lifestyle business and who plan to achieve growth through new product or process development are likely to utilize capital and retained profits as a source of business finance.

Confusing organizations

It is a long-standing myth that family firms are ‘more disorganized’ than non-family firms and that their organization is prone to idiosyncrasies and anomalies in a way that would not be tolerated in shareholder owned firms. This myth, for little evidence seems to exist that it is a reality, seems to be perpetuated and the author wonders why this is so. While this is perhaps the wrong place to postulate a hypothesis, it seems entirely reasonable that family firms will share the same myriad of organization forms, confusion and complexity that non-family firms have. The difference may be that explicit and implicit forms in a family firm may be quite different and a published organization chart may in a family firm not be worth the paper it is written on. The power residing not in power expressed in referent organization relationships but in emotionally laden familial power relationships. Regardless, little empirical research has sought to shed light on this area.

Nepotism and ‘spoiled child’ syndrome

Nepotism is often disparaged as an undesirable action (Wong, 1988: 136–137, 142–143). Family members are often not hired on the basis of superior management skills but on the basis of their blood ties to the owners and managers of the business. Nepotism is therefore typically seen as a negative trait and in some cases can be highly detrimental to the business and the family (Bertrand et al., 2008; Lee et al., 2003; Schulze, Lubatkin and Dino, 2003; Schulze et al., 2001). When family position takes priority over experience, the link between performance and rewards is lost. Another cost can be the promotion of incompetents who cannot be dismissed (Whyte, 1996). In some cultures this pattern coexists with control by a patriarch (or group of brothers) with a wide latitude in hiring, firing and salary determinations.

Nepotism causes tensions by generating two kinds of opportunity cost. First, it reduces the ability of the new generations to find optimal uses
for their talents in the open labour markets (Whyte, 1996). Second, it reduces the ability of non-family and disadvantaged family members to make optimal use of their talents in the internal labour markets. When family logic supersedes economic logic, it can lead to delegitimization within the firm itself (Stewart, 1993: 386). In some cultures the male family leaders dominate financial management and monopolize external network ties (Chiu, 1998; Dhaliwal, 1998). Consequently, women and other disadvantaged family members may feel themselves exploited and lose faith in the equity of the family firms (Dhaliwal, 1998).

Family members resolve perceived inequities (among men) by dividing the family estate and starting new branches of the firm. This solution is creative and enduring (Goody, 1996: 143, 155, 203) but both the timing of the split and the allocation of assets can result in disputes (Oxfeld, 1993: 181). Where there is joint ownership and effort but differences in responsibilities, it is difficult to reach agreement on credit for success or blame for failure (Blim, 1990: 191–192; Oxfeld, 1993: 165, 191–196).

Difficulties in allocating credit and blame are scarcely unique to family firms, but nepotism does exacerbate them by slanting official attributions towards non-merit-based criteria. Bias harms both disadvantaged relatives and non-family employees. Problems between family and non-family can precipitate a cycle of distrust (Whyte, 1996). The result is perceived inequities among other employees and non-core family which can lead to a myriad of problems for the family business.

Nepotism can also have positive attributes and positive effects on the family business such as providing ease and effectiveness of communication and continuity, as well helping to perpetuate or continue a trusting environment (Bellow, 2004). So while Kets de Vries (1999) suggested that nepotism was a negative attribute or conveyed a disadvantage for family businesses, it is true to say that any family influence is not intrinsically good or bad but manifests both aspects.

On the other hand, there may well be some truth in the notion that ‘spoiled child’ syndrome exists within family businesses. Work by Lubatkin et al. (2007) on family-based altruism acknowledges that when parents unconditionally transfer normal goods (i.e., goods intended to gratify economic wants for consumption and leisure) to the child, thereby placing the child’s interests ahead of their own, governance inefficiencies will occur (Schulze et al., 2001). Lubatkin et al. (2007) also identify paternalistic altruism as a form of altruism that flows from attempts to provide merit goods (i.e., actions, values and consumption patterns that parents judge to be essential for their children’s future success and happiness). Paternalistic altruism is based on the belief that
rewards will encourage children to conform to the parents’ wishes and presumed greater wisdom about what is in the child’s best interest.

Why families that practise psychosocial altruism, which focuses on the transfer of norms and values rather than normal or merit goods, are more likely to experience governance efficiencies is yet another area of study. Lubatkin et al. (2007) state that this is because when the transfer of norms and values precedes and accompanies the transfer of goods, the chances of the child becoming spoiled or rebellious are minimized.

Nepotism, it could be said, is alive and well in the family business; however, we have yet to explore the positive contributions that it makes. Likewise the aspects of nepotism as they manifest within the family unit have yet to be investigated.

Conflict

Internecine strife and conflict are the oft-reported outputs and outcomes in the activity of family businesses; in fact you could be forgiven for thinking that academics’ only interest in family businesses is to prove that they are a source of unending conflict which results in the decline of dynasties, the formation of new empires and the evolution and transformation of entire industries.

Family firms consist of two entities: family and business. These two different entities provide the fuel for many different types and causes of conflict. Birley et al. (1999) found that the issues facing those who are managing two systems that command commitment, but which also have conflicting needs – family and business, can be very demanding and complex. Benson (1991) proposes that a major reason for the high failure rate of family-run businesses is the conflicting needs of family and business. The family demands contradict the needs of the business, thus developing two sub-systems working against each other. Family-business owners find it difficult to be both a parent during non-business hours and a manager to family members in business hours. These conflicting roles that present themselves to the individuals put pressure on them, which ultimately results in disagreement and discord. However it is not just the different roles that present problems; there are a number of other sources for conflicts such as succession, finance, different objectives for the business and so on. There are many reasons for conflict in family businesses and these will now be discussed.

Greenhaus and Beutell (1985) proposed three reasons why conflict occurs in family businesses. The first reason is that the time taken to meet the requirements of one role make it difficult for other roles to be
fulfilled. The second reason is the strain from participating in one role which makes it difficult for any of the other roles to be completed. And finally, they suggest that certain behaviours of one role make it difficult for other roles to be fulfilled. As suggested before, the roles required of the individuals can put a lot of strain on them for many different reasons. Additionally, conflict may arise from too much participation on behalf of the other family members (Davis and Harveston, 2001) and the family’s involvement in the firm’s day-to-day operations will increase the likelihood that one or more family or managerial individuals will disagree over the firm’s goals or actions. They state that even though family members may work in the same business and share a common interest in cooperating and coordinating their efforts, task conflicts may still arise. This suggests that ultimately having a select few individuals involved within the operations could help to reduce the conflict.

Beckhard and Dyer (1983) give several reasons as to why conflict may occur. They propose that it is the underlying family issues that bring about the disagreements, such as, old sibling rivalries that reoccur, or in-laws find themselves in odd roles. Another common reason for a dispute is the oldest son being deprived of immediate successorship to the father. This can result in bad feelings that can rub off onto the performance of the firm. Following on from this, another issue that has been found to arise is who gets that role, and whether the father or founder stays active for a length of time after the succession. This can cause conflict because of the different opinions regarding the way the firm should be run. In addition Morris et al. (1997) suggest that the family firm may remain stable as long as the founding entrepreneur is present. If the founder leaves and another family member is bought into that position, it is likely that the firm will subsequently become destabilized as a result of these triggering events. The result can be ambiguity, confusion and conflict among the family members and professionals employed by the firm. This develops on the previous piece of literature, in that the founder is the one who knows the business and the best way in which it operates.

Other literature explains how conflict often arises between individuals working in family firms. Conflicts and tensions arising between husband and wife in family firms were studied. It is suggested that age, education, role and decision involvement can increase family conflict intensity. If the husband’s involvement in the business is greater than the wife’s, then this lessens the tension, however if they feel they are making fewer decisions than the wife this heightens tension. Other motives for conflict in the family firm can result from the amount of ownership and control the individuals have of the business. Schulze et al. (2001)
state that a cause of conflict may be shared ownership. Conversely, Chua et al. (2003) stated how family managers are reluctant to hand too much power to individuals from outside the business, due to fear of losing control of the business. Handing over too much ownership of the business increases the chance of the loss of control. This in turn may decrease the performance of the business and affect the aims and goals, and consequently increase tensions and conflict due to the concerns about losing the power of making decisions and operating the business.

Other literature looking at the control of the business and how this can cause conflict is based on the agency theory. The agency theory relates to conflicts of interest between individuals who have interests in the same business. ‘Agency conditions in sibling partnerships resemble those in the ‘controlling owner stage’, with sibling partners having incentives to use a family-firm’s resources to maximize their own utility; acting on these incentives can again result in double moral hazard problems and conflict between the sibling partners’ (Schulze, Lubatkin and Dino, 2003: 184). The ‘controlling owner stage’ is where the individual who has control over the majority of the business is in charge.

Looking at the reasons of conflict from a different approach are Fama and Jensen (1985) and Ward (1987), who propose that conflict may be due to the balancing of the firms’ and families’ financial needs, which can lead to disagreements over strategic decisions within the firm. Balancing two conflicting financial affairs is a strain for families, creating tensions and conflict, especially if finances become strained.

Succession is very important within family business. The decision of who will take over the business once the founder decides to leave can cause much conflict. It is often found that with father and son relationships, the father will allow the son to take over the business regardless of his suitability. Consequentially, this can cause jealousy and resentment between other siblings who may be better suited. Rosenblatt et al. (1985) state that father to son successions are often plagued with problems such as competition, control and power, resulting in conflict between fathers and sons and problems in the business.

Other issues regarding who should take over the business arise from whether the daughter is suitable to run the business. Cole (1997) discusses how conflict can arise from daughters receiving a mixed message from their parents, wanting them to take over the business but also wanting them to produce grandchildren. These conflicting issues are guaranteed to cause discrepancies between founders and daughters.

Some more reasons for conflict in family businesses can be uncertainty of family and non-family member roles, failure to discuss
business and family objectives, and resistance to change, as stated by Levinson (1971). Furthermore, Shephard and Haynie (2009) propose numerous reasons for conflict within the family. They suggest that there may be disagreements over growth targets, succession, product offerings and even unimportant issues such as how many hours individuals are working. They also suggest that conflict may arise due to problems within the family rather than the operation of the business. Tensions may increase due to the amount of time being spent away from the family home, marital differences and forgetting important family events.

The conflict literature identifies two potentially beneficial types of conflict: cognitive and process (Jehn, 1992, 1997a, 1997b; Jehn and Mannix, 2001; Putman, 1994). Cognitive and process conflicts are work-related conflicts that are void of negative emotions (Jehn, 1992, 1997a), and thus, thought to be beneficial to performance because they increase options, prevent premature consensus and foster employee involvement (Tjosvold, 1991; Wall, Jr, Galances and Love, 1987). Cognitive conflict centres around disagreements that are related to the work-at-hand and the strategies being pursued (Jehn, 1997b), while process conflict refers to the discussions about who is responsible for which tasks (Jehn and Mannix, 2001). Since family firms are often criticized for limiting family members’ participation in the firms’ strategy-making process (Kellermanns and Eddleston, 2007b; Stavrou, 1999) and for hiring people because of their family status and not their qualifications (Kellermanns and Eddleston, 2004), cognitive and process conflict may be particularly important to family firms’ success.

Cognitive conflict (conflict about goals and strategies) and process conflict (conflict about strategy implementation) are positively related to family firm performance (Kellermanns and Eddleston, 2007a). While process conflicts have no significant direct effect on firm performance, Kellermanns and Eddleston (2007a) showed that high levels of cognitive conflicts negatively influence firm performance, because family managers have difficulty separating their professional relationships from their family relationships and so cognitive conflicts might be more likely to be perceived as personal attacks, thereby hampering cooperation instead of facilitating effective decision making.

Dispersion of ownership among generations of the family and the extent to which family managers exchange information with one another, both serve to moderate the relationship between conflict and performance. When both process conflict and family member exchanges are high, performance improves, but ownership dispersion and process conflict do not significantly interact.
Succession dramas

The unique process that all family businesses need to address is succession. Succession can be termed as the transference of leadership from one generation to the next (Ibrahim, Soufani and Lam, 2001; Brun de Pontet, Wrosch and Gagne, 2007). The topic of succession is very broad and areas that are repeatedly addressed include frameworks for successful succession, characteristics of the succession model, selection of the successor and the importance of succession planning.

Looking at a selection of 226 articles, Chua et al. (2003) determined that 19.5 per cent featured the succession process, making it the most prevalent area of study within the family business arena. Bird et al. (2002) found in their review of 148 articles that the second most reviewed primary topic was succession which was reviewed by 19 per cent of the studies. Despite its importance, Danes, Teik Cheok Loy and Stafford (2008) reported that within their study of 572 firms, although 64 per cent had spoken about succession, only 18 per cent had actually written a succession plan. Sharma, Chua and Chrisman (2003a) believe that in many cases succession is left to chance. This is a concern as succession is an inevitable process within the family business; essentially it is to be anticipated and managed for it to be successful (Dyck et al., 2002).

Effective succession is critical in family businesses to ensure the survival of the firm (Stavrou, 1999; De Massis, Chua and Chrisman, 2008; Ibrahim et al., 2001; Sharma, Chrisman and Chua, 1997), thus making it the number one concern for family businesses (Chua, Chrisman and Sharma, 2003). While there is an extensive literature on succession, providing a foundation of attributes, there is relatively little literature about effective succession. This particular aspect of the effective succession process is often neglected. However, taking a systematic approach it is possible to identify what we know about this aspect of succession.

The literature indicates an excessive number of factors that contribute towards a successful succession. Highly cited themes include the timing at which the succession takes place (Chrisman et al., 2009; Sharma, Chrisman and Chua, 1997) and the training and development of the successor (Chrisman et al., 2009; Mazzola, Marchisio and Astrachan, 2008; Ibrahim et al., 2001; Cabrera-Suarez, 2005). The literature seems underdeveloped with respect to defining the boundaries in which each factor fits. Possibly this is due to its interlinking and overlapping nature which creates subjectivity and uncertainty when trying to develop substantial frameworks.

To provide an overview of this large disjointed topic, the factors have been split into three key themes as demonstrated below in
Figure 1.1: (1) Planning process, (2) Organization and (3) Individual. The diagram illustrates that all the processes contribute to the possibility of a successful succession. The first process relates to the fundamental aspects in place that attempt to act as a control to the succession process. This seeks to demonstrate the actions the family business will take to ensure an enduring and successful succession. Secondly, the organizational aspect comprises the distinctive features that make the business different from others. This includes factors such as the predecessor and the organizational culture. The final theme will examine the individual, who is considered the potential successor and will illuminate fundamental traits of their personality and overall development, highlighting their suitability to execute the role as the potential successor.

The synthesis of all areas will be summarized with a table that will recap the discussion of each theme; finally, the strengths and weaknesses of the themes will be reviewed. A model has been developed which aims to capture all three themes that will demonstrate the whole topic and its influential factors. This systematic approach will hopefully provide increased understanding of the vast quantities of information based around succession, seeking most important aspects through determining most cited factors. Let us start by examining the planning process.

**Planning process**

The first theme is the involvement of planning, which has been reported to make the succession process smoother (Sharma, Chrisman and Chua, 1997). Succession planning has been widely acknowledged
to increase the survival chances of a firm (Handler, 1992; Kets de Vries, 1993; Ibrahim et al., 2001). Without preparing for the transfer process, Cabrera-Suarez (2005) stated that 30 per cent of European firms will disappear. Santiago (2000) identified succession planning as the key component to a successful succession.

Succession planning is considered as an integrative device to plan for the next generation (Mazzola, Marchisio and Astrachan, 2008). Ibrahim et al. (2001) concluded that the most important aspect of succession was the planning and in addition, that an effective succession is a result of accurate planning. Planning is extremely important for the succession process. However, to ensure not only a smooth transition but the survival of the family firm, additional characteristics within this theme hold an equal importance. Within the succession process and succession planning, the first stage is the selection and training of the successor (Sharma, Chrisman and Chua, 2003a).

The selection process is an essential underlying aspect of succession planning. Brockhaus (2004) states that the selection process of the potential successor needs to meet the criteria of the family’s future plans within the business. The abilities and the education of the potential successor are fundamental to the selection process. These topics are discussed within a later theme but they serve to demonstrate the overlap and interlinking nature that all three themes hold. The selection process is unique to each family (Chrisman et al., 2009) and the most suitable personality, traits and competence levels are assessed when determining the most suitable successor (Ibrahim et al., 2001). Le Breton-Miller, Miller and Steier (2004) found that, due to the select pool of talent the potential successor can be chosen from, the options for the family business are limited. Within the selection criteria there is a need for ground rules for the selection process (Le Breton-Miller et al., 2004). For a systematic and controlled approach to the selection process, a procedural and quantifiable method is needed.

The timing of the succession process is a key factor of succession planning (Sharma, Chrisman and Chua, 1997). Within the four-stage relay race theory proposed by Dyck et al. (2002), timing is the second stage of executing a successful succession. Timing is said to vary between firms due to size and environment and Chrisman et al. (2009) highlighted an additional ‘passing of the baton’ theme within this process. If the baton is passed too early, it can be dropped and in an opposite scenario if too late, it could potentially cause two successors to ‘bump’ into one another. This theory has been criticized because it considers succession
as an isolated event rather than as a process which follows through many phases (Cabrera-Suarez, 2001).

The timing of succession however is not always controllable within family businesses due to factors such as sudden death of the predecessor (Bennedsen et al., 2007). Davis and Tagiuri (1989) suggest that the time of life in which the father and son find themselves can furthermore determine the effectiveness of the succession. This reinforces the notion that succession processes involve a wide range of factors that can make dramatic differences and changes to the business or any plans that are already in place.

Integration and transition of the successor are significant within the planning stages. Within the model of ‘knowledge transfer and successor’s development’ proposed by Cabrera-Suarez, De Saa-Perez and Gracia-Almeida (2001), early exposure to the business can lead to successor motivation and satisfaction. Ibrahim et al. (2001, 2004) and Stavrou (1999) describe a three-phase step for the succession process with the integration of the successor into the family business into various roles in second position. For the successor to feel fully integrated, the need for satisfaction within their particular role is essential (Sharma et al., 2001). In addition, within the model of integrative success, Le Breton-Miller, Miller and Steier (2004) conclude that ground rules and the first steps include a shared vision and transition to enable the succession process. This is matched by the model from Brun de Pontet, Wrosch and Gagne (2007) in generational differences of control for businesses approaching succession. Within this model the transition fits alongside selection, nurturing of the successor and ground rules.

In summary, the planning stage of succession holds some key and influential factors to be considered, many of which cannot be controlled, hence the problematic challenge that family businesses encounter. Succession planning aids transition, but ‘by itself does not guarantee’ successful succession (Santiago, 2000: 32). It is therefore essential to consider the additional factors such as the organization.

**Organization**

Viewing the succession process from an organizational perspective includes many areas that can be considered as unstable and volatile, for instance, relationships and trust. Furthermore, the organization component of the succession process also contains factors that are considered as difficult to change, for example organizational culture.
The literature here suggests that there is a strong need for the predecessor to have confidence in the successor's skills and trust in their ability to manage the company. This often is translated into organizational trust. De Massis, Chua and Chrisman (2008) reviewed the factors preventing intra-family succession and found that one of the factors was the lack of trust in the successor by the other family members. Sharma and Rao (2000) discovered that integrity is an important attribute to have in order to be considered as a potential successor within a family firm. Brun de Pontet, Wrosch and Gagne (2007) highlighted that the predecessor's readiness is determined by the confidence in the leadership skills of the potential successor. This represents the idea that the predecessor cannot control their level of readiness as in reality they are reliant on other individuals. The level of preparedness combined with the relationship between the predecessor and the successor have an influence on performance and the smooth transition of the succession process (Sharma, 2004), thus, strengthening the proposal that any one factor does not control the process of succession but in fact it is a mixture of combined elements.

Perceived success of the succession process is aided by the relationship between the owner/manager and the successor. The literature here indicates that satisfaction plays important roles within the succession process; this is true not only of the successor but the predecessor too. Initial satisfaction with the succession process is influenced by the individuals, the family relationships and the organizational attributes (Sharma, Chrisman and Chau, 2003b; Wang et al., 2004). Brockhaus (2004) concludes that research on family business and on executive succession emphasises the importance of the relationship between the successor and the incumbent in determining the process, timing and effectiveness of the succession.

(Brockhaus, 2004: 169)

Cabrera-Suarez, De Saa-Perez and Gracia-Almeida (2001) investigated how quality relationships are related to factors such as the ages of the successor and predecessor. Relationships have an increased chance of being sustained through communication, and lack of communication was discovered to lead to tension (Ibrahim et al., 2001). Ongoing tension causes inappropriate relationships that can as a result cause problematic successions (Miller, Steier and Le Brenton-Miller, 2003).

Other organization-influenced factors and characteristics found to have an impact on the succession process are size and complexity of businesses (De Massis, Chua and Chrisman, 2008; Davis and Harveston,
Various characteristics and attributes of organizations have been found to contribute towards the succession process; however there is some evidence that they contribute towards making the procedure complex and difficult to control. While organization characteristics have an impact, it is most often organization trust in the successor and the relationship between predecessor and successor that are the most essential requirements for effective succession.

Individual

Extensive succession literature relates to the relevance, contributions and role of the individual in the succession process. The literature illuminates the successors’ training to manage the business. Training has been considered as a vital element of the successor’s role (Basco and Rodriguez, 2009; Cabrera-Suarez, 2005; Cabrera-Suarez, De Saa-Perez and Garcia-Almeida, 2001; Sharma, 2003; Ibrahim et al., 2004). It is thought that the training for leadership that the successor receives develops their personal leadership skills for future development of the business (Cabrera-Suarez, 2005; Ibrahim et al., 2004). The successor’s leadership role is said to develop from the training; for example through observing the predecessor’s management style (Rosenfeld and Friedman, 2004; Ibrahim et al., 2004) and it is generally accepted that it is essential that the successor have correct and adequate training.

The skills and abilities of the successor are another highly cited factor to consider within the effective succession literature (Ibrahim et al., 2004). For any business whether it is family or non-family, it is essential that the person in charge has good management skills to run the business effectively. While providing an adequate strategic planning system for the family business, succession training can play a critical role in building up the next generation’s skills and knowledge specific to that business, thus will aid the development of the successor when it is their chance to take control (Mazzola, Marchisio and Astrachan, 2008). Chrisman, Chua and Sharma (1998) support this view about the important attributes of the successor highlighting that planning allows development of knowledge. They suggest that personal and professional development through training, experience and education can ultimately help to achieve effective succession through guiding the successor’s abilities.
Experience and education may ultimately lead to a well-developed successor and someone who is able to take on the role of owning/managing the family business. The literature shows these three aspects of the successor need to be in place, but it could be argued that the three factors overlap. Educating and providing the successor with suitable experiences within the family business can develop the successor’s abilities as a whole (Kets de Vries, 1993; Brockhaus, 2004; Sharma, 2004; Basco and Rodriguez, 2009), thus increasing the chances for an effective succession (Cabrera-Suarez, 2005).

Chrisman et al. (2009a) cited that the development of the successor depends on interest, resulting in commitment and dedication through giving the successor responsibilities and training. This commitment is linked to the willingness of the successor, which in turn contributes to the smooth handing over of power and authority (Goldberg and Wooldridge, 1993). The diagram of knowledge transfer by Cabrera-Suarez, De Saa-Perez and Gracia-Almeida (2001) describes how the successor’s commitment to the business aids the motivation of that successor. Having this aid and encouragement, their model demonstrates, can be directly linked to the business’ competitive advantage and therefore the businesses’ overall performance. The table below summarizes the factors enabling the successor to contribute towards a smooth effective succession transfer.

To conclude, there are numerous influential and key factors that need to be considered in order to obtain an effective succession, succession planning being key among these. Examining the current literature it is clear that authors generally regard the selection of the successor, the timing of when it takes place, the transition and the integration of the successor to be of upmost importance. Aspects and attributes of the organization additionally serve an important role within the succession process, the most influential areas being the trust that the organization’s predecessor holds. A smooth transition without tension can be achieved but the process requires a strong relationship to exist between predecessor and incumbent that can be facilitated through effective communication and planning of the succession process. One way in which a solid relationship can be built is through extensive training and development of the successor. However, since succession planning, the quality and character of the successor and the nature of the organization in which the succession is taking place all appear to have a significant impact on the effectiveness of the succession, it is hardly surprising that in the modern family business, with its inherent complexities, the succession process continues to be a challenging one.
Financial strain

Compensation policies and firm performance

Recent work in this area has illuminated the issues that family businesses face with regards to compensation of top management teams. Ensley et al. (2007) have argued that spillovers in family relationships among family members who are part of the top management team (TMT) of a firm will influence compensation policies, and that those policies will affect team conflict, cohesion and potency, and that these elements of team dynamics will influence firm performance. They have also highlighted that the compensation policies and resultant impacts will differ between family firms and non-family firms and that pay ranges will be narrower among the TMT in a family firm and that wide pay dispersions in such firms will be negatively associated with the behavioural dynamics conducive to superior performance. It seems that pay dispersion increases conflict and diminishes cohesion and potency of senior teams. Family teams, because they are so closely knit, seem to also be more vulnerable to the negative outcomes of pay dispersion.

Are family managers agents, as suggested by Schulze et al. (2001) and Chrisman et al. (2004), or are they stewards? Using a sample of 208 small family firms to investigate the use of monitoring mechanisms and incentive compensation to control the behaviour of family managers, Chua et al. (2004) sought to investigate how family business owners dealt with this issue. The results suggest family business owners tend to both monitor and provide incentives to family managers and that performance is improved by doing so. That is, owners in privately held family firms, appropriately, treat family managers as agents in terms of the compensation packages and monitoring mechanisms used.

Collectively, the two studies indicate that incentive compensation is necessary to align the interests of family owners with family managers but the potential negative effects on team dynamics of pay dispersion among family members must also be taken into account in designing compensation policies. Taken together, these findings suggest that some combination of individual and team incentives is needed to combat the deleterious effects of individual opportunism and team conflict.

Summary

The work by Kets de Vries (1993) leaves us in no doubt as to the good and bad points of a family business, but it is clear that our understanding is developing and the modern family business has some new and emerging
differences when compared to the older versions. It is accepted that every family business is unique, shaped by its own set of distinctive personalities, objectives and relationships. It is possible, however, to identify advantages and disadvantages that are common to all family businesses. Rapid social, technological and economic changes are forcing businesses to review their operations. This can present particular challenges for the owners and managers of family businesses. Heritage and tradition may have been central to the family business development in the past. It is true for many firms that this heritage can make it difficult to adapt to change and produce innovation needed to ensure that the business continues to survive and grow. Adopting new ways of doing business, and changing accepted practice may call into question the foundations of any business.

The field of family business studies has moved considerably in the past ten years and in the UK is moving at a pace towards illuminating the unique nature of the family businesses which contribute so significantly to the GDP of the country. Worldwide the contribution of family businesses is no less significant and scholars in many countries are seeking to investigate what is it that provides family businesses with their uniqueness and enduring sustainable advantage.

The work academically is progressing at a great rate. Sharma (2011) suggests that the field is making progress and in 2010 the academic community had been working in the following areas and displaying the following characteristics:

1. Equal interest in publicly listed and privately held firms
2. Expanding variety in theoretical foundations used
3. Domination of studies using quantitative methods
4. Capturing the heterogeneity of family enterprises
5. Implications for public policy

Picking up on the heterogeneity of family enterprises The Modern Family Business seeks to highlight just how interesting and dynamic is this phenomenon. This book seeks to illuminate the nature and characteristics of the modern family business and through an exploration of the relationships within the family and business focus on aspects that make them special.

Chapter 2 discusses in more detail the nature of the family aspect of family businesses. Families have changed dramatically in composition and outlook, at least in the UK and US in the past decade. This chapter seeks to contextualise the nature and scope of these changes. It will also attempt to explain the contribution that family makes to family businesses.
In Part II we present four different case studies which highlight seldom investigated relationships within family businesses. Chapter 3 provides an in-depth look at how brothers engage in emotional labour using the case of a third-generation family business. The lens for this investigation is emotional labour, a concept seldom applied to the work of family members in family businesses. The case serves to highlight the complexities of family hierarchies that can operate within businesses and shows that in this particular case, Thornton’s, there is no such thing as a ‘sweet deal’.

Chapter 4 explores the relationships between daughters who take over a German family business. The German family business holds, in some ways, a privileged position in the world of family business and is itself quite unique. The German context is usefully described in this chapter. This case study sought to provide female successors with guidelines for successful succession in the family business and is based on first-hand accounts of others who have decided to lead their family business. It is an interesting case because it highlights the commonalities and particularities by a number of women which will hopefully give a clear picture of the issues relating to the challenge of leading the family’s business.

Chapter 5 presents a case study of women who succeeded their fathers to take over as CEOs of second and third generation family businesses. This is an interesting chapter as it presents discussion about the nature of socialization of children who have grown up within the family business. The chapter describes the first stage of a two-part study that sought to explore the nature of the socialization process that daughters go through taking the view of the process from the family’s perspective where the unit of study is the family. In the chapter the authors consider the processes by which the daughters of male business owner-managers are socialized into the family business, what and how they learn about the family business and how that learning impacts upon their eventual succession or not and suggest a model for the family social process in the family business.

Chapter 6 discusses the phenomenon of ethnic minority family businesses and in particular immigrant family businesses. The chapter outlines the findings from a pilot study which is part of a larger ongoing study that is considering the nature of family dynamics in ethnic minority owned family businesses based in the UK. Ethnic minority entrepreneurs including those of Asian and Caribbean descent are making significant contributions to UK economic development. Previous studies (Barrett, Jones and McEvoy, 2001; Waldinger, Aldrich and Ward, 1990) have shown that in the UK the number of ethnic minority start-ups is
The Family Business comparatively high compared to other groups of start-up entrepreneurs. However, the contribution of migrant entrepreneurs has largely been neglected by researchers (Williams et al., 2004; Keeble, 1989) and also appears to have been overlooked by family business researchers. This chapter explains the cultural theoretical framework for the study and highlights the cultural aspects of the Pakistani family business discovered and explored in the pilot study.

The final chapter, Chapter 7, brings together the relationships discussed and considers the complexity of the overview they offer. The chapter seeks to provide an overview and conceptualization of family business relationships which draws on the metaphor of DNA. The conceptual representation of such businesses by means of a metaphoric analogy, the ‘DNA’ of the family business, allows both the complexity of family business relationships to be considered and also their capacity for change.

Note

1. RBV – Resource-Based View. The RBV seeks to explain what are the internal sources of a firm’s sustained competitive advantage. Its main proposition is that if a firm is to achieve a state of sustained competitive advantage, it must acquire and control valuable, rare, inimitable and non-substitutable (VRIN) resources and capabilities, and have an organization in place that can absorb and apply them (Barney, 1991a, 1994, 2002).

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