

Section 1 Understanding the business

Introduction

This first section takes a broad look at what it means to be in a family business. It starts by looking at what is actually meant by the term 'family business', and examines some of the special qualities and characteristics that give family-run businesses their distinctiveness.

You will then go on to look at how family businesses have a unique position, in that they have to balance the differing – and sometimes conflicting – demands of the family on the one hand and commercial considerations on the other. You will explore how different businesses approach this in different ways.

Learning outcomes

In this section you will be concentrating on the following learning outcomes:

- explain what is meant by a family business
- describe the main characteristics of family businesses, including both strengths and challenges
- understand links and relationship between ownership, business and the family
- explore many issues relevant to a family business and identify ways of dealing with them.

Topic 1: What is a family business?

When you have worked through this topic you should be able to:

- list some of the factors that give businesses the character of 'family businesses'
- decide whether or not various businesses can be defined as family businesses.

Topic 2: Aspects of the family business

When you have worked through this topic you should be able to:

- assess the usefulness of different criteria for judging what constitutes a family business
- describe how ownership and control are exercised in family businesses
- list some of the issues that arise when a family business spans different generations
- evaluate the criterion of size: what is the minimum number of people needed to make a family business
- describe if and why your own business fits into the category of a family business.

Topic 3: The uniqueness of family businesses

When you have worked through this topic you should be able to:

- summarise the factors that make family businesses unique
- explain how these factors can be advantages for the family business.

Topic 4: Characteristics of family systems

When you have worked through this topic you should be able to:

- begin to understand the challenges involved in reconciling home life and business life
- describe the characteristics of family systems.

Topic 5: Family vs business: conflict or compromise?

When you have worked through this topic you should be able to:

- describe the characteristics of business systems
- explain how business systems compare to family systems
- outline the kinds of solutions or compromises needed to reconcile the differing demands of family and business.

Topic 6: Circle models of family business

When you have worked through this topic you should be able to:

- identify the different roles that exist in a family company
- explain and illustrate (in a circle diagram) how these roles may overlap
- describe the confusion or conflict that can arise when someone starts acting beyond their role.

Topic 7: Analysis of types of family business 1

When you have worked through this topic you should be able to:

- describe what is meant by businesses having a family orientation
- describe what is meant by businesses having a business orientation
- understand that these two orientations are not mutually exclusive
- outline Leenders and Waarts' categorisation of family business types.

Topic 8: Analysis of types of family business 2

When you have worked through this topic you should be able to:

- assess the orientation towards business and family of different types of family business
- summarise some of the advantages of different orientations.

Topic 9: The competitive edge

When you have worked through this topic you should be able to:

- explain in detail how the various qualities of family businesses might give them a competitive edge
- describe the advantages that family-run business can benefit from
- understand that these advantages should not be taken for granted.

A healthy family
is sacred territory.
Chinese Proverb

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Topic 1 What is a family business?

It is estimated that family businesses account for the great majority of all enterprises in the world. In the United Kingdom, as in most European countries, they make up a huge part of the private sector. Some estimates put the figure as high as 75% (Burns & Whitehouse, 1996). These businesses come in all sizes and types, and clearly, the economies of many countries depend on them.

But what exactly is a family business? Is it an enterprise in which the whole family is involved? Or just some members of it? Does it only qualify as a 'family business' if there is a clear intention to pass the business on to future generations? Or can a family business live and die within a single generation?

Family business or not?

To start thinking about some of these questions, work through the following activity.

Activity

Read through the following case studies and think about the following questions.

- Which of them would you regard as 'family businesses'?
- What are the features that lead you to conclude that they either are, or are not, family businesses?
- What do these businesses have in common? And what is different about them?

1 Jane and Keith Walker are both chartered accountants, who met while training at the same firm. They left to set up their own business dealing with a range of small clients in their local area. They have two young children, currently at primary school. They work from an office in their home, which means they can look after the children more easily. They run the business as a limited company and employ one part-time administrator.

Family business? Yes No Why? _____

2 Peter Kane and Erik Dahlin are life partners and also together run their own business, Nordic Lines, importing antique, 'rustic' furniture from Scandinavia. Peter is the more business-minded of the two, dealing with all the importing arrangements, while Erik concentrates on going to sales and identifying sources of furniture, which he often combines with visits to his family in Sweden. Erik is also skilled at finding outlets for the imported furniture, including furniture retailers, antique dealers and interior design companies.

Family business? Yes No Why? _____

3 The Patels have run a newsagent and post office since coming to the UK from Uganda in the early 1970s. Arvind Patel was a trained pharmacist and now runs the post office side of things. His wife, Gita, does most of the serving in the shop. Their children have helped out in various ways from an early age – including delivering papers and cleaning. Their daughter is currently studying medicine at university, but during vacations often helps behind the counters and in making up bills. Their son is doing A levels and hopes to go to university to study pharmacy. Members of the extended family often help out when, for example, the Patels visit relatives in India.

Family business? Yes No Why? _____

4 James Levine Ltd is a firm of shoe and boot manufacturers set up in the 1920s. James Levine's three sons all went into the business, which expanded to its biggest size in the 1960s. Since then, the business has contracted and now specialises in two niche markets: boots for walking and climbing, and boots and other leather 'fetishware' for transvestites and drag queens. The current MD and Chairman is Charlotte Lucas, a granddaughter of James Levine, and the board contains four other direct descendants of the original founder.

Family business? Yes No Why? _____



5 Jasmine O'Donnell offers a personal fitness training service to individuals and small groups. She visits clients in their homes or gives group sessions in rented halls. She brings the equipment she needs in her van. Most of her clients live in the same town or in the villages nearby. Jasmine's sister, Anita, does Jasmine's VAT and tax returns, for which Jasmine pays her an annual fee, although this is well below the going rate. Anita also trained as a fitness instructor but currently works as an accounts clerk for an engineering company. Jasmine and Anita have discussed the possibility of Anita joining Jasmine in her business, but Anita is reluctant to take 'a leap in the dark'.

Family business? Yes No Why? _____

These case studies have described a varied mix of different types of business and you may have found it hard to decide whether or not each business 'qualifies' as a family business. Topic 2 discusses the individual examples in more detail and you can compare your ideas with the ones given there.

Possible criteria for family businesses

People interested in family businesses, such as researchers, consultants and business advisers, have come up with various definitions as to what makes a business a family business. Some of the factors commonly identified include the following:

- Members of a single family own and/or control the enterprise.
- More than one generation is involved in the business.
- There is the potential for the business to be passed on to future generations.
- At least two members of the family are involved in the business.
- The family regards the business as a family business.

The next topic investigates these factors in more detail.

Check Point

At the end of each topic we encourage you to make some notes on the main themes introduced in the topic. When you complete each section, you may find it helpful to pull together your thoughts and ideas into an action plan. Section 6 contains an audit and action plan for each topic you have studied; this should help you devise an appropriate strategy for your family and your business.

Look back at the businesses we have described in this topic and note down their commodities and their differences.

Things in common

Differences

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Topic 2 Aspects of the family business

In the first topic you started to think about what constitutes a family business. In this topic, you will think in more detail about the possible criteria listed on page 5. You will also need to refer back to the case studies in Topic 1.

Ownership and control

Family ownership and control are fundamental characteristics of family businesses. In the case of smaller businesses, such as the Walkers' accountancy practice or the Patels' shop and post office, the small size of the enterprise makes it clear that ownership and control lie within the family. There may, of course, be disagreements between the family members about who actually owns and controls the business, but that is another issue – which you will tackle in later sections (see in particular Section 5, Topic 8, 'Disputes over ownership and control').

For larger concerns, family ownership may be indicated by the family holding the majority of shares (in the case of a limited company), or it may simply be that the profits are shared between members of the family (as in a partnership, for example). The family may control the enterprise by being in the majority on the board (where one exists) or being able to take decisions about the company without reference to people outside the family. Control may be further exercised by family members being in the senior management posts.

A generation game

Traditionally, many experts defined family businesses as those where more than one generation was involved. In particular, the passing of the business from one generation to another was seen as an important transition process. For example, a business with a single owner/founder would pass on ownership and control – and with them the 'family wealth' – to subsequent generations, typically to the children. If the business survived to the next generation, the business might then include family members from three generations, with cousins working alongside parents, aunts, uncles and grandparents.

Using this strict criterion, only the Levines' shoemaking business would qualify as a family business; in all the other cases, the business is built on family members from a single generation, including the Patels, where it seems unlikely that the business will be passed on to either the Patels' daughter or son (although it might be possible that other members of the wider family would be willing take it on).

This criterion leads to a fairly narrow definition of family businesses and would exclude a vast number of smaller concerns involving husband/wife and other partnerships. For that reason, this book takes a much broader view of what constitutes a family business.

Having said that, there are some important issues that arise when the family business spans different generations:

- how the aspirations and goals of different generations match up
- how people from different generations work together
- issues of succession – choosing and grooming a successor
- issues of wealth preservation – passing on the value of the business in the most efficient way.

These issues are covered in later sections of this book, particularly Section 5.

Size of business

The question of size is an interesting one, and is linked to the notion of whether a family business is defined as one that spans generations. If you accept the broader definition of family businesses, then you will be happy to regard a husband-and-wife team (such as the Walkers' accountancy business) as a real family business.

Some people might be reluctant to regard Peter and Erik's business as a family business, but as a gay couple, their status as a 'family' is equivalent to that of the Walkers.

The example of Jasmine O'Donnell raises the question of whether a single person can constitute a family business. True, Jasmine's sister is also involved, but only to a limited extent – she does Jasmine's VAT and tax returns more or less as a favour to Jasmine. As a sole trader, Jasmine probably doesn't regard herself as a family business. However, there is clearly the *potential* for it to become a family business, if Anita decides she has had enough of ledgers and overcomes her nerves about leaving the security of a regular paid job.

Many family businesses start in this way: one family member sets up on their own and gets the business going. If the business takes off and becomes successful, the original founder naturally looks for people to expand the business, and trusted family members are likely to be among the first people considered.

If it feels like a family business ...

The definition that seems to work best in practice is the final condition listed in Topic 1, namely that if a firm *thinks* it is a family business then it *is* a family business. This much looser definition encompasses all kinds of smaller businesses, run by different combinations of family members: husband/wife, unmarried partners (straight and gay), parent/child, parent/potential child entrant, extended family spanning two or more generations, and so on.

Check Point

What makes your own business a family business?

Think about the five factors listed at the end of Topic 1 and discussed in Topic 2. How many of these criteria does your business meet?

- Members of a single family own and/or control the enterprise.
- More than one generation is involved in the business.
- There is the potential for the business to be passed on to future generations.
- At least two members of the family are involved in the business.
- The family regards the business as a family business.

How valid do you think the five criteria listed are? use Action plan 1 in Section 6 to summarise what you consider to be the most useful criteria for defining family businesses.



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Topic 3 The uniqueness of family businesses

In Topics 1 and 2, you analysed what gives family businesses their distinctiveness. In this topic you will look at how this distinctiveness can give family firms advantages over other types of business. In other words, you will investigate the unique strengths of family businesses.

What makes a family business unique?

If yours is a family business, it is in essence just like any other business – it aims to provide a product or service and in doing so, make a profit and create wealth. However, it is also different from other types of business. This ‘difference’ can show itself in various ways: sometimes as clear strengths, sometimes in the form of challenges. (You will look at some of the challenges in later topics – see, for example, Topic 5, Family vs business: conflict or compromise?.)

On the positive side, the Stoy Centre for the Family Business identified five particular strengths that family businesses possess:

- commitment
- knowledge
- flexibility
- long-range stability
- reliability and pride.

Your success as a family, our success as a society, depends not on what happens in the White House, but on what happens inside your house.
Barbara Bush, wife of former President of the USA, George Bush Senior

The table below summarises the effect of these qualities on the business.

Advantages	Effect
1 Commitment	The family is dedicated to the growth and protection of the business, which is the core of its wealth. The family is stronger and more focused – and so is the business.
2 Knowledge	The intricate workings of the business may be known to a number of family members who can maintain service levels and make rapid and accurate decisions.
3 Flexibility	Because the dividing line between work life and home life is blurred or even non-existent, the family can respond flexibly when there is a demand for extra work or commitment to the business. Family members may be willing to sacrifice time and leisure hours to support the business – more so than if they were working for other people. Other family members are likely to support them in this, rather than view it as a threat.
4 Long-range stability	Growth and continuity are at the heart of the business; the business is stronger for it. The business has a focus on long-term success. Objectives may be measured in generations, rather than weeks or months. Each generation views itself as the custodian of the business and there is strong motivation to hand over a healthy and strong business to the next generation.
5 Reliability and pride	The family willingly links its name and reputation to the service/product it provides. Pride in the business encourages a striving for excellence.

Source: adapted from Stoy Centre for the Family Business (2000)

These factors can provide a competitive edge for family businesses and give them advantages over their competitors.



My grandfather set up the business and encouraged us to take an interest in it, even as young children.

We were always hanging around the workshops and were allowed to try our hand at different things. We grew up with leather in our blood, if you see what I mean! Because we were immersed in the shoe business from an early age, we understand it inside out. I think that has helped us to respond to the challenges, especially of cheap imports from the Far East. We've adapted to new situations by building up quality products for niche markets. I strongly believe that the grounding my parents and grandfather gave me is to thank for our current success.

**Charlotte Lucas, Managing Director,
James Levine Ltd**

I like to think of our family as having a 'culture of enterprise'. We have always been business people – not without our ups and downs. My parents run the family business, and while they've encouraged us to take an interest, they've never pressured us to commit ourselves to it. They want us to find our own ways of being 'entrepreneurs'. If that means coming back to the family business, that's fine, but if it means striking out on our own, that's fine too.

**Peter Kane, Importer of
Scandinavian furniture**

Topic 9, The competitive edge, looks at other factors that give family businesses their distinctiveness and the opportunity to edge ahead of competition.

Check Point

In what ways does your business play to its strengths? Use the space below to note down examples of how the business has benefited from each of the five factors discussed above:

1 Commitment and stability

2 Knowledge

3 Flexibility

4 Long-range stability

5 Reliability and pride.

What other strengths does your business possess as a result of being a family concern?

Are there ways in which it could build on these strengths?

Use Action plan 1 in Section 6 to summarise what you see as your business's distinctive strengths and to record ideas about ways of building further on them.

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Topic 4 Characteristics of family systems

For those people who don't choose the path of self-employment or working in a family business, the boundaries between work life and home life can be quite clear. Work life may end on the stroke of 5 o'clock and, once at home, the concerns of cash flow forecasts, business plans and personnel problems do not intrude. That is not always true, of course – many people allow work to dominate their home life, even when employed by someone else.

For those people running family businesses, however, reconciling home life and business life is one of the biggest challenges they face. They have to cope with the fundamentally different, often conflicting, demands of the business and the family.

This is the first of several topics that focus on this issue. These topics should help you to understand how your own business manages these conflicting demands.

The particular human chain we're part of is central to our individual identity. Even if we loathe our families, in order to know ourselves, we seem to need to know about them, just as prologue.
Elizabeth Stone

Family systems

To understand how family life and business life can come into conflict, it's useful to think for a few minutes about what 'family life' can mean. What are the distinctive qualities of families?

Activity

What follows is a series of statements about families and how families work. To what extent do you believe these statements to be true?

	True	False
1 Families tend to be inward-looking and will put up barriers to people outside the family.	<input type="radio"/>	<input type="radio"/>
2 Families will support a family member in times of crisis, even when that family member is in the wrong.	<input type="radio"/>	<input type="radio"/>
3 Family members are likely to talk openly to each other, because they are used to communicating. In fact, they <i>have</i> to communicate well in order for the family to function.	<input type="radio"/>	<input type="radio"/>
4 Families will often reach decisions based on habit or emotion, rather than strict logic. For example, if the family always goes to a hotel in Spain for its holiday, some family members may be upset if someone suggests going camping in Bulgaria ...	<input type="radio"/>	<input type="radio"/>
5 Family members are more likely to share things with each other – money, resources, time – than with non-family members.	<input type="radio"/>	<input type="radio"/>
6 You are a member of your family for life! Family ties are strong and (almost) impossible to sever. You can't divorce your parents, for example (at least not in the UK!).	<input type="radio"/>	<input type="radio"/>
7 Because families have developed ways of doing things over the years, they tend to be 'conservative', i.e. may be reluctant to adapt to changes in circumstances.	<input type="radio"/>	<input type="radio"/>

It's dangerous to make generalisations, but most people would agree that most of these statements have at least a core of truth in them. It's certainly true, for example, that you are a member of your family for life (even if some people do go to great lengths to try to sever their links with their family). You cannot, for example, simply resign from your family and look for another family to join, something that may be possible in business.

Loyalty is something that many families prize highly. If a family member has made a serious mistake or got into trouble, families are likely to keep faith with their relatives long after non-family members have lost patience. While this is generally true, some families are inclined to mete out harsher treatment to each other, forgiving outsiders for things which might be severely punished within the family. The point is that families often go to one extreme or the other, either favouring family members come what may, or treating them more harshly.

You may have been less convinced about the truth of some of the statements. For example, it cannot be taken for granted that families have good communication. In many families, people don't talk to each other in any meaningful way, often because it is easier to avoid facing unpleasant or difficult issues. Businesses may have structures in place for raising difficult issues – meetings, for example – but most families don't have such things as 'family meetings' which might provide a forum for talking openly. All too often when there are problems, it is only when family life breaks down and people turn to outsiders for help (such as 'couples counselling') that they start communicating properly with each other.

Family life! The United Nations is child's play compared to the tugs and splits you need to understand and forgive in any family.
May Sarton, poet and novelist

The characteristics of family systems

The characteristics of family systems can be summarised as follows:

- tendency to look inwards
- reliance on habit and emotion
- unconditional acceptance
- willingness to share
- lifetime membership
- aversion to change.

The question is how these fit into the world of business, where commercial factors hold sway. You will investigate that in the next topic.

Check Point

Give some thought to the following questions and make notes here. When you have finished this section, turn to the Action plan in Section 6 and summarise your ideas there.

To what extent does your family demonstrate the six characteristics of family systems described above?

In what ways have these proved strengths for your family?

Are there aspects where it has shown weaknesses?

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Topic 5 Family vs business: conflict or compromise?

In the previous topic you looked at the characteristics of family systems; in this topic, you will think about business systems and how they compare to family systems. You will also think about possible conflicts that can arise between the differing demands of family and business, and the sorts of compromise needed to resolve these conflicts.

Business systems

Activity

Look back at the statements in the activity in Topic 4. Think about how far each statement can apply to businesses, as well as to families. Read through all the statements, substituting the word 'business(es)' for 'family(ies)'. Which of the statements still hold true? For this exercise, think of business in terms of any enterprise run on a commercial basis, rather than a family business.

If you feel that the statements don't apply to businesses, rewrite them in a way that better describes what you think are typical qualities of commercial concerns.

You probably found that most of the statements don't hold true for business.

- 1 Businesses need to be outward-looking – focusing on customers and the market, making contact with other businesses, being open to new ideas and searching for new contacts.
- 2 Most commercial enterprises have a certain amount of loyalty to their staff, but are likely to be much less forgiving of mistakes than a family.
- 3 There is no guarantee of good communication in business, but firms will generally have established channels of communication – including face-to-face meetings, e-mail networks, systems of memos, etc. There may still be communication problems between individuals, of course, but there should be systems in place for tackling those, too, e.g. through a personnel department.
- 4 Most businesses will reach decisions based on commercial factors and logic, rather than habit or emotion.
- 5 Employees of a business are likely to be rewarded on the basis of good performance, and so individuals are likely to be fairly protective of their own area – and not 'give away' their resources, such as time.
- 6 Most employees of a business certainly do not regard their commitment as being 'lifelong'. On the contrary, it will last for as long as it is mutually convenient. Either side (employer or employee) can terminate it.
- 7 Many businesses are conservative too, but successful businesses are usually those that are quick to see change and accept the challenges and opportunities change brings.



The diagram summarises the key difference between family systems and business systems.

Achieving synthesis

There may be a tension between how you would approach a business situation or solve a business problem as a family member and how you would approach it as a business manager. The challenge is to arrive at a 'synthesis' – you could call it compromise – rather than allowing these factors to come into conflict.

Activity

Consider the following situation. You are the managing director of **Tarling Timber Ltd**, a family business making sash windows and other bespoke timber products. Your son joined the firm as Head of Marketing after completing an MBA. Now he seems to be seriously underperforming. There have been complaints from junior staff about his overbearing attitude and lack of support and availability. There have also been problems with customers, concerning missing and incorrect orders, and orders gone astray.

How would you tackle this situation:

- 1** from a purely family viewpoint? **2** from a purely business viewpoint?

From a purely business perspective, you would not tolerate this sort of behaviour for long. If Tarling Jnr was employed with a probationary period (as is usual), he would be in danger of being 'let go' fairly quickly. On the other hand, he is family and might be counting on (and getting) the unconditional support that often goes with that. This is complicated by the fact that Tarling Jnr may be seen as the natural successor to the family business, and so his role carries expectations that might be the case in a non-family business.

The challenge then is to find a middle way: this means tackling the situation from the business viewpoint – i.e. identifying problems, identifying solutions, agreeing action and review – but providing the support that the family system can offer.

The two approaches – family and business – can give family businesses the flexibility to tackle problems in different ways. There is no one right or wrong approach – every situation is different.

Check Point

Think about how you approach business situations or solve business problems. Think of three or four specific situations where you felt there was a conflict between the demands of the business and the demands of the family. Make brief notes to describe:

- what the nature of the conflict was

- whether you took a purely businesslike or commercial approach

- how the family nature of the business influenced the approach you took

- whether you think you could have tackled the situation differently, and if so, how.

When you have finished this section, turn to Audit and action plan 1 and summarise your ideas about what you could do to improve the balance between family and business systems.

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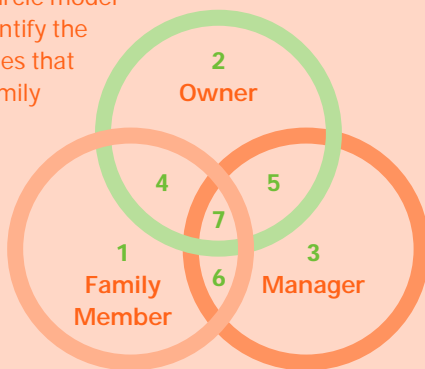
Topic 6 Circle models of family business

In Topics 4 and 5, you looked at how family systems and business systems differ. The presence of these conflicting demands means that people involved in the business may have to play complex roles that combine being both a family member and business manager.

In the case study of Tarling Timber Ltd, for example, the person running the company has to deal with an underperforming manager who is also a child, and so has to combine the roles of both managing director and parent.

Three-circle model of family business

The three-circle model helps to identify the different roles that exist in a family company.



Each of the three main circles describes one of the primary roles: of family member, business owner and manager. Where these circles overlap, that indicates that one person combines two or more roles:

- 1 a family member not involved in the business
- 2 someone outside the family who has a stake in the business, e.g. as non-executive shareholder
- 3 a non-family member employed in the business as a manager
- 4 family member and owner – e.g. a family member who is a shareholder in the family business, but takes no active role
- 5 a non-family member; employed in the business as a manager, who also has a stake in the ownership of the business
- 6 a family member who takes an active role in management, but has no stake in the ownership of the business, e.g. is not a partner or shareholder
- 7 the 'full monty' ... a family member who both owns and runs the business.

This unique complexity is what differentiates family enterprises from other forms of organisation.

This model can become even more complex, e.g. in businesses where there are different levels of manager, with some family managers sitting on the board of directors, and others taking a purely operational role.

Role confusion, role conflict

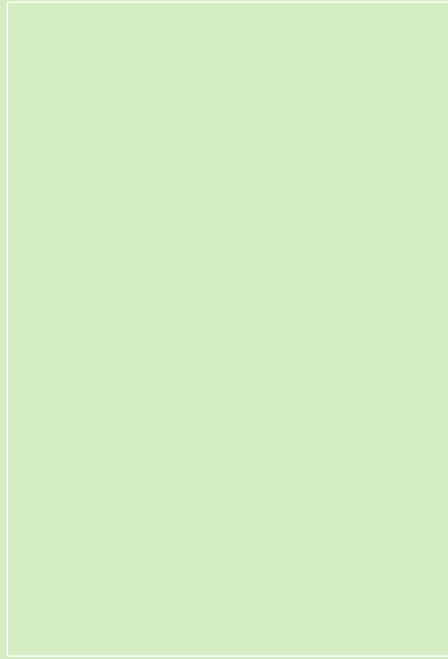
Ideally, when a person takes a decision, it should be clear in what position they are acting: as a family member, an owner, a manager, or one of the four other 'combined' roles. However, with so many overlapping roles, the scope for confusion is great. If someone starts behaving in a way that doesn't fit in with their expected role or if it is not clear which 'hat' they are wearing, that can cause confusion. It may also lead to conflict.

Activity

Read through the following case study. Draw a circle diagram to describe this family business, and indicate where each of the four members of the Porter family would fall.

What potential for confusion and role conflict do you see in this situation?

Porters Pianos is a piano dealer and repair workshop, set up by Charlie Porter, the managing director, and his wife Angela, who supplied half the money needed to start up the business. The business has expanded to its current workforce of 20, which includes the Porters' daughter Kerry, who manages the repair workshop. The Porters' other daughter is training to be a solicitor. Although Angela has no formal role in the running of the business, she has always taken part in the selection process for new staff, as well as attending monthly management meetings. She has also been known to make her views known to managers about how they run aspects of the business. This involvement stemmed from when the firm was very small and Charlie was keen to involve his wife in decision-making, to a large degree for his own reassurance.



In this situation the potential for confusion lies in Angela's role. She falls into the category of family/owner, but is straying across the line into management. This is bound to cause confusion among employees, and could cause resentment among managers who may feel that they are being undermined. This is a classic case of role confusion. The challenge for Charlie is to find a way of dealing with this clash of family and business systems.

Check Point

Draw a circle diagram to illustrate the roles played by different people in your business.



Use Action plan 1 in Section 6 to note your thoughts about the potential for confusion and what might be done to avoid conflict.

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Topic 7 Analysis of types of family business 1

There is a huge number of family businesses in the UK, but also a great variety in types of business. Family businesses are far from being of a uniform type. Many factors affect the way the business operates. These include:

- how long the business has been running
- who takes part in the business and how many people are involved
- where the business operates – in a large city or a small country village, in someone's house or in purpose-built accommodation.

One of the main differences between types of family business is the way the people involved view the importance of the family aspect – whether the business is run to serve the family or whether the family's main role is to serve the business.



Family orientation ...

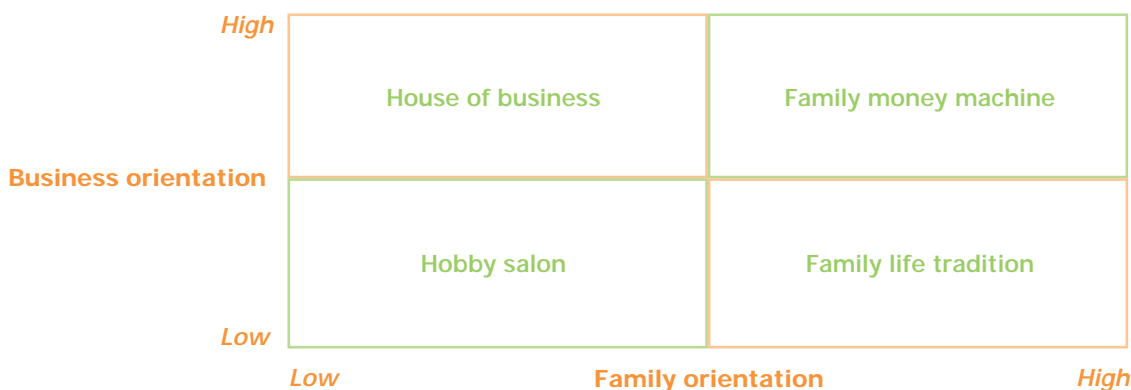
One thing all family-run businesses have in common is their *family orientation* – the fact that they started because close family members had the ambition or desire to work together to create their own enterprise. From this common beginning, each family business will follow its own path and develop its own character. For some businesses, keeping the family tradition alive is of paramount importance. For them the family orientation is a key aspect of the business.

... vs Business orientation

For some family businesses, the main goal is to create a strong financial enterprise – either with or without family members – where strategic planning and skilled management are key factors. Such businesses are willing to use outside expertise where necessary. These firms are said to have a high *business orientation*.

Leenders and Waarts' analysis of family business types

Mark Leenders and Eric Waarts, from the University of Rotterdam, were interested in analysing different types of business, and in particular the dimension of family orientation vs business orientation. They wanted to work out what advantages and disadvantages firms with different orientations had. They carried out a study of 220 family businesses, with an average of just over three family members in the business and an average of 65 employees (Leenders and Waarts 2001).



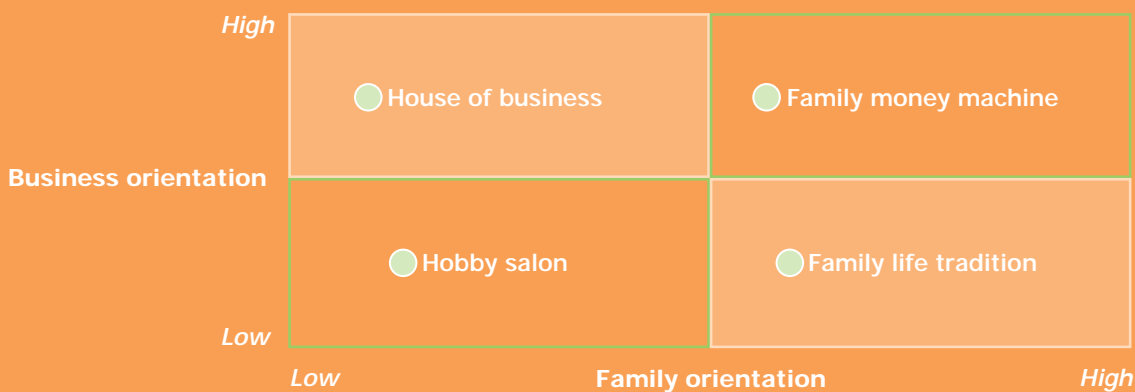
The first thing Leenders and Waarts noticed was that family orientation and business orientation were completely independent concepts. Businesses with a strong family orientation could have either a very high or a very low business orientation. This led them to conclude that businesses fall into one of four groups, shown in the matrix on the previous page.

- Family life tradition** = High family orientation + low business orientation
Family drives are strong; the business element of the company is not dominant. Decisions may be made that favour family members over strict business concerns.
- Family money machine** = High family orientation + high business orientation
Family drives are strong, but so too is the firm's business sense. Tension may arise when a situation places family interests in conflict with business interests.
- House of business** = Low family orientation + high business orientation
Business orientation is strong, and while the family is involved in the business, e.g. as major shareholders or board members, much of the day-to-day management is done by people outside the business.
- Hobby salon** = Low family orientation + low business orientation
Firms place little stress on business and have a flexible attitude to personnel. Examples include the many start-ups in the dot.com sector, where hobbies and friends play an important role.

There is no value judgement attached to this kind of analysis – in other words, Leenders and Waarts are not saying that any one type of business is ‘better’ or ‘more desirable’ than another. Different types of business bring different advantages and disadvantages. We will consider the implications of this in the next two topics.

Check Point

Where does your business lie on Leenders and Waarts’ analysis of family types?



What are the characteristics of the business that put it into this category and give examples illustrating these.

Use Action plan 1 to summarise your ideas on how to increase your business’s family or business orientation.

Section 1 Understanding the business

Topic 8 Analysis of types of family business 2

This topic continues the analysis of types of business started in Topic 7. Here you will read four case studies of different types of family businesses and think about how far they are family-orientated and how far they are business-orientated.

You will also start thinking about the strengths and weaknesses of different types of family businesses.

Strengths and weaknesses

When they did their research, Leenders and Waarts assessed the views of different businesses with regard to the following factors:

- whether there was a feeling of **mutual trust** between people in the business
- whether being a family-run business gave owners/managers more **control over social aspects** of the business (explained in the questionnaire as being able to control, manage and predict social behaviour/relationships of employees)
- the level of **employee motivation**
- the level of **management control**
- how well the business was able to **resolve conflict**
- how far **continuity** in the business was an issue (i.e. who, if anyone, would succeed the current owner/manager)
- the kind of **atmosphere** in the company.

Understanding the nature of a business makes it easier to understand the business's strengths and weaknesses. For example, the proprietors of businesses with a strong family orientation would stress the importance of personal relationships and family contacts. Such businesses would score highly in terms of mutual trust and employee motivation. This should reduce employee dissatisfaction and staff turnover.

However, these advantages have to be weighed against possible disadvantages. For example, business decisions may be influenced by non-commercial factors such as introducing a family member who is not the best person to carry out a role, or giving discounts to 'family friends'. Another disadvantage may be an unwillingness to face conflict, especially when it involves family members, because it is 'too sensitive'.

Case studies

Activity

How would you categorise each of the following businesses? Into which of the groups on Leenders and Waarts' matrix (p.18) does each fall? Think about these questions before looking at the answers that follow.

- 1 **J. Hodd & Sons** is a building firm, run by Alan Hodd, the grandson of the founder, Jack Hodd. The firm is highly regarded in the community and Alan, like his father and grandfather, is a respected member of the Rotary Club. Alan's wife and son both work in the business, as do his brother and two cousins. Personal networks and family involvement are at the heart of the business. Much of the firm's business is gathered through personal contacts, especially with other family businesses in the building trade, who often receive sizeable discounts.
- 2 The **Plas Newydd Guest House** is owned by Huw Williams, but run by his mother-in-law, Mary. Huw's children Gareth and Linda often help out by cleaning or making breakfast, to earn some extra money. Huw, an ex-professional rugby player, also works as a coach and as a commentator for local radio. Mary's friend, Angharad, often runs the Guest House if Mary goes to visit her other children in Spain and the USA. Mary plans to retire in a couple of years and Huw is unsure what to do about the guest house. He may sell it.

- 3 Parfitts** is a chain of pharmacists operating in the North of England. Started in 1905 by Joseph Parfitt, there are two members of the family on the board of directors, holding 40% of the shares between them. They play a non-executive role. Another member of the Parfitt family has recently joined the company as manager of one of the stores after completing a degree course in business studies and accounting.
- 4 Charterhouse Ltd** is a firm of electronic publishers, set up by James Charterhouse in the early 1970s. James and his wife, Wendy, were the original directors, although Wendy has never had any role in managing the company. James is Chairman and Managing Director. His brother, Alex is Managing Director of Charterhouse Inc, the American sister company. James and Wendy together form majority shareholders of both companies. The Board of Directors now includes two non-family members, who were both given a 5% shareholding in the company. James is looking to expand into the European market and has already refused two offers from major international publishers keen to buy him out.

Answer to activity

- | | |
|--------------------------------|---|
| 1 J Hodd & Sons | Family life tradition: keeping the family involvement in the business is of top priority. |
| 2 Caledonia Guest House | Hobby salon: the guesthouse seems to be a pragmatic enterprise, rather than a committed family business. It gives several family members a place to live and a source of income, but this seems to be only a temporary arrangement. |
| 3 Parfitts | House of business: family involvement is minimal and business decisions are taken by non-family members. |
| 4 Charterhouse Ltd | Family money machine: the company is owned and run by the family, but outsiders have been brought in to ensure that the business is run efficiently and can consider expansion. |

Check Point

Think about the seven factors that Leenders and Waarts used in their research, listed at the start of this topic. You might expect that businesses with a strong family orientation would score highly on some factors (such as mutual trust), while those with a business orientation might score highly on others (such as conflict resolution). Which other factors would you expect businesses with a strong family orientation to score highly on?

The answers to this question are considered in the next topic.

Think about your own company. Which factors does it score most highly on and how far does this reflect its family/business orientation? Please rate your company on a scale of 1 to 5, with 5 representing the highest score.

	1	2	3	4	5
Factor 1 trust	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Factor 2 social control	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Factor 3 management control	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Factor 4 conflict resolution	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Factor 5 continuity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Factor 6 atmosphere	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section 1 Understanding the business

Topic 9 The competitive edge

We have looked at some of the factors that may play a significant role in family businesses. Here we will look at these factors in more detail and look at how they can give family businesses the competitive edge over non-family businesses – or how they can become a cause of concern for family businesses.

Turning issues into advantages

In the check point in Topic 8, you were asked to identify which factors you would expect businesses with a strong family orientation to score highly on. You may not be surprised to learn that Leenders and Waarts' research found that businesses with a *strong family orientation* ('Family life tradition and 'Family money machine') scored highly on trust, social control, motivated employees and management control. The owners of these types of business thought that the strong family ethos benefited their business.

The researchers found that businesses with a *high business orientation* ('Family money machine' and 'House of business') also score highly on control, but relatively low on conflict resolution. In other words, the presence of a keen business focus raises concerns in owners' minds about how to deal with conflict in the business (for example, where it clashes with family members' interests).

Leenders and Waarts found that all four categories of business scored low on continuity – in other words, choosing a business successor was a recurring worry for *all types* of family business, regardless of their business/family focus. (Section 5 deals with succession issues.)

Pros and cons

As the last example showed, instead of proving beneficial, some aspects of running a family business can become problematic.

Activity

The table below lists the seven key factors investigated by Leenders and Waarts as being significant for family-run businesses. For each factor a suggestion is provided as to how that factor can be seen as an advantage. Try to think of situations where that factor could backfire against a family-run business – where that issue might raise problems for the family firm.

Factor	Advantage	Disadvantage?
Trust	Strong mutual trust between owners/managers as family members.	
Social control	Running own business gives clear social control.	
Motivation	High level of motivation in owner/manager, which filters down to employees (if any).	
Management control	Family members feel more in control over the running of the business.	
Conflict resolution	Strong incentive to resolve conflict quickly and family provides informal opportunities to do so.	
Continuity	Feeling of continuity across generations. Ease of transition where there is a clear line of succession.	
Atmosphere	Good, caring 'family' atmosphere in business.	

Compare your suggestions with ours on the next page.

Trust	If there are question-marks about levels of trust between family members, that can prove disastrous for the business. Outsiders (including employees) may mistrust strong family ties and feel that family members are given preferential treatment over other employees.
Social control	Pressures of running family business may mean less social control.
Motivation	Family members who are employed on an informal or even non-paid basis may have little or no motivation to work hard. Disillusioned employees may feel they are working in a 'feudal' system.
Management control	Management issues may be fudged in order to avoid family conflict. Non-family managers may find it difficult to manage family employees.
Conflict resolution	Family tensions outside the business may make it hard to resolve conflict within it.
Continuity	There is potential for confusion and stagnation of the business where there is no clear line of succession.
Atmosphere	Can be badly affected if there is lack of clarity about the values of the business, e.g. conflict between family motives and profit motives.

Conclusions

What does this tell us?

- There are gains to be had from operating a family-run business – but these gains are not to be taken for granted. What is a plus factor (e.g. mutual trust) can become a minus factor in some circumstances (e.g. mistrust in either business or personal life is almost certain to affect the other domain).
- Consistency is important in family-run businesses – lack of consistency (e.g. in the way the business treats family or non-family members, or in the values it promotes) can cause confusion among employees and customers, to the detriment of the business.
- If a business is considering changing its ethos – e.g. to take a more business-orientated approach – it should be aware of what it might stand to gain and lose in different aspects of the business.

Check Point

Analyse your own own business in terms of the factors discussed in this topic. Taking each factor in turn, decide whether it is an advantage or a disadvantage for your own business.

Looking at your analysis, think of possible changes you could make to the business that would take advantage of these aspects of family businesses. Record your ideas in Action plan 1 (see Section 6).

	Advantage	Disadvantage
Trust	<input type="radio"/>	<input type="radio"/>
Social control	<input type="radio"/>	<input type="radio"/>
Motivation	<input type="radio"/>	<input type="radio"/>
Management control	<input type="radio"/>	<input type="radio"/>
Conflict resolution	<input type="radio"/>	<input type="radio"/>
Continuity	<input type="radio"/>	<input type="radio"/>
Atmosphere	<input type="radio"/>	<input type="radio"/>