

## Section 2 Key issues for family businesses

### Introduction

In this second section you will move on to look at some of the key issues that affect family businesses. You will start by looking at the life cycle of family businesses – the different stages businesses typically move through – and will explore the challenges that businesses face at each stage.

You will relate this to similar processes in individuals and in families, by looking at how both of these go through stages of development – sometimes periods of stability, sometimes periods of upheaval. You will explore the tensions that can arise when individuals, the family and the business find themselves at different stages of development, with differing and conflicting needs.

You will also consider the importance of values in the development of the business and will assess how far cultural values influence a family's desire to create a business.

### Learning outcomes

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

- understand links and relationships between ownership, business and the family
- recognise the life cycle of the family and the business
- analyse the seeds of conflict within family businesses, including your own business
- critically analyse your own situation and devise appropriate strategic action plans.

### Topic 1: Stages of business development

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

- understand that businesses, like individuals and families, go through various stages of development
- summarise four typical stages of family businesses: start-up, development, consolidation and exit
- describe how ownership patterns may change as the business develops
- outline typical patterns of development for smaller businesses
- draw up a chart showing your family business's pattern of development
- summarise the challenges faced by the business at different stages of development.

### Topic 2: Growth and development in individuals

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

- describe the different stages of development that individuals go through
- summarise Levinson's 'seasons of life' theory, together with the notions of stable and transitional phases
- summarise the challenges that may arise at each stage of development, but especially during transitional phases

### Topic 3: Upheaval and conflict and their effects on the business

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

- understand the effects of sudden life changes on the individual (and, by extension, on the family and business)
- list some of the 20 most stressful life events, as defined in Holmes and Rahe's life events rating scale
- explain the kinds of problems that can occur when individuals find themselves in a stage of development that is 'out of sync' with that of the business
- identify action to take when there is a mismatch between individuals' needs and the business's needs

#### Topic 4: Stages of family development

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

- explain how families, like individuals and businesses, go through various stages of growth and development
- outline the challenges that may typically occur at different stages of development
- summarise different models of families
- identify the difficulties or problems that can arise when there is an imbalance between the family's needs and those of the individual or the business.

#### Topic 5: Family values, business values

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

- summarise the kinds of values that a family may bring to its business
- outline how these values can give the business its distinctiveness and be beneficial to the business.

#### Topic 6: Translating core values into business goals

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

- describe the function of mission statements, business goals and objectives
- identify how values can underpin business goals
- outline steps for agreeing and reviewing the business's values and goals.

#### Topic 7: Values and culture

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

- explain the importance of background and culture as the basis of many family businesses' values
- suggest some reasons for differences in behaviour between British businesses and those in parts of Europe
- assess the importance of cultural values to family businesses in ethnic minority communities.

#### Topic 8: Key issues for family-run businesses

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

- summarise some of the key issues for family-run businesses
- describe which issues are important for businesses at different stages of the business's development.

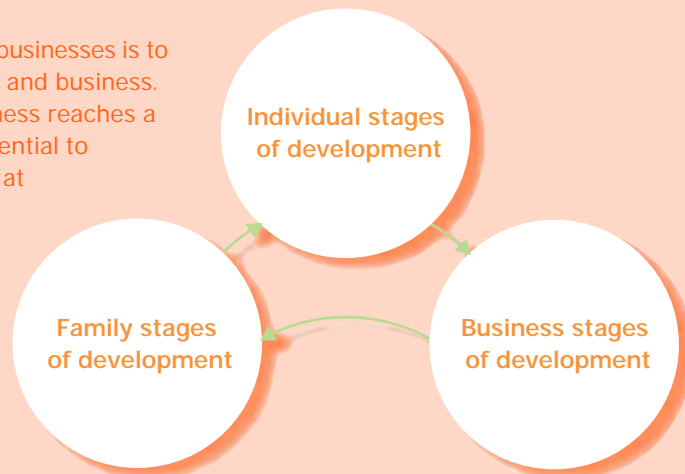
## Section 2 Key issues for family businesses

### Topic 1 Stages of business development

The notion that, as human beings, we all go through various stages of life is a well-known one. But it is not just individuals that go through stages; businesses, too, have clear stages of development, as you will consider in this topic.

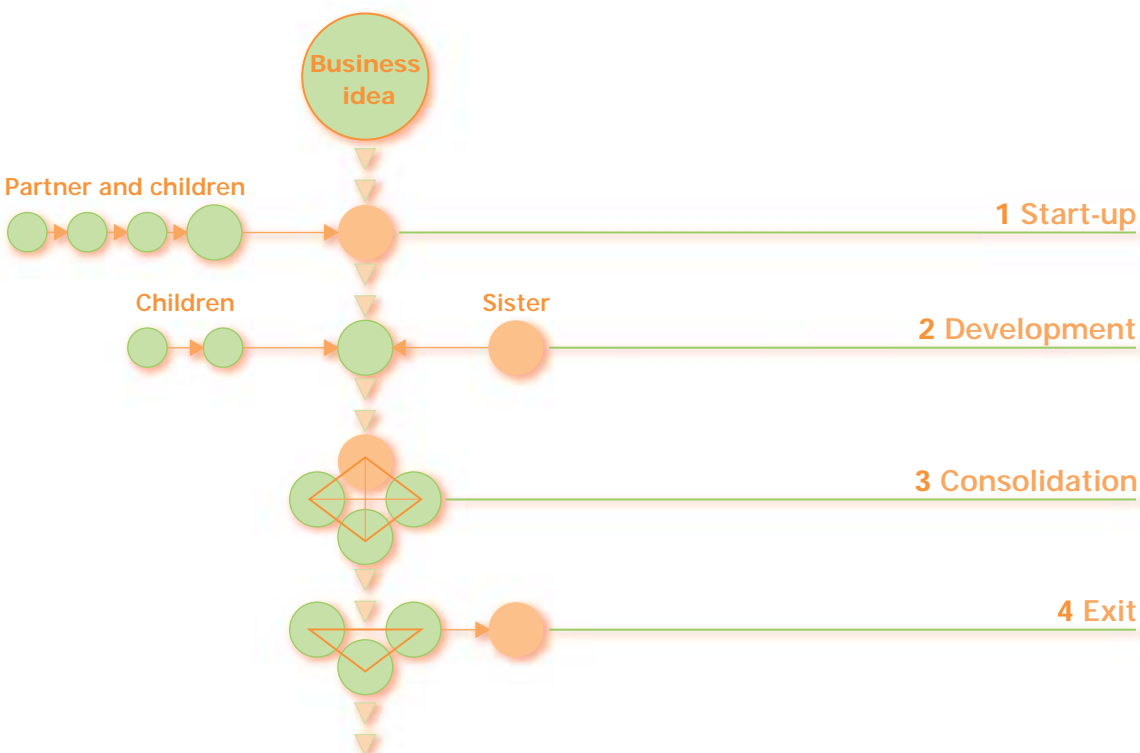
For owner-managers involved in family-run businesses, there is a complex relationship between the development of the business, their own individual development and the development of the family. This relationship is shown in the diagram below.

One of the challenges for managers of family businesses is to balance the different demands of self, family and business. For example, what happens when your business reaches a crucial stage of development – e.g. it has potential to expand or take on major new commitments – at a point where your family is also at a crucial stage of development – e.g. is faced with a birth, death or divorce? And if you too have reached a turning point in your own life – perhaps just entering middle age and possibly starting to assess the direction of your life – how do you balance all these demands?



### Four stages of the family business

Businesses, like human beings, are dynamic organisms. In other words, they are born, develop, grow mature and – eventually – die. The diagram below illustrates the typical life of a business, at least through its first generation.



**Start-up** – The founder starts up the business as owner-manager. There may be a spouse or partner (and optional children) who support the founder in their venture. As with any business, it all starts with a good idea.

**Development** – The business takes off. As the business expands, other family members join the firm: partners, children, siblings, nephews, nieces ...

**Consolidation** – As the business becomes established, a strong management team, built round family members, steers the company.

**Exit** – The original founder reaches retirement age or decides for whatever reason to leave the business. The business is passed on to the remaining family members.

This model assumes that the family business will continue into at least the next generation. In fact, this is by no means the most common pattern (as you will soon see), as fewer than half of family business start-ups reach the second generation.

### Ownership of the business

Using this model, ownership of the business also undergoes development. In the first generation, the business is wholly owned and managed by the founder. As the founder's children become involved, ownership is eventually transferred to them, although the founder may retain some interest. In the third generation, it is the founders' grandchildren who take over the running of the business, although if the business reaches this stage it is quite likely that non-family managers will also have a significant part to play in the business. By this stage, ownership of the business may be shared by a number of family members.

*Success is relative: the more success, the more relatives ...*

### Activity

Looking at the diagram showing four stages of business development, at what stage does ownership become an important issue?

Note down any other issues that might arise at other stages of the business's life.

Ownership issues are likely to come to the fore at two points: when other family members join the company and when the founder is considering withdrawing from the business. Other issues that will arise at different times include;

- Who controls the business?
- What happens when conflict arises?
- What happens when a key person decides to quit the business?
- You will consider some of these issues in the following sections.

## The small family business

At the start of this topic you looked at one model of development for a family business, one that assumed that the business would be handed down to the next generation. In fact, statistics suggest that fewer than 30% of family-run businesses are passed into the second generation, with only around 10% reaching the third generation. The majority of family businesses in the UK are, therefore, still in the first generation and many of these involve a small team, often just husband and wife, or partners, or two siblings.

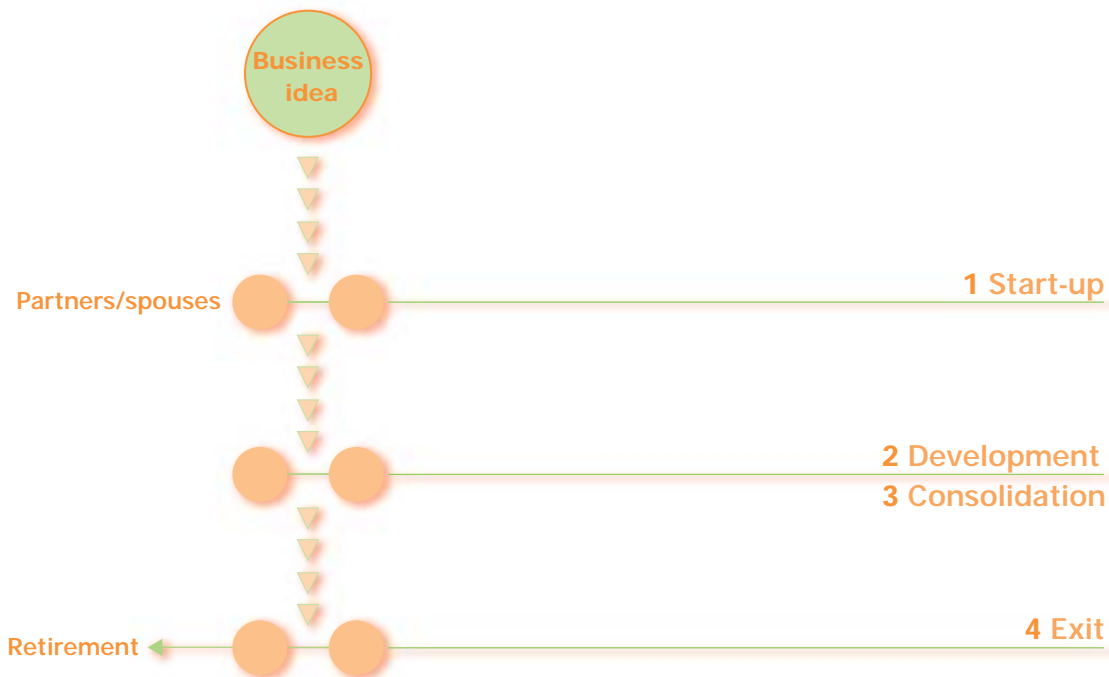
### Activity

Read through the following case studies which describe the progress of three small family businesses, each one set up by two family members. For each example, draw a chart, similar to the one in Topic 1, illustrating the probable stages of development of the business.

- 1 Bob and Janet Black** run a small seaside hotel. They bought the hotel when they were both made redundant from the same insurance company. They sank their redundancy money and savings into the venture. They are both in their second marriage and Bob has two children from a previous marriage – both now at university. The Blacks plan to run the hotel for about 15 years when they will retire and possibly move to Spain.
- 2 Alex Farmer** and his wife **Janette** set up a garden pond business, supplying and building all kinds of water features and ponds. After a few years, their marriage fell apart, when Janette started a relationship with Alvin, a landscape gardener who often worked with the Farmers on projects. It became impossible for the business to continue, so Janette bought out Alex's share in the business, which in turn was bought by Alvin. Eventually, Janette and Alvin decided to shut down the pond business to concentrate on the landscaping firm, which was in great demand.
- 3 Rachel Warren**, and her brother, **Paul**, set up a company developing an innovative kind of 3D-animation software. Working initially from their parents' garage, they eventually attracted the interest of a larger firm of IT developers, who poured in finance to help them develop the software. When the software was finally marketed, Rachel and Paul sold their interest in the company to set up a new project they had become fascinated by.

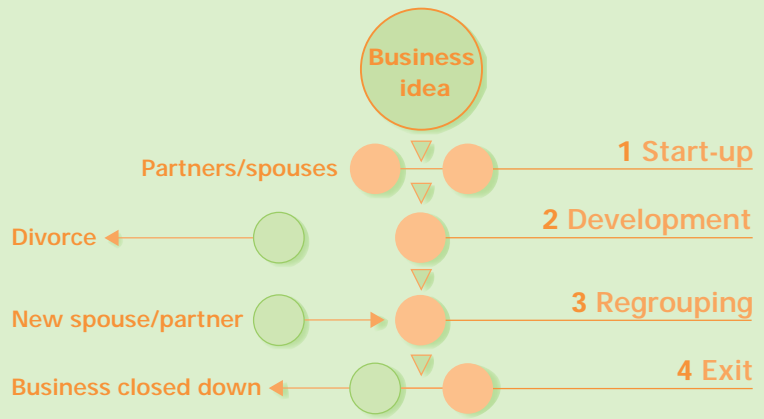
Your charts and thoughts may have been similar to these.

- For the Blacks' hotel business, the stages of development can be illustrated in a much simpler way than the multi-generational model of Topic 1.

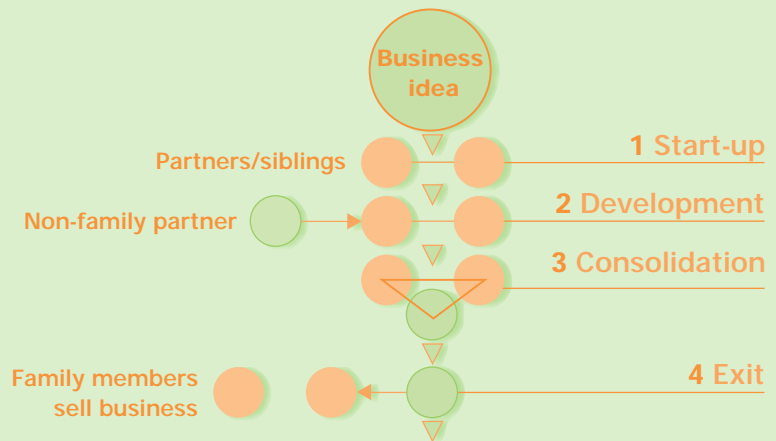


During the life of the business, there is no change to the overall structure of the business. It remains a team of two partners, and as the partners have no plans to pass the business on, the business ends with the retirement of the two partners.

2 The case of Janette Farmer and her husband/partner is similar, although the divorce will present significant challenges to the business, at a point when it might have expected to be developing. Instead of consolidation, regrouping will be necessary, as Janette looks for ways of raising the finance to buy out her husband. Again, the business ends when Janette and Alvin decide to close the business down.



3 The final example, of the Warrens' software company, can be illustrated in this way. Here, the family business effectively stops being a family business at the point where the brother and sister take a capital gain from their investment of time and energy in developing the software.



### Check Point

How far does your own family business compare to any of the models of stages of development illustrated in this topic?

Complete the following tasks before turning to Action plan 2 in Section 6.

- 1 Draw up a chart showing the stages of development that your own family business has been through **so far**. Base your chart on the examples given in this topic. Indicate the particular challenges the business has faced at different stages.
- 2 Try to complete the chart by showing how you would like the business to develop. What do you think are the particular challenges the business will face at future stages?

## Section 2 Key issues for family businesses

### Topic 2 Growth and development in individuals

William Shakespeare had ideas about the stages of development that individuals go through – his famous ‘Seven ages of man’ [sic]; from birth to death, we pass through phases, each of which throws up opportunities and challenges, giving us the chance to grow and develop.

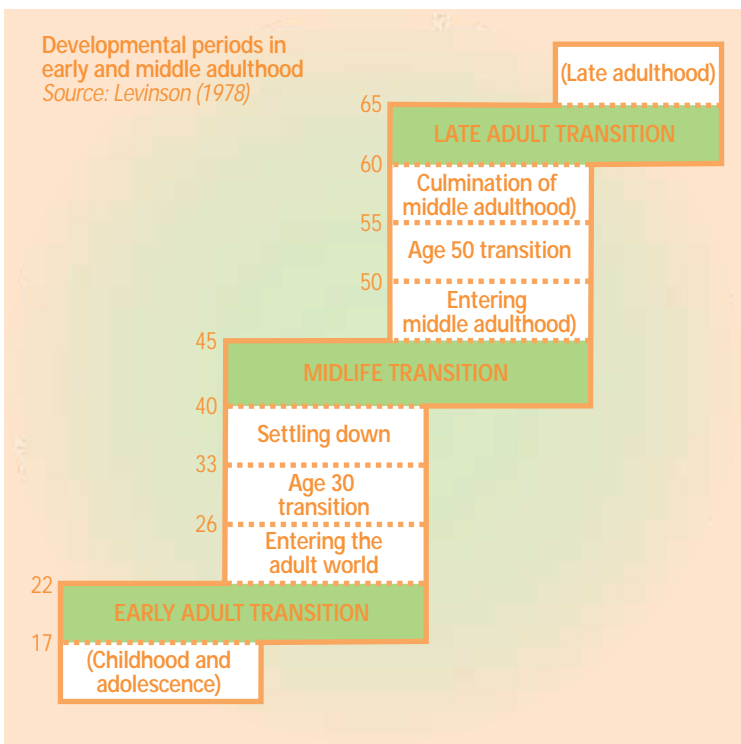
For many people, their work or business life will present some of the most important of these challenges. For the owner-manager of a family-run business, many of the individual challenges they face will be directly linked to the business. To a marked degree they will measure their success as an individual by the success of the business.

In this topic you will look at the different stages of development that individuals go through and the challenges that may arise at each stage. You will think about how these may coincide with the challenges faced by the business – and what happens when there is a conflict between what you want or need as an individual (or a family), and what the business needs.

All the world's a stage,  
And all the men and women  
merely players:  
They have their exits and their  
entrances  
And one man in his time plays many  
parts,  
His acts being seven ages.  
**William Shakespeare,**  
**As You Like It, Act**  
**2, Scene 7**

### Challenges of individual stages of development

Many researchers, especially psychologists, in their investigations of human development, have come up with variations on Shakespeare’s ‘seven ages’. One was Daniel Levinson, whose ‘Seasons of a man’s life’ theory is based on the notion that every individual’s life follows a similar underlying pattern or structure. This structure is built around our relationships and work, and changes over time. Levinson asserted that the life structure alternates between a series of stable phases (‘structure building’) and transitional phases (‘structure changing’ or crisis). The different phases are shown in the diagram below.



During each of these key phases, the individual has to meet certain challenges – some of these are suggested in the table opposite.

Age	Stage	Challenge
17-22	Early adult transition	Make choices about education, career, future paths.
22-28	Entry into adult world	Explore the possibilities of the world.
33-40	Settling down	Establish one's own independence Become successful.
40-45	Mid-life transition	Come to terms with own limitations Reject or reaffirm choices made in early adulthood.
50-55	Age 50 transition	Create the legacy. Prepare for own retirement.
55-60	Ending of mid-adulthood	Sustain youth while facing bodily decline.
60-75	Transition to late adulthood	Pass on authority. Adjust to leisure instead of work.

Levinson regarded the mid-life transition as especially significant – the period when people have to come to terms with their own limitations, even their own mortality, and with the fact that they have failed to realise earlier dreams. This may precipitate a ‘mid-life crisis’, when people go through a period of wondering what their real goals are in life and whether they should look for a completely new direction.

As this quotation shows, the pattern of an individual's life may not fit easily with the needs of a business at particular times. Family businesses are often more vulnerable to turbulence within an individual's life than other types of business. The next topic goes on to look at this in more detail.

**My 40th birthday passed quietly enough and it really didn't seem a big thing – especially as we were going through a critical phase at work: I had the opportunity to buy out a smaller rival company and we had been through weeks of tricky negotiations. Then just when all the problems were ironed out and we were ready to go ahead, something flipped inside me – I started having panic attacks and suddenly felt overwhelmed by everything – work, the family, commitments. I felt paralysed – the buyout went out the window and things were rocky for a while inside the company.**  
**Paul, company director**

### Check Point

Consider the following questions and make brief notes here, if you wish, before completing Action plan 2 in Section 6.

How far do you agree with Levinson's ‘life structure’ analysis? Does it describe some important, typical patterns, or do you think it is an over-generalisation?

Levinson's studies were solely of men, and did not include any women. Do you think that the patterns Levinson describes are equally applicable to both men and women?

Levinson's sample was also limited in terms of culture, age and occupation. How well would it apply to societies with a much lower age expectation? Or where old age is accorded more respect than it often is in Western societies?

What stage have you reached now? Has your own life fitted into this overall pattern of alternating phases of stability and transition?



## Section 2 Key issues for family businesses

### Topic 3 Upheaval, conflict and their effects on the business

The model of individual development suggested by Levinson (Topic 2) outlined a stepwise progression within people's lives – stable periods alternating with transitional periods. This model seems to assume a fairly gradual process of change – but change can come quickly and suddenly. Who can predict being injured in a car crash? Or the death of a close friend? Or a diagnosis of serious illness? What can happen to individuals when sudden changes occur? And how might this affect the family business?

#### Life events

Sudden change can be stressful. When unexpected events happen in our lives, we have to find ways of coping with them. This partly involves making psychological and other adjustments. The more we have to adjust, the more stressful the event is.

#### Holmes and Rahe's Life Events Rating Scale

One of the most widely used methods for assessing life stress is Holmes and Rahe's Life Events Rating Scale. This rates life events according to how stressful they are and how much psychological adjustment they demand. The death of a spouse is considered the most stressful of all, and is given a rating of 100. Other events are rated relative to this, so that divorce comes in as the second most stressful event at 73.

The table below shows the top 20 most stressful life events.

Rank	Life event	Mean value	Rank	Life event	Mean value
1	Death of spouse	100	11	Change in health of family member	44
2	Divorce	73	12	Pregnancy	40
3	Marital separation	65	13	Sex difficulties	39
4	Prison term	63	14	Gain of new family member	39
5	Death of a close family member	63	15	Business readjustment	39
6	Personal injury or illness	53	16	Change in financial status	38
7	Marriage	50	17	Death of close friend	37
8	Fired at work	47	18	Change to different line of work	36
9	Marital reconciliation	45	19	Change in number of arguments with spouse	35
10	Retirement	45	20	Heavy mortgage repayments	31

#### Activity

Read through the list of 20 life events. Which of these, if any, have you experienced in your lifetime? What effects did they have on you as an individual? Think of both practical effects (such as the effect on your finances) and psychological (such as your mood, outlook, relationships).

What were the knock-on effects for your work or business?

Your answer to this activity will depend entirely on your personal experience. If you have undergone any of the more stressful life events, just thinking about them may bring back vivid memories of difficult times. Try to concentrate, in as objective a manner as possible, on how these affected the personal/work balance.

## Relevance to family businesses

Understanding the stages of development and the effect of sudden life changes may make it easier to anticipate and deal with possible causes of conflict.

- 1 Within the family business, people are likely to be at different stages of individual development, especially when the business spans two or more generations. Individuals are likely to have different values and goals, and this may be expressed in disagreement about how they want the business to be run.

For example, a manager aged 35, keen to establish independence and success, may find working in the family business restrictive, especially if parents resist attempts to change the business. Conflict between generations is a well documented weakness of family businesses and is covered in Section 5.

- 2 Key people within the business may find that their individual development is 'out of sync' with the business's stage of development. For example, a business founder may need a chance to rest and consolidate when the business is in a state of flux, and needs dynamism and energy. The business may need investment or renewal, but the founder may wish to capitalise on his or her hard work and plan for retirement.

## Business vs self: dealing with conflict

Sadly, it is not possible to predict when such mismatches between individuals' needs and the business's needs might occur, and nip them in the bud. However, it is possible to recognise that these conflicts arise and try to tackle them openly and honestly.

When the individual's needs and the business needs don't match, here are some suggestions.

- Acknowledge that these problems exist.
- Discuss the different values and goals of the different parties.
- Discuss the implications of the situation.
- Communicate – bring tensions out into the open.
- Outline all options for dealing with the situation.
- Enlist help from outside the family if necessary.

## Check Point

Please give some thought to the questions below and make some notes here. Consolidate your ideas in Action plan 2 in Section 6.

- 1 Not all major life events are predictable, but some are, such as moving house or having children. What major life events can you see in the near future that might create stress and have an impact on the business? What could you do to minimise their impact?

- 2 In what ways have the changes in your life pattern affected your work with the family business?

- 3 Have you ever felt that your own personal needs at a particular stage of life did not coincide with the needs of the business? How did you cope with that tension?

- 4 Have you observed a similar mismatch between personal and business needs affecting other family members in the business? How did they cope with the tension?

## Section 2 Key issues for family businesses

### Topic 4 Stages of family development

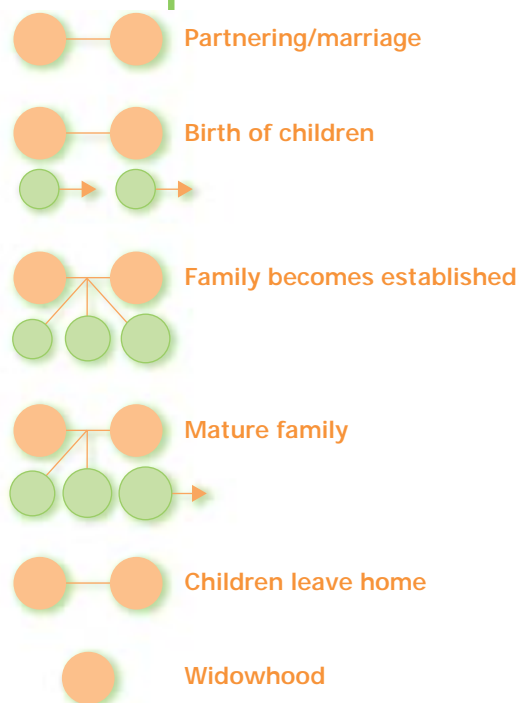
In the last three topics you have pondered the notion that both businesses and individuals go through various stages of development. The third element in the picture – as illustrated in the diagram in Topic 1 – is that families too go through various stages of development.

In this topic you will think about what these stages might be, what challenges might be thrown up at different stages, and how these might tie in with (or clash with) the needs of individuals and the business as a whole.

#### A 'traditional' model

The diagram opposite illustrates the different stages of what could be called the 'traditional' family model: a man and a woman meet, fall in love, marry, have children, grow to old age, etc.

Each of these phases or stages presents its own challenges, summarised in the table below.



Age	Stage	Challenge
20-30	Entering into life partnership	Find a suitable 'partner for life'. Create own home – with partner or alone.
25-40	Arrival of children	Balance demands of time, money and energy between family and business. Accept responsibility for others, not just self.
30-50	Family becomes established	Meet heavy financial commitments: mortgage, children, pension payments.
40-50	Mature family: children in further/higher education	Meet costs of children's education.
45-60	Children leave home: core family reduced back to two partners	Readjust to life without children, fewer long-term commitments, etc.
60+	Retirement, widowhood.	Accept single life. Adjust to being on periphery of children's families.

#### A typical family?

The diagram and chart above show what has traditionally been thought of as the 'standard' family: mother, father and 2.4 children ... This family pattern is far from typical, however. An increasingly common model is of divorce and remarriage, bringing together new families made up of step-parents and step-children. There are around 12.5 million dependent children in the UK; 2.5 million of these are living in step-families.

If it works well, the step-family can provide a happy, nurturing environment, as it moves through the stages of development and maturing. On the other hand, it may create its own problems, including tension between step-parents and step-children, and between step-brothers and step-sisters.

This 'traditional' model of the family also excludes other patterns:

- single-parent families
- families with no children
- gay partnerships.

These types of family account for a significant percentage of households in the UK. For example, government figures suggest that 1 in 4 families with dependent children are headed up by a lone parent.

## Conflicts of interest

As you saw in the last topic, difficulties or problems can arise when there is an imbalance between parts of the individual–family–business triangle. Mismatches can arise when the *family* is at a stage of its development that doesn't fit in with the *individual's* or *business's* stage of development. For example, there could be tensions ...

### ... between the business and the family

- The business may need different skills/abilities in order to develop, but these cannot be found in the family because of the stage in family development – for example, children are still in education or are not ready to take on responsible roles in the company.
- The business may need significant capital/effort, but this is restricted by the stage in family development – for example, the birth of children or a serious illness of a family member may mean there is less time or money to devote to the business.

### ... between the individual and the family

- An individual going through a transitional period, e.g. mid-life transition, may react against the feeling of being weighed down with family (and business) commitments.
- The individual's needs conflict with those of the family, e.g. a family member forms a relationship with someone who doesn't want any part of the family business or wants them as a couple to establish a life quite separate from it.

Again, recognising that a problem exists is the first step to dealing with it, and the value of communication between the people involved cannot be underestimated. The solution may lie outside the family, e.g. by bringing in non-family members to provide the skills that the business needs or to replace a family member who wants to withdraw from the business.

## Check Point

Think about the following questions and then use your responses to help you complete Action plan 2 in Section 6. You will need to use your own paper for your notes.

- 1 Draw a diagram illustrating the stages that your family has passed through.
- 2 What stage has your family reached now?
- 3 What challenges have you had to deal with during different phases?
- 4 Have other family members had to cope with similar problems, e.g. your parents or children?
- 5 In what ways have the changes in your family's pattern affected your work with the family business?
- 6 Have you ever felt that your family's needs at a particular stage of life did not coincide with the needs of the business? How did you cope with that tension? How was the tension resolved?

## Section 2 Key issues for family businesses

### Topic 5 Family values, business values

One of the key aspects that distinguishes family businesses from many others is the presence of a set of values – often derived from the fact that the business is part of the family and shares the same sense of closeness and commitment that family members have towards each other. In this topic, you will think about what sort of values family firms possess – and how this can help the business.

#### Family values

##### Activity

'Closeness' and 'commitment' are two of the qualities that families can bring to business. Below is a series of statements describing other kinds of values that family firms may embody. How far do you agree with each of them?

Give examples of family-run businesses that exemplify these values, including your own, if appropriate.

- |   |  |
|---|--|
| 1 The qualities family firms bring to business include a strong sense of <b>mutual trust</b> and a commitment to <b>working together</b> .  |  |
| 2 Families that run businesses often promote a belief in <b>self-reliance</b> , <b>self-motivation</b> , and the importance of <b>giving and receiving support</b> .                              |  |
| 3 Families that work together in business often have a strong <b>culture of enterprise</b> – e.g. children grow up expecting to make a career in the family firm or to set up their own business. |  |
| 4 Family businesses have a strong sense of <b>tradition</b> and <b>continuity</b> .   |  |
| 5 Family businesses are often <b>good employers</b> , with a keen sense of <b>responsibility</b> towards the people that work for them.   |  |
| 6 Family businesses have high <b>ethical standards</b> .  |  |

#### Belief in family values

The first two statements in the activity above highlight what for many is one of the key strengths of family businesses: the sense of trust and co-operation that lies at the heart of the enterprise. In the best family firms, that bond between family members percolates down to all employees in the business and establishes a healthy atmosphere of confidence.

#### A culture of enterprise

Every family-run business that is set up comes from an individual's (or couple's, or family's) impulse towards entrepreneurship. Many children who grow up immersed in the family business go on to start businesses of their own, or if they decide to work within the family business, are keen to flex their own entrepreneurial muscles as managers and eventually owners.

Founders of family businesses are sometimes not content with starting one family firm, moving on to set up another, and maybe another business, after the first one has become established. In this way, family businesses often form clusters that may involve a wide network of family members.

#### Tradition and continuity

One of the prime goals of people setting up family businesses is to create a legacy for future generations – their aim is not only to provide for the immediate family, but also to pass on to later generations something solid and tangible. This gives a clear sense of purpose to the business and a long-term view. It may also give customers and clients a feeling of confidence in the firm – something the business may be keen to capitalise on, as in the typical advertisement at the top of the next page.

*Kett & Co*  
Serving the community since 1832

### Responsibility towards employees

Most family firms like to regard themselves as 'good employers'. This not only means ensuring good conditions of employment (salaries, holidays, pension schemes), but also taking a personal interest in the well-being and welfare of employees. In the best family firms, this leads to an atmosphere of mutual support between employers and employees, and can generate a huge store of loyalty among employees. This in turns means a stable workforce, something that is patently good for business.

This does have a flip-side. Sometimes family firms are accused of being patronising – in the sense of the owner-manager treating employees in the same way as rich families of previous eras regarded servants.

### Ethical standards

Many family firms pride themselves on their ethical standards. This can take many forms:

- applying equal standards rigorously to family members and non-family members
- making a contribution to the local community, through sponsorship or charity work
- dealing with customers and clients fairly, honestly and reliably.

This episode from the history of Levine's shoe manufacturers illustrates how ethical standards may be applied in practice.

#### James Levine Ltd

Shoe and boot manufacturers set up in the 1920s. The company went through a difficult period in the 1970s and 1980s when cheap imports effectively pushed them out of the mainstream shoe market. During that period, the workforce shrank by about 30%. Reductions were made at every level, including middle management. The dilemma facing the managing director, Andrew Levine, was that two of the managers whose jobs hung in the balance were members of the Levine family. Andrew felt that while family loyalty suggested he should retain the family members, he felt that he could not make an ethical case for keeping them and letting other, more experienced and better qualified managers go.

### Check Point

Think about your answers to these questions and then summarise your thoughts in Action plan 2 in Section 6.

- 1 What are the values that your family firm stands for? Take each of the areas covered in this topic in turn (a belief in family values, culture of enterprise, etc.) and outline what your firm's values are in that area.
- 2 Are these values shared by all members of the business?
- 3 If you were to ask them, what would the employees of your family business describe as the business's values?

## Section 2 Key issues for family businesses

### Topic 6 Translating core values into business goals

In the check point at the end of Topic 5, you were asked to decide whether your firm's values were shared by all members of the family business. How easy did you find it to answer that question? Have you and the other members of your family ever actually discussed what your business stands for?

In many family businesses, there is a strong core of values, but these are taken for granted, i.e. there is an unspoken acknowledgement that 'something' lies at the heart of the enterprise. In other instances, the key stakeholders (owners/managers) will have spent some time discussing what the business stands for. In this topic you will explore why it may be useful to bring values into the open and encapsulate the family business's values in the form of business goals.

#### Business goals, family goals

As you saw in Section 1, family businesses constantly have to strike a balance between family considerations and business demands. The task of goal-setting highlights the tension that can exist between the two. Look at the following lists.

##### Family goals

To nurture family members  
To promote family members' self-esteem  
To grow happy, successful, well-adjusted adults

##### Business goals

To generate profits  
To develop skills  
To provide a strong economic legacy

In a family business, these seemingly conflicting goals are intertwined. For example, if the family is able to produce happy, successful, well-adjusted adults, that can only be good for business! The question is how far business goals are influenced by family goals, and whether they express explicitly the values underpinning the family business.

#### Values and goals

Setting goals is an important part of the business planning process. Understanding the core values at the heart of the business is crucial to this process, as the values will underpin the business's mission statement, goals and objectives – in other words, they are part of the foundation for all the business's activities.

- The **mission statement** is a general statement of intent, expressing why the company exists and what it hopes to achieve. The business's values may be expressed here in:

*'Flexibility, integrity and quality are central to the organisation.'*

- **Goals** are expressions of what the business intends to do in order to fulfil its mission. They provide an overall framework for the business's activities and determine the direction that the business is moving in. Characteristics of goals are that they are free from specific timescales and figures.

*'To provide a healthy, safe and supportive working environment.'*

*'To meet the highest standards of customer care.'*

- **Objectives** are goals restated in a way that can be measured. To meet a goal, a business may need to meet several objectives. The following objective is clearly one that can be measured.

*'To achieve a 90% satisfaction rate among customers through regular three-monthly customer feedback initiatives.'*

The business goals may cover many aspects of the business's activities. For example, they may include statements about:

- the commercial activities and goals of the business
- the kind of ethos and working environment the business wants to create
- how the business relates to and deal with customers/clients
- the relationship between the business and the family members
- the relationship between the business and non-family members.

You will find a detailed discussion of mission statements, goals and values in the SESAME module on Financial Management. See Unit 1, 'The value of strategic planning', pages 10–18.

## Agreeing goals

Agreeing goals is part of the formal process of business planning. Most small businesses have to produce a business plan at some point – often when it needs to negotiate with banks or other organisations supplying finance. For many small businesses, that happens when the business is first set up, but then the business plan may be left to gather dust for months, even years. In the day-to-day hurly-burly of running a business, tasks such as reviewing mission statements and evaluating business goals often get pushed aside in favour of more pressing matters.

Often, it is only when things start to go wrong, or disagreements break out between key players in the business, that people may turn back to the business plan and ask themselves: what is this business about?

### Checklist for goal-setting and review

- |   |   |
|---|---|
| <input type="radio"/> How regularly is the business plan reviewed?<br>Is this regularly enough? | <input type="radio"/> Does the business have a mission statement?   |
| <input type="radio"/> What are the methods for doing this?                                      | <input type="radio"/> What does the mission statement say about the business's values?                        |
| <input type="radio"/> Who is involved in goal-setting and review?                               | <input type="radio"/> How are goals expressed?  |
| <input type="radio"/> Who needs to be involved?   | <input type="radio"/> Do the business's goals express clearly how the business puts its values into practice? |
| <input type="radio"/> Does the business have a mission statement?                               |   |

## Check Point

Think about your own business and the way in which its core values are agreed and expressed in business documents: the business plan, mission statements and business goals. Work through the checklist above and identify any actions or improvements that need to be made to this part of the business's activity. Summarise these action points in Action plan 2 in Section 6.

What do the business's goals say about the relationship between the family and the business? If nothing is said about that, should it be clarified? Think of a business goal that expresses what the business means to the family, and vice versa.



## Section 2 Key issues for family businesses

### Topic 7 Values and culture

This topic takes a final look at the question of values, but from a slightly different angle. Topic 5 highlighted that family businesses often have a particular ethos, derived from their status as a family concern. In this topic you will look at where this ethos may come from and consider one important influence: background and culture.

#### Cultural influences and values

Research has highlighted cultural variations in the way family businesses are both perceived and run. Within Europe, for example, there are variations in the way owner-managers see the future of their business. It is reasonable to suppose that these variations may be to do with cultural factors and that the values supporting family businesses may be influenced by culture.

The report 'Family Ties', produced by the 3i European Enterprise Centre, surveyed 256 medium-sized owner-managed firms across Europe. In response to the question about exit plans, i.e. what the owner-manager planned to do on retirement, the researchers found a wide variation in plans across European countries:

**Table: Exit plans, by country (%)**

Plans	Britain	France	Germany	Spain	Italy	Overall
Transfer within the family	32	30	57	74	62	46
Sale to trade buyer	45	60	16	26	34	40
Sale to existing management	23	10	27	0	4	14

Other results found by the researchers included the following:

- The average preferred age of retirement, as expressed by British owner-managers, is 59 years, compared with 67 for Italian owner-managers.
- In Britain, owner-managers tend to have the greatest sole control and the highest shareholding - on average 57% - whereas in Italy, they typically have the lowest (33%).
- In Italy, on the other hand, the wider family has greater influence, with a typical shareholding of 50%, compared to only 19% in Britain.

#### Activity

Look at the various figures shown above.

What conclusions can you draw from these figures?

Would you agree with the assumption that there may be cultural reasons for the differences between nations?

This is a relatively small survey (256), and so it is dangerous to make definitive statements, but it certainly appears that there is a marked difference in attitude to the family business between Britain and the southern European countries of Italy and Spain. The figures suggest that British owner-managers like to keep greater control over the family business, shown in their preference for a large shareholding. They also seem less bound by family tradition, being more ready to retire early and sell the business to non-family members. Italian owner-managers seem to work to a later age and have more intent to transfer within the family, while also having the lowest share of ownership.

It is natural to conclude that there are cultural reasons for this difference between countries: Italian society is one in which family links are traditionally regarded as strong.

## Cultural differences within the UK

One of the features of modern British life – especially urban life – is the presence of large numbers of family businesses run by members of minority ethnic communities. Many of these are visible on the high street: the corner shop run by families of South Asian or African origin, restaurants and cafés serving food from around the world, all kinds of other retail businesses are familiar sights. There are also many examples of family businesses run by members of minority ethnic communities in the manufacturing, finance and service industries.

The Trade and Industry Secretary, Patricia Hewitt, notes: 'In economic terms, the Asian community makes a contribution that outweighs population levels.' The facts back up her statement:

- The percentage of business start-ups per capita among ethnic minority communities is double the percentage of the population as a whole.
- A third of Pakistani, Indian and African-Asian men in paid employment are self-employed, compared to a fifth of white men.

One of the reasons often given for the high number of family-run businesses among ethnic minority communities is the importance of cultural values, such as:

- an ethos of hard work
- a high value placed within the community on independence and self-reliance
- belief in the importance of the family.

If the family's culture places great stress on the family and family network, involvement in business may be seen as an essential part of 'family life'.

Cultural factors may play a part, but there may also be 'push' factors at play. For example, another study found that one of the major explanations of Asian entry into self-employment was the desire to avoid racial discrimination and the resulting confinement to low-status jobs in the labour market.

In a recent survey, Essex University concluded that the traditional British family model and family values in this country, are being upheld and maintained – but by the Asian community.

Source:  
[www.clickwalla.com](http://www.clickwalla.com)

One study of Asian businesspeople in the UK identified a cultural orientation among Pakistani Muslims which allowed economic risk-taking through a dependence on God's will. (Modood, T., Virdee, S. and Metcalf, H. 1996).

### Check Point

Note your answers to these questions before completing Action plan 2 in Section 6.

How would you describe your culture? Think about your family background and origin.

In what ways has your culture influenced your decision to set up or become involved in the family business? What factors, if any, might have encouraged you in this direction?

How far do you think culture is important in entrepreneurship, or is it more to do with other factors: e.g. the individual and their character, or financial or social pressures?

## Section 2 Key issues for family businesses

### Topic 8 Key issues for family-run businesses

All family businesses are different. What makes them different is the uniqueness of the family that created them and runs them: the relationships between family members, the individual personalities involved, their different wishes and goals – all these give individual businesses their distinctiveness. Nevertheless, there are common issues and challenges that most family enterprises have to face at some stage of their existence. We have touched on many of these ideas already and so in this topic you will explore some of them in greater depth. This topic will also point you forward to topics in the remaining sections of the book where the different issues are discussed.

#### Issues of concern

There has been a huge growth of interest in recent years in family businesses, in finding out how they work and assessing what they contribute to the UK economy. As part of this trend, there has been a lot of research into what family businesses see as their main issues of concern. Common themes crop up time and again.

- **Business orientation or family orientation**
  - Does the business operate on a purely commercial basis?
  - Or is it not commercial enough?
- **Values and goals**
  - What are the overall values and goals of the business?
  - Are these shared by all the stakeholders in the business: owners, managers, staff and customers?
- **Managing relationships**
  - How does the family/business deal with conflict between family members?
  - How do you stop family arguments spilling over into the business?
  - Conversely, how do you avoid business quarrels becoming personal?
- **Communication**
  - How good is communication in the business?
  - Are there clear guidelines about using formal channels of communication? Or do important things get decided informally between family members?
  - Do family and non-family members have an equal opportunity to air their views?
- **Managing change**
  - If the family business is built on tradition, how should it deal with changes?
  - How do we preserve the unique family heritage of the business while implementing change?
  - Who needs to be involved in making decisions about change?
- **Employing family members**
  - What is the business's policy about employing family or non-family members?
  - Who should be promoted first, family or non-family?
  - Should everyone be paid in the same way?
  - Should non-family members be given the chance to part-own the business (e.g. own shares)?
- **Succession, i.e. transferring the business to the next generation**
  - Who will take over the running of the business when the current owner/founder retires?
  - Is there anyone within the family with the right amount of commitment, skill, ability, desire...?
  - Should you bring in someone from outside the family?
  - What will the role be of the current owner/founder once retired?

#### Activity

You have considered many of these issues in the first two sections. Now ask yourself how relevant they are to your own business?

What other particular issues or concerns does your business have?

At what stage of the business's life cycle do these issues arise?

Different problems will arise at different stages of the business's development. Some are clearly long-term issues, e.g. succession planning, while other issues will need immediate attention, e.g. a conflict between two family members that is souring the atmosphere of both family and the business. You may have mentioned other concerns, such as the following.

- Short-term issues include: setting business goals; family communication and conflict; struggling with administration burdens; putting off or blocking out unpleasant tasks.
- Medium-term issues include: reviewing business goals; overcoming skills shortages; developing and consolidating the business.
- Long-term issues include focusing on overall business objectives and succession plans.

## Different times, different challenges

In Topic 1 you looked at the life cycle of the family-run business, in terms of the various stages of development it goes through. At each different stage, particular issues will come to the fore. The next three sections look at issues relevant to the following stages of development of the business:

- Section 3: Start-up
- Section 4: Development
- Section 5: Exit.

Depending on where your business is in its development, you may find some sections and topics more useful than others. Long-term issues, such as those covered in Section 5, will be of relevance to every business – even if issues such as retirement seem years away, it really is never too early to start planning. Most business advisers cite 10 years as the minimum period needed to plan a smooth business hand-over.

The following check point will help you to work out in what order to tackle the remaining sections of the book.

### Check Point

Turn to the Contents list at the start of this module. Look over the list of topics for Sections 3 to 5. Which of the issues covered are most relevant to you now? Make a note of these here and then summarise your thoughts in Action plan 2.

Decide in what order to tackle the remaining three sections. Think about giving priority to those that are of the most immediate concern to you.