

Sustaining family business across the generations

Professor Ronald McQuaid

Stirling Management School, University of Stirling

ronald.mcquaid@stir.ac.uk

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Some family businesses are old!

- Possibly the oldest family business: *Zildjian Cymbal Co.* (1623)
- **Avedis Zildjian I** Armenian alchemist in Constantinople
- Found new compound & used it to create cymbals of great clarity and power
- Nowadays - Gen16 of firm involved in advanced music and sound technologies
- Craigie Zildjian – current CEO
(Mass., USA)

Photo: <http://zildjian.com/about/history/background>



Definitions of family business

- *A family business refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants (IFC, 2011)*
- *‘a family business is any business owned or operated by a couple or family where the business owners themselves perceive it to be a family business’ (Getz et al., 2004, p5)*

Examples of family businesses

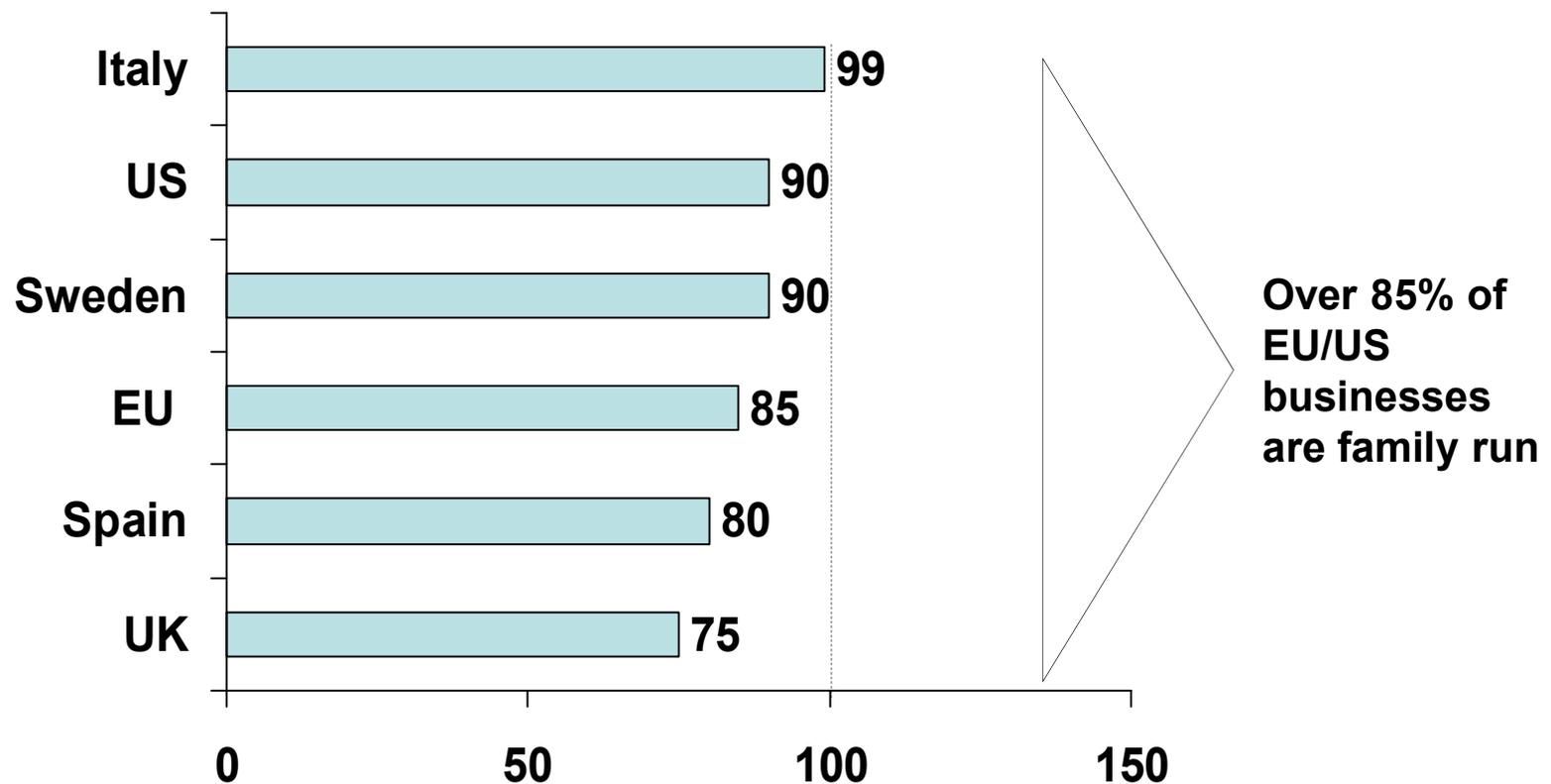
- Salvatore Ferragamo, Benetton, and Fiat Group in Italy
- L'Oreal, Carrefour Group, LVMH, and Michelin in France
- Samsung, Hyundai Motor, and LG Group in South Korea
- BMW, and Siemens in Germany
- Kikkoman, and Ito-Yokado in Japan
- Ford Motors Co, and Wal-Mart Stores in the United States
- Walkers Shortbread in the UK (3rd generation)
- **Tata in India** (Tata succession battle is an omen for family firms in Asia <https://theconversation.com/tata-succession-battle-is-an-omen-for-family-firms-in-asia-67998>)

Overview of family businesses

- More than 1/3 of Fortune 500 companies
- Companies such as Ikea, Motorola, Dupont, Panasonic, were controlled by family businesses (or linked Trusts)
- Only one in three businesses is successfully transferred to the second generation. 95 percent of family businesses do not survive the third generation of ownership (The Family Business Network, www.fbn-i.org/fbn/main.nsf/doclu/facts)
- Sometimes then sold to employees (Employee ownership as an exit mechanism) (<http://employeeownership.co.uk/>)

The Importance of Family Business

Proportion of OECD counted firms that are family-run
In percent



Source: Nancy Upton and William Petty, "Venture Capital Investment in Family Business," *Venture Capital*, 2000, Vol. 2, No. 1, pp. 27-39

UK Family Business Sector

- Accounts for 65% of the 4.6 million private sector enterprises
- Produces around 38% of private sector turnover
- Accounts for 38% of GDP in the private sector and 31% of GDP in the overall economy
- Represents 42% of private sector employment, providing employment to 9.5 million

Source: IFB/Capital Economics (2008)

Size Distribution of Family Businesses – UK 2012

Sizeband - number of employees	Number of businesses (BPE)	Percentage which are family businesses	Estimated number of family businesses
1-9	986,900	75	739,200
10-49	186,700	57	106,500
50-249	30,700	43	13,200
All SMEs	1,204,300	71	858,900

Source: Business Population Estimates 2012; Small Business Survey 2012 – all sole proprietors and others that state they are a family business

What makes the difference from other businesses?

- Presence of the family
- Owner's dream to keep the business in the family
- Overlap of family, ownership, and management
- Competitive advantage derived from interaction of family, management, and ownership

(Poza, 2013)

UK family-owned plants are different from others

- Smaller
- Younger
- UK-owned (and less likely to be multinational)
- Relatively fewer unionised members
- More female, manual and part-time workers
- Even after controlling for size differences, the workforce characteristics of family-owned firms are significantly different
(Harris and Reid, 2008)
- But also more likely to take a long-term orientation in making strategic investments and sustain strategy over a longer period of time (Ensley, 2006)

Potential weaknesses of Family Business

Low survival rates, due partly to:

- Poor Management, insufficient cash to fund growth
- Non-alignment of incentives among family members
- Lack of articulated practices and procedures
- Lack of discipline

Weaknesses cont.

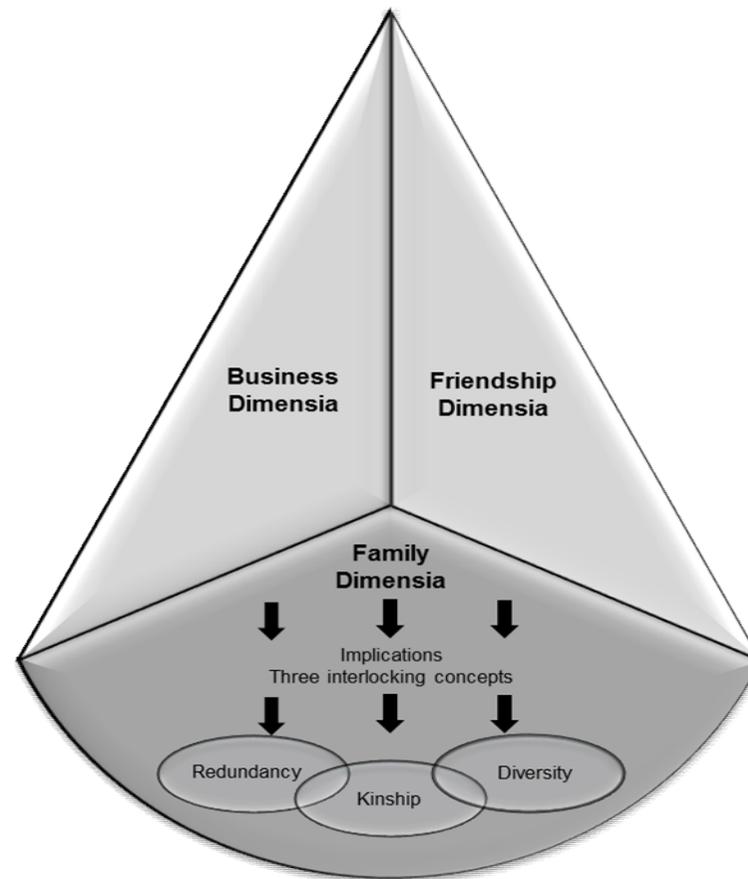
- family issues (can be very resource-consuming)
- often experience slower growth as well as slower decision-making processes
- more hesitant to invest in risky projects (hence miss opportunities)
- less innovative than other firms
- resist change, and fixate on maintaining the status quo

Family v Business - more differences

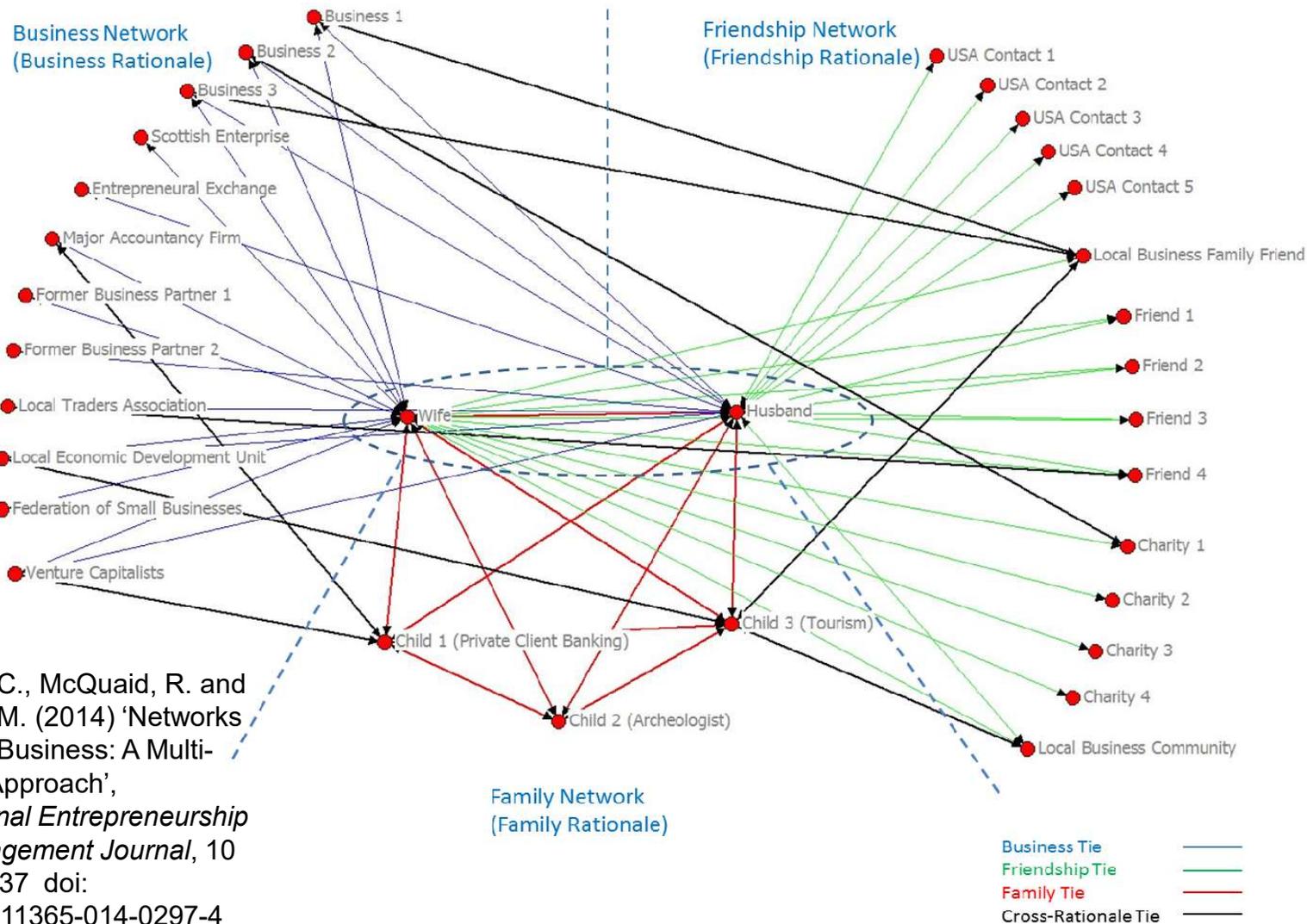
Sample Issues	Family First Cos.	Business First Cos.
Family Employment	<u>Open-Door Policy</u> for all family members, regardless of qualifications	<u>Qualification-Based Employment</u> , as for any other new hire
Compensation	<u>Equal pay for all</u> , regardless of their experience or performance	<u>Merit-Based pay</u> , based on experience, performance
Leadership	<u>Leadership based on Seniority in Family</u> , regardless of merit or qualifications	<u>Leadership granted to the right person (family or non-family)</u> , based on merit and qualifications
Resource Allocation	<u>Business Resources used for personal needs</u> (e.g., loans, grants)	<u>Business resources only used for business purposes</u> – separate family reserve fund utilized for family needs.
Decision-Making	<u>Unilateral & Concentrated with Senior Family Member</u> (e.g., Chairman/CEO)	<u>Multi-lateral, based on Defined Governance Structure</u> (e.g., Executive Committee)

(IFC, 2011)

Analysis should reflect multiple rationalities



Networks of a family business (Seaman et al., 2014)



Seaman, C., McQuaid, R. and Pearson, M. (2014) 'Networks in Family Business: A Multi-Rational Approach', *International Entrepreneurship and Management Journal*, 10 (3), 523-537 doi: 10.1007/s11365-014-0297-4

Intergenerational stages of Family Business (IFC, 2011)



Ownership Stage	Dominant Shareholder issues
Stage 1: The Founder(s)	<ul style="list-style-type: none">- Leadership transition- Succession- Estate planning
Stage 2: The Sibling Partnership	<ul style="list-style-type: none">-Maintaining teamwork and harmony-Sustaining family ownership-Succession
Stage 3: The Cousin Confederation	<ul style="list-style-type: none">- Allocation of corporate capital: dividends, debt, and profit levels- Shareholder liquidity- Family conflict resolution- Family participation and role- Family vision and mission- Family linkage with the business



How to improve their survival and performance?

- Well-functioning family governance structures
- Once family business size grows, then it is important to establish an independent board (IFC, 2011)
- Senior management succession is crucial and poor selection is main reason for family business collapse before they reach the third generation

Conclusions

- Family businesses and family entrepreneurship are important
- Family businesses are different from others
- They have different rationalities (not just business)
- They have weaknesses and usually do not last many generations
- But there are ways to improve succession and performance

Readings

- BIS (2014) Research into Family Business , BIS Research Paper 172, Dept. Business Innovation and Skills, London:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/313957/bis-14-699-research-into-family-businesses-bis-research-paper-172.pdf
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- Seaman, C. McQuaid, R. and Pearson, M. (2014) 'Networks in Family Business: A Multi-Rational Approach', *International Entrepreneurship and Management Journal*, 10 (3), 523-537 doi: 10.1007/s11365-014-0297-4

- Thank you for your attention and any questions?