Context and Uniqueness of Family Businesses

Veland Ramadani and Frank Hoy

Abstract Family businesses represent the majority of companies and are an important source for the generation of jobs in most countries. Longevity is very important for the family businesses and for economies as a whole. Succession is one of the most difficult decisions for the family business, and one of the most important. When business leadership transitions are not well structured they may cause expensive legal issues leading to the sale or eventual loss of the business. This chapter presents a review of some general, but very important issues, related to family businesses.

Keywords Family businesses • Life-cycle • Succession • Participant in family businesses • Culture

1 Introduction

Family businesses represent the majority of companies and are an important source for the generation of jobs in most countries (Cadbury, 2000; Fattoum & Fayolle, 2009; Hacker & Dowling, 2012; Hoy & Sharma, 2010; Kellermanns, Eddleston, Barnett, & Pearson, 2008, Kuratko & Hodgetts, 2004; Mazzarol, 2006; Ramadani, Fayolle, Gerguri, & Aliu, 2013). Their stability is critical to global economic growth. The importance of these businesses to a country's economy is substantial. Multiple research studies have recorded the predominance of family firms in countries throughout the world. The prevalence of family businesses also documents both the economic and social impact they have (Brigham, 2013). It should be emphasized that not all family businesses are small. In 2006, *Bloomberg Business week* reported that 35 % of companies listed in the Fortune 500 could be classified

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Table 1 Family business: numbers and facts (statistical history)

Family business constitute	80–98 %	of the business in the worldwide free economy
Family business produces	49 %	of the gross domestic product (GDP) in the United States of America
Family business produces more than	75 %	of the gross domestic product in the most countries worldwide
Family business employs	80 %	workforce in the U.S
Family business employs more than	75 %	of the workforce worldwide
Family business creates	86 %	of new jobs in the U.S.
A total of	37 %	of Fortune 500 companies are family businesses
A total of	60 %	of all public companies in the U.S. are under the control of family businesses
The number of family-owned businesses in the United States is	17 million	
The number of family-owned businesses in the U.S. with revenues greater than 25 million is	35,000	
Performance of family businesses from non-family businesses in the U.S.	6.65 % a year in returns on assets (ROA)	10 % in market value
Performance of family businesses from non-family businesses in Europe	8–16 % per year in Return on equity (ROE)	

Source: Poza (2010)

as family businesses (Perman, 2006; reconfirmed by Fiti & Ramadani, 2013). Some relevant data regarding the significance of family firms are shown in Table 1.

Since family businesses are among the most important contributors to the creation of wealth and generating employment, public policy makers need to give attention to these enterprises to ensure their health, prosperity and longevity (Neubauer & Lank, 1998).

Longevity is very important for the family businesses and for economies as a whole. Succession is one of the most difficult decisions for the family business, and one of the most important (Molly, Laveren, & Deloof, 2010; Ramona, Hoy, Poutziouris, & Steier, 2008; Sareshmukh & Corbett, 2011). When business leadership transitions are not well structured they may cause expensive legal issues leading to the sale or eventual loss of the business (Lipman, 2010; Morris, Williams, Allen, & Avila, 1997).

This chapter presents a review of some general, but very important issues, related to family businesses. The purpose of this chapter is not to provide a new model or theory in this field, but just as an introduction to the topics that will be addressed in subsequent chapters of this book. Numerous reviews of the family

business literature are available to scholars and practitioners (De Massis, Sharma, Chua, Chrisman, & Kotlar, 2012; Hoy & Laffranchini, 2014; Zahra & Sharma, 2004). References appearing in this chapter may provide guidance for the reader appropriate to the intent of this book to examine transitional economies.

2 Defining Family Businesses

Family firms constitute the dominant and oldest form of business organizations, and are crucially important in economies (Comi & Eppler, 2014; Zahra, Hayton, & Salvato, 2004). In most countries, family firms play a key role in overall economic development, including workforce engagement. Understanding family firms ranges from small enterprises serving a neighborhood, to large conglomerates that operate in multiple industries and countries (IFC, 2008). Therefore, the definition of a family business is a complex issue. The key component represents the interaction of the family system and business (Chua, Chrisman, & Sharma, 1999; Fattoum & Fayolle, 2009; Hoy & Verser, 1994). The founding editors of *Family Business Review* asked, “What is family business? People seem to understand what is meant by the term *family business*, yet when they try to articulate a precise definition they quickly discover that it is a very complicated phenomenon” (Lansberg, Perrow, & Rogolsky, 1988, p. 1). Hoy and Verser (1994) noted that the editors chose not to define the term family business, instead deciding that the dialogue engendered by *Family Business Review* might help determine the boundaries of the field. The editors expected manuscript submitters to specify what definition they were using so that readers would know how to compare studies. Some of criteria that are often used to define family businesses are presented in Table 2.

The general concept of the family business includes any business in which the bulk of the ownership or control lies in a family, and in which two or more family members are involved directly (Brockhaus, 2004). Family business is a double complex system, comprising business and family. These systems overlap and are both dynamic organisms that develop and change and are both unique with their

Table 2 Criteria used to define family businesses

Definitional criterion	No. of occurrences	Frequency (%)
Ownership	98	79
Management	66	53
Directorship	35	28
Self-identification	19	15
Multiple generations	11	9
Intra-family succession intention	9	7
Total	238	100

Note: Percentages add to more than 100 % because studies typically use multiple criteria
Source: De Massis et al. (2012, p. 13)

particular history, challenges, strengths, weaknesses, opportunities and threats that are exposed. Family members who are involved in the business are part of a system of tasks of business and part of the family system. For this reason, conflicts may occur because each system has its own rules, roles and requirements. Families can have their own style of communication and conflict resolution which can be good for the family but it does not mean that this will be good for resolving business disputes. Entry to the family system is from birth, adoption and marriage, with membership assumed to be permanent; whereas entry into the business system is based on experience and opportunities. Conflicts may arise when the problems from one system are transferred to the other system (Bowman-Upton, 2009; Gashi & Ramadani, 2013).

A definition of family business should determine why it is unique, and this raises the question of "what is unique?" This has nothing to do with the fact that family members own or manage a business. What makes a family business unique is that the model of ownership, governance, and succession management materially affects the objectives, strategies, structure, and the way in which it is formulated, designed and implemented as business activity (Chua et al., 1999; Mandl, 2008).

According to Poza and Daugherty (2013) if a business is to be considered a family business it must meet the following characteristics: (a) ownership control (15 % or higher) by two or more members of the family; (b) strategic influence by family members on the management of the firm, either by being active in management, continuing to create culture, serving as an advisor or board member, or by being an active shareholder; and (c) concern for family relationships; the dream or possibility of continuity across generations. Further to this list of features, Poza and Daugherty add several features: (a) the presence of the family; (b) the overlap of family, management, and ownership, with its zero-sum (win-lose) propensities, which in the absence of growth of the firm, render family business particularly vulnerable during succession; (c) the unique sources of competitive advantage (e.g. a long term investment horizon), derived from the interaction of family, management, and ownership, especially when family unity is high; and (d) the owner's dream of keeping the business in the family (the objective being business continuity from generation to generation). Alderson (2011, p. 6) defines a family business as a "business governed and/or managed in order to form and follow the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families that is potentially sustainable in all generations of the family or families."

Family businesses differ from non-family ones in many ways (Dunn, 1995; Hoy & Sharma, 2010; Jorissen, Laveren, Martens, & Reheul, 2005; Mandl, 2008; Olson et al., 2003). Differences between them, based on a review of many studies, are summarized in Table 3.

From Table 3 it can be seen that in the centre of the firm in family businesses is family, which formally or informally, directly or indirectly influence the firm; their main objectives are both economic and non-economic, respectively sustainability/ long-term family income (stability) as well as family satisfaction; their business orientation is satisfaction of internal and external stakeholders (mainly family,

Table 3 Main differences between the family and non-family business

	Family business	Non-family business
Centre of the firm	Family (formally or informally/directly or indirectly influencing the firm)	Owner(s)/managers
Necessary governance	Company and family sphere	Company sphere
Main objective	Economic and non-economic (sustainability/long-term family income (stability) as well as family satisfaction)	Economic (quick profits/growth)
Mindset orientation	Transfer among generations, sustainability over the life time of the enterprise	Sale of the business, sustainability over the professional life time of the entrepreneur
Competitive strategy	Quality, reputation, long-term relationships	Price
Assets	Financial, social, cultural	Financial
Company climate	Familiness, trust, cohesion, involvement, commitment, engagement, enthusiasm, informality	Business goal orientation, formality, contractual agreements, distance
Business orientation	Satisfaction of internal and external stakeholders (mainly family, clients, employees, local community)	Satisfaction of owners/shareholders
Management style	Value-driven, emotional, goal alignment	Facts-and-Figures-driven, rational, agency control mechanisms
Allocation of profits	Reinvestment into the company	Distribution among owners/ shareholders

Source: Mandl (2008, p. 70)

clients, employees, local community); the style of management is value-driven, emotional and goal alignment, they compete on quality, reputation, long-term relationships etc. Alternatively, in the centre of non-family businesses are owner (s) or managers; their main objectives are only economic (quick profits/growth); their business orientation is satisfaction of owners/shareholders; the style of management is facts-and-figures-driven, rational and use agency control mechanisms, etc.

A very important issue raised recently is whether the family business should be "family business" during the whole its life-cycle or not. Mandl (2008) noted that the status of being a family business must not be considered "fixed" (Fig. 1). According to her, there are several businesses that are family businesses over their whole life cycle (Fig. 1a). On the other hand, there are businesses which could be 'transferred' over their life cycle from family business to non-family business and vice-versa. For instance, a business may start as a family business, which is owned and managed by family members, but over the time, property and management due to various reasons may be distributed or transferred to persons outside the family and in the maturity phase, the business will lose the status of being a family business (Fig. 1b). Some businesses could reach the status of being a family business again in their declining phase, if non-family members (owners or managers) withdraw from

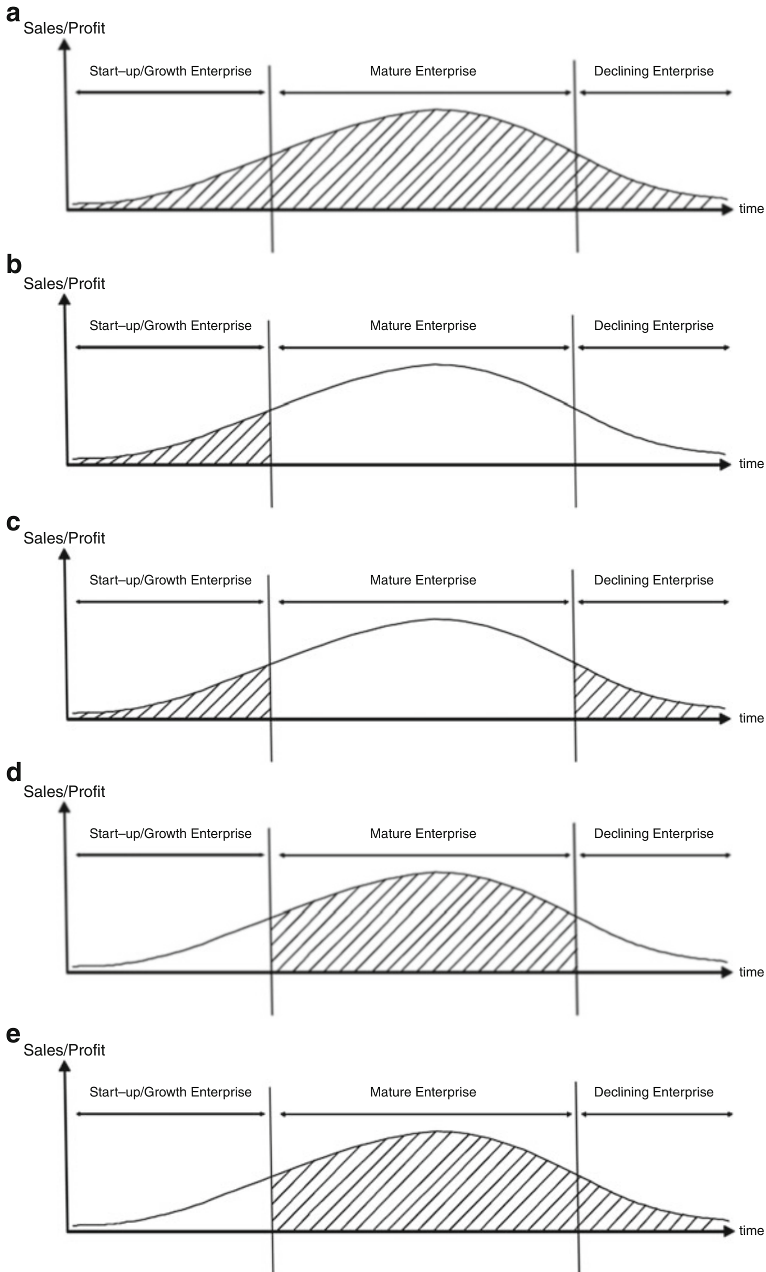

Fig. 1 Potential family businesses status over the company life cycle (source: Mandl, 2008, pp. 14–15). (**a**) Family business status during the whole life cycle. (**b**) Family business status during the start-up/growth phase only. (**c**) Family business status during the start-up/growth and declining phase. (**d**) Family business status in mature phase only. (**e**) Family business status from mature phase onwards

the business and hence, the family power ceases (Fig. 1c). Also, often it could happen that a business is established as a non-family business consisted of the entrepreneur and few non-family members only. Later, when the entrepreneur and his/her children grow, the issue of transfer of business and interest of the second generation to take over the business may occur, which intensifies the role and involvement of the family in the business. After the completion of the transfer phase, two situations can happen: the entrepreneur and his/her family are still involved in the business (Fig. 1e) or they could withdraw from the business and shifting the status of the business from "family" to "non-family" (Fig. 1d).

Based on the variety of definitions introduced in this section, it can be concluded that even today there is not a generally accepted definition for family business (Chua et al., 1999). For the purposes of this book, we follow the path of the editors of *Family Business Review* and rely on chapter authors to clarify what they consider to be family business. So, family business could be defined as a business that is owned and governed by the family, in which are employed some of its members and is based on the assumption that the younger members of the family will set control over the business, following the elder ones.

3 Family Business Categories

According to Gimeno, Baulenas, and Coma-Cros (2010), based on the level of complexity and the degree of structure development, there are five categories of family businesses: captain, emperor, family team, professional family, corporation and family investment group. They have used detailed information about 1,200 Spanish family firms, gathered from FBK Diagnostic. These categories are described below.

- *Captain model*. This model is most commonly found in enterprises ranging from micro to medium in size. The average age of these businesses is 28 years old. In these enterprises, the complexity of family and business is low. Entrepreneurs of these businesses share the ownership with other family members, typically first with spouses or siblings, and later with children. These are so called "founders' businesses" and result from the commitment of one person, usually lasting as long as that person has the authority, interest and energy to lead the business[(Table 4).
- *Emperor model*. Family and business complexity in this model is high. The complexity follows the passing of time. There are two generations working together, but the leading power is in the hands of a person who leads the family and business in the same time. In this model, shares may be owned by several family members from different generations. Average number of shareholders is 5.1. The success or failure of the family business depends largely on the skills of a person with primary discretion over the enterprise. The explanation of the names of the first two models is as follows: a captain is someone who owns a

Table 4 Characteristics of family business categories

Model	Characteristics
Captain	Enterprise managed by the founder
Emperor	Business and family united by a leader
Family team	Extended family working in a small business
Professional family	Few family members are engaged in professional management of a complex business
Corporation	Complex family managing complex business
Family investment group	Families with different complexities jointly invest

Source: Gimeno et al. (2010, p. 60)

simple unit, and an emperor is someone who has power over a wide range of social systems. The difference in complexity between the captain and the emperor models is as result of two factors: the time and resources of family leader. Through the years family complexity increases and at the same time the complexity of the business becomes higher as it grows. Above all, they are differentiated by the resources of the leader. On average level, the "emperor" has more competence as a manager and is more growth-oriented than the "captain."

- *Family team model*. In this model of family business, family complexity is higher than the complexity of the business, while the average number of shareholders is relatively high (6.5 shareholders). Disorders that may arise as a result of the complexity of family seem to be limited because some restrictions are usually in place at this point that apply to family members entering the business—only 36 % of shareholders are engaged in work. But, these restrictions can also be spontaneous as the small size of the firm may force other family members to look for their professional development out the family business. In the future, family complexity can be increased significantly (number of shareholders can be increased to 48 %, respeactively to 9.5 shareholders). This can lead to a dangerous situation for the business, since an existing structure may be faced with the difficulty to absorb this level of complexity. Further development of the structure would be a valid solution, but it can bring a level of resource consumption that may not be obtainable (due to time of leaders, economic resources spent on consultancy, government bodies, etc.). In order to avoid high-risk situations in this model, there are two alternatives for the future: (1) to encourage development creating adequate capacity, and (2) to reduce the number of owners.
- *Professional family model*. This model is opposite to the previous one. Complexity of the business here is significantly higher than the complexity of the family. Businesses of this type are characterized by a high level of growth and development. Growth and development have come from a less personalized structure than the one that typifies the first generation leadership. The family continues involvement in management. In this model there may be a number of family members in managerial positions (average 3), but they behave in a

professional manner. Here family members are oriented towards business operations, possessing a high level of sophistication in management and overall structure.

- *Corporation model.* This model is among the most developed models—in several dimensions. It is characterized with higher complexity, both as a family and as a business, and it is the model with the highest average age (61 years) and highest level of structure development. The presence of family members in top management in some cases is 'circumstantial'. The businesses, which are managed by family members, can easily evolve into businesses managed by non-family members.
- *Family investment group.* To have such a model, the family should have a large economic surplus. In this model the family realizes joint investment, but does not take over the management of business, and the relationship between the family and its investment should be different from the family-business relationship. Usually this model appears when the family does not want or is not ready to decide on one of the models previously described, and decides to sell the business, generating the economic surplus. Then the family decides how they will use it.

4 Participants in the Family Business

In general, participants in a family business can be divided into two groups: family members and non-family members. These groups are shown in Fig. 2. Sharma (2001, 2004) divides them into internal and external family business members. Internal members are those who are involved with the business, such as employees, owners and/or family members. External members are those who are not linked to the family business, whether through employment, ownership or family membership. Venter, van der Merwe, and Farrington (2012) categorize participants in family business into four groups: *non-family members* (includes non-family employees, outside professionals, experts, consultants, advisors, who offer expertise and skills, are part of the management team and assist in strategic business decisions), *inactive family members* (includes those members who are not being involved in the family business in terms of interfering in the business decision-making or disagreements), *the senior generation* (includes parents and their willingness to delegate authority, share important information related to the business and resign control, as well as ensuring their financial protection after retirement) and *the incumbent generation* (includes children as active family members being able to realise their personal ambitions and satisfy their career needs in the context of the family business). Each participant has personal approaches and ways of thinking and abilities to put pressure on business and family (Bowman-Upton, 2009; Farrington, 2009; Sharma, 2004; Shuklev & Ramadani, 2012).

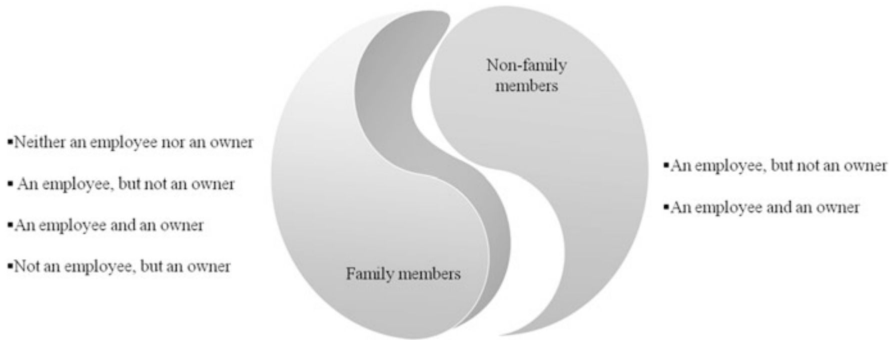

Fig. 2 Participants in the family business (source: based on Bowman-Upton, 2009)

1. Family members

   (a) *Neither an employee, nor an owner*. In this group usually belong children and in-laws. Even though they may not be part of the business, however, have the opportunity to influence and exert pressure on the family that runs the business. For example, children can criticize their parents for spending too much time on business and very little devotion to them. This presents a problem because raises feelings of guilt to parents for not finding time for their children and this can affect business decision making. In-laws may be counted as outsiders, intruders or allies and are usually neglected, ignored and misunderstood. For example, from daughter-in-law is required to support and understand her husband in business activities without a clear understanding of family or business dynamics. It can lead to problems in family or putting her between family confrontations. Sons in-law are in the same situation or difficulties. They can be counted as competitors from the wives' brothers. Sons in-law, although may not be involved in business, they can exert pressure on families and businesses through their wives.

   (b) *An employee, but not an owner*. These members are active in the business, but do not have an ownership position. For this group, there may raise problems of different nature. For example, when compared with those family members who are not employees, but are business owners, raise the feeling of inequity. This situation is often manifested with the words: "while I do all the work, others just stick and reap profits." Or the problem may occur when owners bring decisions without consultation with employees, family members who are not owners. This is manifested by the words: "I deal with daily affairs of the company, knowing how decisions will affect the company's work, while they do not ask me about it at all." Employees, family members generally expect to be treated differently from employees who are not part of the family.

   (c) *An employee and an owner*. The members of this group may have the most difficult position in the enterprise. They must manage effectively with all

members involved in both of systems, family and business. As owners, they are responsible for the welfare and business continuity, as well as for daily business activities. They must deal with the concerns of employees that are family members and for those who are not. In this group fall founders, as owners and executive directors.

(d) *Not an employee, but an owner*. This group consists of brothers/sisters and retired relatives. Their main interest is the income/profit provided by the business and everything that might jeopardize this, can be a problem for them. For example, while managers/owners wish to implement development strategies that can spend the wealth and put it in danger, it may encounter resistance from retired relatives who are concerned primarily about dividend or profit from business.

2. Non-family Members

(a) *An employee, but not an owner.* This group of employees often faces with the issues of nepotism and coalition building as a result of family conflicts caused by daily business activities. Family business owners to employees who are not family members and who have little or no option at all for promotion (advancement) should try to uphold their motivation by implementing appropriate policies of recruitment, accepting children of nonfamily employees into the business and minimizing policies that favor family employees over nonfamily employees.

(b) *An employee and an owner.* With the introduction of plans and opportunities for corporate enterprise transformation, this group becomes very important. Employees may become owners during the succession process. In businesses where a successor is selected, partial ownership of the business by its employees can accelerate the cooperation with the new management, because employees will be more interested about the benefits and responsibilities of the business. In situations where the successor is not selected, a part of the business is likely to be sold to employees who are not part of the family, but who have actively participated in its development. The employees in this case will require to be treated as owners, which can be difficult to detect and accept by family members.

5 Family and Business Overlapping

Successful adaptation of family business to the family's demands in one hand, and to business ones, on the other hand, depends on four key components, which are related to each other. They are (Davis & Stern, 2004):

1. Maintaining a proper boundary between family emotional issues and necessary tasks for successful business development and work;

2. Developing of processes and mechanisms for the preparation of the family about its emotional issues solution;
3. Developing a framework of tasks and processes that are tailored to business environment requirements that are not dependent on unresolved family issues;
4. Developing a reasonable structure which contains and motivates organizational cohesion.

Carlock and Ward (2001) described a family business as a scale which should be balanced between the requirements and business opportunities and the needs and desires of the family. The balance between these two 'forces'—business and family—can be achieved based on five variables: (a) *control:* setting in a fair way who will participate or make the decisions; (b) *career:* need to make it possible for family members to be rewarded and promoted based on their performance; (c) *capital:* family members can reinvest without damaging the interests of other family members; (d) *conflict:* conflict must be addressed due to the proximity between business and family; and (e) *culture:* family values have to be used in the development of plans and actions.

The essential problem in the functioning of family enterprises is the institutional overlap of norms in which families and businesses rely. Institutional overlap is shown in Fig. 3. The primary role of the family is to maintain social relations among its members, while the economic function of the company is to produce and provide products and services, the sale of which will generate satisfactory profit. One way to

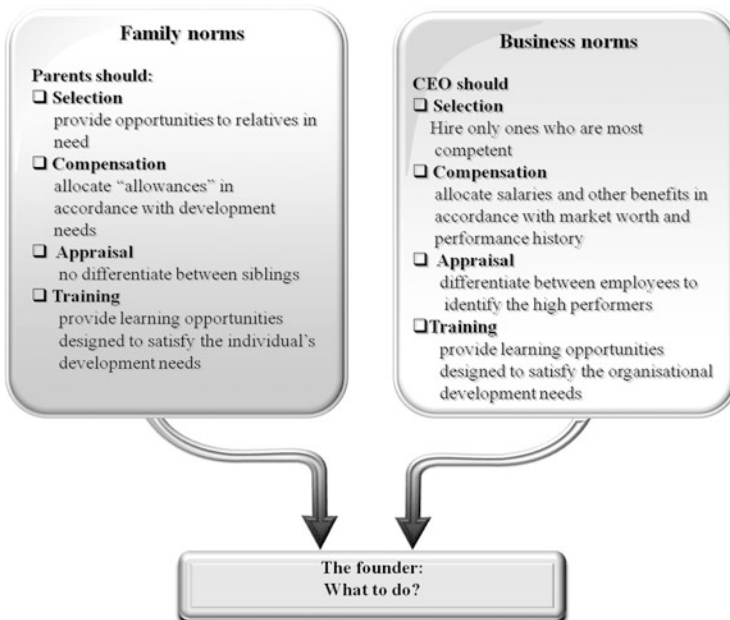

Fig. 3 Institutional overlapping in family businesses (source: based on Lansberg, 1983)

overcome this institutional collision is to acknowledge the decisions, arising as a result of a compromise between contradictory family and business principles. This way of decision-making, however, often results in suboptimal decisions, regarded from management aspects. Family members that work in the family business and fail to align personal goals with those of the business should question their position or status in the business. Also, in family businesses the career path and the training of the family members should be planned (Lansberg, 1983).

A two-dimensional model of two interrelated systems, the family and the business, has driven many research studies. Tagiuri and Davis (1996) introduced the three-circle model, where the dimension of ownership was added. Figure 4 presents the *Three-Circle model of family business*, which shows how individuals can be included in a family business: as family members, as owners and as workers/managers (see also Sharma & Hoy, 2013).

This model represents: family members who are employed and are owners (1); family members who are employed, but are not owners (4); employed in the family business which are not family members (2); employed in a family business who are not family members and are not owners (3); non-family owners (7); family members who are not employed in the family business, but are owners (6), and family members that are not involved in the business (5).

Gersick, Davis, McCollum Hampton, and Lansberg (1997) elaborated on the Three-dimensional model by building a *Three-Dimensional Developmental Model*, which consists of ownership, family and business axes. The ownership axis includes four stages: controlling owner, sibling partnership and consortium of cousins. The family axis includes four stages: young business family, entering the business, working together and passing the baton. And, the business axis goes through the four stages of start-up, growth/formalization and maturity.

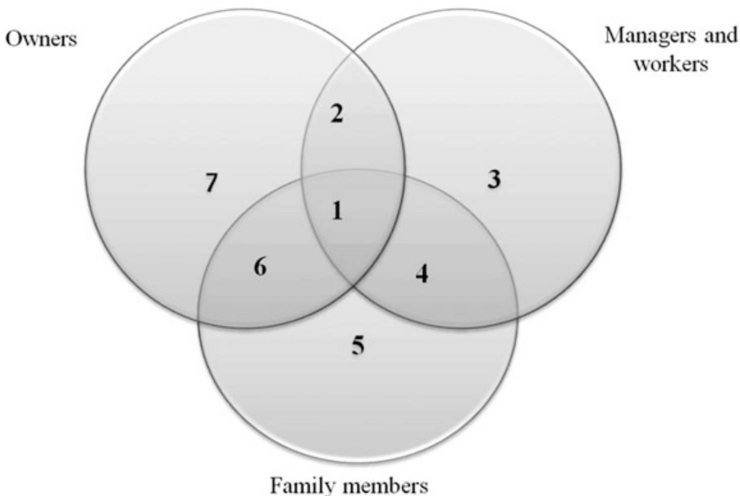

Fig. 4 Three-circle model of family businesses (source: Tagiuri & Davis, 1996, p. 200)

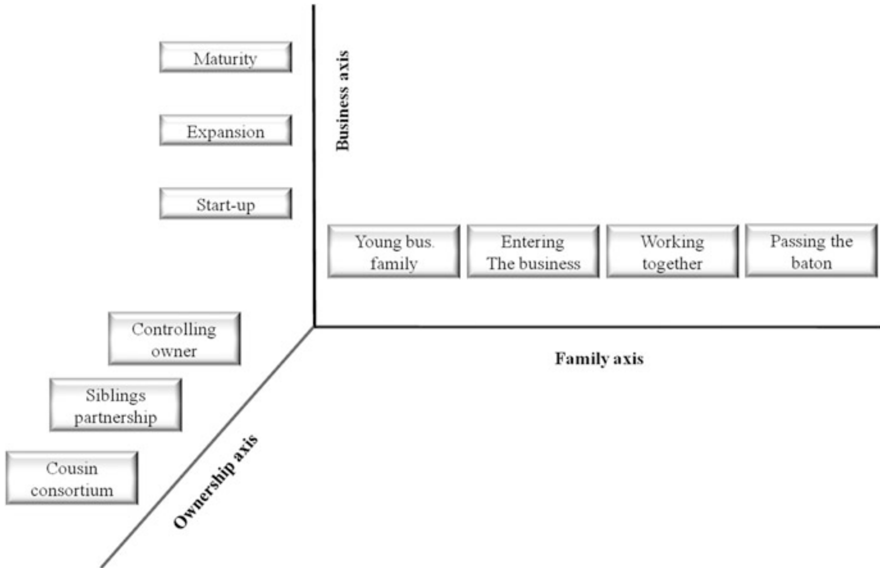

Fig. 5 Three-dimensional development model (source: based on Gersick et al., 1997, p. 17)

This model is presented in Fig. 5. Hoy (2012), in his review of Gersick et al. (1997) *Generation to Generation*, noted that, the Tagiuri and Davis *Three-Circle Model* remains dominant in education and consulting practice, even though in a Google Scholar search, there can be found over twice as many citations for Gersick et al. (1997) as for Tagiuri and Davis (1996).

6 Conflicts in the Family Business

Jehn and Mannix (2001) define conflicts are as "awareness on the part of the parties involved of discrepancies, incompatible wishes, or irreconcilable desires" (p. 238). Sorenson (1999) notes that conflict represents one of the defining characteristics of a family business and this status may have come from highly exposed family disputes in which volatile conflicts destroyed families and businesses. Conflict's sources are different. Major sources of conflicts in family businesses are presented in Table 5.

Clashes between business and family norms cause various types of conflicts. Based on Harvey and Evans (1994), interaction between business, family and external stakeholders creates three levels of conflicts that occur in the family business, presented in Fig. 6. In the first level, there are conflicts that do not occur as a result of interaction between three entities (business, family and external stakeholders) and have no effect on other entities. So, they occur within an entity, for example within the family. In the second level, conflicts arise between two

Table 5 Major sources of conflicts

Major sources of conflicts (in order of most common)	2013 all firms rank	2011 survey rank	2013 Breakdown by firm size			2013 breakdown by generation	
			Small rank	Medium rank	Large rank	1st gen. rank	2nd gen. rank
Future visions, goals and strategy	1	1	1	2	4	2	1
How decision are made	2	n/a	3	4	1	3	2
Managing growth	3	n/a	6	1	3	5	3
Competence of family in the business	4	2	5	3	5	4	5
Financial stress	5	n/a	2	6	7	1	7
Lack of family communication	6	4	4	5	2	6	4
Remuneration	7	6	7	7	10	10	6
Succession-related issues	8	3	10	9	6	7	11
Lack of family/non-family communication	9	5	8	10	8	8	9
Sibling rivalry	10	7	9	8	16	11	8

Source: KPMG (2013, p. 17)

entities collide among themselves. These conflicts are complex. Their sources may be different and when you combine sources among themselves, they become more complex and very difficult to be solved. In the third level, conflicts that occur include all three entities involved in the family business and are among the most complex and difficult to solve.

Harvey and Evans (1994) noted that conflict resolution in the family business depends on the level of conflict, namely by how entities are involved in the respective conflict. The mechanism of first level conflict resolution, when occurring within the family circle, is the ability of the family member. The character of changes is not too significant. The motive for the resolution of conflict comes from inside and the entrepreneur/owner is directly involved in its solution. For this reason it is not necessary supervision during the implementation of the resolution. Conflict resolution is heavier and more complex in the second level, due to the involvement of two entities. The character of changes is transactional. For this, conflict resolution should be undertaken by a group of individuals. It is necessary to supervise the changes that lead to conflict resolution to ensure that they really are resolved. The most complex level of conflict, the third level, involves three entities, business, family and stakeholders. Due to the complexity of these conflicts, it is necessary to engage external consultants to solve them. Entrepreneur/owner will be part of the team along with consultants to resolve conflicts. Due to the involvement of more subjects, supervision is essential and comprehensive.

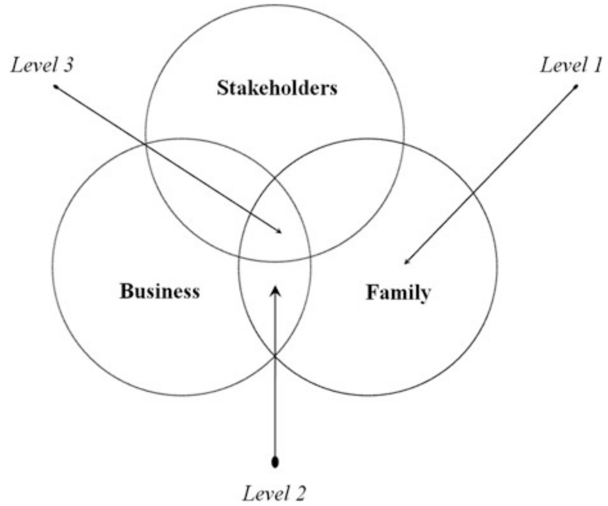

Fig. 6 Conflict levels in family businesses (source: Harvey & Evans, 1994, p. 343)

Regarding conflict resolving issues, Dean (1992) surveyed 234 African American family-owned businesses in Los Angeles and verified that 53 % of them use owner authority to resolve conflicts, 31 % use compromise, 23 % use consensus, and 2 % use mediators.

7 Family Business Culture

Culture represents a way of thinking and understanding during a process of judgment, evaluation and obedience. It is a way of dealing with others. Culture refers to the set of values that are shared by people in a group and have a tendency to continue over time even when group membership changes (Kotter & Heskett, 1992). Family culture can be described as a way family members resolve conflicts and differences, express emotions, and understand reality, separation and loss (Kepner, 2004). Family culture is comprised of four layers: artifacts, values, perspectives, and assumptions (Dyer Jr., 1986; Schein, 1985; Sharpe, 2014). Artifacts are the surface-level aspects of culture, which can be categorized as (Dyer Jr., 1988): physical (type of dresses, cars, company logo, and other emblems used by families); verbal (language, jargon, stories, etc); and behavioral (ceremonies, rituals and other behavioral patterns). Values are broad tendencies, principles, standards and norms that determine what an individual considers to be good or bad (Hoy & Sharma, 2010); they represent those 'forces' what drive behaviour and what lead to confident artifacts within a family's culture (Koiranen, 2002; Sharpe, 2014). Dumas and Blodgett (1999) analysed 50 family business mission statements and identified these values: quality, commitment, trust, social responsibility, honesty, fairness, respect and integrity. A perspective could be defined as a synchronized set of ideas and actions used by family in dealing with different problematic situation (Becker,

Geer, Hughes, & Strauss, 1961). Assumptions are the premises on which a family bases its global views and on which the artifacts, values and perspectives are based (Dyer Jr., 1988).

Family business culture plays an essential role in determining the continuity of success after the first generation. As Dyer Jr. (1988) noted "family business cultures can either contribute to success or be a major stumbling block. To understand and manage the opportunities inherent in family business cultures is not easy, and it is not often done in family firms, but it is essential for leaders who wish to ensure the continuity of their businesses and the well-being of their families" (p. 50). These insights come from the research of more than 40 family businesses.

Family business cultures are categorized differently from different authors. For example, Kets De Vries (as cited in Duh & Belak, 2009) identifies these types of family business cultures: an avoidance culture (an insidious sense of ineffectiveness), charismatic culture (everything depends and goes around the leader), paranoid culture (a persecutory subject matter), bureaucratic culture (very rigid and depersonalized), politicized culture (leadership responsibility is relinquished). Hofstede (1998) classified family business cultures by comparing the degree of individualism versus collectivism, the tendency towards uncertainty avoidance, the bias between masculinity and femininity and the apparent power-distance metric. Dyer Jr. (1988) identified these cultures: paternalistic culture, laissez-faire culture, participative culture and professional culture, which are presented in Table 6 and described below.

Table 6 Characteristics of family culture types

	Paternalistic	Laissez-faire	Participative	Professional
Nature of relationships	Lineal (hierarchical)	Linear	Collateral (group orientation)	Individualistic
Nature of human nature	People are basically untrustworthy	People are good and trustworthy	People are good and trustworthy	People are neither good nor evil
Nature of the truth	Truth resides in the founder family	Truth resides in the founder/family although outsiders are given autonomy	Truth is found in group decision making/participation	Truth is found in professional rules of conduct
Orientation towards environment	Proactive stance	Harmonizing/proactive stance	Harmonizing/proactive stance	Reactive/pro-active stance
Universalism/particularism	Particularistic	Particularistic	Universalistic	Universalistic
Nature of human activity	Doing orientation	Doing orientation	Being-in-becoming orientation	Doing orientation
Time	Present or past orientation	Present or past orientation	Present or future orientation	Present orientation

Source: Dyer Jr. (1988)

Paternalistic culture This type of culture is encountered most often in family businesses investigated in Dyer's empirical research study. This type of culture is used in 80 % of businesses surveyed. In paternalistic cultures, relations between family members are placed in hierarchical order. The leader, who is a member of the family, has full authority and power to make decisions. For this type of culture, the family does not defer too much to external members. Employees have a duty to perform the tasks they receive from family. Paternalistic enterprises are oriented to the past and present.

Laissez-faire culture This type of culture is quite similar to the paternalistic one. It is used by 10 % of businesses surveyed. At laissez-faire culture relations are placed hierarchically, while employees should only realize the goals of the family business. Unlike the first one, at this type of culture, owners have a dose of confidence at employees and give them some freedom in making decisions.

Participative culture This kind of culture is rarely used in family businesses. It is found only in four cases from the total number of businesses surveyed. At the participative culture, relations are equally placed and have a group orientation, while family status and power claim not to be highlighted. Family trusts in the employees and gives opportunity to show their talent. The orientation of this type of culture is toward the present and future.

Professional culture From the business surveyed, only one uses this type of culture. Professional culture enables that business management to be transferred to professional managers, who are not family members. Relations are individualistic, which means that employees focus towards individual achievements. Professional managers have impersonal attitude toward employees, who are evaluated based on their ability to contribute to the growth of company profits.

From this study, the author concluded that the paternalistic culture is the most identified culture in the first generation family businesses. In following generations, more than two-thirds of the paternalistic culture businesses experience cultural changes, respectively the majority become professional culture businesses.

8 Succession Issues

The succession process in family business represents a very complex and important issue (Gashi & Ramadani, 2013; Gersick et al., 1997; Kamei & Dana, 2012). Alan Crosbie (2000) draws a fine analogy between running a family business and flying a plane, where he says: "There is not much danger to anybody when the plane is in the third hour of a transatlantic journey, but at take-off and landing the craft is much more vulnerable to an accident. The point of succession is very much like landing and taking off again. It presents a radically greater threat of danger, than is posed by any of the other periods in the history of the company" (p. 105).

Cadieux and Lorrain (2002) noted what primarily differentiates a family business from a non-family business is the succession process, including capital and management know-how. The succession process represents also a difficult issue in terms of the time needed to prepare the management succession. Poutziouris (2001) noted that "about 30 % of all European enterprises now face business transfer. Moreover, estimates suggest that 30 % of such business transfers will not materialize because failure to plan can be tantamount to planning to fail" (p. 278).

The transfer of the position of the leader does not automatically mean stabilization of the power of the successor. The preparation of the successor for leadership is a process of socialization or development aspect of the succession. The time during socialization should help the successor perform the duty of the leader in a successful manner. The time for learning is also included in this part (Boyatzis & Soler, 2012; Hoy, 2007; Shuklev & Ramadani, 2012). The succession is a function of these independent variables: property, management, successors, leadership, age of the business, complexity of the business, financial performance and proximity of succession. The essence of succession is measured by ranking of the importance of these issues: keeping property in family, keeping control in family, election of successor, conflict resolution between family members, rewarding of family members and finding positions for incompetent family members (Chua et al., 1999). Succession plays a key role in the influence on the desired future of the family business.

Indicators of independent variables for measuring of the importance of keeping the property in family, keeping the control in family, election of successor, conflict resolution between family members, rewarding of family members and finding positions for incompetent members of the family are given in the Table 7.

Longenecker, Moore, and Petty (2000) offered a model of succession that consists of three levels and seven stages. In this model the first level includes introductory activities, which must be performed before the successor enters the

Table 7 Independent variables and indicators

Independent variable	Indicator type	Indicator
Property	Formative	Percentage of property by family
Management	Reflective	Number of family members involved in business and relations between non-family managers towards family members
Successors	Reflective	Number of potential successors, male or female
Leadership	Formative	Percentage of outside members in the board of directors
Business age	Reflective	Age of business and leadership of business through generations
Business complexity	Reflective	Gross income, regional distribution of sales, number of commercial locations and number of full-time employees
Financial performance	Formative	Percentage of 'active' return?
Succession proximity	Formative	Whether the current CEO will retire in the next 10 years

Source: Chua et al. (1999, p. 31)

business. This includes the following phases: pre-business phase, introductory phase and introductory functional. The second level includes activities dealing with the successor's entry in the enterprise as an employee in a regular relationship. Activities relating to the transfer of business leadership to successor constitute the third level. These include the early stages of succession and succession maturity. The stages of this model are treated below:

1. *Pre-business phase*. This is the stage where the potential successor is notified of the business. At this stage, a basis for succession is created that will happen in the coming years. Here, potential successors accompanied by a parent of the business visits the offices and warehouses of the company, and plays with equipment dealing with the business in order to become more familiar with business.
2. *Introductory phase*. This phase includes those experiences that relate to the period before a successor will be of legal age and is willing to join the business part-time. This is the stage where the child is notified with people and other aspects that are directly or indirectly related to the business, such as the introduction of the child to any collaborator or banker.
3. *Introductory functional phase*. This is the stage where the potential successor is employed in the business part-time and during breaks, or after school hours. At this stage the successor is involved in formal education and working in other enterprises. Also at this stage, the successor develops special relationship with the people in the enterprise.
4. *Functional phase*. This is the stage where the successor has completed formal education and is employed full time and indefinitely in the company. Before he/she advances to managerial positions he/she may engage in different jobs within the company as in accountancy or sales, and be fitted with different experiences. This stage for the successor includes granting initial non-managerial tasks.
5. *Advanced functional phase*. At this stage the successor takes on a managerial position that has to do with the management of the workers but not the entire company. He/she may engage in various managerial positions before becoming the general leader of the company.
6. *Early succession phase*. This is the stage when the successor has been named president and general manager of the company. At this stage successor is de jure leader of the enterprise because he/she performs this function with the help of parents.
7. *Mature succession phase*. This phase usually begins 2–3 years after the successor was appointed chairman or general manager of the enterprise. Now, the successor is the de facto leader. But in some cases this does not happen until a parent dies, because for some leaders it can be difficult to leave the business and to give up the management of the enterprise. This is the stage which completes succession.

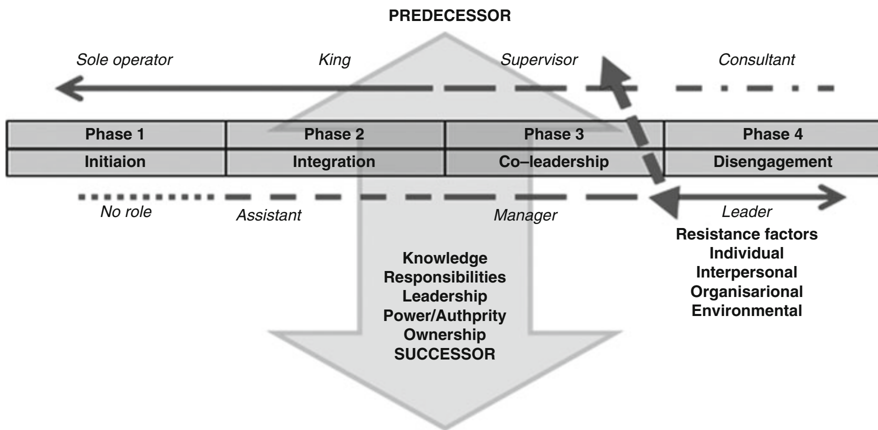

Fig. 7 The process of succession (source: Cadieux & Lorrain, 2002, p. 6)

As it was noted by Dakoumi Hamrouni and Mnasser (2013), Cadieux and Lorrain (2002) completed a synthesis of different academic studies on the process of succession and summarised four phases, as follows (Fig. 7):

1. *Initiation phase*. In this phase, the owner of the family business, respectively the predecessor is master and commander, where he is primarily occupied with the current and total management of the business. In the initial phase the predecessor has the intention of 1 day ceding the business to his or her successor(s), and in this phase there are few chances for the successor(s) to be involved in the business.
2. *Integration phase*. In the second phase the successor will be integrated in the business. During this phase, the successor undergoes an apprenticeship period, where he will have the chance to gain the needed technical knowledge and managerial skills to ensure the continuity and development of the family business.
3. *Joint-management phase*. Here, the successor officially assume his or her title in the business, which means progressive transfer of responsibilities, know-how and authority on the part of the predecessor. In these phase could be created certain tensions between the predecessor and the successor, which are followed by consequences on the activities of the business. To avoid these tensions and conflicts it is necessary to share tasks, duties and competences between the predecessor and the successor.
4. *Disengagement phase*. This is the last phase of the succession process. It is only completed if the predecessor has effectively retired and transferred responsibilities, leadership, authority and ownership to the successor.

In family businesses, continuity transition imposes a wide variety of important changes. Family relationships must be rebuilt, traditional patterns of impact redistributed, and management and ownership structures that have been around

for a long time, should open the way for new structures. Among the factors affecting the succession planning process are (Lansberg, 1988; Leach, 2011):

(a) *Founder*—although the founders are often aware of the benefits that come from succession planning, they also face psychological obstacles to manage their exit from the business. A difficult obstacle to continuity planning is the founder's reluctance to cope with his/her death, as to begin continuity planning means that he or she is approaching death. The founders also resist continuity planning because it includes giving up directing the daily business operations. Also, they may resist planning because of the fear that retirement means that they may lose the position and respect in the family, and could lose a significant part of their identity. Or, simply, they think that the successors are not ready yet for this. Ingvar Kamprad, the founder of IKEA (the Swedish enterprise for furniture with cheap prices for the middle-class families, whose wealth is assessed to be 52.5 billion dollars in 2004, being greater than the one of Bill Gates with 46.2 billion dollars) has three sons from the second marriage, Peter being 46, Jonas 43 and Matthias 41 years old. They all work at IKEA. In regards to family business succession, Ingvar Kamprad has once said: "I am proud of my three sons. They are very smart. However, I don't think that anyone of them is ready to lead the company, at least for now" (Shuklev & Ramadani, 2012).

(b) *Family*—in order to understand the reactions of family succession planning, and the reasons why family members may be against planning, it is important to consider the stage of the life cycle in which succession will occur in the family business. Another reason is that the retirement and change of status that comes with it can worsen things. There can be a lack of desire for open discussion about the succession. The younger generation sometimes avoids succession planning because it brings about fear of parental death, separation or abandonment. But, if there is no decision regarding this issue, a lot of problems could appear in the future, as Shi and Dana (2013) noted in their research in Japan, where Yu says: "Succession process planning? Of course it would be useful. It would be better to do it. My father and me, we didn't have such a thing. We could have done better, if we had had someone, consultant or specialist to whom my father and I, we could give our confidence. For us the succession process did not work as we hoped. My grandfather died. And after that, my uncle, Tadashi arranged the things in the family. Just at the moment when we really needed him, he died too. And after that the conflict continued and then my father died. Then, the incidents happened again and again. This was a painful test for me. But I have the impression that it is this kind of test that trains me" (p. 69).

(c) *Managers*—difficulties related to succession planning are not only experienced by the founder and family. Many senior managers are willing to change their relationship from the personal relationship they have with the founders in formal relations with the followers. Managers do not want to limit their

autonomy and their impact on the budget, information management systems and personnel.

(d) *Owners* affect succession planning, as the founder provides shares for the purpose of their motivation to be involved in the family business, and these owners do not want to open the issue of succession because they fear they will betray the founder. Fear that the successor would not be the best person to take over the business, is another reason business owners refuse to plan the succession.

(e) *Environment* affects succession planning. These forces consist of suppliers of clients who have grown dependent on the founder as their main contact in the business, and these people know that the founder is the one with whom to talk. They may fear that the successor can terminate those relationships created by the founder.

9 Advantages and Disadvantages of Family Business

According to what was mentioned up to this point, we can identify several advantages and disadvantages of the family business (Shuklev & Ramadani, 2012). The advantages of the family business are:

1. Family members are owners and managers of the business, and ownership is potentially inherited in the future generations. Therefore, the majority of these businesses reinvest their profits in the business;
2. Employment of family members means employment of people who have multiple interests in the success of the business. If problems occur, most probably they will be more worried than an ordinary employee who is not a family member;
3. Family business represents a benefit not only for the family, but for the society as well. A family business, besides employment of family members, provides job opportunities also for other people who have values and capabilities to deal with business;
4. Another advantage can be improvement of relations with customers. It frequently happens that a family business has close familiar or friendly relations with many customers, which guarantees the long-term stability of the business. Customers perceive that the family name on the company is a symbol of trust, i.e. that the family will not want to jeopardize its reputation through poor, unethical or illegal practices.

As all businesses, however, the family business has its disadvantages. Some of them are mentioned below:

1. Family business can be the cause to many problems in family: gambling, anxiety, worries, drug and alcohol abuse, etc. It is in very rare cases that family emotions do not interfere with business practices at some point;

2. Family business managers find it hard not to employ their relatives, even when they do not possess the skills required in the business. Moreover, in many cases these family members have been found to misuse their positions in the business, just because they are part of the family.

Family members, more specifically parents who have spent many years at the top of the business cannot accept the fact that the time has come for them to be replaced by descendants or other family members who will manage the business better and bring something more innovative to the family business.

Besides previous features represented as advantages and disadvantages, researchers have found other features typical to family firms that represent sources for benefits or weaknesses to the owners, and to both family and non-family members. These features include: simultaneous roles, identity feeling, long history, emotional involvement and confusion, specific vocabulary, knowing each-other and shared privacy and the importance of family business. All of these features are presented in Table 8.

Table 8 Advantages and disadvantages of family businesses

Disadvantages	Features	Advantages
Confusive rules and concern. Problems related to family business and property can mix	*Important roles*	Great loyalty to family and business. Fast and effective decision-making
Business objectivity missing. Control provokes nervous feelings. Offenses are expressed to family and business	*Feeling of identity*	Strongly expressed feeling for mission. More objective business decisions
Family members can express their weaknesses. Early disappointment can decrease trust in business relations	*Long history*	Family members can draw relative advantages and complements to their weaknesses. Long tradition can encourage family in hard times
Objective communication missing. Offenses and accusations can complicate business relations. Silent animosity can appear	*Emotional involvement and confusion*	Expression of positive feelings creates loyalty and promotes trust
Can cause emotional reaction and distort in communication, creates conditions for conflict occurrence	*Specific vocabulary*	Provides more effective communication and greater privacy
Can cause relatives to feel over-controlled and cheated	*Knowing each-other and shared privacy*	Improves communication and business decisions that support the business, the owners and the family
Strong rivalry can appear among family members	*Family business importance*	Symbolization of business can develop strong feeling for the mission among employees

Source: Tagiuri and Davis (1996, p. 207)

10 Conclusion

Family businesses in the last decade are seen as vital and economically significant business entities. As a result, this segment has received a lot of attention from academics as a research opportunity. In addition family businesses are also considered as a major source for generation of jobs in most parts of the world. For example, in the United States, around 90 % of businesses are estimated to be owned and managed by families and 95 % in India, Latin America or the Middle East.

Why family businesses are seen and considered as unique is not just because family members own or manage a business. What makes a family business unique is that the model of ownership, governance, and succession management materially affects the objectives, strategies, and structure of a company and the way in which it is formulated, designed and implemented (Chua et al., 1999; Mandl, 2008). The complexity of family businesses arises as a result of the interconnectedness of two separate systems of family and business where each one has different needs and wants, with uncertain boundaries, different roles and different rules.

Based on the level of complexity and degree of development of the structure, there are five categories of family businesses models have been identified (captain, emperor, family team, professional family, corporation, family investment group) with the corporation model being the most developed model with the highest complexity both as a family and as a business.

Family businesses have to be able to show preparedness in terms of managing business and family overlapping, most importantly, trying to balance the requirements and business opportunities and the needs and desires of the family. Research suggests this can be achieved through the five variables of: control, career, capital conflict, culture.

Despite many advantages, family businesses have to deal with several issues and conflicts in addition to standard business concerns. These include generational disputes, sibling rivalries, and succession issues. According to research conducted by KPMG (2013, p. 17), the major sources of conflict are: future visions, goals and strategies, how decisions are made, managing growth, competence of family in business, financial stress, etc. Disputes between business and family norms can cause different conflicts. Interaction between business, family and external stakeholders creates three levels of conflict that occur in the family business with the third level being the most complex and difficult to solve.

Family culture is another vital component to the success of the family business after the first generation. Main types of cultures identified are paternalistic culture, laissez-faire culture, participative culture and professional culture. From a study conducted on 40 family businesses, 80 % of businesses surveyed were characterized by a paternalistic culture, which means the leader, a member of the family, has full authority and power to make decisions and does not trust external members. The least used culture was professional culture, a culture that enables business

management to be transferred to professional managers who are not family members (Dyer Jr., 1988).

Succession involves the transfer of the assets, capital, contacts, power, skills, and authority from one generation to the next in a family business. Even though succession is a very important process for the continuity of the business, its success it can be problematic.

To have a smooth transition and a successful succession Longenecker et al. (2000) offered a model of succession that consists of three levels and seven stages. Moreover, succession planning requires a harmonizing personal aspirations and family goals. Therefore, the generation in power must let go and the succeeding generation must desire to be involved in the business (Kamei & Dana, 2012; Shi & Dana, 2013).

The field of family business has only recently received serious scholarly attention. Nevertheless, important contributions have been made. We found theories and models that offer contexts for comprehending distinctions between family and non-family enterprises. Additionally, the results of numerous empirical investigations have identified unique characteristics of family-owned enterprises. More information regarding some of the seminal contributions in this body of literature is reported in Hoy and Laffranchini (2014). Few subjects are as multidisciplinary as family business. Thus, despite the progress, there is much for scholars to study in order to build on what is described in this chapter and to contribute to practice.

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