7 Family Business

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National statistics across countries suggest that 60% to 70% of all small firms (less than 50 employees) are family-owned. However, family firms can be difficult to define and categorize, as they participate in a myriad of activities and take many forms. Despite this diversity, common patterns and characteristics of working occur amongst family-owned firms. To appreciate family businesses requires an understanding of these unique characteristics and how they develop. The unique characteristics possessed by family businesses include the influence of family relationships, company culture and succession planning. Investigating the scope of family business research conducted is also worthwhile, as there are many gaps in our understanding of how family companies operate.

Exercise

Think of a family business you know well from television or the newspapers. What do you think distinguishes this family business from non-family businesses?

Family businesses

The small and medium-sized business sector in most countries includes a predominance of family businesses. Family businesses account for nearly two-thirds or 66 per cent of the small and medium sized enterprise firms within the United Kingdom (UK) private sector according to the Institute for Family Business (Institute For Family Business, n.d.). This 66 per cent represents more than 3 million family businesses in the UK, which between them provide 9.4 million jobs and create 25 per cent of UK's gross domestic product (Institute For Family Business, n.d.). In developing countries like Latin America, Southeast Asia and Africa, the proportion of businesses that are family concerns is believed to be even higher.

Exercise

Visit the Institute for Family Business website (www.ifb.org.uk). Use the content of the website to identify the main challenges confronting family-owned businesses.

There are a great variety of different types of family firms, as they can range from small lifestyle businesses to large multinational corporations. In between these two extremes there are innumerable different types of family businesses. A characteristic of family businesses is that they can endure for many years, as family members across multiple generations commit to their survival. The UK's oldest family-based business is a Dorest-based butchers shop, R J Balson and Son. Over twenty-five generations of family members have owned and operated this family business since its establishment in 1535!

However, the number of family firms surviving through to the third generation and beyond is small. According to Leach and Bogod (1999) only 24 per cent of family businesses survive to the second generation, while just 14 per cent survive to the generation beyond that. Similarly Smyrnios and Walker (2003) discovered that about 55 and 28 per cent of family businesses in Australia survive to the second and third generations respectively. Data from France shows that the number of family firms surviving to the second generation or beyond never exceeded 35 per cent (Lescure, 1999).

Tip: Family-owned businesses account for approximately two-thirds of all small businesses across developed and developing countries.

Despite the low survival rates beyond the third generation, some family firms go on to become major global companies. The German-based company Bosch is a good example. Robert Bosch established his family company in a small workshop and employed just two people in 1886. Today the company has grown into a multinational company employing approximately 300,000 employees around the world. The Bosch group is one of the world's largest suppliers of automotive components. It also manufactures industrial machinery, hand tools and domestic appliances. The company has sales of over €50 billion and production facilities all over the world. Robert Bosch's values and principles continue to influence the company even today. The Bosch Family still owns 8% of the company.

Another family firm that grew into a global enterprise is Banco Santander. Emilio Botin inherited a minor regional Spanish bank from his father in 1986. Established in 1857 the bank had been owned and managed by two previous generations of the Botin family. Emilio built the small regional bank into Spain's largest banking group, with branches in Chile, Mexico, UK and other European countries. Other examples of family firms growing into multinational companies include Samsung, Porsche, Levi-Strauss, Mars, Wal-Mart Stores and Michelin.

Defining the family business

There are many definitions of the family firm. The definition of family business is important, as researchers like to compare and contrast the performance characteristics and activities of family and non-family businesses. Foundational work carried out by Shanker and Astrachan (1996) developed a criteria for classifying family businesses based on broad, middle, and narrow definitions. The authors' definitions helped to demonstrate the influence family firms had on the US economy, which promoted the importance of family businesses, as being critical entities with unique organizational characteristics. Despite the work of Shanker and Astrachan there is a general consensus amongst researchers that it is impossible to compose a universal definition of family businesses due to the distinctive business laws and regulations that operate in various countries around the world. Nevertheless, it is important that any study investigating family businesses clearly states what they understand by the term. As you can appreciate, differing classifications of family businesses can lead to diverse findings depending on how the sample was selected and defined.

Despite the absence of a universal definition, family business research has identified three commonly used dimensions that set family businesses apart from other businesses. These three dimensions help us to better understand how we might generally define a family business. The dimensions are ownership (one or several family members hold a major stake in the company), management (family members hold top management positions), or board-membership (family members hold major control over the company via their board membership). It is important to emphasize that family can include immediate family, extended family (cousins, uncles, aunts), and family by marriage. Subsequent generations of these various elements of the family can be involved in the business as well. If business ownership is shared between and amongst these different parts of a family, then researchers tend to refer to them as a family firm.

> **Tip**: Ownership, management and board-membership are three common dimensions used to understand how a family business is defined.

Global significance

As indicated above, most family firms are small (fewer than 50 employees) and generally wish to maintain a certain level of income that allows them to enjoy a particular lifestyle. In many cases these small, local family firms are handed from one generation to the next, like funeral directors, fishing boats, bakeries, butchers, builders, electricians etc. In contrast, there are many examples of family firms which have moved beyond being a simple lifestyle business and grown into large, powerful multinational corporations that have demonstrated entrepreneurial flair and innovation, like Bosch, Banco Santander (as previously mentioned), Mars, ArcelorMittal, Hyundai Motor, BMW Group, Fiat S.p.A., Samsung Electronics, Tata, Toyota, Volkswagen and Walmart etc.

The Center for Family Business at the University of St. Gallen, Switzerland, complies a Global Family Business Index that contains the largest 500 family firms in the world by revenue (http://familybusinessindex.com). The family businesses contained in the index account for a combined $US6.5 trillion in annual sales. European-based family firms dominated the index with nearly 50 per cent of the index companies based in this region. Behind Europe was North America, which accounted for 24 per cent. The index demonstrates that large family firms generate massive value and constitute a significant economic force in the world.

Characteristics of family firms

Interest in family businesses is based on their unique merits and disadvantages compared to non-family businesses. Certainly when they are compared to a non-family business this uniqueness comes to the fore during their development. For instance, when a business venture is first established reliance on family is common, but this has both benefits and drawbacks. Business advice from experienced family members and low or zero interest rate funding from family members can have a significant benefit for new ventures. On the contrary, family members may attempt to interfere with the running of the business, particularly if they have provided the funding. A number of unique issues can also arise for family businesses, compared to non-family businesses, once they are established and begin growing. The most significant of these issues include the relationships between family members, company culture and succession planning. These issues can be the making or breaking of a family firm. In the next section the negative and positive impact of these three issues will be discussed.

■ Family relationships

According to Kennedy (2000, p.1) "[b]eing part of a family is a universal human experience, at once suffocating, infuriating, comforting and supportive." This statement effectively expresses the benefits and drawbacks of family run businesses. Leach (2007) adds that the complex relationships involved in a family business need to be managed carefully for the benefit of both the family and the