# FAME

**Fam**ily Busin**e**ss
Sustainability
and Growth

***Module 4***
***Transition Issues***

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FAME-Family Business Sustainability and Growth

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# Content

# Introduction

*(by Romana Paszkowska)*

One of the most difficult experiences that any business confronts is a major change connected with moving from one generation of top management to the next. Such experience is even more challenging in a family firm, where the first entrepreneur with anxiety witnesses the process of transition while the whole family feel uneasy, worried or frustrated. Children or subordinates of the original entrepreneurs, who in many cases founded the family businesses, look out with patience or without it, with worry or hope for the expected change. Unfortunately, often the family company founders delay the succession process as long as possible, which leads to tensions and conflicts among family members. Situations, when the senior manager or owner dies without having fully transferred the firm to younger generation is not uncommon and, in most cases is the worst possible scenario for the company's wellbeing and harmonious development.

It's worth remembering that the transition problem influences both family and non-family members. Employees, managers and directors from outside the family, siblings, partners, children, friends, competitors, bankers, and possible investors all have interest in the company peaceful moving from one generation to the following. Some of such transitions are conducted smoothly, without disturbances to the company day-to-day operations. In such cases bigger changes in the firm are introduced gradually and in evolutionary way. However, often the transition process is uneasy, full of disruptions and conflicts within both, the firm management, and the family. Such difficulties may lead to family members and key employees' resignations and, consequently, develop family feuds that may impede further cooperation and harmony. Businessmen and investors who were considering cooperation, mergers or acquisitions suddenly change their minds and withdraw their business proposals.

The main objective of this module is to study what exactly happens in a family firm and the family during the period when one generation or another is clearly in charge, but members of both simultaneously participate in the company operations and its management.

Among professional researchers and consultants who investigate family businesses there is a tendency to claim that the sooner the family management is moved to objective, professional management that focuses on external, emotionless assessment of policies and managerial decisions, the better. They argue that such step ensures best business practices and helps avoid mixing them with personal interests of family members, which may lead to nepotism and wrong business decisions.

However, most family firms are more concerned with family and personal psychology, than with purely business logic. Most founders and owners intend to leave their companies in the hands of successors and often generational transition and company growth occur together despite all the difficulties and problems which the process might involve. As L. B. Barnes and S. A Hershon (1976) state in their paper *Transferring Power in Family Business*:

It is apparent that families *do* stay in their businesses, and the businesses stay in the family. Thus there is something more deeply rooted in transfers of power than impersonal business interests. The human tradition of passing on heritage, possessions, and name from one generation to the next leads both parents and children to seek continuity in the family business. In this light, the question whether a business should stay in the family seems less important, we suspect, than learning more about how these businesses and their family owners make the transition from one generation to the next.

Two perspectives should be analysed when considering the issue of family firm transition from one generation to the next, one is the family, and the other one is the business. Both can be seen from either the inside or the outside.

Table 1 Pressures and interests in the family firm

| | Inside the family | Outside the family |
|---|---|---|
| Inside the business | The family managers<br>▪ Hanging onto getting hold of company control<br>▪ Selection of family members as managers<br>▪ Continuity of family investment and involvement<br>▪ Building a dynasty<br>▪ Rivalry | The employees<br>▪ Rewards for loyalty<br>▪ Sharing of equality, growth and succession<br>▪ Professionalism<br>▪ Bridging family transitions<br>▪ Stake in the company |
| Outside the business | The relatives<br>▪ Income and inheritance<br>▪ Family conflicts and alliances<br>▪ Degree of involvement in the business | The outsiders<br>▪ Competition<br>▪ Market, product, supply and technology influences<br>▪ Tax laws<br>▪ Regulatory agencies<br>▪ Trends in management practices |

Source: Barnes & Hershon, 1976, p. 191

The first perspective shows the viewpoint of family managers who need to take under considerations the perspectives of the other three groups if they are to carry out the transition orderly. The second one reflects the problems of younger and older employees from outside the family who worry if their loyalty is appreciated, their position in the company secured and if there are opportunities for growth and development after the transition. The third group concerns family members who are not involved in direct management but worry about their income, e.g. possible changes in dividend policies and that the transition could trigger family conflicts among younger family members. The latter ones could feel pressure to join the business or disappointment of not being invited to join it. The fourth group may have various interests in the firm and differing intentions. The right column issues concerning the outside perspectives have been of major concern to consultants, researchers and business school courses, but nowadays it seems that more and more attention has been devoted do the "inside" perspectives which, in case of family firms are of major importance. Their negligence could have devastating consequences for the family and company.

The study of life cycles of family firms enables understanding of the dynamics of the transition processed. One should realize that organizational growth is not always linear and its pace may vary - stages of organizational development do not always correspond with phases of company growth. On the contrary, sometimes they serve as preparation periods for the implementation of new policies and management practices. Reorganisation of the company management is a common response to the problems of transition. On the one hand it is understandable and seems rational that new management introduces new style and methods, but on the other hand it rarely solves transition problems. Transition, as any change, needs time for acceptance, integration and implementation of new ways.

Family transitions and company transition can occur independently of each other, but they often occur simultaneously. Whatever change the company undergoes, whether it is the threat of collapse, extremely fast growth, merger or generational transition, new policies, motivation and reward systems and management styles need to be introduced. Thus these appear natural moments when young generation could step in and take over the company leadership.

Although such dual, family and company transitions usually take place in the atmosphere of strain, uncertainty and anxiety it does not necessarily mean they could not bring positive results, as the process has many variables.

The module will tackle various psychological, managerial and cultural aspects of the transition process from the point of view of the managers, family members and non-family members directly or indirectly involved in the family business.

# Module Objectives

*(by Romana Paszkowska)*

The principal goal of the module is to acquaint students with basic concepts and theories connected with the psychological, managerial and cultural aspects of the transition processes in family companies. It provides insight into past and contemporary research on the above mentioned topics and presents several case studies and critical incidents descriptions that might help better understand the problems discussed. It also offers opportunities for revision of the acquired knowledge through the reflecting questions. Students might find references and reading lists useful for further studies.
In the broad perspective, the module tackles issues connected with the psychology of transmission of power in family firms, managerial engineering of the transition process and external and internal factors that affect the transition

As far as the learning outcomes are concerned, on completion of the "Transition" module, the student should be able to:

- Examine the development of the family business and its steps towards its first succession and subsequent transitions in order to understand the critical managerial and organisational factors of transition from an SME into a family business.
- Understand the needs for transition planning and recognise the respective role of education, external or internal support needs in this context.
- Realise the risks of unplanned succession in order to mitigate the negative outcomes of such an event and prepare for the future.
- Identify main issues connected with transferring power, as well as interpersonal communication and conflict handling in family business to understand how they affect and could impede the transition process
- Recognize the relations between primary cultural programming and family business organizational cultures in order to understand how to secure the sustainable growth of family companies

The module content has been divided into three sections, each dealing with transition from a different angle: managerial, psychological and cultural. Although all these issues massively overlap, attempts have been undertaken to organize the material in complementary order. Such shape of its presentation enables deeper analysis of the above issues.

Section one represents the managerial approach and contains five units:

- The first unit deals with the founding, development of business and how a firm becomes a family business.
- The second unit tackles planning for succession including reasons for transition, timing, involvement of family or non-family members and long vs short-time succession perspective.

- Unit three deals with unplanned succession and involves such issues as threats and opportunities of employing successors from outside the family, selling the business, merging with other companies and closing down.
- Unit four introduces the topic of importance of education with regard to the succession process, both in terms of internal education that involves management and organisational skills, and learning by doing and the external one connected with completing various courses and acquiring basic knowledge of disciplines referring to the specificity of business and succession as such.
- Unit five tackles the role of external support of consultants, mentors and coaches during the process of succession

Section two presents the psychological approach, mainly the transfer of power. It consists of three units:

- Unit six covers working in family context during the transition period including the challenges of ownership and dilemma how to build it to last over generations. Such issues as personality types in family businesses, the role of trust as basis for family cohesion – socio-emotional wealth and patterns of communication are discussed.
- Unit seven deals with major threats to orderly transition process, such as informality, paternalism that maintains control, family feuds, rivalry, illness of the principal or siblings, divorce, etc.
- Unit eight covers conflict management during the family business transition period.

Section three develops the cultural approach to transition. In the context of this module *culture* has been defined as a set of specific values and loyalty types which permeate from the family to the business. Culture is understood both, as corporate culture developed within family business, and in the anthropological sense – as the mental programme of family members rooted in their cultural background.

This section consist of three units:

- Unit nine considers the organizational culture in the process of transition – methods of identifying and issues connected with transferring or changing the company culture within the transition process
- Unit ten discusses the role of culture in sustainable growth and transition, especially the role of culture as a constraint to transition processes and family values vs company values in the context of transition. It also discuss the cultural diversity in family entrepreneurship and the family business culture and transition economies
- The last unit of this section covers the family business issues from the cross-cultural perspective: the impact of national culture on entrepreneurship, culture dimensions as practical diagnostic tools for recognizing family/company values.

# SECTION I: MANAGERIAL ASPECTS OF TRANSITION
# Unit 1: From Birth to Transition

*(by David Devins)*

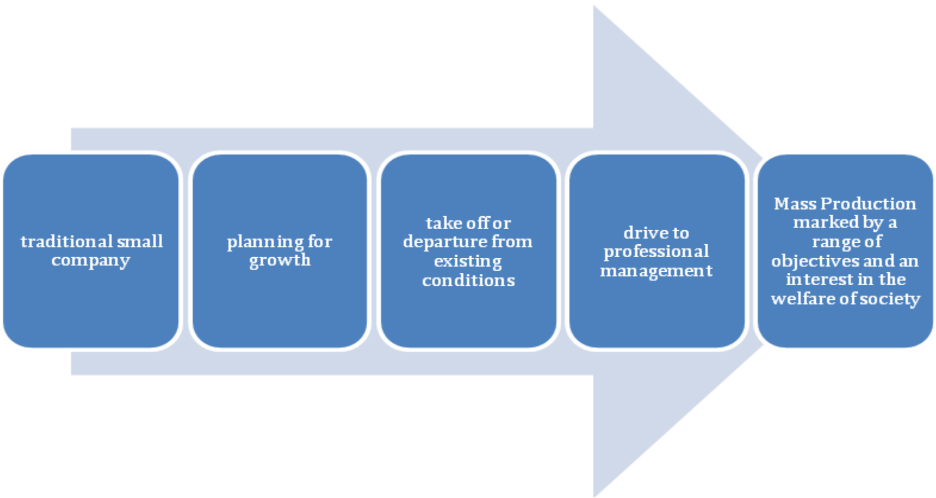
## 1.1. Introduction

This unit considers the business life cycle and introduces several growth models that have been developed to aid understanding of business growth. These are used to describe and explore the journey from birth to transition in family firms.

## 1.2. Business growth models

Business researchers have developed a number of models over the last fifty years that seek to describe the growth of businesses over time. In the 1960's McGuire (1963), building on the work of the American economist and political theorist Walt Rostow, formulated a model that saw companies moving through five stages of economic growth (see figure 1.1).

Figure 1.1 Five stages of economic growth




Source: Adapted from McGuire, 1963

Stienmetz (1969) theorised that to survive, small businesses must move through four stages of growth that had clear implications for the leadership and management capability. He envisioned each stage ending with a critical phase that must be dealt with before the company could enter the next stage and linked this to some implications for the management and functionality of an organisation. His stages and phases included:

1. Direct supervision. The simplest stage, at the end of which the owner must become a manager by learning to delegate to others.

2. Supervised supervision. To move on, the manager must devote attention to growth and expansion, manage increased overhead and complex finances, and learn to become an administrator.
3. Indirect control. To grow and survive, the company must learn to delegate tasks to key managers and to deal with diminishing absolute rate of return and overstaffing at the middle levels.
4. Divisional organization. At this stage the company has "arrived" and has the resources and organizational structure that will enable it to remain viable.

Greiner (1972) proposed a model of corporate evolution in which business organizations move through five phases of growth as they make the transition from small to large (in terms of sales and employees) and from young to mature. Each phase is distinguished by an evolution from the prior phase and then by a revolution or crisis, which precipitates a jump into the next phase. Each evolutionary phase is characterized by a particular managerial style and each revolutionary period by a dominant management problem faced by the company.

Churchill and Lewis (1983) developed the work of Stienmetz and Greiner, modifying the models to propose a five-stage model by expanding the range of factors and complexity associated with growth. The model proposed by Churchill and Lewis is the most widely cited article of this type and for this reason we will explore this model in some detail.
Churchill and Lewis recognise that categorising the problems and growth patterns of small businesses in a systematic way that is useful to entrepreneurs seems at first glance to be a monumental task. For owners and managers of small businesses, such an understanding can aid in assessing current challenges: for example, the need to upgrade IT systems or to hire professional managers to support growth. It can help owner managers anticipate key requirements at various points in the journey from birth to transition; for example, the need for delegation and changes in managerial roles when companies become larger and more complex. The framework can help accountants and consultants diagnose problems and match solutions that relate to the phase of growth. The problems of a Fin-tech start-up, micro business employing less than ten people will be very different to those being faced by a 30-year old manufacturing company. For the former, cash-flow and the development of working capital or external finance may be paramount while for the latter, strategic planning and budgeting to achieve coordination and operating control may be most important.

## 1.3. The five stage growth model – Churchill and Lewis

### Stage 1: Existence (Start-up)

In this stage the main problems facing the business are developing the customer base and delivering the service. The organisation is a simple one where the owner-manager does everything and directly supervises subordinates. Systems and formal planning are often minimal or non-existent and the company's strategy relies on staying alive after birth. The owner-manager is the business and performs all the important tasks. He or she is the major supplier of energy, direction and with relatives and friends, capital. The role of familial relations in this stage, through the contribution of spouse or siblings for example, may establish the business as a 'family business' even if the participants do not recognise this at the time.

Many businesses never mobilise sufficient demand for their goods or services, are able to deliver to the required consumer standards or generate the working capital necessary to sustain the business. In these cases the owners close the business when the start-up capital runs out and, if they are lucky sell the business for its asset value. In some instances, the owners cannot accept the demands the business places on their time, finances and energy and they quit. Those businesses that successfully negotiate the start-up phase continue their journey.

### Stage 2: Survival

In this stage the business has developed enough customers and successfully aligned production to meet demand, generating enough cash to break-even. The organisation is still a simple with maybe one or two supervisors and a limited number of employees. The major decisions are made by the founder who often directly oversees the operations. Formal planning is at best cash flow forecasting and the major goal of the business is survival The ability of the business to generate enough working capital to cover repairs and replacements of capital assets as they wear out and deliver an appropriate return on investment for the owner-manager is a key to sustainability of the business.

In this stage the enterprise may grow in size and profitability and move onto Stage 3 or it may, as many businesses do, remain in size and profitability for some time, earning marginal returns on invested time and capital. It may continue to generate returns to provide the owner with sufficient to maintain a desired lifestyle. The enterprise will eventually go out of business if it does not respond to changing product-markets effectively or when the owner gives up or retires.

### Stage 3: Success

Churchill and Lewis identify two routes for businesses reaching this stage; disengagement (akin to transition) or growth. The decision facing owners at this stage is whether to exploit the company's accomplishments and expand or keep the company stable and profitable, providing a base for alternative owner activities. Thus a key issue is whether to use the business as a platform for growth or as a means of support for the owners as they completely or partially disengage from the business. Behind the disengagement might be a wish to start-up new enterprises, change career or simply pursue hobbies and other outside interests while maintaining the business more or less in the status quo.

The business has grown large enough to require functional managers to take over certain duties performed by the owner.  The managers should be competent but need not be of the highest calibre, since their potential is limited by the corporate goals.  The business is able to generate sufficient profits to invest in the business and to withstand difficult trading conditions.   As the business matures, the owner-manager withdraws from the business to some extent because of the owner's activities elsewhere or to some extent because of the presence of other managers.  Many businesses may continue to operate for a long time in this sub-stage particularly where the product-market niche does not permit growth.  In the case of transition, the owner may choose to sell the business or merge it with another one.

In disengagement, the business has achieved sufficient size and product-market penetration to ensure economic success and earns average to above average profits.  The company can stay at this stage more or less indefinitely, provided changes in the business environment do not destroy its market niche or ineffective management reduce its competitive abilities and causes it to fold or drop back into survival mode.

In the success-growth sub-stage the owner consolidates the business and marshals resources for growth. The owner takes the cash and established borrowing power of the company to finance growth. The owner recruits professional managers to meet the current and future requirements of the business.  Operational planning is accompanied by extensive strategic planning often led by the owner. If successful, the business proceeds to Stage 4.  If unsuccessful, the business may learn from the experience and try again. If not the owner-manager may seek to disengage or the business may face retrenchment to the Survival stage and possible bankruptcy or distress sale.

Within the family business context this stage takes on added significance because family firms are often slower and more reluctant to professionalise than non-family businesses, particularly in terms of hiring external managers. As the family business grows, the interactions between family and business objectives and the family and non-family members of the management team become more complex and difficult to disentangle (Breton-Miller and Miller, 2009).

### Stage 4: Take-off

In this stage the key problems are how to finance and manage rapid growth. The owner manager needs to delegate responsibilities and accept that mistakes will be made.  The owner-manager may need to develop tolerance for relatively high levels of debt-equity and risk.  The organisation may become decentralised and distributed and the systems, strained by growth will need to become more refined and extensive.  Both operational and strategic planning are undertaken by teams.  The business becomes less reliant upon the owner, yet the company may still be dominated by the owner's presence.

Churchill and Lewis recognise this as a pivotal period in the businesses life.  If the owner rises to the challenges of a growing business, both managerially and financially it can become a big business.  If not it can be sold – usually at a profit – provided the owner recognises his or her limitations soon enough.  It is, of course, possible for the business to traverse this high-growth stage without the owner-manager.  The entrepreneur who founded the business and brought it to the success stage can be replaced either voluntarily or involuntary by the company's investors or creditors.  If the business fails to take-off it may transition and continue as a successful and stable company or it may drop back to fight for survival.

### Stage 5: Resource Maturity

The greatest concerns of a business entering this stage are first to consolidate and control the financial gains brought on by rapid growth and second to retain the advantages of small size, including flexibility of response and entrepreneurial spirit.  The business must expand the management capability fast enough to eliminate inefficiencies that growth can bring and professionalise the business through then use of tools such as budgets, strategic planning, management by objectives, quality assurance systems and standard cost systems – and do this without stifling its entrepreneurial qualities.

A company in this stage has the human and financial resources to engage in detailed operational and strategic planning and extensive systems to support these processes. The owner and the business are quite separate, both financially and operationally.  The business has the advantages of size, financial resources and management talent.  If it can preserve its entrepreneurial spirit, it will be a sustainable enterprise.  If not, it may enter a sixth stage of sorts: ossification.  This is where a lack of innovative decision making and the avoidance of risk threaten its survival in a turbulent environment.  In this case the business may retrench to earlier stages of development where it may survive, grow again or in the bleakest of outcomes, fail.  In this stage the family business is likely to face considerable governance challenges that require relatively formal structures.

## 1.4. Growth models and family businesses

Business growth models have been used to chart the development of family businesses. The important role that family can play in the birth of an enterprise is recognised by Churchill and Lewis (1983) and Dana and Ramadani (2015) identify the issue of whether the family business should be a 'family business' throughout the whole development cycle as an important one to be recognised.  Mandl (2008) suggests that the status of a family business may not be fixed during the lifetime of such a business.  She noted that some firms may be considered family businesses over the whole lifecycle even when they become very large businesses.  By way of illustration, some family businesses have grown over time to become the biggest and most prestigious businesses in the world (Business Insider, 2017).  Some examples are contained in table 1.1.

Table 1.1 Some of the largest ‘family businesses’ in the world

| Business | Sector | Antecedent |
|---|---|---|
| Company name | Novartis | Novartis is one of the world’s biggest drug makers, created in 1996 after the merger between Sandoz and Ciba-Geigy. Today the descendants of Edouard Sandoz (who founded Sandoz in 1886) own a substantial amount of Novartis Shares. The Sandoz Family foundation is the company’s single largest shareholder and its president sits on Novartis/ Board of Directors |
| Sector | Health Care | |
| Country | Switzerlad | |
| Business | Sector | Facebook was established in 2004 and Mark Zuckerberg has worked with members of his family from start-up to maturation. His older sister was a marketing executive before leaving to start her own firm and his father owns 2,000,000 shares as a thank you from his son for providing him with some money during the early years |
| Company name | Novartis | |
| Sector | Health Care | |
| Country | Switzerlad | Lee Kun-Hee helped grow his father’s company into a global conglomerate. He is Chairman of the flagship business while his son Jay Y Lee is vice chairman. His daughters also hold executive roles in the firm. |
| Sector | IT | |
| Country | South Korea | |
| Company name<br>Sector | Nike<br>Consumer | Phil Knight has been the face of the iconic brand since he co-founded the company in 1964. In 2016 he stepped down from his role as Chairman with his son Travis taking a seat on the board to continue the family legacy at the company |
| Country | United States | |

Source: Business Insider, 2017

The examples of family firms in table 1.1 provide an illustration of businesses that have been thorough the cycle. However, many family businesses will be transferred at some point during the life cycle. At this point it is useful to make a distinction between ownership transition (i.e. the next generation receives or buys equity in the business) and management transition (i.e. the next generation takes over running the business). It is not uncommon for founder owner managers to let go of the management of the business but retain substantial capital.

Over the life cycle, a business may start as a business owned and managed by family members, but over time property and management may be distributed or transferred to persons outside the family and the business may lose its family business identify. Some businesses can reach the status of being a family business again if the business declines and if non-family members (owners or managers) withdraw from the business. There may also be instances where the business is established as a non-family business but at

a later stage the entrepreneur and his/her children grow and the issue of business transfer and interest of the 2nd generation to take over the business may occur and intensify the family role and engagement. After completion of the transfer two situations may occur. First the entrepreneur and his/her family remain involved in the business or second the founding entrepreneur may with draw from the business. However the transfer of family business is a concern to many policy makers. Forbes estimate that less than one third of family businesses survive the transition from first to second generation ownership.
Churchill and Lewis (1983) identify several key factors that change in importance as the business grows and develops from birth to maturation. These are summarised in Table 1.2.

Table 1.2 Key factors influencing the growth of businesses

| Business | Owner |
|---|---|
| Financial resources including cash and borrowing power | The owner's goals for himself or herself and for the business |
| Personnel resources, relating to numbers, depth and quality of people, particularly at the management levels | The Owner's operational abilities in doing important jobs such as marketing, inventing, producing and managing distribution |
| Systems resources, in terms of the degree of sophistication of both information and planning and control systems | Owner's managerial ability and willingness to delegate responsibility and to manage the activities of others |
| Business resources, including customer relations, market share, supplier relations, production and distribution processes, technology and reputation all of which give the business a position in its industry and market | The Owner's strategic abilities for looking beyond the present and matching the strengths and weaknesses of the company with his or her goals |

Source: Adapted from Churchill and Lewis, 1983

As the business moves from one stage to another the importance of the factors change. The factors may alternate among different levels of importance ranging from those that are absolutely essential for success and must receive a high priority, those that are necessary and must receive some attention and those that are of little concern given the stage of development of the business. For example the owners leadership skills may develop from those required for self, to those required for direct supervision, to those required for delegation to those required to manage a wide range of actors in a range of operational and strategic management processes.
Gimeno et al. (2010) identify five categories of family business based on the level of complexity and structure of the business along with the power and influence dynamics that are a key element of many family businesses. These are summarised in Table 1.3.

Table 1.3 Five categories of family business

| Model | Characteristics | Description |
|---|---|---|
| Captain model | Enterprise managed by the founder | This model is most commonly found in enterprises ranging from micro to medium in size. Entrepreneurs in these businesses share the ownership with other family members, typically first with spouses or siblings and later with children. These businesses result from the commitment of one person, usually lasting as long as that person has the authority, interest and energy to lead the business. |
| Emperor model | Business and family united by a leader | Family and business complexity in this model is high, where there are two or more generations working together and the leading power is in the hands of the person who leads the family and the business at the same time. In this model shares may be owned by several family members from different generations. The success or failure of the business depends largely on the leadership skills of the person with primary discretion over the enterprise |
| Family team model | Extended family working in a small business | In this model, family complexity is higher than that of the complexity of the business. Tensions and conflicts may arise as a result of the complexity of the family and their roles inside and outside the business. This is often associated with diverse expectations, familial tensions and the growth of the business and the recruitment of non-family professional managers. |
| Professional model | Few family members are engaged in the professional management of the business | In this model the complexity of the business is considered to be higher than in the family and is often associated with businesses experiencing a high level of growth and development. The family influence wanes unless they can shift from a personalised to a more professional approach to management. |
| Corporation | Complex family managing complex business | This model is characterised by higher complexity, both as a family and a business. The presence of family members at the highest levels of management is circumstantial and the business can easily evolve into an enterprise managed by non-family members. |
| Family investment group | Families with different complexities jointly invest | This model is dependent upon the family having a large economic surplus to invest. In this model the family owns the business but does not take an active role in the management of the business. |

Source: Adapted from Gimeno et al., 2010

## 1.5. The further evolution of growth models

Growth models, such as Churchill and Lewis' have been subject to criticism for a number of years on a number of counts. For example,

- They sometimes assume that a business must grow and pass through all stages of development or die in the attempt.
- The models often fail to capture the pre-start phase that is an important determinant of the origin and growth of the business.
- They tend to focus on simple measures of growth (such as growth in annual sales or employment) and ignore other factors such as value added, complexity of the product line, scale and scope of markets, or innovation
- Some stage models are inclined to address the symptoms of growth rather than reveal the underlying processes of the phenomenon.
- Stage models and business life-cycle theory both tend to assume their own validity rather than establish a rigorous evidence base

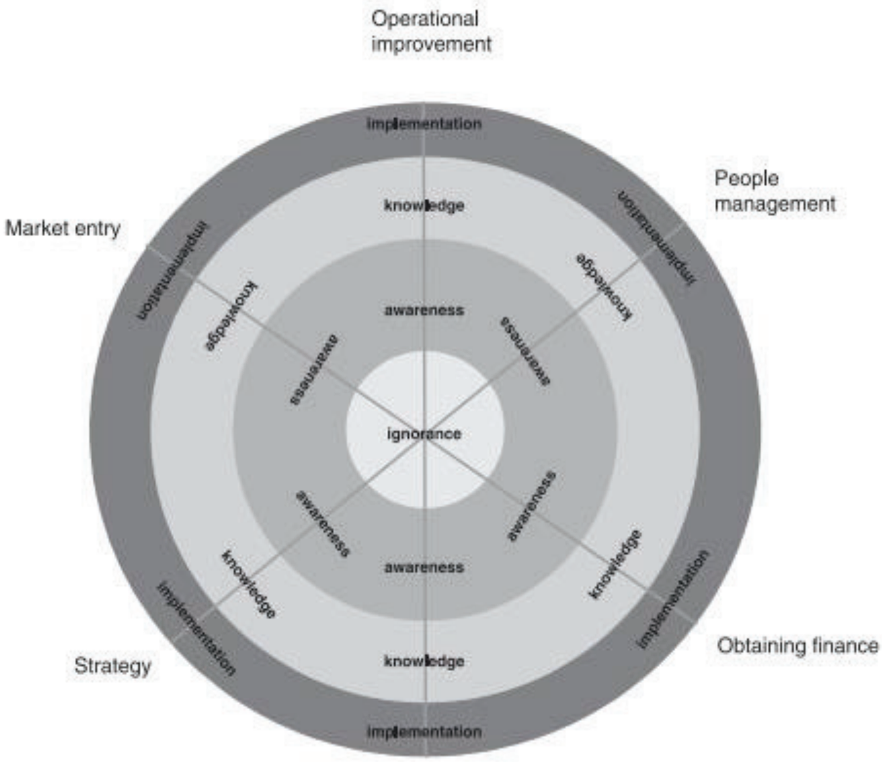
In a comprehensive review of alternative frameworks used to explain the growth of businesses O'Farrell and Hitchens (1988) identify other groups including:

- Those derived from the field of industrial economics which tend to be preoccupied with the attainment of economies of scale and minimisation of long run unit costs. Many are considered to overemphasise the large firm as the stable outcome of growth.
- Models of growth developed mainly in the field of economics which, in summary suggest that there can be no model that adequately accounts for the heterogeneity of the business population and the many and various factors that impact on the growth of the business.
- Models informed by theories of strategic management which focus on the strategic dimension of achieving sustained growth and the way in which the owner-manager responds to business and personal environmental indicators.

Research on the start-up and growth of businesses plateaued in the 1980s as some reasoned that there is no single theory which can adequately explain small business growth and little likelihood of such a theory being developed in the future (Gibb and Davies, 1990). Nevertheless researchers have sought to develop more dynamic models to explain the growth of businesses and the life cycle literature continued to develop focusing particularly in the high technology sector (Kazanjian and Drazin, 1990). Infrequently, organisations with different characteristics have been examined including family-owned businesses (Mitra and Pingali 1999). However there appears to be consensus amongst many that the empirical evidence suggests that businesses do not develop according to a pre-set sequence of stages, rather they appear to evolve through their own unique series of stable and unstable states largely related changes in the internal and external environment. Phelps et al. (2007) suggest that a firms growth is not a predictable sequence of stages. Instead it is more complex, path dependent and unique to each firm. To continue growing a firm must be able to solve the problems it faces (referred to as Tipping points) and to do this it must have the capability to find new knowledge suited to resolving the new challenges and the ability to implement this knowledge so that it succeeds in a competitive environment (i.e. absorptive capacity).

Phelps et al. (2007) offer an issues based typology (Figure 1.2) which allows for the heterogeneity of firm growth and development paths and recognises that there is no standard sequence of stages or problems, but there is a set of key issues that all firms can expect to encounter at some point. This presents a useful context to consider the issue of transition within the family firm context.

Figure 1.2 The absorptive capacity/Tipping Point framework for growth states




Source: Phelps et al., 2007, p. 13

## 1.6. Transition

Transition (and the associated issue of succession) attract a huge amount of attention in the family business literature and in policy circles. There is a range of potential outcomes associated with transition that includes family inheritance, selling part or all of the business, selling to employees or selling to the stock exchange. However, amongst family businesses the transition of the business to the 2nd, 3rd and subsequent generations is of key concern. Less than one third of family businesses survive the transition from first to second generation ownership while a further 50% do not survive the transition from second to third generation. Survey evidence from 28 countries revealed that 48% of family firms had yet to identify their successor (PWC, 2007). In the UK, about a quarter of family firms anticipate closure of the business in the next five years (BIS, 2013). Businesses over 10 years old are three times more likely to anticipate closure than those aged four years or less. Transition to the next generation is set to become a larger issue as the baby boomer generation reaches retirement age over the next few years.

Family considerations often overwhelm the strategic realities of the business and hinder the ability to successfully transfer the business or hand it on to the next generation (Jaffe, 2005). In the next unit we will explore transition more fully with a particular emphasis on the planning for succession.

## 1.7. Conclusions

This unit has introduced some growth models developed by business researchers that can be used to describe the development of family firms from birth to transition. Most of the models chart the growth of firms from start-up through to maturation and sometimes exit (including transition). Many of the models feature a staged approach to growth that provides a framework to discuss the development of a variety of business dynamics including strategies, structures and leadership styles at different phases of the growth cycle. Some models specifically focus on family business development and tend to emphasize the different roles and leadership styles of founders and the dynamics of firm ownership and management. More recent models seek to capture key issues without being tied to a linear development path. The models provide useful frameworks to describe and discuss the development of firms however they are all abstractions that simplify reality and the complexity that characterises many family business journeys from birth to transition.

## 1.8. Reflective questions

1. What models can be used to predict the growth and sustainability of family businesses
2. Is the entrepreneur or the business the more enlightening unit of study in seeking to understand the journey from birth to transition of Family Businesses?

# Unit 2: Planning for Succession

*(by David Devins)*

## 2.1. Introduction

This unit considers why so many businesses are reluctant to plan for succession and goes on to outline the importance of planning for succession and the process itself. The Unit concludes with a checklist of tasks associated with a good succession plan.

## 2.2. Context

The European Commission estimate that more than 600,000 businesses a year could be changing hands and that up to 1.5 million enterprises could close because of a lack of obvious successors. A similar picture emerges in the UK where 100,000 firms are forecast to pass from one generation to the next with approximately 30% of these transitions estimated to fail (IFB, 2008). The problem is further compounded by demographic changes where some seniors are expected to extend their working lives into their 70's and 80's and the next generation may well choose to take up other careers, creating a shortage of successors (Murray, 2005).

At this point it is useful to make a distinction between ownership transition (i.e. the next generation receives or buys equity in the business) and management transition (i.e. the next generation takes over running the business). From a management perspective, the business leader may appoint a family or non-family member to succeed them. From an ownership perspective they might consider disengaging from the business by selling it. The financial needs of the incumbent and their family will influence the decision, particularly if funds are needed to provide for the senior generation's retirement. Each option has its own set of advantages and disadvantages the scope of which will vary from one business to another. (IFB, 2008).

## 2.3. Why are family businesses reluctant to plan for succession?

Survey evidence from 28 countries revealed that 48% of family firms had yet to identify their successor (PWC, 2007). Other research (Sharma et al. 2003) suggests that smaller businesses are far less likely to plan for succession than larger businesses and as most firms in an economy are small, this limits the propensity to plan. On the surface it is difficult to understand why so many family firms either fail to plan or leave it so late they risk the survival of the enterprise. Many studies conceptualise succession as an instantaneous happening, a visible event where a successor takes over as the leader of the family business (Miller et al, 2003). However the consensus appears to be that the issue of succession is more complex than it may first appear and is often a lengthy process (Lam, 2011).

Research by Eddleston et al (2013) suggests that succession is rarely a single or isolated event or decision, with the issue surfacing at different times and being considered from a variety of perspectives. Different generations of family businesses will have a need for different strategic and succession plans. Founders who are most interested in perpetuating their legacy and maintaining their family's control of the business are most likely to develop a succession plan.

The issue of identity has a role to play in the complexities underpinning succession. The thought of succession can trigger a sense of mortality that can threaten the strong sense of self and conviction that many business leaders can have in relation to controlling their own destinies. It can lead to tensions and uncertainties in relation to the choice of successors. In the family firm context, particularly when there are multiple offspring the owner is often faced with dilemmas in terms of fairness and equity of treatment. In non-family businesses the choice will be heavily influenced by the competency of the individuals. However, for many employees, their close personal relationship with the owner-manager is a source of job satisfaction and they may see succession as a potential threat to their job satisfaction and security. Outside the business, important stakeholders may be concerned about succession and reinforce the founder's bias against planning for succession (Gagne et al, 2014).

When families are involved, personal, organisational and family identities come into play. The juxtaposition of identities can cause serious problems for the business and this risk appears to put many family business leaders off opening up a conversation about succession. Cultural norms discourage discussion between parents and children about the family's future after the parents die, particularly with regard to financial matters. Succession planning involves open discussion of precisely these topics which can be uncomfortable and is thus usually avoided, even in the most well-adjusted families. The succession process requires changes in the business identities of successors and incumbents, a shift with which they, as well as other family and organisational members must learn to cope. For example, an owners' spouse may be reluctant to welcome and encourage a partner's move into retirement. Navigating identity management requires tact and skill because of the many and varied roles being played within the business and the family. Almost inevitably, tensions and conflicts are going to emerge over expectations of the different actors and the degree to which they can be reconciled and met (Chrisman et al. 2008).

Trying to reconcile the competing needs and demands of the family and the business and of different family members is not something that is always easy to achieve. It is important to take account of expectations of the business and of family life and this is especially important with regard to planning for succession. Jaffe (2005) notes:

> *'So before deciding the fate of the business, the family has to define its own goals for each individual and as a whole. Where does the business fit in? For what does the business stand? These questions are broader than just the business direction. The family must look at its own values - about generating wealth, spending or saving it*

*and how it wants to be remembered in the community. The family council can explore the values and intentions of their older generation and the talents and desires of the younger ones. This may lead to conversations about values, money and desires for the future'* (p. 52)

Many family business leaders appear reluctant to consider retirement and step away from the business fully. Sonnenfield (1988) identified four distinct styles adopted by departing leaders (Table 2.1).

Table 2.1 Departing leaders

| Style | Description |
|---|---|
| Monarchs | Who do not leave unless they are forced to |
| Generals | Who spend their retirement planning a comeback |
| Governors | Who leave willingly and maintain no contact with the firm or its leaders after departure |
| Ambassadors | Who leave willingly and serve as advisors to the firm and its leaders after departure |

Source: Sonnenfield, 1988

Those leaders with a strong capacity to disengage from previously undertaken activities and to engage in new ones plan the transition better and are generally more satisfied with their lives post-retirement.

### 2.4. Planning for succession

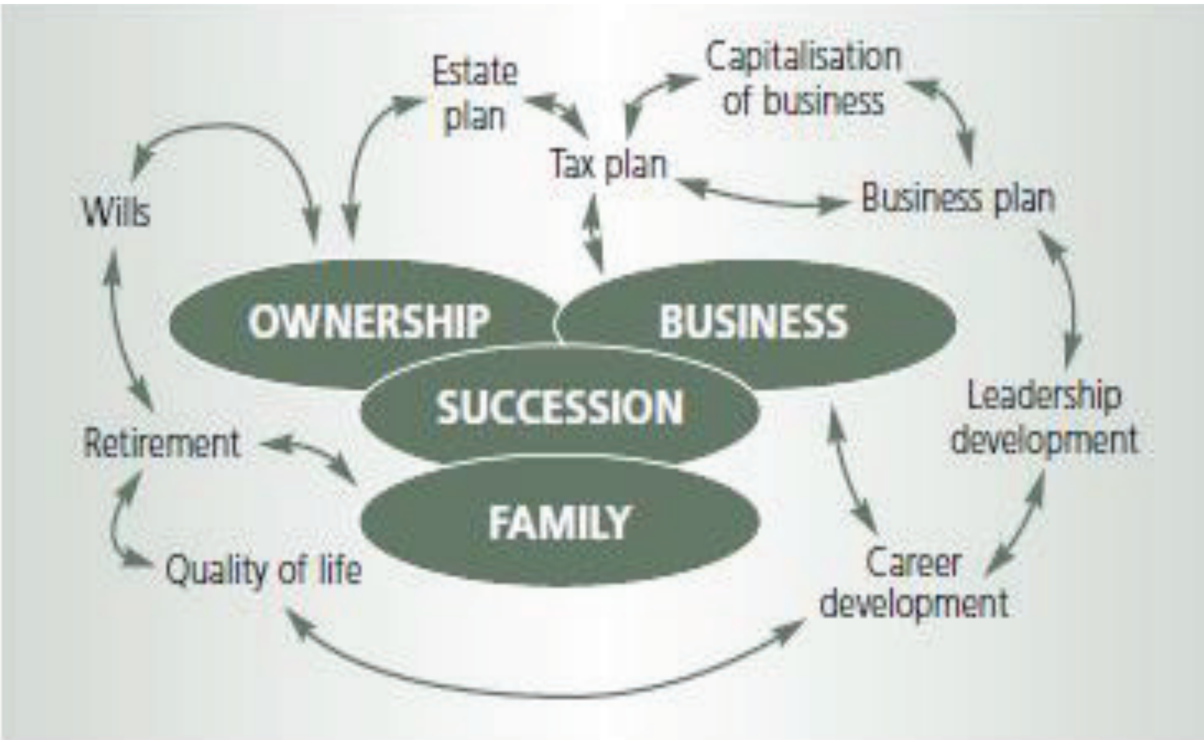
It is often useful to consider the family and the business as separate systems that are joined together and interdependent in the family firm. Sometimes they sit together in harmony but at other times there can be fundamental tensions. Family life tends to be emotion-based with its members bound together by a bond that places a high value on long term loyalty. In addition, family behaviour is influenced by cultural values – the need for parents to provide a caring environment, to treat children fairly and to provide positive role models for their children. Business life in contrast is based on the accomplishment of tasks, built on a psychological-contract between the employer and the employee. In family businesses these different cultural domains overlap and become interdependent. Their differing purposes and priorities produce tensions that exist in family firms creating frictions and conflicts in values for owners and other family members. Where difficulties arising from the overlap of family and business systems cannot be avoided entirely, successful family businesses devise strategies that help them to manage the tensions.

The differences between planning for succession and putting it off and doing nothing are marked. Where the aim for the family business owners is to retain direct control over the business, seeking a 'family solution' by appointing a family member to succeed can be seen as a particularly attractive option. Owners may feel that their personal ideas will have a greater chance of survival, that their efforts while building up the business have been worthwhile and that they can perpetuate for new generations the special opportunities of family business ownership and leadership. Planned succession offers the opportunity for an organised and gradual process, with a trained successor growing into the role under the owner's supervision and guidance. The alternative is that it takes place abruptly and unexpectedly when the owner becomes ill or dies or becomes distracted by more important things (such as caring for loved ones) to such an extent that the business becomes neglected and a successor is thrown 'in at the deep end'.

Many family business leaders underestimate the amount of time and effort required to take the family and business systems through succession and transition. The whole succession process can be looked on as a major change that will have consequences on all aspects of family, ownership and business life.

Planning ahead (at least five years) can help the succession process unfold in an orderly procession of discussions, decisions and implementation of solutions. Even then, this process can be messy as things may not work out in the way that they were intended. Figure 2.1 illustrates the succession model and the role that emotionally sensitive issues such as leadership development, estate planning and wills play in successful succession (Murray, 2005).

Figure 2.1 System transition issues some examples




Source: Murray, 2005, p. 18

Whilst people may think there is a logical, rational, economic basis for all decisions, there is often a great deal of emotion involved. By-passing the emotionality of the discussions needed may lead to faster decision making but it can lead to short-term solutions that unravel when the consequences begin to hit home for those who were relevant but not fully consulted. Understanding the ownership structure in a family business is fundamental to understanding the forces at work during succession. These changes take place as family business ownership evolves from a simple first generation controlling-owner structure through sibling partnerships where ownership has been divided among a group of sons and daughters of the original family to the complexities of the third generation and beyond family business, sometimes called a cousin consortium (Gersick, 1997).

However, ownership does not necessarily progress in an orderly sequence from one form to the next. For example, not all owner-managed family firms are first generation businesses. There are examples of family businesses where the single owner model is recycled with the business passed on to just one owner in the succeeding generation. Also, share buy-backs at family firms can lead to the re-establishment of either an owner-managed business or a sibling partnership where one branch of the family buys out the other and takes control.

Most successions take time as the process unfolds. In owner-manager to sibling successions the business may lose some of the characteristics of the founder as the next generation influences become more marked during transition. This can be a difficult time and in the UK only one third are successfully passed on to the second generation and only 50% of these transfers to the third generation. The first transition is a complex and challenging form of change but all transitions are periods of uncertainty when decision-makers may be anxious and vulnerable at a time when the organisation makes fundamental choices that will profoundly affect its future.

People may think of succession planning only in terms of business leadership. However, succession necessitates all kinds of changes affecting the entire organisation and the whole family. Some of the key issues that need to be considered are outlined below Aronoff and Ward (2003);

- A new management team – this will be a sensitive area, especially for the departing leader and for nonfamily executives
- New career paths for other important family and non-family members
- Board of directors to reflect the revised strategic needs of the business
- Performance review systems to provide the new leader with feedback and to ensure accountability
- Shareholder relations and communications

## 2.5. Succession as a process

Gersick et al. (1997) propose a six stage model to describe the succession process.

Table 2.2 Stages of succession

| Stage | Description |
|---|---|
| Development pressures build up | The pressures that accompany families and their businesses are constantly at work, creating the need and a readiness for change. Individual's age, family dynamics evolve, and the economic environment is in a state of flux. Family businesses normally resist change for as long as they can, protecting their habits and routines but sooner or later the pressure to change becomes irresistible. At those moments a change may be initiated by a trigger. |
| Trigger | A trigger sets the succession in motion – perhaps the business leader reaches retirement age, has a health problem, or some other issue and three sequential tasks occur – although some families may move back and forth among the tasks |
| Disengaging | The first task is to acknowledge that the era of the old structure is coming to an end and a new one must be found. Disengagement may be symbolised by a public commitment to a retirement date, or a timetable for the career advancement of candidates in the next generation. At the heart of this phase is the creation of acceptance in the environment about change, without which anxiety will inevitably be generated (among family, employees, managers, customers and so on) by prematurely selecting a solution. |
| Exploring alternatives | This involves considering different forms of new ownership, management and leadership structures as well as the adjustments needed in the family as the senior's lives change and the juniors move into more prominent and responsible roles. Possible scenarios need to be evaluated and measured against the aspirations, talents and capabilities of the potential successors. It takes time to explore and think in detail about what the best design is for the future. Should it be a group of people? Should it be one? Should it be family or non-family? Managing the exploration phase is arguably the most important leadership challenge of transitions. |
| Choosing | While this task is often given the most attention, it is actually just one step in the process, and can only be successful if it follows adequate preparation. Successful transitions end with a clear choice, when competing alternatives are put aside and the process moves into the final stage |
| Commitment | At this time the family business formally declares itself ready to operate differently, or affirms any testing of new structures is over. This stage involves facilitating and implementing the changes in structure, such as the withdrawal of senior generation leaders, important changes in systems and the implementation of new policies and routines |

Source: Gersick et al., 1997

The succession process may take a matter of months or a few years during which the family and business systems are subject to change and put back together again. What remains may be a family business similar to the old one or a business that is very different.

## 2.6. Succession as a plan

The focus of this section of the Unit is to draw on the work of the Institute for Family Business in the UK that identifies that the key element of a succession plan is to create a family business that can sustain itself. A clear message from the IFB is the critical role that establishing a forum for family communication, policy making, planning and conflict resolution plays in a succession plan. Establishing a family assembly or council are examples of structures that can support this.

The IFB suggest a succession process that is planned rather than an event, and provide a checklist to guide the process (Table 2.3).

Table 2.3 Succession plan checklist

| Item | Task |
|---|---|
| 1 | Start planning early |
| 2 | Discover expectations and examine options |
| 3 | Encourage cross generational teamwork |
| 4 | Develop a written succession plan |
| 5 | Consult family and colleagues and seek outside help |
| 6 | Establish a training process |
| 7 | Renew the family's values and vision |

Source: IFB, 2008

### 2.6.1. Start planning early

Current thinking recommends a period of between five and fifteen years, with owners beginning to think seriously about succession at about forty to fifty years of age. Typically, when this stage is started, the next generation would have completed their formal education and have obtained some work experience outside the family business. Beginning the succession process at this stage allows a period of about a decade in which to identify and assess potential candidates and give them ample time to grow into their roles, earning the respect and confidence of the senior generation and other stakeholders. A ten-year timeframe allows business leaders to make the best use of resources such as enlisting board members help in evaluating candidates, using talented non-family executives to mentor successors or creating a succession 'taskforce' to assist in the planning and decision-making. During the succession the aim is for the owner to shift his or her identity away from the business and become accustomed to new perspectives and a new role. At the same time the family will have adequate time to reflect on the implications of decisions and a gradual succession timetable can be structured and agreed.

### 2.6.2. Discover expectations and examine options

This corresponds to the 'exploring alternatives' stage in the six stage model of the succession process. Possible succession scenarios need to be evaluated and an iterative process developed in which discovering and clarifying the nature of the dreams, expectations and ambitions held by family members are at the heart of the process. Assumptions should never be made about what individual family members will want in a given situation and open communications and transparency are favoured as opposed to secrecy which has no place in the process.

### 2.6.3. Encourage cross-generational teamwork

The intensity of emotional engagement within the family business tends to increase during the succession process. This can have positive or negative effects caused by the 'emotional baggage' (unresolved issues left over from previous experiences) that usually lingers rather than disappears. For example, if a parent has not chosen between two children because they are trying not to favour one over the other, then after the parent has left the scene the children will often 'fight it out' and try to solve the issue that could have been sorted out earlier.

Inter-generational teamwork is vital to identify potential problems so that they can be discussed and resolved. Assuming problems will just be forgotten about over time can be risky as the problems generally resurface later on, more complicated and more difficult to resolve. The success or failure of succession often rests on the quality of relations between senior and next generation members. There are opportunities for the older generation to coach and mentor the next generation enabling a shift in responsibility over time. Father-son and other family rivalries can inhibit the development of this scenario, but such inter-generational partnerships, when they work are powerful and effective (Leach, 2006).

### 2.6.4. Develop a written succession plan

Families need to establish formal mechanisms, rules and procedures as a way of avoiding (or at least managing) tensions and divisions, which, if left unchecked, interfere with the effective functioning of the business. Setting up a family council and drawing up a written family constitution (recording the family's agreed policies on the business and other issues including family entry to and exit from the business and buying out shareholders who want to exit) tends to provide an institutional framework that helps family members focus on the important issues and find ways to work with each other. Formal procedures are seen to de-emotionalise the process and allow people to communicate is a structured manner.

For the same reasons, developing a written succession plan that incorporates a step by step approach to dealing with the practical and psychological aspects of the succession process is an essential element of the process. The thinking and reflection required to formulate and write down the stages is a useful process and the existence of a formal document that everybody is aware of and has been consulted about will significantly reduce the potential for doubts and misunderstandings.

One aspect of successfully managing the planning process will mean recognising when parts of the original plan do not work. For instance a favoured successor may not be willing to take on the job. The implementation of plans may not be a straightforward process and there may be backward as well as forward moves and managing succession means preparing for setbacks and being flexible enough to make adjustments and to take a fresh approach if needed over time.

### 2.6.5. Consult everyone and seek outside help

A succession working party including the key stakeholders – the owner, selected family members, non-executive directors, key trusted employees and outside experts. This group is responsible for developing the succession plan and monitoring its implementation.

Leaders should try to involve as many people as possible in the process including:

- The directors and senior leadership team
- Peer groups and others who have been through the succession process
- Consultants and other professional advisors who can help provide an objective view and advice with technical issues such as wills, wealth and estate planning

### 2.6.6. Establish a training process

Many owners assume that their children will want to enter the family business, or they put pressure on them to do so. Inadequate preparation and training may condemn young people to unhappy careers that are neither satisfying for them nor productive for the business. To achieve effective succession the next generation must have the necessary skills and capabilities to succeed in business. It may be that some form of structured, accredited training is suitable however more often than not the mechanism for passing on business skills is reliant upon coaching and mentoring in the workplace.

The evidence is mixed when it comes to whether the process works best when the mentor is a family or non-family member. Mentoring by parents has been discouraged because of the many roles they already play as well as because the inability of most parents to be objective in appraising their children's capacities may lead to serious problems. Baruch and Ganitsky (1995) highlight the often extremely valuable contribution that an uncle or non-family executive can make as a mentor to a successor.

### 2.6.7. Renew the family's values and vision

Succession can be an opportunity to review and refresh the family's values (what the family and its business stand for) and its vision (the shared sense of where the family and its business are heading). Values and vision provide a major source of strength and resilience for the family firm and many family businesses have achieved competitive advantage through a values–driven approach. However, if values, beliefs and attitudes remain static or entrenched in the past, the family risks creating a vacuum in which disconnection, communication failures and conflict are likely to flourish (Zalman, 2005). Renewal of a coherent vision is required with each generational transition of the family business, and the relative instability and flux of the succession process itself provides a perfect opportunity for the family to collectively engage in this task before outdated policies take root. Barnett et al. (2012) argue that the strength of the vision and the extent to which the family and nonfamily members are bought into the vision are important factors in successful transition.

## 2.7. Conclusions

This unit has highlighted the importance of planning for business succession from a policy perspective and it has considered why so many family businesses are reluctant to plan for it. Rather than viewing succession as a relatively simple event, researchers highlight its complex nature and the challenges of understanding a variety of family/business and inter-generational/stakeholder perspectives. Reconciling the interests of family members and a variety of other stakeholders is often a key element of planning for succession. It is important to recognise that succession and transition can involve significant changes to leadership or ownership (or both), and many family business leaders underestimate the time, effort, knowledge and skills required to take the family and business systems successfully through succession and transition. Good practice guidelines can help to plan for succession, however the process can be messy, uncertain and highly emotional in practice.

## 2.8. Reflective Questions

1. What framework or model would you use to plan the succession process to ensure the sustainability of the enterprise and why?
2. How would you go about ensuring that all the right stakeholders are engaged in the succession process? What tools, techniques and methods would you use?

# Unit 3: Unplanned Succession

*(by Krisztina Németh)*

## 3.1. Introduction

This unit presents the main reasons of the unplanned succession of the family firms and tries collecting the threats and opportunities of the different succession issues. Acquirement of this unit, the students can scrape acquaintance the influence of the unplanned successions on the elements of the family business correlated to the three circles model (family, management and ownership).

## 3.2. Context

According to the Spanish saying ("Cuentas claras, amistades largas.") the secret of a long friendship is clear accounts. How can this be interpreted in our country's enterprises sector? More specifically in that economic milieu where, based on the EU's expert estimates (Mandl, 2008), the ratio of family businesses is 70-75% whose roots go back to the period of the change of regime for most of them. So in the near future, based on the international experiences, showing both the micro and macroeconomic importance of the processes of succession and generation change, the passing on of leaders and owners' roles are deemed as critical and are thus in the focus.
One of the theoretical debates concerning family businesses centres round a provocative question: namely whether the world would be better if family businesses operating under professional leaders behaved as businesses absolutely free from family influence. We reply no to this pseudo naïve question, and at the same time from our point of view as the result of symbiosis of familiness (particular resources thanks to family participation) and professionalization, the survival of family businesses forming the backbone of the enterprise sector in Hungary may be improved significantly. That is why we would like to shortly look at the variations and stages of family business oriented professionalization.

As Martínez, Stöhr and Quiroga (2007) state, if family-controlled businesses make management and direction bodies professional, they guarantee transparency towards non-family minority owners, they can defeat their greatest weakness, opaqueness due to intertwining of family and corporate systems, and they can operate successfully at last. Of course this cannot be imagined radically, so it is more reasonable to do some incremental developments.

### 3.3. Why are the results of the family business focused research so rankling in connection with the succession planning

*Succession* is one of the most important processes of a family business's life cycle due to its substantive effect on the firm's

- strategy,
- culture,
- goals,
- values,
- structure,
- staff, and
- survivability (Ahlers et al., 2014).

*The succession-planning process* has two main goals:

(1) the selection of the successor, which includes setting criteria or defining a pool of possible candidates (Le Breton-Miller et al., 2004);

(2) the preparation for the transfer of management control as well as ownership shares from an older to a younger generation (Sharma et al., 2003).

Numerous examples around the world show that succession is also a challenging process that many businesses struggle with (Mussolino and Calabro, 2014), in particular with defining the right timing, finding the right successor, and managing the succession process in a fortunate way (Sharma, 2004).
The generational succession usually passes off without a formal or informal succession plan. The main reasons for the unplanned succession are the following: disease or death of the founder, retirement of the founder family, burn out and lifestyle change, divorce, fusion etc. If the founder of the family firm does not makes a succession plan and does not make arrangements for the succession or professionalization of the family business, the family firm may be soon in trouble.

### 3.4. What are the main reasons of unplanned succession?

Towards the answering this hard question, we have to take under consideration the four important phases of the effective succession planning process:

1. The trigger phase,
2. The preparation phase,
3. The selection phase, and
4. The training phase.

### Ad. 1. The trigger phase

The first step in succession planning is an incumbent's readiness to hand over the business. This is often initiated by a trigger (Murray, 2003), which consider that one's own exit from a business can be theresult of developmental pressures such as age or health, internal forces such as family, a predestined succession candidate, company management, or external pressure for change, for example, from accountants or customers (Gersick et al, 1999).

One important aspect of succession readiness is an incumbent's willingness to hand over the business (Brun de Pontet et al, 2007).

The main reasons for the unplanned process in this phase are the following:

- Emotional attachment

The family firm's founder typically possesses a general desire to handover the business to their children one day (Chua et al, 1999), so they are characterized by an emotional attachment to the firm (Morgan and Gomez-Mejia, 2014). So they tend to postpone their decision to withdraw from the business again and again with succession candidates remaining in a prolonged waiting position, which is the so called "prince Charles syndrome" (Rothwell, 2010).

- Disharmony among the family members

The family is a very complicated emotional system with many members, relations and love-affairs and opportunities for conflicts (sibling rivalry, divorce, adopted children and blood children, etc.), which can render the succession planning more difficult.

- Lack of potential family successor
- Opposition to the change process
- Lack of potential non-family internal successor (talented employee)
- Lack of information

Generally the founder does not have enough information in connection with the succession process, the contingencies and the threats of the different variant solutions (tax, fee, judicial outgrowth and accounting tasks).

- Lack of trusted advisor

Trusted advisors are an external source of business advice for members of family businesses, for instance, lawyers, accountants, and consultants with whom family members have enjoyed long-lasting professional relationships (Nicholson et al, 2010). The trusted advisors can improve the efficacy of the succession process by mentoring both incumbents and successors, providing new insights on the succession (Salvato and Corbetta, 2013).

- Negative emotions of the founder with his or her own mortality

### Ad. 2. The preparation phase

The leading tasks in this phase are the following ((Le Breton- Miller et al., 2004):

- Creating an initial vision of how the business should operate in the future,
- Clarifying the goals, rules, and guidelines that every internal stakeholder must follow during the succession process,
- Defining the time plan and establishing the milestones.

In family businesses, in which incumbent and successor have already shared a long history, this process is likely less complicated.
The main reasons for the unplanned process in the second phase are the following:

- Lack of parallel planning process in the family firm

The Parallel Planning Process is the traditional model of family business planning. The PPP becomes a tool for integrating and balancing family and business thinking and action. The PPP uses a series of planning and programming activities that lead the family and management to a business strategy that matches the family's interests and the business' potential. Strategic thinking by the family and management teams leads to their mutual commitment to a Shared Future Vision. Based on this shared vision, both systems begin their respective planning activities leading to the development of the Family Enterprise Continuity Plan and Business Strategy Plan (Carlock and Ward, 2001).
What can The Family Enterprise Continuity Plan regularize?

- Help the family to explore their level of commitment to the business.
- Identify core family values.
- Agree on a Family Business Philosophy.
- Develop a Family Vision.
- Appreciate the nature and sources of conflict and a model for improving family fairness.
- Understand the importance of family meetings and the development of family agreements.
- Recognize how life cycle influences careers and management transitions.
- Appreciate the challenges of preparing the next generation of family members for business and family leadership roles.
- Develop systems to support meaningful family career experiences.
- Recognize how life cycle influences ownership transitions.
- Consider the choice of future ownership structures.
- Prepare estate plans that address financial needs, estate taxes and future ownership considerations.
- Develop an effective family and business governance system.

Many times, the president or senior family members are blamed for the lack of planning for any of the above reasons. However, this type of thinking fails to recognize that all family and non-family stakeholders play a role in family business decision-making and action taking. They also create obstacles to planning. (Carlock – Randell, 2001)

| Example | Obstacles |
| --- | --- |
| Senior generation | Doubts regarding younger generation's capabilities |
| | Loss of enjoyment from day-to-day operations |
| Successors | Concern about family expectations |
| | Self-doubt about capabilities |
| | Sharing power and multiple shareholders |

### Ad.3. The selection phase

The selection phase includes three major tasks such as:

- Defining the pool of candidates, criteria for and rules of selection,
- Creating the communication plan, which can share news about the succession to stakeholders (such as employees, suppliers, or customers), and
- Making guidelines for the successor's future training.

In family firms the selection criteria used by the incumbent are often guided by personal fit as well as family needs and some other criteria: good relationship with the employee, the suppliers and customers, one the other hand the communicating skills and organising skills are the most important (Csákné, 2012), and are less driven by profit-maximization as compared to non-family firms (Chua et al, 2003).
The main causes of the unplanned succession are the following in this third phase:

- sudden death or disease of the selected successor or the incumbent,
- unpleasantness among the family members (divorces, sibling conflicts, generational conflicts),
- foreign investor make a bid for the family business,
- close-down of the family business due to financial crisis or departmental recession,
- opportunity for fusion, and
- emigration of founder family or the potential successor(s).

### Ad.4. The training phase

After a successor has been chosen, the succession process enters the training phase, in which he or she is trained and prepared for his or her new role. Family firms typically take an approach to training that is more personal and relationship-oriented.
Therefore the quality of the incumbent–successor relationship is important because those commitments have a positive effect on succession planning and successor training (Lansberg and Astrachan, 1994).
The main reasons for the unplanned succession can be the following:

- the selected successor by the formal training can find new career opportunities outside the family business,
- the above-mentioned internal (death, disease, divorce) and external reasons.

### 3.5. Upshots of unplanned succession and its potential effects

Alternative succession routes in family firms can be:

- internal generational succession without succession planning (due to atypical family events),
- interim- or gap-management,
- merger,
- the sale to a third party,
- the management buy-out [MBO] or buy-in [MBI],
- liquidation or closing-down.

#### 3.5.1. Intergenerational succession without succession planning

What are the key factors and motivators of the unplanned succession and the disapproval of the succession planning?

- This is a costly and time-consuming process.
- There are conflicts between "inside shareholders" and "outside shareholders". The term "inside shareholders" refers to family members who are owners and also involved in the management of the firm. Outside shareholders are family members who are owners, but who are not involved in management.
- Conflicts between different subsystems and their goals and focuses:
- The management focus on making profits, change management and the competitiveness of the firm. Its decision-making is rational, it is focused outwards.
    - o The ownership circle is concerned with questions of return on investment, dividends, share valuation, liquidity, ease of exit, and the need to provide capital for the business.
    - o The family desire to protect and support family members, to protect people's feelings, the need to treat family members equally.
    - o The founder falls ill or dies, so the family has not enough time for succession planning.

In line with family-specific life cycle models, it can be highlighted on the Dodero (2010) model, which identifies four development stages of a family business (foundation, founder growth due to owner, recovery related to the second generation entering, professional business management). This model highlights the challenges and the crisis factors between the typical transition stages.

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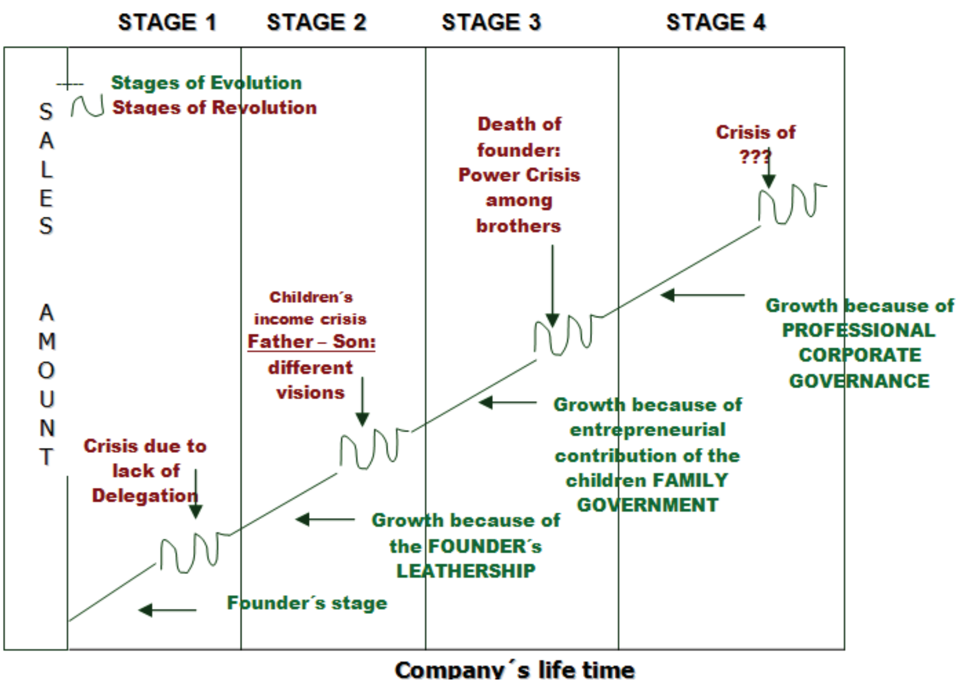
Figure 3.1 Phases of the Dodero model




Source: Dodero, 2010, p. 9

### 3.5.2. Interim-management/Gap-management

"Interim management is the provision of effective business solutions by an independent, board or near-board level manager or executive, over a finite time span. Such complex solutions may include change, transformation and turnaround management, business improvement, crisis management and strategy development."
The concept of interim management is usually believed to date back to the 1970s, when In the Netherlands permanent employees were protected by long notice periods and companies faced large costs for terminating employees." (Rawat, 2009, p. 1)
Interim managers bring well-qualified skills and expertise to bear at short notice, without the overheads and shackles associated with employment. They consult, plan, advise, implement, and embed the lessons, then exit, handling a range of key strategic and tactical interventions. As businesses in their own right, they offer independent expertise, free of company politics, and take responsibility for delivering results, not just offering advice. "They can be transition leaders, change agents, turnaround and efficiency specialists, solution providers, fire-fighters and trouble-shooters." (https://iim.org.uk)

By Rawat (2009) are defined several factors that make interim management the popular resourcing option nowadays:

- return on investment,
- speed,
- experience,
- objectivity,
- accountability,
- effectiveness,
- commitment.

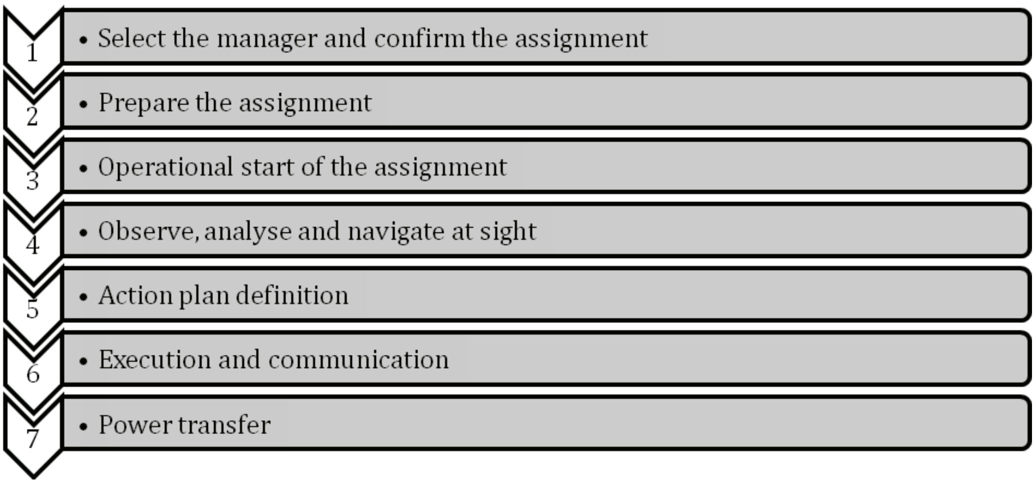
Why would a family firm choose and use interim manager to manage the gap between the different generations? What reasons justify the employment of an interim manager?

- The founder/manager of the family business falls ill or dies.
- When the family has not planned and trained successors, and so the selection of a long-term manager can raise anxieties rather than lead to peace.
- When the search for outside qualified replacement candidates is a time-consuming process.

Advantages of an interim manager are the following:

- As a short-term manager is a buffer, who is provided to serve as advocate for the family;
- As a skilled, experienced manager, he ensures operating continuity and leadership inside the company, analyses and suggests decisions concerning the family firm, helps the business process reengineering and optimizing, or prepares the company for sale;
- As a mentor, he either supports undisturbed operation of the family business until the learning process of the descendant, or supports emotionally the founder (i.e. seller) in the process of the property alienation;
- As third party involvement, he contributes to prudence and due diligence, and permits the family to audit ongoing activity.

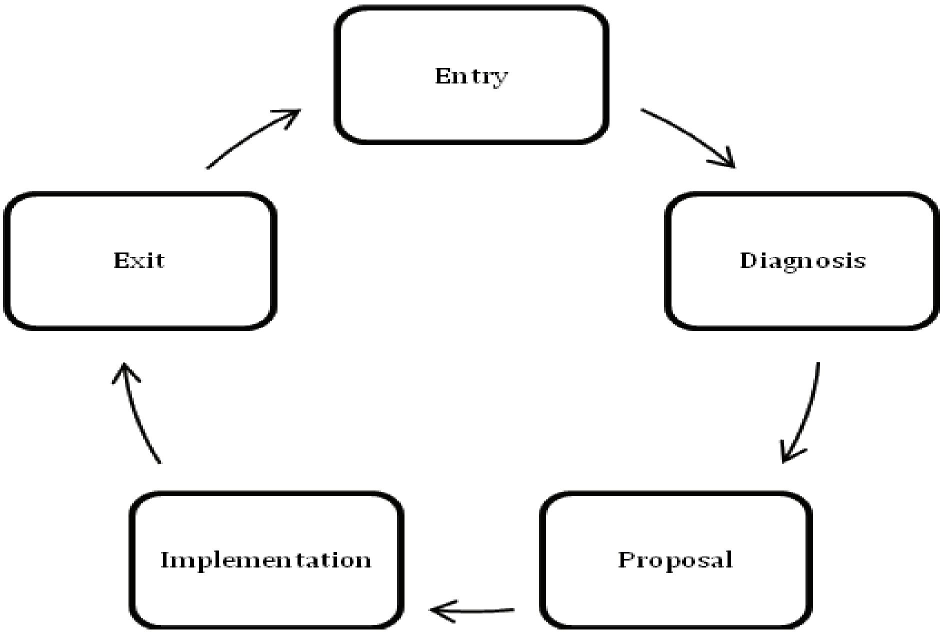
Figure 3.2 Phases of the Interim Management Assignment




Source: Rawat, 2009, p. 3-5

The following assignment lifecycle shows how interim managers enter, engage with and exit their assignments.

Figure 3.3 The assignment lifecycle of interim management




Source: Dold, 2014. p. 1

Based on Dold (2014), the assignment lifecycle of interim management is the following:

(1) Entry: The prospective client and interim make initial contact and explore the requirement sufficiently for the client to be able to decide whether or not to engage the interim manager to address the presenting situation. Typically this discussion unfolds over one or more initial meetings and results in the interim manager's provisional engagement.

(2) Diagnosis: The interim manager researches the current situation in order to understand it, how it came about and the requirements and perspectives of various stakeholder groups. At this stage a more detailed understanding of the situation is formed as well as possible ways to address it.

(3) Proposal: Using their expertise and experience, the interim manager presents a more detailed proposal based on what was found during 'diagnosis' to act as the interim assignment objectives and plan. This phase may change significantly from that which was initially envisaged at 'entry' and it is possible that it may challenge the sponsor's understanding of the situation.

(4) Implementation: The interim manager takes responsibility for managing the intervention, project, or solution, tracking progress and conducting periodic feedback reviews with the sponsor. They may be managing teams, projects, dealing with crises or transformations or filling a management or executive gap with added value expertise, professionalism and effectiveness.

(5) Exit: This stage may involve the finalisation of knowledge and skills transfer, sourcing 'business as usual' successors, and sharing lessons learnt in the process. Finishing the engagement may mark the end of the interim manager/client relationship, but sometimes interim managers continue to give occasional ad hoc consultancy depending on the needs of the situation.

### 3.5.3. Selling

The firm can be sold through a sale to a third party, but family firm owners may be concerned about its future identity and the job prospects of employees. The decision to sell may be laced with guilt of letting down the family or failing to fulfil the legacy. Why reasons result still in selling the family business?

There are three categories:

- destructive family dynamics: dissension within the family, which can destroy the economic value and the family relationships, minority shareholders have resorted to lawsuits, conflicts and baleful vying and rivalry among the members of the next-generation;
- inability support a viable business under current ownership: the next-generation may not be good stewards of the asset, the firm may not be competitive and may require a capital infusion, or current owners would like capital to retire and the business is not efficiency; and
- lost passion for business.

Many examples exist all around the world, which can confirm that selling of the family firms makes sense while there are certainly other ways and options address the problems towards the succession.

Selling has much effect on the ownership, the employees and the family, too.

Table 3.1 Opportunities and threats of the leading of selling

| Leading of the selling | Opportunities | Threats |
|---|---|---|
| Ownership | • other interest and activities put to the touch<br>• free capital to invest in new ideas | • underselling of the family firms can leading loss<br>• lack of family business and daily routine can go hand in hand with abrupt illness |
| Family members | • family relationships get back to normal<br>• next-generations can start with clean slate in their career for other new companies | • family lose either of their children<br>• feelings of failure<br>• family vision can crack<br>• lack of financial independence |
| Employees | • new motivations and leadership methods | • elements of uncertainty (career, salary)<br>• changing from a family culture to a professional culture |

Source: own source

### 3.5.4. MBO (Management buyouts) and MBI (management buying)

An MBO or MBI is an alternative solution to the ownership succession. MBO is the purchase of the firm by a group of normally four to six senior managers who are already employed in the business, typically using their own funds plus external private equity and bank loans. Further, an MBI is the purchase of the firm by external entrepreneurs, with funding from the same sources as for MBOs.

The Centre for Management Buy-out Research (CMBOR) suggests that they account for over a half of all takeover activity in the UK and a fifth all MBO/Is across Europe relate to the take-over of family firms (CMBOR, 2014).

One alternative may be for the current family members to continue as owners and appoint a chief executive officer (CEO) from outside the family, which may improve the management and provide increased impetus to the firm’s strategy. This involves trusting an ‘outsider’ to take care of the ‘family fortune’ (Lank and Neubauer, 1998). In the best cases, relationships between the parties remained close, former family owners were able to play an ambassadorial role and the firm maintained its culture and identity.

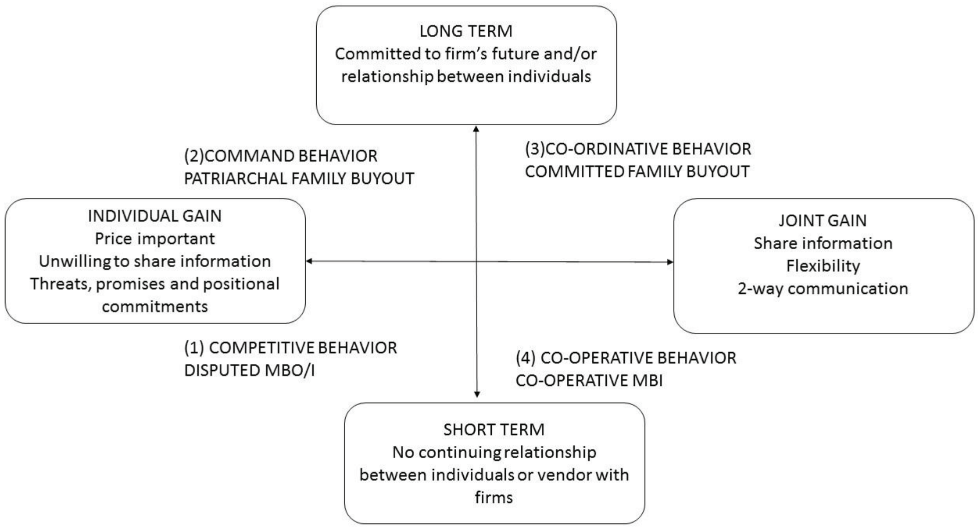
An agency theory perspective suggests that the separation of the two systems (ownership and management) leads to an asymmetry of information. There are three versions of asymmetry (Howorth et al., 2004):

- The family firm owners have an informational advantage; the firm may be priced high.

- The MBO team may hold the balance of information as the owner(s) have less management involvement, and the firm is valued at a lower price in the MBO team's favour.
- Equal access to information may be more likely to lead to the perception that the price being paid is fair by both vendors and purchasers. The true fairness of the price may only become apparent after the deal has been completed.

Figure 3.4 presents four different categories according to the expected time dimension of the relationship with the MBO partners and the priority of individuals or joint gains (Dabholkar et al., 1994).

Figure 3.4 MBO matrix




Source: Howorth et al., 2004, p. 515

The four quadrants are characterized by following dimensions (Dabholkar et al., 1994):

- Competitive behaviour (quadrant 1): occurs where both vendors and purchasers are interested in maximizing their own position, notably with respect to the price paid, and take a short-term perspective as they are not seeking to continue their relationship after the deal has been completed.
- Command behaviour: Family firm vendors with a patriarchal leadership style may exhibit command behaviour (quadrant 2), in which they maximize individual gain, while being committed to the future of the firm; this may include a continuing role for family members in the business after the MBO/MBI deal.
- Coordinative behaviour (quadrant 3): focuses on joint gain where long-term relationships are important and features flexibility, extensive information sharing and effective two-way communication.
- Co-operative behaviour (quadrant 4): occurs where there is a short-term focus on joint gain, and may occur in MBIs where there is no relationship between the parties pre or post deal, but they aim to cooperate to secure the best deal for the vendor and the purchaser.

The structure of family, ownership and management systems within the firm prior to MBO/MBI fundamentally affects the type and level of involvement that key individuals have in the firm and with each other. There are three main possibilities regarding the balance of informational asymmetries associated with three principal negotiating scenarios and their outcomes (Howorth et al., 2004):

(1) Information is shared equally and high levels of trust exist, coordinative negotiation behaviour and a continuing relationship between the vendors and purchasers, which facilitates knowledge transfer and the post-deal performance of the firm, characterize close relationships between the vendors and MBO/MBI team. This scenario may be associated with a longer period of planning for an MBO prior to succession. Post MBO, performance may stay the same or improve and the motivation of management will improve as a result of becoming owner managers.

(2) In patriarchal family firms, owners have an informational advantage. This is characterized by a commitment to the future of the firm, a continuing relationship between the individuals and the vendor, high levels of trust, and command negotiation behaviours by the vendor. Where there is little trust between the parties, or where it breaks down during negotiations, behaviour is competitive.

(3) MBO team members have more information about the firm and tend to dominate the deal process, adopting command behaviour. With the balance of information lying with management, this is likely to result in a low price for the vendor. Increased conflict following the MBO/MBI appears likely as the other party becomes more aware of the true value of the firm, leading to little further involvement by the vendor. Business performance will be less reliant on the vendor and may improve post MBO/MBI with increased motivation of the incumbent management.

Satisfaction with the outcome by both sides may be greatest either where coordinating behaviours exists or where one side adopts command behaviour and the other side co-operates. When command behaviour is adopted, satisfaction with the outcome appears to depend on the trust between the MBO team and vendor. However, where command behaviour is adopted but negotiations break down, one side is likely to be dissatisfied with the outcome. Lack of satisfaction with the outcome for both parties seems more likely where negotiating behaviour is competitive with low levels of trust.

In conclusion, we collect the success-criteria of the family firms MBO, such as (Howorth et al, 2004; Chrisman et al., 2012):

- knowledge of the firm and the knowledge transfer,
- type of involvement pre- and post-deal,
- trust,
- equal information between vendors and purchasers,
- preservation of the culture and the identity of the family firm,
- low levels of information asymmetry, high levels of trust and good relationships between the family members.

## 3.6. Conclusions

The family businesses is a big challenge for how to how to transfer their unique capabilities to the new leaders,  how to apply them into new structures and how they are able to renew the turbulent changing circumstances. In relationship with the Dudits cases I would like to present several sentences from members of the second generation:

> "*Conversations with my father who was the founder of the company give the direction for me, and who, as a founder, told me one day that I will be the leader. It would be a very big disappointment that I was a failed leader who can't manage the company well, who threatened operations with his activities, and who can't be removed. If I can't understand an erroneous situation then someone is needed who can do it, who can manage the business, which is coming within the family or outside. ...*" (Nemeth et al, 2016, pp. 39.)

## 3.7. Reflective questions

1. The founder-manager of your family business falls ill.  The prognosis is that he will be unable to return to work for at least 6-9 months.  No member of the family is sufficiently experienced or mature enough to manage the family business. What is the best scenario in this situation? Why?
2. Imagine, that you are a founder of a medium-sized family business in manufacturing sector. You have a 12-year-old son and 14-year-old daughter, and a 22-year-old son of your previous marriage. What would you do to maintain the continuity of the family business, preserve the property of the family and avoid the sibling rivalry? Why would you choose this alternative?
3. What are the most importance risks and threats of the unplanned succession process?

## 3.8. Additional Readings

Grant Gordon and Nigel Nicholson (2008): Family Wars, Kogan Page, London and Philadelphia
http://www.untag-smd.ac.id/files/Perpustakaan_Digital_1/FAMILY%20BUSINESS%20Family%20wars%20%20classic%20conflicts%20in%20the%20family%20and%20how%20to%20deal%20with%20them.pdf

Rothwell, W. J. (2010): Effective succession planning, AMACOM
https://hcmindonesia.files.wordpress.com/2012/12/9b-successionplanhandbook.pdf

Son Purchases Metal Finishing Business From Father in MBO
https://www.hlwkeeblehawson.co.uk/News/Son-purchases-metal-finishing-business-from-father.aspx

# Unit 4. Importance of Education to Knowledge Transfer

*(by Andrea Madarasi-Szirmai)*

## 4.1. Introduction

A *formal education* outside the family-owned business is important, but it does not necessarily prepare the incoming family member for the business specific issues that arise in a company on a day-to-day basis (Tatoglu, et al., 2008; Chung & Yuen, 2003). In many family-owned businesses' generational transitions, the second generation is expected not only to have a more formalized education, but also to be able to bring enhanced management practices and an understanding of technology – the company is now looking to them to be innovative and to be able to provide new and fresh ideas that will contribute to the long-term success of the company (Craig and Moores, 2005). It is important that the incoming generation has a strong *entrepreneurial spirit* that motivates them to want to succeed in the family-owned business; this entrepreneurial spirit is something that the first generation often times has to consciously work to instil in their children (Mejbri and Affes, 2012). This entrepreneurial spirit may not necessarily be provided by formal education.

The education and the experience gathering can be continued *working outside of the family-owned business* prior to coming to work for their parents. It is sometimes spontaneous and sometimes encouraged by the founders' generation. It has been suggested that the optimal amount of time to spend working for a firm other than their family's is a minimum of three to five years (Chirico, 2008). This experience outside of the family business is yet one more educational experience, one in which they will be able to accumulate more knowledge that they will then be able to turn around and apply to their family's business when needed. Typically this experience prepares the successor with a greater understanding of the types of challenges their family-owned business has the potential to face, as well as an understanding of more formal management systems (Chirico, 2008). The skills gained during this time will assist the incoming generation in not only being able to look at their own family's business more critically, but also in establishing their own sense of identity (Chirico, 2008). When successors decide to join the family business such formal and informal methods, like learning on the job, mentoring and coaching by the founders, peers or other colleagues become the dominant mode of personal development. (Csizmadia et al., 2016)

Knowledge in case of the family firms is all the skills and competencies family members accumulate during their education, work and life experiences and possess collectively (Martínez et al., 2013). *Knowledge transfer* refers to the process of exchanging knowledge between different family members and the creation of a family business with a shared understanding.

Knowledge transfer from one generation to the next is critical to the success of family-owned businesses, and this knowledge transfer helps to fill the gaps in learning left behind by formal education alone. Education outside of the family firm is important, but it is the sharing of inside knowledge that will ensure the incoming generation has a strong understanding of the inner workings of their family's organization. The knowledge the outgoing generation has gained is the foundation that allows the next generation to ensure that they have the competitive advantage needed for the continued success of their family-owned business (Chirico, 2008). Explicit knowledge can be shared relatively easily as it is simple to put into writing and this is most often accomplished through the use of tools such as policy and procedure manuals (Chirico, 2008). It is the sharing of tacit knowledge that can present more of a challenge. The sharing and passing down of this type of knowledge that is more experience and skill based often tends to take place over time and is a large part of what occurs during the mentoring process that many family businesses engage in (Chirico, 2008). It is important to stress its fairly informal character and relation to the socialization process, e.g. the mainly unconscious incorporation of rules, values, behavioural roles and models, etc.

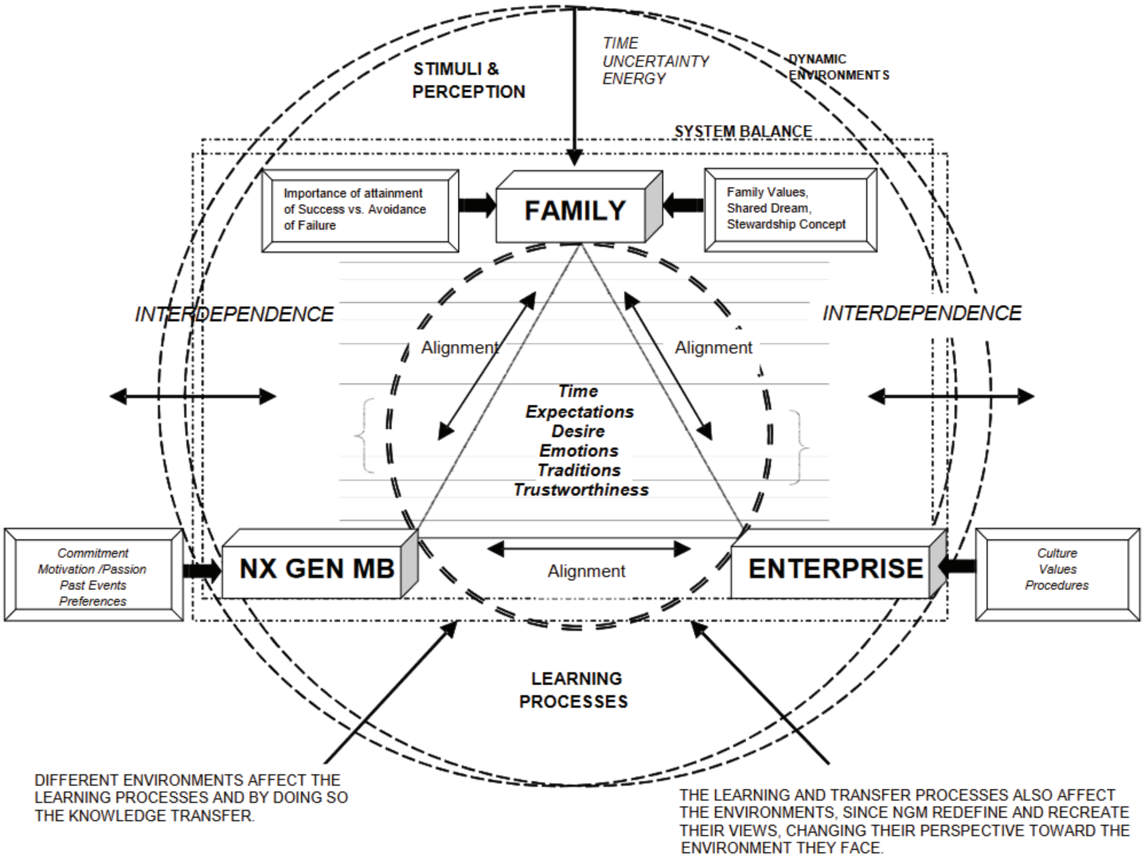
When trying to capture the specificities of knowledge transfer within family businesses, at least three domains should be taken into account. The first issue is the relational character of knowledge transfer that is determined by such factors as the *family businesses' embeddedness into social networks,* the cognitive capabilities and reflexive capacities of the family members and the affective aspects of their relationships (Higginson 2010). The second issue is the close social distance between the various actors, which also concerns the relatively high frequency of their *interactions* even outside business. On that basis family firms may create a common language that supports them in communicating effectively and in more privacy (Martínez et al. 2013). As Le Breton-Miller and her colleagues put it: *'knowledge transfer often begins at the dining table, builds up during summer jobs at the company, and continues through a career at the family firm'* (Le-Breton Miller et al 2004). On the other hand, close social relations and common but rigid interpretative frameworks may also act as cognitive barriers for openness to absorbing external knowledge effectively. The third important factor affecting knowledge transfer in family businesses is the *emotional ties between the family members* (Sobirin and Sofiana 2015) that may support the creation of idiosyncratic knowledge, but through negative feelings and family conflicts can also hamper effective knowledge transfer.

Knowledge is transferred between and within generations containing various, mainly non-coded elements. Both professional and leadership skills are of particular importance. The character of the learning process is informal and the dominant mode of learning is participation, accordingly. Learning is an informal socialization process that often starts in early childhood. Second generation members, while being children, are socialized in an environment where a family business has always been a part of every-day life, so children unconsciously learn that business is an integrated part of family affairs. Family meetings, like common dinners for instance, remain important areas of knowledge transfer and learning, even when children have grown up and joined the family business. Family members can share their experiences, thoughts, and visions with each other, and possible conflicts can be managed during these events. Social interactions taking place at these meetings also contribute to the creation of the rules and norms regulating the behaviour of family members towards each other and to the non-family members. (Csizmadia et al., 2016)

As for the development of professional skills, it seems to be typical that second generation members become familiar with the activities of the family firm even during their childhood years when they helped out in the business during weekends and/or holidays. There are variations as to the extent to which second generation members are pressed by the parents to continue their profession, but a common practice seems to be to involve the potential successors even in their childhood years in the business as helpers in order to make the family business and the related profession attractive to them. (Csizmadia et al., 2016)

Knowledge transfer in family businesses is often an altruistic process untinged with preliminary calculations. It is a necessary investment in the future accompanied by the risk that the second generation members may decide not to join the business despite all the efforts made by the founder(s). Knowledge transfer not only serves business goals, but it may also contribute to the emotional wealth of the family - cementing ties between family members. (Csizmadia et al., 2016)

Figure 4.1 Knowledge Transfer Model in Family Firms:




Source: Rosa Nelly Trevinyo-Rodríguez, 2010, p. 11

„In the figure, each square represents "A System Balance – depending on the environment faced", each Big Dashed Circle stands for "One different dynamic environment," while the small double-lined circle symbolizes the dynamistic-cause effect interrelationship among actors." (Rosa-Rodríguez, 2010, p.: 11)

## 4.2. Conclusions

The knowledge transmission in family firms can differ from the knowledge transfer in non-family firms because of the family emotions, values, the system of these values and the family traditions.

In a family some of very typical and critical variables can be identified which will have a key role in knowledge transfer (Rosa – Rodríguez, 2010. p.:12-13.) These variables are the values and expectations within the family, social capital as the strength of the relations between the new generation and the parents, availability of source of knowledge, desire of knowledge transfer and trust.

Besides family variables, the next generation variables will be determinant as well, as these are the key factors in the success of knowledge transmission. The variables of the next generation can be the commitment and disposition to take over the family business, the level of motivation, preferences, passion and expectations for the future, effects of past events, memories and experiences, and time dedicated to learning.

To support and enjoy a successful knowledge transmission in a family business it is advised to start this process at an early stage; – as soon as possible – to involve the next generation in the real family life, business, show the values and decision-making points, the practices, share the plans and expectations. It means the knowledge transfer should be constructed by the involved parties. Finally, the most important can be to let the new generation try things out for themselves. One must learn by doing the thing, for though you think you know it – you have no certainty, until you try." Sophocles, 400 B.C.

## 4.3. Reflective questions

Read the Plantex case (4.1) and have a group discussion about the following issues:

1. How did the company culture operate? What/who was the key person?
2. Who drove the knowledge transfer in the family?
3. How were the children supported by their parents?
4. Was it a constructed knowledge transfer?
5. Is/was it successful knowledge transmission process?

Plantex, the small family business was set up as a "sole-trader" in the times of the command economy in Poland, when it was very difficult for a private enterprise to survive on the fully regulated market of mainly state-owned companies. Passion for planting, entrepreneurial skills and help from his spouse along with the fact that plant propagation was politically and ideologically neutral let Antoni gradually develop his home micro-business into a small company. In the 1990's the company started developing fast, however the owner was more interested in new planting methods, constructing production facilities and opening new business opportunities than in formal development of the company administration.

The three daughters of Antoni and Marta – Sylwia (b. 1979), Joanna (b.1983) and Magda (b. 1985), had no pressure when they were choosing their education or life paths. Their parents encouraged them to try various activities and the girls never felt that they were obliged to follow in their parents' footsteps. However, the family firm was always present in their conversations and holidays or other plans and the girls, when they grew up, sometimes helped their parents run the company when there was such need and emergency.

From 2005 to 2008 the oldest daughter, Sylwia and her husband Alex, worked for the family firm, at the same time developing their knowledge and skills in running the planting business. In 2008 they decided to set up their own company, complementary to their parents'. They now buy seedlings produced by their parents and sell them as cultivars, after they have been developed in their plant nurseries. They have 10 ha of land, 75% of which is under glass/foil. When Sylwia and Alex quit the company, their jobs were taken by the youngest daughter, Magda, who at that time completed her studies, and Karol. After three years the same pattern repeated: in 2011, after having grasped the principles of running planting business, they left the family company and set up their own, also based on Plantex planting material, but they specialize in plants different to those of Sylwia and Alex. They now own 6 ha of glass or foil- houses.

Both "parting operations were friendly, with a lot of advice from both parents and both "daughter companies" are advertised on Plantex website. Both new companies are treated in a privileged way – Sylwia and Magda purchase seedlings for their nurseries from Plantex at wholesale prices.

In 2011 Joanna and Jan returned from their 2-year stay in the UK and joined the family company, by taking over the duties and position of Magda and Karol.

At the time when Antoni and Marta started thinking about slowing down their professional activities – so Joanna and Jan became natural successors, also due to their education profiles and international experience.

The succession process is being supported by the whole family. Joanna and Jan get a lot of help and advice from the parents, but also from sisters and brothers-in-law. Most of the current decisions and problems are being discussed on a day-to-day basis, via telephone and during family meals and gatherings. There are no family meetings at which all three companies' issues are not discussed. When there are discrepancies in opinions regarding Plantex, the final, decisive statement comes from Antoni.

The succession process is planned for about 5-7 years and now it's the second year of its implementation. The first two years  have been devoted to reorganizing/ clarifying job descriptions of the successors and non-family employees introducing Joanna and Jan into the decision making processes and strategic planning hiring a new, better accounting staff that would be more competent and helpful in the succession process, and employing a Legal Advisor who specializes in company successions. He's already helped to draw the succession plan and now assists in modifying it according to new developments.

The succession process was initialized and plans were introduced by Antoni K. who felt it was time for more relaxed lifestyle. He and Marta intend to travel more and devote more time for their hobbies. However the Successors hope that the process of leaving the company will never be fully completed in the sense that Antoni will keep the post of the President and offer his expertise and advice to their successors, at least in the most difficult moments and when dealing with most important matters.
Over the next couple of years several changes will take place like raising new loans for future investments – both investments in the family business and investments in the family – and, ultimately, the ownership proportion.

The case describes particularly friendly and smooth initial stages of the succession process in a medium sized family firm. So far no major problems have been perceived, though there are lots of issues that have to be considered and dilemmas that have to be solved on daily, weekly and monthly basis before the process is completed.
Source:  Based on "PLANTEX " case study developed for INSIST by R. Paszkowska (2016)

### Reflective issues:

Thoughts can be used in the discussion as important factors in the knowledge transfer:

- The Founder has a charismatic personality, he has huge knowledge, his innovative and visionary attitude to his profession, his determination and extremely hard work over many years as well as his perseverance towards perfection and wise, responsible risk taking
- The Founder's leadership skills. Although the company operates under Zeus's model of company culture - according to Ch. Handy's classification - the "Zeus" in this case is an open minded, generous and wise leader (Handy, 1999)
- The values which the Founder and his wife managed to pass on to their daughters; among others –responsibility for their own fate, a high level of trust, loyalty to their family and the ability to give and take
- Equal treatment of children in the family – when all the kids in a family feel they are loved and no one is treated in a privileged manner, children are more prone to be cooperative when adults
- Ability to keep balance between business and family life – even though the two are strongly interrelated no one suppresses the other
- Ability to accept decisions of adult kids and support them, whatever they decide to do in their lives; without judging or criticising their steps, as long as they are ethical
- Transfer of knowledge as the basic issue of the succession process at Plantex – willingness to share the know-how without calculations or conditions
- Setting no rigid deadlines for succession, which means the main "actors" understand that this is a process with its own dynamics that should not be artificially pushed forward.

# Unit 5: External Support: Consultant, Mentor, Coach

*(by Andrea Madarasi-Szirmai)*

## 5.1. Introduction

Consulting, coaching and mentoring are all highly effective ways for a company - and in our case, for a family business as well - to unlock the potential of its people and at the same time improve business performance. The business performance can mean the everyday operation of the business or the situation of succession too.

The words of consultant, mentor, coach have become so worn out as to almost have lost all distinction between each other. The problem is, whenever someone creatively attempts to use different words, these coined terms cause even more confusion. The trick is to know when and where each discipline will produce the best results.

## 5.2. Consultant

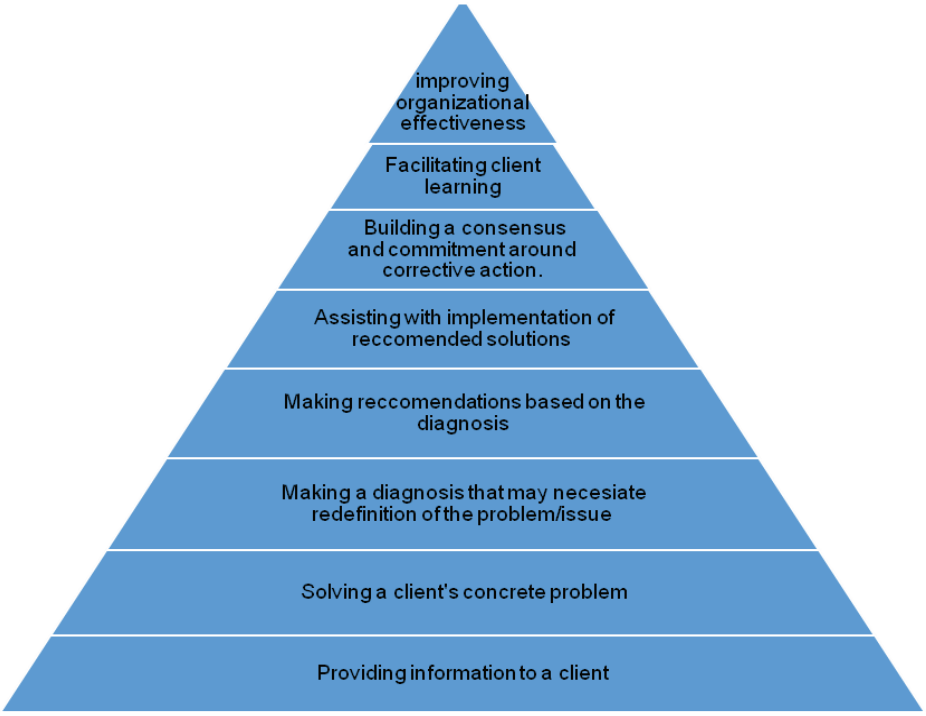
Business consulting is based on the expertise of the consultant – in knowledge, skill-set and technology. It allows them to import and practise their specialist activity in a company that does not have the resource or knowledge in-house. The management consultant's skill-set is focused on building their own internal resources, in order to apply them for the client company's benefit.  A consultant can and will tell you what you are doing wrong and how you should change. Sometimes they will even make the change for you. They typically operate in finite, short spurts with clients in an attempt to make specific changes to achieve a direct result. At best, they provide big returns on investment; at worst, they are plumbers that keep sending you the bill but never fix the drain. The most important trait of a skilled consultant is attention to detail. In short, a consultant is a careful analyst who makes specific recommendations for change.

### Family business succession example 5.1

Mr. Forest handed over the business to his son, Forest. Jr. Forest Jr. plans to renew the family business marketing and communication and would like to prepare for the challenges of digitalisation. He hired an IT consultant to analyse the company's technology and determines that by switching to new computers, software and IT solutions to support the digitalisation.

Reviewing the wide range of the provided services of the consultants, a hierarchy can be set of consulting purposes:

Figure 5.1 Hierarchy of consulting process




Source: Turner, 1982 p. 2

## 5.3. Coach

Coaching assumes that the client has the necessary capability and helps them to discover it for themselves. The coach's skill-set is focused on unlocking the inherent knowledge and awareness in the client and helping them to build on that to act outside their previous comfort zones. A coach is an agent of personal behavioural change, and coaches "teach a man to fish." The most important trait of a wise coach is to be good listener.

In short, a coach is a trainer guiding individuals (and sometimes groups) through long-term growth. Coaching acts to transform, liberating the innate strengths and talents of the person being coached, overcoming blocks, and unlocking potential that may not yet have been seen. A coach is normally an external professional, who provides unbiased listening, questions, challenge and truth-saying, and acts as a sounding board. The coach's skills unlock the coached individual's mindsets, creating greater self-awareness. The forward-thinking, action-oriented coaching process allows for clearer action planning.

Coaching is a confidential, professional and equal partnership with a reproducible self-discovery process and a premise that the person being coached is highly capable, creative and resourceful. The agenda for the one-to-one sessions is set by the 'coachee', and often focuses on problem-solving for regular organisational and interpersonal issues.

'Coaching is around specific performance issues or goals. Coaches are subject matter experts, such as learning a new computer program. Most coaching is short term; it typically doesn't last over a year. In mentoring relationships, you're usually talking about soft issues, people issues, and cultural issues. How to be a more effective communicator or motivating a high-performing team… A coach is a person you hire to help you with a specific issue or goals. A mentor is a person whom you cultivate a relationship, based on a mutual exchange of information and perspective.' Tyler (2004)

### Family business succession example 5.2

ITrade is family business and the senior owner supports and trains his own child to take over the business in 5 years. After a year, the intensity of cooperation between the father and the son slowed down as they had different visions, solutions and attitudes on the future of the company. The father hired a coach to support their personal relations development.

According to the literature of coaching, there are several types of coaching serving different purposes (Zentis, 2016):

- *Performance coaching:* Coaching activities are aimed at enhancing an individual's performance in their current role at work, to increase their effectiveness and productivity at work, better understand the requirements of their jobs, the competencies needed to fulfil those requirements, any gaps in their current performance, and opportunities to improve performance. Generally, performance coaching derives its theoretical underpinnings and models from business and sports psychology as well as general psychological theory.
- *Skills coaching:* This form of coaching focuses on the core skills an employee needs to perform in their role. Skills coaching provides a flexible, adaptive, 'just-in-time' approach to skills development. Coaching programmes are tailored specifically to the individual and are generally focused on achieving a number of skill development objectives that are linked to the needs of the organisation.
- *Career Coaching:* Coaching activities focus on the individual's career concerns, with the coach eliciting and using feedback on the individual's capabilities as part of a discussion of career options. The process should lead to increased clarity, personal change and forward action.
- *Personal or life coaching:* This form of coaching provides support to individuals wishing to make some form of significant changes happen within their lives. Coaches help individuals to explore what they want in life and how they might achieve their aspirations and fulfil their needs. Personal/life coaching generally takes the individual's agenda as its start point.
- *Business coaching:* Business coaching is always conducted within the constraints placed on the individual or group by the organisational context.

- *One to one performance coaching*: One to one performance coaching is increasingly being recognised as the way for organisations and individuals to improve performance. By improving the performance of the most influential people within the organisation, the theory goes that business results should improve. Executive coaching is often delivered by coaches operating from outside the organisation whose services are requested for an agreed duration or number of coaching sessions.
- *Work shadowing:* As well as being a means of identifying an individual's behaviour and performance, work shadowing is an excellent method of getting immediate feedback on behaviour, with a discussion of alternative ways of handling future such situations.
- *Group Coaching:* Group coaches work with individuals in groups. The focus can range from leadership development to career development, stress management to team building. Group coaching combines the benefits of individual coaching with the resources of groups. Individuals learn from each other and the interactions that take place within the group setting.
- *Team Coaching:* One or more team coaches work with the leader and members of a team to establish their team mission, vision, strategy, and rules of engagement with one another. The team leader and members may be coached individually to facilitate team meetings and other interactions, build the effectiveness of the group as a high-performance team, and achieve team goals.
- *Newly Assigned Leader Coaching:* Coaches of individuals assigned or hired into new leadership roles help these leaders to “onboard.” The goal of the coaching is to clarify with the leader’s key constituents the most important responsibilities of his/her new role, the deliverables in the first few months of the new assignment, and ways to integrate the team (s)he will lead with the organization. The major focus of this type of coaching is on helping the new leader to assimilate and achieve his/her business objectives.
- *Relationship Coaching:* The relationship coach helps two or more people to form, change, or improve their interactions. The context can be work, personal, or other settings.
- *High-Potential or Developmental Coaching:* The coach works with organizations to develop the potential of individuals who have been identified as key to the organization’s future or are part of the organization’s succession plan. The focus of the coaching may include assessment, competency development, or assistance planning and implementing strategic projects.
- *Coaching to Provide Feedback Debriefing and Development Planning:* Organizations that use assessment or 360 feedback processes often utilize coaches to help employees interpret the results of their assessments and feedback. In addition, coaches work with individuals to make career decisions and establish professional development plans based on feedback, assessment results, and other relevant data.

- *Targeted Behavioural Coaching:* Coaches who provide targeted behavioural coaching help individuals to change specific behaviours or habits or learn new, more effective ways to work and interact with others. This type of coaching often helps individuals who are otherwise very successful in their current jobs or are taking on new responsibilities that require a change in specific behaviours.
- *Legacy Coaching:* The legacy coach helps leaders who are retiring from a key role to decide on the legacy they would like to leave behind. The coach also provides counsel on transitioning out of the leadership role.
- *Succession Coaching:* The succession coach helps assess potential candidates for senior management positions and prepares them for promotion to more senior roles. This type of coaching may be used in any organization that is experiencing growth or turnover in its leadership ranks. It is especially helpful in family businesses to maintain the viability of the firm. Since assessment is often part of this intervention, clear expectations and ground rules for confidentiality are essential. It may be necessary in some companies to use separate consultants for assessment and coaching.

## 5.4. Mentor

The word 'mentor' comes from Greek myth, in which the legendary king Odysseus went off to fight in the Trojan War, entrusting the care of his son to a friend called Mentor. The origin of the word means 'enduring' and is usually used to describe a sustained relationship between an experienced person and someone who is in the initial stages of their development in the same field. The word has become synonymous with the idea of a trusted adviser. Mentoring is also associated with apprenticeship based on historical practice, when the worker followed a path beginning with apprenticeship to a senior colleague and working up to the final rank of master craftsman. Mentoring nurtures the growth and potential of both participants within their business roles. The purpose of mentoring is to develop the talent of both individuals and enrich the organisation's human capital, thereby benefiting the organisation.

So, there are several other explanations for mentoring and the relationships that are involved in mentoring, but altogether mentoring has become chiefly characterised as a 'parental type' relationship between a more experienced person and a developing individual. (Wolverhampton, 2009)

### 5.4.1. Definitions of Mentoring

Mentoring has different definitions, mainly derived from evidence-based practice - not academic studies - and testimonials and opinions of HR practitioners and business consultants (Merriam, 1983; Clutterbuck, 2014).

Mentoring is a complex, social and psychological activity (Roberts, 2000) and therefore attempts at a universal definition of mentoring have become a quagmire (Hagerty, 1986). Mentoring is a slippery concept (Daloz, 1986) and as such definitions vary with respect to differing dimensions such as hierarchy, intensity, duration and partnership (Gibson, 2004) and according to national and cultural traditions.

In the US, mentoring tends to be considered as an interpersonal exchange between a senior person and a junior, where the mentor will guide, teach, share their experience and wisdom (Zey, 1984; Whitely et al., 1992; MacLennan, 1999; O'Brien, 2003). 'A mentor is someone who passes on his or her experience and wisdom by coaching, counselling, guiding or partnering in every possible permutation, from volunteer tutor to angel investor.' (O'Brien, 2003)

Within the UK and Europe, a more general approach is evident which tends to describe mentoring as help by one person to another, helping others to achieve various personal outcomes, specifically those related to career success (Gibson 2004), with no mention of the power relationship, hierarchy or experience needed (Clutterbuck and Megginson 1995; Shea, 1992; Parsloe and Wray, 2004). 'A process which supports learning and development, and thus performance improvements, either for an individual, team or business.' (Parsloe and Wray, 2004)

With all these interpretations together, the consensus can be in the definitions that mentoring is a process that supports and encourages learning to happen (Parsloe and Wray, 2004) and that mentoring is an intense and powerful one-on-one developmental relationship that leads to skills development (Wanberg et al., 2003).'Mentoring can be seen as the most intimate of learning approaches. Its primary focus is not the development of technical competence but on the acquisition of the largely intuitive skills that make people capable of operating effectively at higher levels of management or in a different situation' (Clutterbuck and Lane, 2004).

An effective enterprise mentoring relationship gives the mentee an opportunity to receive medium-term or long term personal and professional support. The relationship enables the mentee to explore their personal and professional situation in order to develop strategies and goals that will have a positive impact on their business enterprise. The mentor should have the personal experience and skills to give the enterprise owner the right level of support, but it is equally important for the mentoring to be done in the most appropriate way. Mentoring is based on establishing a relationship built on equality, openness and trust and it shall be very supportive.

Guiding the mentee to look for a wide variety of options and alternative actions to solve the problem individually, rather than giving them answers or solutions, for most mentoring relationships, the main objective is for the mentee to gain new personal skills, experiences and knowledge that will lead to new insights, a greater vision, and new attitudes and behaviours to lead to higher performance. The mentor should not tell the mentee what to do, only the mentee can decide what goals or actions to implement. So the mentoring is:

- A one to one relationship over a period of time between a less experienced person (mentee) and established professional (mentor) which provide support, guidance and practical help

- A process by which an experienced professional shares their personal skills, knowledge and experience with another person
- A means of enabling a less experienced person to gain the necessary skills, knowledge and confidence to be able to perform at a higher level
- An opportunity for a less experienced person to gain access to impartial, non-judgmental guidance and support
- A process of working together to achieve predetermined goals and objectives
- A two-way process through which both parties derive satisfaction from their progress, and success is attained through working together.

### Family business succession example 5.3

ITrade is family business and the senior owner supports and trains his own child to take over the business. After some years the son learnt the business, the values and culture of the family business. He realised that if they run the business in the way that the father did, it will not be successful in the future because of rapid market changes. He did not feel himself "mature" enough to make business decisions. He discussed it with his father and they decided to hire an external mentor to support both the personal development, the self-esteem and the conscious thinking in succession.

Clutterbuck (2014) set ten competencies crucial for a good mentor:

1. Goal clarity
2. Conceptual modelling
3. Business/Professional savvy
4. Relationship management
5. Interest in developing others
6. Behavioural awareness/understanding others
7. Commitment to own learning
8. Self-awareness
9. Communication competence
10. Sense of proportion/good humour

### 5.4.2. Coach, Mentor, Consultant

Coaching and mentoring seem to be the two most compared and contrasted learning processes. The Coaching and Mentoring Network state that coaching and mentoring are processes that enable both individuals and corporate clients to achieve their full potential' (C&MN, 2005) and they argue that the common thread that unites both types of service, are that they offer a vehicle for analysis, reflection, learning and action that ultimately enables the client to achieve success in one or more areas of their life or work.
Mentoring is a role that includes coaching, but also embraces broader counselling and support, such as career counselling (Landsyberg, 1996). Coaches do not mentor as they are hired to help with performance issues or specific skills and do not get involved in the softer people issues, career management issues, etc. (Tyler, 2004.)

The following similarities and differences can be identified between consultant, coach and mentor (Distelberg and Schwarz, 2013):

Table 5.1 Similarities and differences can be identified between consultant, coach and mentor

| Activity | Consultant | (Traditional) Coach | Mentor |
|---|---|---|---|
| Purpose | Explore professional issues and problems | Action orientated | Personal growth |
| Focus | Individual or company | Task/skill of the individual | Individual = Mentee and the family business |
| Delivery | Typically 1:1 | Typically 1:1 | Typically 1:1 |
| Ownership | Client | Coachee | Mentee's |
| Goals set by | Client | Job/Organization | Mentee's |
| Key actions | Provide solutions for professional problems | Specific job/task or skills related discussion -guided by job need) | Listen and be guided by the client – focus on capability and potential |
| Timescales | Short term sets of sessions | As needed basis/short term | Long term |
| Who is involved? | Consultant + Client + 3rd party (if necessary) | Coach + Coachee + Client Manager (if necessary) | Mentor + Mentee + Family Business owner (or stakeholder) |

Source: Wolverhampton, 2009, p. 9-10

### 5.4.3. Mentoring in family businesses

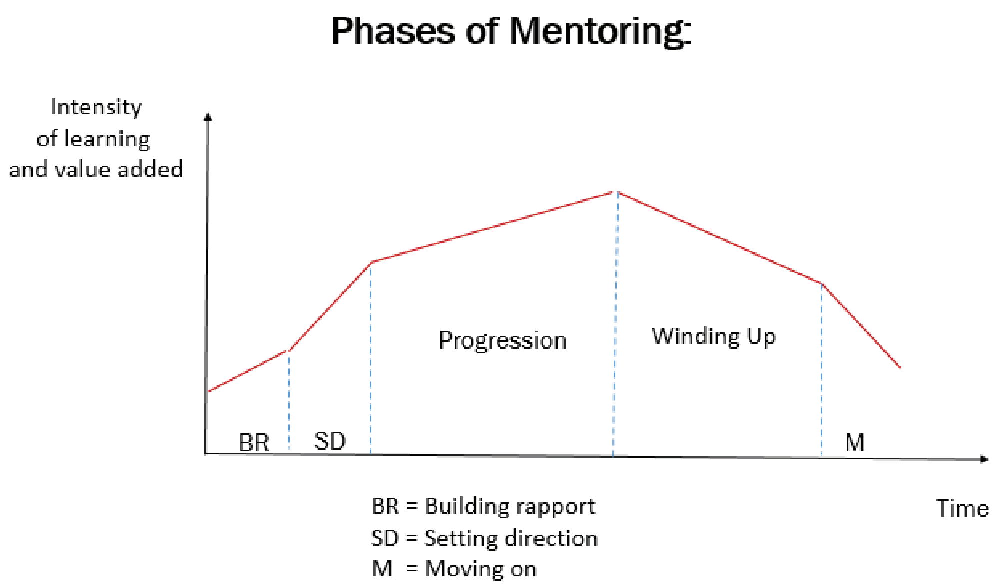
Six key characteristics can be identified (Salvato at al., 2012) which current family business leaders require of their next-generation leaders. These include integrity, commitment, ability to gain respect from nonfamily employees, decision-making abilities, experiences, interpersonal skills, intelligence, and self-confidence. Likewise, mentoring relationships are known to increase skills, knowledge, social networks, and self-confidence (Dougherty and Dreher, 2007; Eby at al., 2008). Because of similarities between the needs of next-generation leaders and the outcomes of mentoring, it can be assumed that family business leaders can benefit from mentoring relationships. There is evidence that family business leaders do indeed benefit from mentoring relationships (Boyd et al., 1999; Goldberg, 1996; Tunkkari-Eskelinen, 2005), and sources exist which can be used by family businesses to develop these relationships (Spector, 2004).

The distinction between inter-organizational and intra-organizational mentoring can be an important factor for family businesses:

- Intra-organizational mentoring could imply a father mentoring a daughter or a nonfamily CFO mentoring a next-generation family member.
- The inter-organizational mentoring might imply a CEO from one family business mentoring a next-generation leader in another family business.

According to the research that exists for family business on mentoring, inter-organizational mentoring seems to be more effective in producing leadership development (career focused) outcomes. Intra-organizational mentoring may be more effective in transferring organizational culture and values (psycho- social focused; Boyd et al., 1999; Distelberg and Schwarz, 2013)
The phases of mentoring can be drawn up as follows (Clutterbuck, 2005):

Figure 5.2. Key Characteristics of Mentoring in Family Businesses




Source: Clutterbuck, 2005, pp. 2-3

a) *Goals:* At an individual or dyadic level the effective mentoring relationships begin with a first stage of defining the relationship and identifying the mentee's goals. At individual level, these goals can be independent from the business, so the mentee can benefit from mentoring whether he or she stays in his or her current organization or moves to a new organization. In case of family businesses, the focus will be different as the mentee can stay in the same family business for their entire career (Salvato et al., 2012), so the mentee may not be able to differentiate his individual development from that of their family business.
b) *Resources:* After identifying the goals, the next step to identify and also access resources to support the mentee's goals. For family businesses the same dyadic-level cost–benefit process can be assumed, but at the family business level, goals might require accessing other intangible resources located specifically in the family or ownership. An example of this type of resource might include family councils, governance boards, or even the intangible resource of "familiness"

(Habbershon and Williams, 1999). In this case, family businesses engender a sense of togetherness and a shared culture that is valued by the business.

c) *Experience:* Within the studies of family business mentoring, it is clear that certain experiences work better with specific mentee's goals. In this case, external CEOs in other family businesses seem to align better with career-focused goals, whereas internal stakeholders seem to lend themselves to goals that are more psycho- social in nature (Boyd et al., 1999; Tunkkari-Eskelinen, 2005). In a family business, based on the experiences of the mentor and taking into consideration of goals, it could be a good question that the mentor must be a CEO of a family business or CEO of a nonfamily business might be more effective, or a family stakeholder, like a chief emotional officer in the owning family system.

d) *Commitment.* Both the mentor and the mentee have to feel that they are committed to the relationship, and they are committed to the goals and direction of the relationship. This commitment will be the frame of their motivation and goals (Allen, 2008). At the individual level, personality, emotional intelligence, and communication skills influence the level of commitment with the mentee. (Johnson and Ridley, 2004; Turban and Dougherty, 1994). The family business, as a system, would either allow or prevent an outside mentor from entering the system through a relationship with a mentee. If access to the family business ecosystem is necessary for the mentee's goals, it can be considered the commitment of the mentee's and mentor's family business.

e) *Interpersonal skills:* Extraversion, type A personality[1], internal locus of control, emotional intelligence, self-esteem (Johnson and Huwe, 2003; Turban & Dougherty, 1994), a desire to achieve affiliation with an organization (Fagenson, 1992), communication skills (Johnson and Ridley, 2004), and a willingness to learn (Allen, 2004) have all been associated with positive outcomes in mentoring. In case of family business these interpersonal skills predominate as well, but the functionality, the family- business-ownership system dynamics are important as well, and the relations are free from destructive conflict or disunity.

1. The theory describes Type A individuals as outgoing, ambitious, rigidly, highly -conscious, sensitive, impatient, anxious, proactive, and concerned with.

Table 5.2 Individual versus Family Business Mentoring Processes

| Key process | General mentoring | Extensions for family business mentoring |
|---|---|---|
| Goal focus | Mentee's goals can be conceptualized as goals ranging from career to psychosocial focused goals | Mentee's bring interdependent developmental goals into the mentoring relationship creating a multidimensional goals |
| Experience | Senior mentor with experience in the developmental trajectory of the mentee's | Senior mentor with experience in the developmental trajectory of the mentee's family business |
| Commitment | Mentee's and mentor are interested and motivated to support the mentee's' developmental goals | The mentee's and mentor's family business must support the dyadic relationship in its efforts to serve the mentee's goals. These systems should also be interested and motivated to support the mentee's development |
| Resources | Access to mentor resources that support the mentee's goals | Access to the mentee's and mentor's family business resources that support the mentee's development |
| Interpersonal skills | Strong interpersonal skills; self-esteem, emotional intelligence, internal locus of control, a desire to achieve, a willingness to learn and communication skills, are required of the mentee's and mentor | Functional, family- business-ownership system dynamics, free from destructive conflict or disunity |

Source: Distelberg-Schwarz, 2013, p. 6

## 5.5. Conclusions

There are several situations and circumstances when a business owner feels he needs some guidance or assistance, but he is not sure whether to source a coach, consultant or mentor.

The following factors can be taken into consideration:

a) Purpose: do you have a concrete professional issue, problem and you need an agreed outcome? Then this situation needs a business consultant.
b) Purpose: do you feel that you cannot solve situations, run the company as you should be able to, know yourself deeper and learn about your reactions to improve

your personal and executive skills? Then this is individual development and the best is to hire a coach.

c) Purpose: you realised that you need an experienced person for the longer term who understands your business and can support you with discussions, questioning without defining what you should do or saying the solutions? Then you need a business mentor.

### 5.6. Reflective questions

1. Imagine that you are the 25 year-old child of a food producing and trading family business that has a long history, relevant market, and a good brand name. You graduated as a food-engineer. You should find your own way and start your career. Summarize yourself:
    a) what you have learnt about the family business?
    b) what the pros/contras of taking over the family business are?
    c) in which fields you should improve your knowledge and how you would do that?
2. Given the (1) situation, would you ask the support of a consultant, coach or a mentor?
3. You identified the following issues at the company:
    a) the company paid tax penalties and a significant amount of taxes and you think the tax risks should be reduced.
    b) you feel that the cooperation between you and your father is full of conflicts as you have different ideas and experiences as to how (products, market, marketing, etc.) you should run the business in the future.
    c) you feel that you cannot be effective at the company and could not improve performance as you do not have enough personal and managerial skills to manage a company.

    Discuss if you need mentor, coach, or consultant in the situations above!

### 5.7. Additional Readings

Coaching and Mentoring: Theory and Practice Paperback – December 4, 2008, by Robert Garvey, Paul Stokes, David Megginson

Mentoring in Family Firms: A Reflective Analysis of Senior Executives' Perceptions, by John Boyd, Nancy Upton, Michelle Wircenski, 1999 Research Article

E-book: The Landscape of Family Business
https://books.google.hu/books?id=BdAMAQAAQBAJ&pg=PA59&lpg=PA59&dq=Mentoring+in+Family+firms:+A+reflective+analysis&source=bl&ots=o02TmOIBCn&sig=usDqgZUnpP6ib0BAR38pa0hbJIQ&hl=hu&sa=X&ved=0ahUKEwiW5evK8JPXAhUMYlAKHQeLBM0Q6AEIQjAD#v=onepage&q=Mentoring%20in%20Family%20firms%3A%20A%20reflective%20analysis&f=false, pages 167-198. Ritch L. Sorenson, Andy Yu, Keith H. Brigham, G.T. Lumpkin, Edward Eldgar 2013.

https://books.google.hu/books?id=4o32DQAAQBAJ&pg=PA83&lpg=PA83&dq=clutterbuck+mentor+competences+a+filed+perspective&source=bl&ots=wVxKscNH9K&sig=nVkm6Qkj8uKLW90Rn-8fVTy3BTg&hl=hu&sa=X&ved=0ahUKEwinpeud9ZPXAhWKL1AKHQFnCMQQ6AEINTAC#v=onepage&q=clutterbuck%20mentor%20competences%20a%20filed%20perspective&f=false

https://books.google.hu/books?id=itMHXN7myKkC&pg=PA120&lpg=PA120&dq=coach,+mentor,+consultant+in+family+business+research+papers&source=bl&ots=w-05vBeeFJ&sig=zZBdmBXOMfORbsp3JNmBi45nzZg&hl=hu&sa=X&ved=0ahUKEwif_f2F9pPXAhWHaFAKHctVBfcQ6AEIODAB#v=onepage&q=coach%2C%20mentor%2C%20consultant%20in%20family%20business%20research%20papers&f=false

https://www.familybusinessmagazine.com/family-business-mentoring-handbook

http://www.internationalbusinessmentors.com

# SECTION II: PSYCHOLOGICAL ASPECTS OF TRANSITION

## Unit 6: Working in Family Context during the Transition Period

*(by Romana Paszkowska)*

### 6.1. Introduction

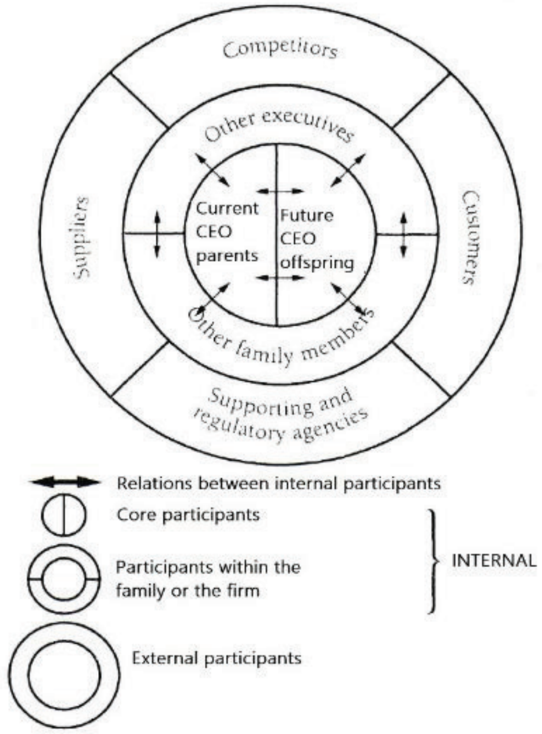
This unit deals with the specificity of working in family context during the transition period and tackles the challenges of ownership and dilemma how to build it to last over generations.

### 6.2. Family business actors during transition process

Successful succession of CEO is the most important objective for the family firm. Lack of a transition of leadership and management to the next generation may lead to the collapse of a family firm. When the owner-manager retires, only around one-third of family firms manage to survive and maintain in the hands of the family (Beckhard and Dryer, 1983; Landsberg, 1988). If the family firm is to maintain on the market, the succession remains the crucial issue. The mindsets and assumptions of family members involved in the transition that are manifested through their behaviour and acts of communication have a major role in the process.

The succession in family firms involves not only family members but also several other participants. The behaviour and expectations of the leader-parent and employed offspring are influenced by other family members, other employees, suppliers, bankers and customers. If the succession is to develop and be completed efficiently and calmly, they all need to came to feel comfortable with one another. Figure 6.1 visualises the possible interactions of family successors actors during transition.

Figure 6.1 Interaction of family firm participants




Source: Barach & Ganitsky, 1995, p. 132

In their paper, Barach and Ganitsky (1995), very thoroughly and clearly presented and analysed the framework that integrated factors affecting succession. The frame can serve as a useful checklist for consultants and for self - analysis of parent-owners and successor to identify the level of readiness of their family business towards succession.

Most of these factors could be controlled by the core players, thus refer to the psychological aspects of succession, which often can determine the success or failure of the process despite the well-designed strategic plans. The framework indicates that problems in family business succession can be identify and assessed. The checklist can implicitly help direct the succession process towards success and points how the uprising of children might affect the eventual transfer of power to the next generation. Table 6.1 concisely summarises the twelve factors and conditions under which each factor may favour or impede the succession process.

Table 6.1. Twelve critical factors in the succession process with associated conditions favouring or inhibiting successful succession.

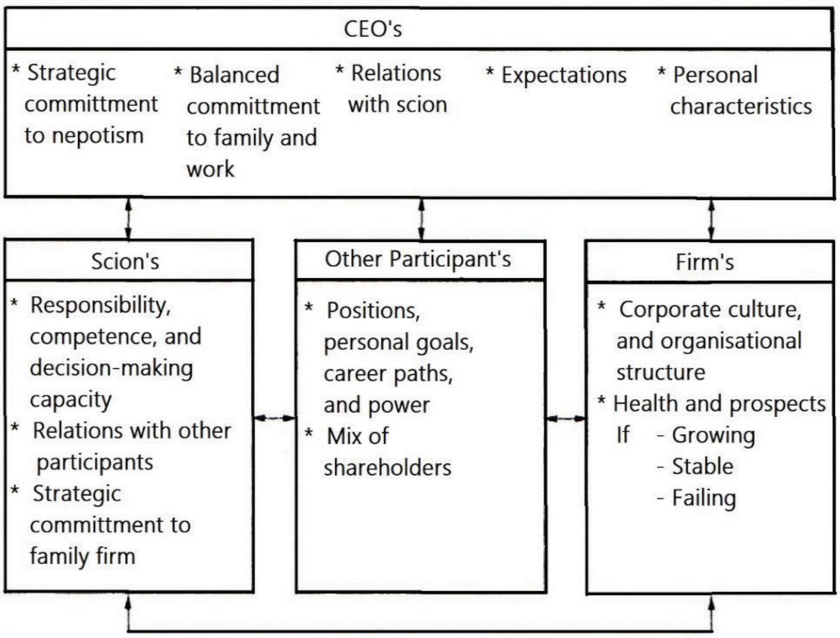
| A. CEO's | Favouring | Inhibiting |
|---|---|---|
| 1. Strategic commitment to family leadership and to specific offspring | Receives top priority: its criteria and outcomes are communicated to favoured offspring and other participants in due time and manner. | At worst is left undecided, at best follows other goals: maximization of share-holders' value or entrepreneurship |
| 2. Sharing joy and pain of work and life with family | Is clear: rewards and challenges are shared with family members; pride, excitement, and desire to Continue are instilled in children. | Is confused at best: many worries and few of the firm's rewards are brought home; offspring unmotivated at best, rebellious at worst |
| 3. Relations with offspring | Gradually mature into adult-adult form; the two generations get on well; conflicts between parent and child are resolved routinely, win-win solutions for ego-clashes common; high-stress mentoring possible | Child-adult dependency on parents maintained that limits proper mentoring and good communications; conflict resolution is traumatic and problematic; competition is combative; win-win solutions appear rare. |
| 4. Expectations | Are reasonable and shared; offspring agrees with parent's policies, parents adapt to kids' needs. | At best remain distant from those of offspring or, at worst, misunderstood or in conflict. |
| 5. Personal characteristics | Encourages others to get involved.<br>Has other interests.<br>Looks for new opportunities in life.<br>Pursues advice.<br>Receptive to different viewpoints. | Retains control of most details.<br>Has minimal trust.<br>Is completely immersed in business challenges.<br>identifies with firm.<br>Does not delegate. |
| **B. Offspring's:** | **Favouring** | **Inhibiting** |
| 6. Actual and perceived responsibility, competence, and decision-making capacity | Match top executive's qualifications through accumulated performance and demonstrated capacity to grow; credibility is earned with advancement and training; self-confident and open to learning. | Are weak; offspring appears incapable, inappropriate, and unable to gain trust; perhaps even in conflict with most family members and executives; defensiveness and lack of confidence |
| 7. Relationships with others | Are strong and maximize self-confidence through:<br>Mentoring and training<br>Having a non-family executive as immediate boss<br>Sharing team spirit with other executives and family | Are weak and minimize self-confidence when:<br>Rivalry with existing executives or other family members prevails.<br>Conflict resolution involves or requires assistance of parents. |
| 8. Strategic commitment to family firm | Strong when offspring wants to join firm; feels wanted and profoundly welcome; is not pressed to be executive or successor by parents; can choose to or not to join the family firm. | Weak when offspring feels coerced; offspring may never give the firm his/her best or appreciate what he/she gets. always feeling deprived of other (perhaps better) opportunities |
| **C. Other participants:** | **Favouring** | **Inhibiting** |
| 9. Personal goals, career paths, and power | Favour planned career path of offspring; for example, current wife is mother of possible successor; grand-mother favours this child; only one child is potential heir; other executives respect this offspring. | Conflict with those of offspring and may even lead to firm's failure in effort to block progress of offspring; envy or fear or dislike evident; several potential heirs; family conflicts permeate the firm; power imbalances; unsatisfied executives. |

| | | |
|---|---|---|
| 10. Shareholder mix | Favours succession when:<br>- There are no large blocks with offspring in the wings.<br>- Planned and actual disposition of stock parallels transfer of power<br>- Strategy for ultimate shareholder mix favouring managers is considered appropriate. | Threatens succession if:<br>- Growth in outsiders' role reduces power of family members.<br>- Traditional owners are divided on policy or strategy matters.<br>- Clear long-term strategy is lacking. |
| D. Firm's | Favouring | Inhibiting |
| 11. Corporate culture and organizational structure | Reinforce continuity, control of the success factors of firm by family members and key role of owners in strategic decisions. Structure provides appropriate autonomy and mentoring with clear career paths possible | Favour "professional" management, delegation of responsibilities and technical expertise, including key success factors of the firm<br><br>Structure increases conflict potential, blocks career progress, and autonomy/training balance not desirable to offspring. |
| 12. Health and prospects | Sound: opportunities for offspring to show competences | Ailing: threaten offspring who must overcome or lose chance |
| + If business growing | - In separate areas | - In putting order |
| + If business stable | - In learning and sticking to basic rules | - In finding solutions within squeezed margins |
| + If business failing | - In fighting crises to prevent disaster | - In developing/ mastering key skills immediately |

Source: Barach & Ganitsky, 1995, pp. 133-135

Figure 6.2 shows the interaction of critical factors in family business succession. Some of them are of major importance for recognising the roles of succession key-players.

Figure 6.2. Interaction of critical factors in family business succession




Source: Barach & Ganitsky, 1995, p. 135

The CEO plays the most important role in the process of succession. However authoritarian he might be, adapting more participative approach would be a crucial importance. Participative approach encourages mature communication patterns, development of mutual trust between the older and younger generations and strengthening the leadership skills in future successors. Only during daily conversations can the successor become aware of the expectations of the parent-owner, of what skills he needs to develop, what values and habits there are expected from the future CEO. Mature relations between the CEO and the successor involve also developing effecting conflict resolution patterns. Offspring are more likely to join the family business if the parent-children misunderstandings are resolved on daily basis in a cooperative manner.

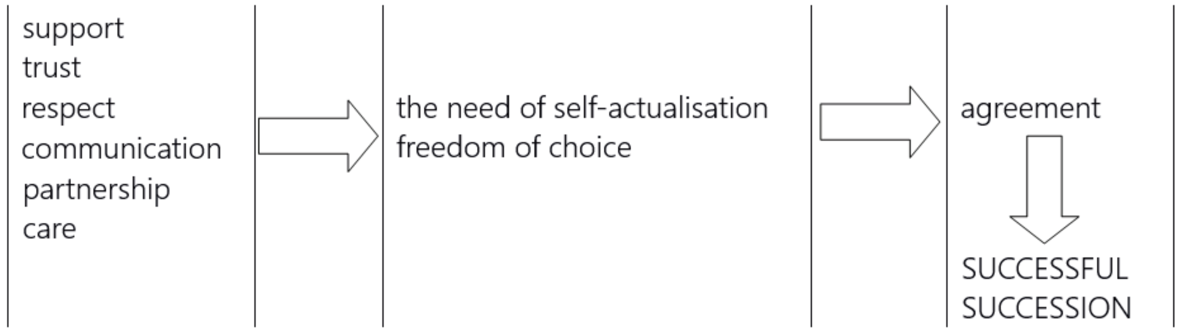
Postponing discussions of succession with the family members or keeping them in a state of suspension towards their future does not promote the smooth transition. Neither is it a good idea to criticise the future CEO too much or threaten him with disinheritance. It may happen that later he will not be interested in succession.

Personal characteristics of the current CEO are of major importance. Some of the traits often become the most significant factor in the succession process. Features that help CEO's come to terms with his aging, prioritise his life goals, his openness to changes, trustful personality, other interests or hobbies he wants to develop, act in favour of good succession. If he has minimal trust, wants to retain control, has never mastered delegation of responsibilities, feels threatened by potential successors he will probably more or less consciously resist transition, and impede the process.

Successor's motivation to take over the family firm is one of the most important factors that determine successful transfer and should not be undervalued. It closely corresponds with the type of parent- child relations before the succession. Parents' ability to develop motivation in their offspring is closely related with the features they tend to strengthen during the upbringing process.

According to Jolanta Bieńkowska's (2014) research they involve self-determination, trust, helpfulness, cooperativeness and effective communication skills particularly stressed during the maturing stages. Later parents of well-motivated successor leave their children significant amount of freedom and autonomy as to the choice of professional career and giving plenty opportunities to develop self-reliance and ability to take decisions at various managerial levels in the family business.

Figure 6.3 Evolution of factors that motivate to succession




Source: Bieńkowska, 2014, p. 127

## 6.3. Trust as basis for family cohesion and socio-emotional wealth

In his paper Steier (2001) claims that trust plays an important role in the governance of most organizations. For the family firm, trust represents a particularly important source of strategic and competitive advantage, especially in the early stages. However, trust often deteriorates as the firm grows. Sustaining trust within family businesses is a critical topic especially from the perspective of transition.

Sundaramurthy (2008) proposes a model of sustaining trust in family businesses. The basic proposition of the model is that trust is dynamic and its multiple need to be developed through structures and processes to sustain interpersonal trust inherent in the early stages.

Based on a cross-disciplinary review of the trust literature, Rousseau et al (198) define trust as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another." Thus, trust is not a behaviour but a psychological condition that is caused or results in behaviour.

### 6.3.1. The taxonomy of Lewicki and Bunker

Lewicki and Bunker (1996) suggest that there are three bases of trust: calculus-, knowledge-, and identification-based trust.

1. Calculus type of trust is built on the fear of the consequences of the breach of trust and/or the rewards connected with maintaining trust; this view of trust is of "economic" nature
2. Knowledge-based trust is built on the predictability of the other. Predictability can be based on the knowledge and information about the integrity and/or the competence of the trustee (also called competence trust).
3. Identification-based trust is the third kind, which according to Lewicki and Bunker (1996), develops when the parties effectively understand the wishes and wants of the other and when they have common of goals. This form of trust exists when

one empathizes with each other due to sharing norms or values (Fukuyama, 1995) that may be based on common kinship, familiarity, background or interest (Lane, 1998).

### 6.3.2. The taxonomy of Sundaramurthy

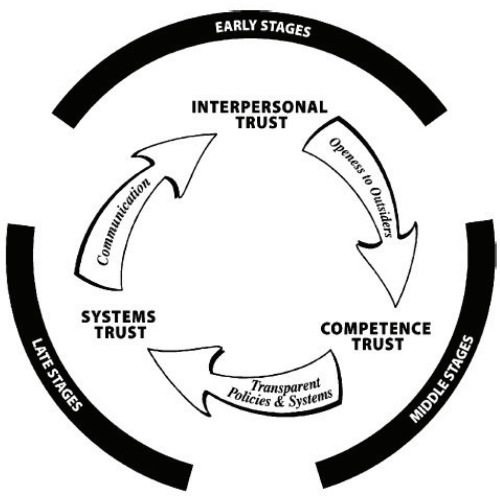
Based on an integration of the trust literature with the family business literature, Sundaramurthy proposes a "sustaining cycle of trust" model within family businesses (Figure 6.4). He claims that interpersonal trust, based on emotions in the early stages of a family firm life cycle, may serve as anxiety reducing mechanism and in result lead to "blind" trust and group thinking.

Later, it sometimes can be sustained by a healthy portion of distrust in the competence of the evolving family firm. Processes that promote competence and system trust—*knowledge* and *calculus trust* basis, respectively— can maintain trust levels within family firms as the firm grows and evolves.

The third trust dimension that is vital for sustaining the cycle of trust in a family business is *system trust* (Barber, 1983; Luhmann, 1988). It refers to "the collective characteristics of an administrative organization and top management group which are not reducible to features of individual actors and which ensure some continuity of activities and direction when those actors change" (quoted in Sydow, 1998, p. 45).

System trust is impersonal and is associated with the trust company members place in systems and processes; it can be a source of trust for a wide network of individuals such as active family members, partners, nonfamily employees and suppliers. As the family business grows, interpersonal trust cannot be sustained without confidence in the system that governs key interpersonal exchanges. Traditions and "formal rules which contribute to a higher level of reliability of actions [may] stimulate the emergence of institutional-based trust if agents truly refer to these in their actions" (Sydow, 1998)

Figure 6.4 Sustaining Cycle of Trust




Source: Sundaramurthy, 2008, p. 92

### 6.3.3 The role of trust in succession

Here are the main factors stimulating healthy kind and level of trust at later stages of the family firm development and thus leading to smooth and successful succession process:

- Transparency of rules and traditions – clear roles, responsibilities and expectations of all family business actors
- Recognizing potential conflict areas before they become an issues and dealing with it in a fair way
- Clear policies and guidelines for family entry
- Transparent compensations and performance appraisal policies
- Consistent application of transparent, clear guidelines on key issues governing family and non-family members

As the business moves from one generation to the other, the firm's new leadership can develop stronger bases of trust by high levels of open, honest and consistent communication (Ward 2004). It can involve conversations, meetings, councils, etc.

Elżbieta Małyszek in her study (2011) attempted to extract the most important groups of factors which determine the success and long term survival of family business. According to her research, the critical factors that lead to long term existence of companies over generations involve consistent family values and congruence between them and family business values, support and participation of all family members in the management process, however in various forms. She mentions high level of trust among family members and treating family/firm values as a source of common family pride.

The success and long term survival of family business can be traced back to family identity, development of resources unique for the family business, long-term planning of ownership transition and building family and firm resistance patterns against internal and external disturbances.

Individual and family resources protect the company from various kinds of threats and stimulate individual and collective creativity in problem solving. The crucial issue here is common trust in the survival skills of the family as a group.

## 6.4. Women in family businesses during transition

There is relatively little research in the field of women in family firms transition. However the existing literature shows that daughter successors of family firms face many challenges. These challenges are partly determined by their cultural background and the traditional and legal aspects of the transition processes in various countries. However, some of the problems seem to be universal.

The research study of Vera and Dean (2005) on challenges daughters face in family business succession refer to interviews with ten female business owners in the United States. Respondents encountered several common challenges which the researchers manage to identify and describe:

Table 6.2 Research Findings

| | | |
|---|---|---|
| 1. | Reasons for joining the company | to help the family, flexible schedules, part-time basis |
| 2. | Owners' willingness to relinquish control | father-owners were willing to relinquish to their daughters, tended to focus on company well-being, not their own self-identity while mother-owners did not willingly relinquish control or make succession plans; majority of maternal successions were forced by the mother's severe illness. |
| 3. | Age synchrony | Succession occurred when the daughter was in her late 30s and 40s |
| 4. | Being a viable successor | no primogeniture succession was found, general preference for the oldest offspring, regardless of gender to take over business |
| 5. | Father-daughter relationship | role conflict was not reported in the study, however several other studies mentioned problems with father's conflicting perceptions of a female successor as his daughter vs. a businesswoman |
| 6. | Mother-daughter relationship | no reported mother jealousy of daughter working closely with the father, though such cases have been described in literature |
| 7. | Sibling rivalry | rivalry sometimes is displayed when the daughter is in control and the oldest male sibling is also in the business |
| 8. | Non-family member rivalry | employees constantly compared daughter's managerial style/decision making to that of her mother (mother's shadow conflict) |
| 9. | Work-life conflict | 100% of daughters reported work-life conflict, but no problems with sharing time between work and raising children as most respondents tended to have children prior to the succession |
| 10. | Discrimination and stereotyping | most women reported no feelings of discrimination; those who did, felt it more from outsiders then employees. However, in many other studies women mentioned that their professional capabilities go unrecognized because of their gender and must work hard to prove themselves. |

Source: on the basis of Vera & Dean, 2005, p. 335

The position of women in the succession process varies from country to country (Hadryś-Nowak, 2015). In China, Confucian values strongly affect the transition process and the interest of the family, which is the most important social unit, prevails over the interest of its members. Confucian values carry norms referring to the order of succession which are rarely disobeyed.

Overall interest in succession in family businesses in France is rather low due to complicated taxation and business heirdom regulations. Nevertheless, sons are considered to be the obvious and natural successors. When a woman becomes a successor it's mainly caused by sudden circumstances, like CEO's serious illness or death, or the male successor's refusal to take the position.
In Germany women constitute only one tenth of all successors, indicating very patriarchal society. What's more German women do not perceived themselves as potential successors.
The situation is different in Italy, where the CEO usually selects for succession the best prepared and skilled child, disregarding their sex.

Most respondents mention that familism in family firms is positively correlated with women in managerial positions, however women in most countries still mention the existence of "glass-ceiling" when it comes to succession. Nevertheless, it is easier for women to develop their professional careers in family businesses when compared to non-family firms, both in professional and family contexts. Family managers are more prone to understand and accept the caring needs of working mothers if their own heirs need care. It should also be mentioned that women's career paths in family businesses towards managerial succession are faster than in non-family companies.
In Table 6.3 there are ten practical pieces of advice from female family business successors to daughters considering becoming successors in family firms.

Table 6.3 Ten recommendations from daughters to daughters involved in family business succession

1. Get an education and define your career goals prior to taking over the family business
2. Find a management mentor
3. Gain experience at an outside organization to understand different environments and business cultures
4. Educate yourself on financial issues
5. Don't be afraid to employ people who are stronger/more skilled than you are
6. Don't take over the business unless you feel a passion for it
7. Show others that you will work hard to achieve goals from the first day you join the firm
8. Compete on a male level, but respect yourself as a female; be assertive, but not aggressive
9. Trust your instincts
10. Have your own standards, not your parent's standards

Source: Vera & Dean, 2005, p. 334

## 6.5. Marriage and introduction of new family members

The issue of marriage in any family is of major importance but receives additional dimension in the light of family business succession.

Due to predominant models of patriarchal succession and the fact that most often during the early years of marriage women are involved in caring for young offspring, daughters' marriages seem to be a greater issue for family firms.

While the family growth due to marriages is a natural process, it is difficult to predict what kind of effect it would have on family business. At present rarely, if ever, do young people in Western societies select their partners according to their usefulness for family businesses. There are several legal, financial and managerial matters to be considered when a new family member is joining a family business. The conditions of his or her employment, granted position in family business organisation and management might have a long-term effects on the prosperity of the family company. Since this section deals with psychological aspects of succession, the enlargement of family and family firms will be considered from this angle.

The new family member brings to the family his/her values, education, knowledge, experience, expertise etc. which, when combined with family values, etc. can ideally lead to the synergy effect and help develop the family business in a new direction. It happens also that the relations develop in the wrong direction and lead to harmful conflicts that can ruin the company. The effect of new wife, husband, son-in law or daughter-in law entering the family business might have positive, neutral or harmful effect. Here are some authentic examples:

### Family business example 6.1

Mrs Teresa Mokrysz, a skilful manager with very strong entrepreneurial orientation and charming personality after getting married turned her husband's small family business into a big international company trading worldwide tea and coffee. She created one of the most recognisable Polish brands, "Mocate". Teresa Mokrysz is known for her visionary innovative decisions, successful strategies, and displays high level of social responsibility. She supports charitable organisations and NGOs involved in health care, education and social care. For the last twenty years she's combined her managerial career with being a president of a capital group and brining up two children with significant help and support of her husband.

Source: Popczyk, 2014, p. 12

### Family business example 6.2

In a small town between Warsaw and Łódź (Poland) an innovative young family business was developing rather fast. It was based on patented production technology of medicines for the treatment of pancreatic diseases. It had significant scientific potential that could lead to further innovative projects. The company was founded by an entrepreneur with his two adult sons. The family grew naturally, the sons married and had children. Their wives didn't work, only cared about the families. The family business developed dynamically until the critical moment when one of the sons divorced his wife and she claimed equal division of property, which included business shares. This almost ruined the family firm and for several years halted its development due to limited investment possibilities.

Source: Popczyk, 2014, p. 12

Hadryś –Nowak (2014) within her research interviewed several daughters-in-law who didn't work in family firms and those, who did. Although she mentioned difficulties in reaching the respondents, she was able to recognise three major problems in the first group: the feeling of their husbands' involvement being not sufficiently appreciated in the company despite their hard work, lack of succession plans that led to instability of the young families' professional plans for the future and fear of their children being deprived in the future of equal opportunities in the family business in comparison to their cousins'.

The second group of respondents mentioned the above worries, and added conflicts with mother-in-law and father-in law in family business context. Professional conflicts with mothers-in-law often overlapped with the private ones. Although conflicts between fathers-in-law and daughters-in-law in private life are rather rare, they are quite common, when the woman works for a family firm managed by her father-in-law. Cases of quitting the company in such circumstances are not uncommon, though other solutions are sometimes found, for example the woman moves her office to another location as not to meet her father-in-law too often. Problems with other family members were also mentioned, especially with other daughters-in-law.
As it can been seen, most issues stemming from new members joining the family company are not of professional nature, but rather of emotional one. In most cases these are not problems of competences, education or skills, but rather of how to harmonize the family and business good relations and sustain trust. That's why management in such cases is complicated and the situations need fast and reasonable solutions if the well-being of the family firm is to be maintained.

## 6.6. Communication in family business during transition

Communication in family business can be viewed and studied from various perspectives – practical, analytical or research. The practical perspective deals with the analysis of day-to-day conversations and running business by families. Here is an example of communication system in a medium size family firm:

### Case study 6.1 PLANTEX (discussed earlier in more detail as case study 4.1)

"The firm's issues permeate our family life, and family issues often appear in our internal business conversations, though not with clients, of course" says Joanna M., the successor in Plantex Horticulture Farm. Before she and her husband took over the family business, her two sisters consecutively worked there with their husbands before founding their own daughter-companies, complementary to their father's. During the interview Joanna mentioned that all three husbands, working for the company at some point in the past or at present (Joanna's husband), needed a significant period of time to get accustomed to such pattern of family and business communication. At first they found it irritating and harmful to their nuclear families, but later, when they started identifying themselves with the family firm, gradually realized that such communication pattern not only strengthen the ties, but also helps sustain high level of trust within the family. Joanna also mentioned the role of her mother as a mediator in family/business conflicts. The high level of trust and confidence all the family have in her, her conciliatory skills and just, reasonable approach to problems cannot be undervalued.

Joanna claimed that such communication pattern was possible to be worked out due to very open, sincere and trustful personality of her father. The complex company succession process was occurring over the transfer of knowledge and business ethics principles. The father-founder's willingness to share his high level know-how with his offspring and their spouses without calculations or conditions or treating them unjustly whatever career path they chose was the basis for maintaining the personal trust over the business firm life-cycle. She appreciated the fact that in front of external business people her father showed great respect towards her, which helped her build a better negotiation position. When it was decided that she would become the main successor, father supported her during negotiations with clients through his presence and by listening to her performance, without interfering. Later, he would provide her with friendly feedback and advice. She said negotiations failed a couple of times due to her lack of expertise and experience, but even then her father did not blame or criticise her, only assessed these incidents as part of the natural process of learning.

It was equally interesting to learn how the family communicate with non-family employees. The loyal staff who have worked for the company for years are treated as family members.
They are sometimes invited to family gatherings on various non-business occasions, such as weddings. Joanna said there was not much difference in the manner she addressed her mother and the book-keeper she had known since she was a little girl.
With new and younger members of staff she maintains bigger professional distance, since, as she said – trust needs time to be built.
Source: Interview with Joanna M. as part requirement for writing "PLANTEX " case study for INSIST Project by R. Paszkowska (2016)

### 6.6.1. High and low context

Case study 6.3, analysed from a different perspective than in unit 4 (Case study 4.1) involves the concept of high and low context communication. It was introduced by Edward T. Hall in his book Beyond Culture in 1976.
According to the author, context as opposed to text (the part of the message that can be recorded or presented) indicates the amount of implicit shared knowledge of the sender and receiver of a message which enables effective communication. It's possible to communicate at „high context" and "low context" depending on how restricted or elaborated code one uses. People who tend to communicate at low context explicitly say everything and explain thoroughly every detail. Those who prefer to communicate at higher level assume that interlocutors don't need too much information because they already are familiar with the greater part of the message.
Effective communication involves using the right level of context, so that actors of the communication process are neither bored, if the context is too low, nor feel at loss, if the context is too high. Most people tend to communicate at relatively high context at home, with their family members, because they share a lot of experience and know each other well. On the other hand, they are much more direct in how they formulate their utterances because they assume family members feel their affection and care, and will not feel easily insulted, even if addressed with irritation or outburst of emotions.
In non-family firms the communication patterns are different. Even if employees use high context when talking with their colleagues, whom they know and cooperate with closely for years, their criticism is usually expressed in more formal register, in order not to break social norms.
Developing a healthy communication pattern in the company, which secured high-context communication within the company among all, family and non-family members, but at the same time balancing the level of directness was partly responsible for the smooth succession process in the Plantex family business. Such approach to communication on the one hand allowed non-family members feel like members of the family, but on the other, resulted in treating young successors with respect and avoid undermining their position in the company.

Of course both in family and non-family companies staff need to lower the context when talking with clients, who may not be familiar with business or production/trade matters.

### 6.6.2. The issue of register

Several people working in family environment mention significant problems with maintaining professional communication register in family businesses.
One of them, the Director of a food company during a meeting with family firm owners at Leeds Beckett University on 23 May 2017 mentioned that as her family firm grew, she realised she was confusing her family and other employees by not paying attention to how she communicated with them. During further conversation she provided some examples of such miscommunication:

1. She was giving very direct instructions to her husband, openly criticising him in front of non-family employees which impeded his self-esteem and position of respect among them.
2. She addressed young employees in the same way as she addressed her children, without asking them if such manner suits them and without considering how it would affect their further cooperation. Normally, even when children are criticised by parents they know their dissatisfaction or anger is temporary and they are still loved and will be forgiven their minor errors or negligence. This is not so clear with strangers. Some non-family employees enjoyed the friendly, family atmosphere, but as the company grew, there were more and more staff not necessarily willing to be addressed as their boss' children.
3. Many issues were communicated at high context, assuming the employees should understand how the company operates, just by watching their colleagues and talking to them. However, the bigger the company, the more formal channels of internal communication and more messages in low context are needed as to prevent misunderstandings and cross-purpose communication.

At some point the CEO realised she needed a course in corporate communication to sort out the communication problems in her company and learn how to organise the system of effective communication. Only then she found out that clear communication patterns and paths and using the right level of context and proper register is part of the effective management tool, especially important in the context of family firm where the family and professional roles heavily overlap.

### 6.6.3. Collaborative communication

One of the most difficult issues in the family firm communication is the problem of the level of openness when talking about the succession itself. Very often young family members are afraid of mentioning the issue to avoid making an impression of waiting for their elders to retire, and CEOs are postponing discussing the issue because they are afraid of losing the position of leadership or they find the decision regarding succession too difficult to take at certain stage. Procrastination is not a good idea as the longer the topic remains the family taboo, the more conflicts and misunderstandings might accumulate around it. In extreme cases the family firm can lose the best potential successors, who might become tired of waiting for the topic to be raised and leave the company taking alternative career paths.

In his paper Hubler (2009) claims that developing a model of collaborative communication is one of the most important issues securing the success of the family firm over changes and transitions. He mentions four components of the model:

- talking skills,
- listening skills,
- communication styles
- "map making", i.e. the ability to map a problem and try to solve it via a shared mind-map.

These skills are crucial both for the family and the family business as they form a common platform of communication for all family members. If they share the same model of communication and dialogue, it's much easier for them to understand each other's contexts and true intentions and meanings of the utterances produced. It's also easier to discuss difficult problems such as the company transition.

### 6.6.4. Role-based approach to communication in family firms

The role- based approach to study the family intercommunications represents the research perspective. It helps understand the complexity of what could be understood as effective and ineffective communications within family businesses (Lundberg, 1994). To understand the communication process among family members as role performers, one should be able to describe how people come to adopt a role at any time they communicate. The choice of role is affected by several factors, such as

- "equity" (legal rights, income, dependence, image of the firm, in the community or industry, ownership aspirations)
- position (technical or functional expertise, forma status, career meaning, seniority, authority, image of employing unit, positional history)
- family (gender, ranking in the family, family lifestyle, norms, relationship history)
- person (self-image, psychological needs and wants, lifestyle and career aspirations, relationships with intimate others, current financial requirements)" (Lundberg, 1994 p. 32)

Lundberg mentions that since misunderstandings and miscommunication among the family members, especially during transition periods are so common and potentially dysfunctional and harmful, better understanding of the basis for miscommunication in family firms is of major importance.

The role-based way of thinking of communication helps identify several errors that family members may fall into:

1. Adopting and/or misattributing inappropriate role

2. Role conflict and ambiguity – when a situation simultaneously calls for two or more roles, and it's not clear which should be adopted or followed, with resulting conflict about what role should be activated. Ambiguity occurs when the person doesn't know how to behave, even when the cues are properly interpreted, or the role expectations are vague. The role conflict occurs when family members have not learnt their roles, because they are new and haven't mastered them.

### 6.6.5. Communication as trust building tool

As the business is moved from one generation to the other, the successor can develop a strong and stable basis of trust by high levels of open, honest and consistent communication. Such communication facilitates the flow of information among those involved in succession, limits misunderstandings derived from role conflicts. Such interaction can help move the trust system to a new generation and translate it so that the whole company would understand its new interpretation.
Honest conversations are essential for constructing collective identity within groups within a system, and strategic use of language and communication has also been linked to family firm development. (Habbershon and Astrachan, 1997)

Strong effective formal communication are crucial in developing shared corporate identity and common understanding about the family firm among new employees and new members of the family both directly involved in the family firm operations and not actively engaged in business. (Heyden et al., 2005)
Independently of the stage of its development, the family firm has more chances to become and/or remain successful if the members develop the "quality communication". It involves the following communication tools:

- Active listening (without prejudice, directed towards the interlocutor, and with the assumption of sharing the goals and values)
- Using the "I" approach (talking about one's own views, judgements and opinions and not of the partner's)
- Communicating without violence (physical, mental or emotional)
- Asking each other open and reflective questions
- Communicating on the basis of values and common perceptions, but also accepting differences and granting each other mutual respect.

Development of quality communication should be of major interest to successors as it is one of the most effective tools for creating collective identity and interpersonal trust within the family business during the transition phases.

## 6.7. Conclusions

This unit covers family business internal and external environment during the time of transition. It analyses relations among entities involved in the transition process, both internal and external, and provides a concise systematisation of factors that favour or inhibit the process from the perspectives of each of the succession actors. The concept of trust as one of the most important factor that affect the transition, as well as the position of women and new family members in the family business during its passing through major changes and reconstruction has been discussed. Various aspects of communication in family business during the transition process cannot be undervalued. Without open, effective communication any changes in family business cannot be effective.

## 6.8. Reflective questions

1. What is the role of communication in the process of transition in family firm, how can it support or impede the process?
2. Is it possible for a family firm undergo a successful transition without mutual trust? Justify your opinion.
3. How might changes occurring in the family affect the functioning of the family firm?

## 6.9. Additional reading

- Psychological barriers in coping with business transfers by Edwin Weesie (2015): Avaiable at: http://www.transeo-association.eu/uploads/Academic%20Awards/2013-2014/Weesie.pdf

# Unit 7: Major Threats to Orderly Transition Process

*(by Romana Paszkowska)*

## 7.1. Introduction

Any transition, but especially succession is one of the most complex issues for a family firm. Also because founders, successors and managers find it difficult to discuss it openly. Changes in family firms are often emotionally complex situations as they involve and question family relations, identities, work and future.

Emotional character of the transition process is obvious. All the succession actors experience fears, worries and anxiety. The owners are often afraid of taking the succession decision and tend to postpone it. Despite their age the CEOs feel young and worry if the successors are able to manage the company correctly and will not waste their life efforts. They worry also if the young generation is willing to use the experience of the older generation and, in the first place, if they are ready to join the company and take over its management.

On the other hand successors fear they will disappoint their parents by not meeting their expectations. They feel strong pressure both internal and from the market environment and don't want to be constantly compared with the earlier generation. Nevertheless they feel they could bring their fresh ideas, the spirit of innovation into the family firm and declare they want to contribute to their parents efforts and sacrifices over the years. Many claim that their willingness to act is higher than the level of their worries.

Non-family employees fear the transition will affect not only the company as such, but also their personal status. They want the corporate culture and values to be preserved over the transition

These results of anxiety study carried out by Lewandowska and Hadryś-Nowak (2012) in Polish family firms during transition seem to represent universal emotions of all succession actors during the period of change. The main problems raised by her respondents included:

- reluctance to move the company to successors in the right moment
- incompetence in selecting the most suitable successor
- disinterest of potential successor in taking over the management of the family firm
- sibling rivalry connected with the transition of ownership and management
- bad planning of strategic and financial issues leading the overloading the next generation with tax burdens
- lack of early succession planning

The vast majority of the problems carry emotional component and are of psychological nature. This unit tackles the most common threats that might impede the transition process.

## 7.2. Resistance

Change is continuous and inevitable at all levels of existence. It refers also to family adjusting to the changing environmental conditions. Human nature is characterised by anxiety, uncertainty and hope when it comes to deal with changes as they require acting without assurance of positive results. Thus fear of change and uncertainty avoidance are natural human emotions rooted in the healthy instinct of self-preservation.

Resistance towards change is positive as it enables cautious assessment of the situation and in result helps control the forthcoming events. Every human being carries both: a tendency to develop and seek changes and natural resistance to change.

Resistance to succession in family firms can be considered at four levels: individual, group, organisational and environmental (Handler and Kram, 1988)

At individual level the degree of CEO's resistance towards succession planning is affected by his personal traits, such as reluctance to confront himself with ageing, retirement, death and environmental factors. Poor health might speed the succession process despite the CEO unwillingness to retire.

Another group of reasons of resistance to succession are connected with the family business leader's unwillingness to dissociate himself from his company and to delegate responsibilities to others. If he perceives retirement as opportunity to have more time for his hobby or carrying out his other plans and passions he might be more willing to raise the succession issues.

There also such aspects as self-awareness and self-reflection in the context of "letting go" – the CEO must come to terms with his age and reality, thus reformulate his self-identity and adapt to it. Last, but not least aspect of resistance at individual level is the ability to use external sources when financial, legal, psychological and organizational issues of the transition are concerned.

The interpersonal and group levels of the resistance concern the dynamics between the family, firm and CEO (founder). The well-developed communication system and significant level of trust within the family might facilitate open discussions of the succession. Family meetings (Ward 198) or family council (Lansberg, 1988) were recommended as the most convenient institutions where the succession perspective could be raised.

Other aspects of resistance to succession are related to the CEO's attitudes towards the successor. If the timing of the owner's readiness to retire and the successor's readiness to take over the family firm do not overlap succession may be postponed. Also if the heir does not meet the expectations of the company head, he may be deprived of mentoring which is needed if he/she is to successfully take over business (Levinson, 1971). The succession process may also be disturbed by family feuds, dissatisfaction with the future plans of the potential successors, changeable views of who should become the successor, conflicts that may block the selection of the heir.

At organisational level, culture or structure might lead to succession resistance. Culture might determine if the change would be revolutionary or evolutionary. The ability of the owner to delegate to others when the company grows is a good prognosis for managing succession when the time of his retirement arrives.

The environmental level refers to factors that are beyond the influence of the family. Such factors include industry requirements, information complexity, resource scarcity, taxes, etc. They may lead to resistance to change or to the family business evolvement.

Handler and Kram (1988) introduce a comprehensive model of resistance to succession that concisely summarizes factors that promote or reduce resistance to succession in family business.

Figure 7.1 A Model of resistance to succession in the family Business

| *Factor Promoting Resistance* | *Factors Reducing Resistance* |
|---|---|
| Succession planning | |
| Individual level | |
| Good health | Health problems |
| Lack of other interests | Other interests |
| Identity with business | Ability to dissociate from the firm |
| Retention of control over time | Delegation of responsibilities to others |
| Fear of aging, retirement and death | Opportunity for new life and career planning |
| Avoidance of self-learning | Capacity for self-reflection |
| Avoidance of technical advice and consultation | Pursuit of technical advice and consultation |
| Interpersonal Group Level | |
| Lack of open communication | Honest, informed communication is encouraged |
| Minimal trust | High level of trust |
| Heir(s) are or appear: disinterested, incapable, inexperienced, or inappropriate | Heir(s) are actively and capably involved in the business |
| Minimal training | Mentoring is encouraged and practiced |
| Power imbalance | Shared power |
| Family conflicts and issues permeate the business | Family dynamics are separated from business issues |
| Nuclear and extended family members as potential heirs | One child as potential heir |
| Organisational Level | |
| Culture threatens organisational development | Culture reinforces organisational continuity |
| Stability of organisational growth | Impeding organisational crisis |
| Maintenance of Structures promoting unilateral control | Organisational structure promotes functional delegation |
| Environmental Level | |
| Non problematic environment | Problematic environment |
| Many industry requirements | Few industry requirements |
| Specialized professional prerequisites | Minimal professional prerequisites |

Source: Handler & Kram, 1988, p. 375

In family firms the resistance to change and succession may also stem from rigid following succession procedures. Senge (2006) claims "the more pressure, the stronger the system resistance". When a group of people interact both in company and family environments they become even more dependent on each other, which is displayed in various aspects of their lives. Young family members may be emotionally pressed to remain in the family business against their will, which leads to their lack of deeper involvement in running the business. They might agree to stay at the company as not to lose their privileges and material backing derived from family business, but lack innovative ideas on how to develop the firm. Sometimes contrary situation happens: young family members are stopped from introducing their new ideas in the company, which leads to their disillusionment and lack of enthusiasm. Different visions of the family business development between generations might slow down the succession or even block it for good.

The structure of a family firm in most cases is not hierarchical, but radial – the owner takes most of the decisions. Thus the strongest sources of resistance exist in the social subsystem of the company which, on the other hand, has most influence on what is happening in the company.

Changes that occur in all companies carry both risk and resistance. In case of family firms this mechanism is stronger, because it's conditioned not only by the organisational system, but also by family interdependencies. It is a natural phenomenon and shouldn't be suppressed but skilfully managed. Using mediation is a good option. Careful monitoring and recognizing the process combined with its constructive analysis are advisable. But the crucial point is the ability to build the spirit of confidence, safety and awareness of change inevitability. Only such approach could secure positive changes in company-family system where transition requires involvement and positive support not only of employees, but also of the whole family. (Majerska, 2012)

## 7.3. Paternalism that maintains control

According to a definition by Uhl-Bien and Maslyn (2005) "paternalism is the practice of exhibiting excessive concern for others in a way that interferes with their decisions and autonomy. Paternalism can have negative and positive ramifications, depending on its type: in some instances it is regarded in a negative, destructive light, as problematic and undesirable, while in others it is considered beneficial for performance when properly managed and an 'effective strategy' that promotes value creation." (Mussolino and Calabrò, 2014 p. 2).

The predecessor leadership style has a great impact on the transition process, as it has to be confronted and dealt with by the successor's leadership style.

Paternalism is a complex and important concept the study of which can lead to better understanding of the transition processes in the family firm and relations between the CEO and his successor(s).

The study of various types of paternalism and the role they play in family firms may help realize how particular paternalistic styles affect the transition process in family business.

Mussolino and Calabro (2013) indicate three types of paternalistic styles: benevolent, authoritarian and moral.

a) *Benevolent paternalism* is connected with general concern about the satisfaction of people involved in family firm activities: respect, care, satisfaction of their needs and concern about their feelings. Benevolent paternalistic leader aims toward introducing high levels of trust, mutual support, open communication and appreciation of each other achievements. Such leaders may have very positive influence on their successors as they offer coaching and support to help successor gain experience and autonomy.
   The founder of the Plantex company described in unit 6 seems to represent this style of paternalism, by offering his daughters and their spouses unconditioned support and help when they were either gaining business experience in the mother plant, or taking over its management. An example of such style can be also illustrated by this statement:

[. . .] I have always felt that my father encouraged me to work in our business, because he had the idea that I could easily learn how to manage the firm by drawing on his experience. He was not an altruist, at least this is not the right term; he was protective, forward-looking, and a very involved leader in a benevolent sense. He has always thought that if I joined the business, I would be more likely to learn faster and easier from him than in another firm, mainly because he was originally a teacher, and he has helped me to find my own way to do my job [. . .]. (Mussolino and Calabrò, 2014, p. 2)

b) *Authoritarian paternalistic leadership* "refers to a leader who asserts absolute authority and control over his/her subordinates and demands unquestionable obedience from them." (Pellergini and Scandura, 2008). Leader who represents this leadership style claims he is the only person who knows what is best for the firm and the employees and the family. Such leader's attitude is often accompanied by distrust and he finds delegation of authority very difficult. An authoritarian paternalistic leader impedes the transfer of knowledge, skills and competences to the successor making the process of building his authority and position in the company very difficult. Here is an example of such attitude – utterance of a successor talking about his father's role in a family firm after the transition:

[. . .] It has been so frustrating to be the CEO while still waiting for my father to make decisions. Both in the family and in the business, he has always expected strict obedience to his authority. He was a great leader with a very successful firm and a very respectful family and I admire his toughness and his success, but I still think that a firm is a result of several people's work, and as a family business he should have had in mind that the firm would continue under another family member's governance (in this case mine), and he should have prepared me and everyone to help this firm survive. Instead, he still thinks that he has the last word [. . .]. (Mussolino & Calabrò, 2014, p. 2)

c) *Moral leadership style* is concerns the attitude exhibiting modelling and mentoring. Mentoring by seniors is particularly valuable for family firms during transition as they offer the transfer of knowledge of the kind which cannot be acquired through formal education. During the process the successors manage to develop positive relations with their ancestors and identify themselves with the family firm. Such moral paternalistic style will have a positive effect on the successors attitudes towards the company and the transition.

[. . .] Together, my parents built a business in the construction industry and they did very well. After my dad's death and a very tough period for both the family and for the business, my mother has become a leader gained the respect of all the employees and family members through her kindness, humility, listening and dialogue, religious beliefs and personal truthfulness. She is an example and a model to follow and even since I became the CEO of our family business, I still refer to her past experience to make the right decisions [. . .]. (Mussolino and Calabrò, 2014, p. 2)

Satisfaction with the succession process is crucial for the survival of the family business over the transition. When the CEO does not allow the successor to participate in decision making and consider them to be competitors to power, the latter may become dissatisfied and never develop leadership skills.

Benevolent and moral paternalistic leaders are more welcome to stay in the company after the transition to support, advise and secure the social capital. Such attitudes would also have a very positive effect on family relations.

De Vries (1993) mentions that family businesses are prone to autocratic rule. He stresses the fact that particular characteristics of the founders-leaders such a dominance and persistence enabled the company survive on the market and created the unique atmosphere that affected the company culture and way of acting. In many companies such leader's attitude prevails but as long as it is benevolent or moral paternalism it will not harm the succession process. However if the paternalism is of autocratic nature it may lead to the company atmosphere becoming secretive, conservative and extremely traditional, ignoring innovations and developments in the technology. In such cases it does not encourage change, only threatens the family firm's survival.

### 7.4. Other psychological factors that impede the transition of family business.

Nepotism, family feuds, gender bias, fear of losing one's identity, sibling rivalry, cross facility interests, informality are all problems that may ruin the family business during the sensitive time of transition.

### 7.4.1. Nepotism

Nepotism stems from the notion of familism. Sometimes senior-owner-manager seem to ignore the fact that some family members are not necessarily the most suitable successors. Love of their children makes some parents blind to their entrepreneurial deficiencies distorts their clear judgements and lead to wishful thinking. Working under incompetent manager only because he's the owners' son or daughter places the non-family employees in very inconvenient position. The lack of just and fair assessment of staff contributions to developing the family business can undermine the most valuable asset of the family firm – trust.

This story provides a good example of the "spoiled kid" syndrome":

#### Family business example 7.1

Consider the example of a well-known international firm in the clothing business. The president of this company (encouraged by his wife) was completely blind to the incompetence of his only son. Having survived a severe coronary attack, he placed his son, who had been busy flunking out of every school he had been sent to, in a senior position. The son's behaviour soured the atmosphere. One of his worst habits was to lay the blame for whatever mistake he had made (forgetting appointments, not following up on clients, allocating resources poorly) on others; it was never his fault. Eventually, many of the more competent employees could take it no longer and left the company. When the son (against all advice) acquired a firm with outdated product lines and obsolete machinery, the company went into the red, and this finally opened the father-president's eyes. He realized what had really been going on and reasserted his control.

Source: de Vries, M. F. K., 1993, p. 64

If the non-family staff are fairly treated and the reward and incentive systems are efficient, they might find such situation acceptable. However if the system is biased towards the non-contributing family members loyal and capable employees might be tempted to leave the family company, especially if the situation vary from the pre-transition period.

### 7.4.2. Family feuds

The functioning of the family business is often disturbed by frictions arising from rivalries that involve various members of the family. Unless the leader openly faces the problem and the feelings it carries (such as hostility, anger, envy, sense of injustice and/or guilt), the business will suffer and may even die.
Before ways of dealing with such situations are tackled, they should be analysed and their deep roots should be uncovered. Only then repair plans can be worked out and introduced. Their success depends on many factors, including the willingness of family members to cooperate and if it's not too late, i.e. the business hasn't suffered too much.
As it was earlier mentioned, some founders-owners-principals find it very difficult to delegate authority and postpones the decision despite promising it. In the meantime the CEO intensely demonstrates his competence to show he's in charge. Unfortunately his conflicting explicit declarations of planned succession and implicit avoidance of letting go lead to contradictory behaviour. At the same time son's feelings of rivalry reflect these of his father. The growing maturity of the potential successor, who seeks responsibility and freedom of action is confronted with his father's broken promises of retirement. This leads to frustrations and uncertainty. The son resents depending on his father for his income, title, office, promotion etc. and being treated as immature and incompetent trainee. Fathers and (mainly) sons are torn by contradictory feelings, as the father considers the son to be ungrateful and the son feels both hostility and guilt for this hostility. If there are more children in the family, the father sometimes uses rivalry among them to control the growing expectations of the successor – all of the sudden he promotes another child to a higher position or offers him/her a pay rise.
Such situation may be particularly noxious for the family business. The potential successor either never learns how to lead business and his "trainee mentality" becomes fossilized, or he leaves the family business to start independent career.

Equally difficult situation occurs when the son actually takes over the business with the father trying to run it from the "back seat". The son not only needs to confront his business ideas and plans with his father, who criticizes him and all the changes he's trying to introduce, but also with his father's myth in the company, and criticism of those family members who hoped to become successors and are full of envy. Whatever the successor does, it doesn't matter if is successful or not, he may be accused of not doing better.
Family feuds become even more noxious to family firms if they concern extended family, which is inevitable when conflicts grow and are not successfully managed. The worst possible situation is when two or more informal "clans" struggle in the family firm and human emotions dominate over business operations. In quite a number of family firms there is an assumption that any family member who wishes to work for the firm should be given the opportunity. This may have devastating results for the company welfare, especially if the jobs are artificially created for family members and are not needed.
Another common problem occurs if the family have high expectation towards the profits the company should bring them. If the business targets are not met, not necessarily due

to bad management but to market turbulences, some family members tend to blame the board and the leader. This is an opportunity for them to attack the managerial body and begin a professional conflict that may turn into a long-lasting and detrimental family feud. Firm in which several relatives of varying age and relationships are involved may become disrupted around problems connected to succession and power transfer. If the family business turns into a battlefield of hostile parties there is no other solution than to sell the business and divide the income.

The case provides an interesting insight into the history of a very successful family business reaching the level of nearly being closed down due to a family feud:

### Case 7.1 'Children's clothes manufacturing company'

Due to serious product shortages in the 80-ties in Poland, two sisters, Anna and Maria began making clothes for their kids. Anna was a talented designer, her sister – a skilful dressmaker. Both were developing their joint hobby and passion. In result their kids looked like children fashion models. Other family members loved their products, so the sisters set a small informal enterprise, selling products mainly to family and friends.

On market economy introduction in Poland in 1990, Anna and Maria, full of enthusiasm and creative ideas, decided to formalize and expand their business
By 2006 the sisters owned a business that employed around 150 employees, had three subsidiaries and exported products to over 20 countries. Families of both sisters lived comfortably and both husbands and all adult children also worked for the company, first during holidays, later, the older ones - as regular employees.

Due to heavy market competition in the late 2000s and contradictory company values that led to growing conflict among relatives, the family firm started losing its market position. This affected the their profits, but none of the families were ready to cope with the new situation since at that time they were already acting like two hostile clans. This was especially explicit when strategic decisions concerning the future of the family firm had to be considered and taken.

Anna's family wanted to reduce the operations by selling some of the assets and get back to the starting point - turn the family firm into a hand production plant of high quality children clothes for the top end of the market. Maria's family wanted to develop mass scale production of cheaper clothes available for ordinary customers which needed further investments and bank loans. Additionally the problem of succession appeared and although there were five potential successors there was no agreement as to who should take over the management of the family firm. The conflict grew to such a degree that the family members started communicating solely via non-family employees. The latter, especially the ones with longest employment, started leaving the firm due to loyalty conflict and stressful work atmosphere. New employees lacked skills and product and company knowledge and the dilemma who should be hired led to further conflicts.

At some point the owners realized that in such circumstances the business had no future and decided to hire an independent consultant-mediator, Mr Kowalski to help them sort out their problems.

After the initial research, the consultant realized the following:
- The level of the conflict was disruptive and noxious for the company.
- Without major strategic and organizational changes there was no chance to save it
- There was no will to communicate and look for consensus among family members
- The younger generation were not ready to take over the family firm
- The company was not ready for a succession either – it was indebted without clear strategies and procedures and with unhealthy corporate culture

Source: Case developed for INSIST teaching materials by R. Paszkowska, 2016

The spectacular success and very fast growth of the family firm caused too much self-confidence and led the owners to negligence in developing formal procedures and solid communication channels.

### 7.4.3. Gender bias

Usually the conflicts between fathers and daughters – potential successors are not as spectacular and harmful as between fathers and sons, as there is less open rivalry or competition (Galiano and Vinturella, 1995). In case of woman successors work relationships are stronger influenced by family relationships and fathers feel less threatened by "daddy's daughters" in the company than by independent young men. Daughters are more prone to value father's mentoring. Dumas (1989) suggests that daughters often consider their fathers as "perfect", "competent", "all-knowing". Such approach might limit the danger of open conflict, but it could retard the development of their managerial skills and own identity as business leaders.
In their paper Guliani and Vinturella (1995) indicate that for many women the process of excluding them form succession in family firms starts very early in their lives and may take various forms, from the father indicating the hardships of running the business to daughters and the exciting possibilities it offers to their sons, to guidance in educational paths and career choices. Once the woman enters the family firm she may still be excluded from decision making and leadership trainings, which can lead to serious conflicts.

### 7.4.4. Sibling rivalry in family firms

Sibling rivalry can be defined as "the competitive relationship between siblings and is often associated with the struggle for parental attention, affection and approval, but also for recognition in the world" (Avlonti et al, 2014, p. 663). The relationship among siblings is considered to be the most enduring of all familial relationships. It is unique and associated not only with its longevity, but also with the fact that they share genetic and social background. The character of sibling relationships in adulthood is very complex as it involves many factors and dimensions. One of them is past rivalry in childhood and adolescence. Rivalry between sibling sometimes reaches very intensive level, which impedes all managerial decisions and seriously disturb the functioning of the family business (Levinson, 1971).

#### Family business example 7.2

Arthur, five years older than his sibling, is president, and Warren is an operating vice-president, of the medium-sized retailing organization which they inherited. To anyone who cares to listen, each maintains that he can get along very well without the other.

Arthur insists that Waren is not smart, not as good as businessman as he, that his judgment is bad; and that if given the chance, he would be unable to manage the business.

Waren asserts that when the two were growing up, Arthur considered him to be a competitor, but for his part, he (Warren) did not care to compete because he was younger and smaller. Waren says that he cannot understand why his older brother has always acted as if they were rivals, and he adds, "I just want a chance to do my thing. If he'd only let me alone with responsibility! But he acts as if the world would fall apart if I had the chance".

Every staff meeting, and meeting of the board (which includes non-family members) becomes a battle between the brothers. Associated, employees, and friends back off because they decline to take sides. The operation of the organization has been turned into a continuous family conflict.

Source: Levinson, 1971, p. 382

Friedman (1991) identified three dimensions of the positive and negative influences of the parents' behaviour in the family on the adult sibling relationships. He presented them as continuum with the negative outcomes on the right and positive on the left (Fig. 7.2)

Parents can't help comparing their children, but how they carry out such comparisons may determine their children self-identification and self-esteem. Children whose uniqueness was appreciated, accepted and addressed as positive, who received support from their parents have more agreeable personalities, are more cheerful, they also represent higher level of trust towards family members and strangers (Jayson, 2012) Such children are not urged towards struggling with their sibling for parent's affection and attention.

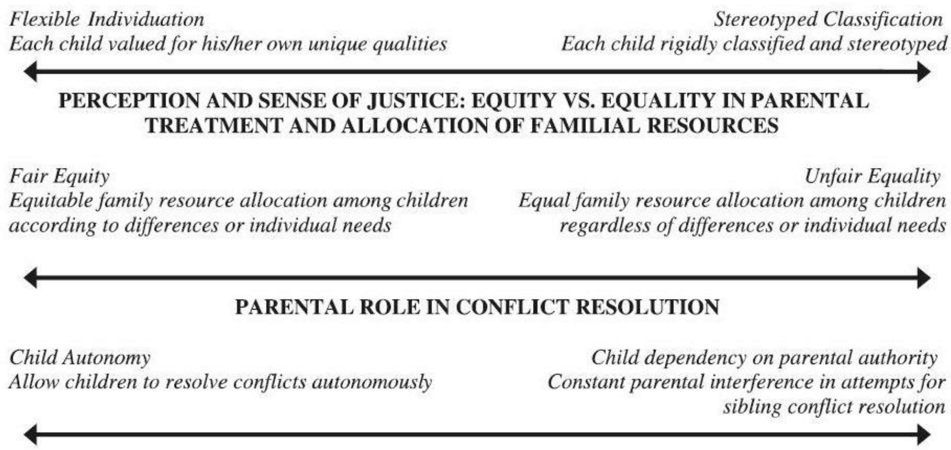
On the contrary, children that are labelled and constantly unfavourably compared to their brothers or sisters, especially on the basis of features which cannot be controlled by them, such as gender or intelligence usually tend to exhibit long lasting competitiveness towards siblings for parental rewards.

Offering children the sense of justice when they are still at home is one of the most crucial factors that strongly affect sibling relationships during and after family business transition. It teaches them to value and respect the needs of others.

Figure 7.2 Inter-sibling relationship comparisons

*Positive outcome* *Negative outcome*

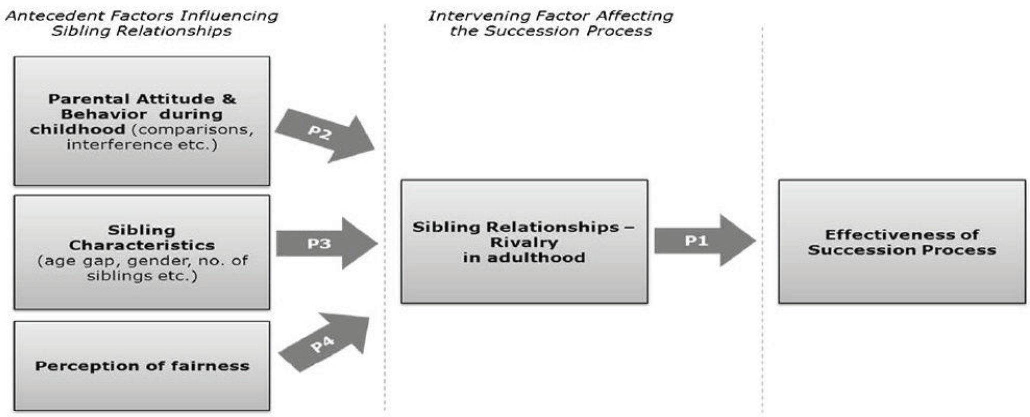
Inter-sibling relationship comparisons




Source: Avloniti, et al., 2014, p. 668

Another extremely important factor that stem from parental attitudes when raising their children is their role in conflict resolution, as it models adult's way of conflict management. One of the most important skills parents can teach their children – future entrepreneurs is to help them reach autonomy in conflict handling. This help children build their self-reliance and not depend on parents in every misunderstanding solutions. Such siblings will have better prospects to get along well in the future

Figure 7.3 Dimensions of positive and negative outcomes from overall parental attitudes and behaviour affecting sibling relationships




Source: Avloniti et al., 2014, p. 665

Since sibling rivalry in adults usually reflect patterns acquired from parents during childhood adult children who are to cooperate and sometimes jointly run a family firm should work on their relationship to avoid destructive rivalry. Even if their relationship happens to be a serious problem young adults can seek help or undergo coaching to help them understand the mechanisms that badly affect them as family members and their activities in the family firm.

"Third parties can help siblings in family firms recognise their commonalities of interests and examine their childhood patterns of interaction and conflict-handling behaviour in order to discover more rational patterns of interaction (...) The hope is that their conflict will serve as springboard to psychological as well as economic progress when the family firm passes from one generation to the next". (Friedman 1991, p. 17).

## 7.5. Family crisis – divorce, illness of the principal, bereavement

Sometimes the family firm faces a sudden crisis. Often it cannot be planned or forecasted but there are circumstances, when the family members could sense it coming (e.g. a divorce) or might rationally expect it (e.g. ageing or death), but for many reasons prefer not to deal with it before it actually strikes the family and the company often leading to unprepared, unplanned actions and succession.

When it comes to divorce, apart from emotional distress the partners have to face the problem of dividing their wealth. For most family business owners, the business is probably the most valuable, and the most illiquid asset in the marriage, meaning that it cannot be easily sold or exchanged for cash without a substantial loss in value.

Divorce law in different countries varies, but most courts assume that spouses that were "copereneurs", as opposed to co-entrepreneurs, (Barnett and Barnett, 1988)2 are entitled

[2] Copreneurs – married couples where both partners are involved in business and share responsibilities for its operations and management.

to some part of the family business. Some legal systems require that all property of the marital "community" be divided equally, including family-owned businesses. Whatever the case, it is very difficult to assess the value of intangible elements of work or/and support of the spouse – whether it is emotional support or practical, including free labour and household management. (Blenkinsopp and Owens, 2010).
Unfortunately, for most business owners, splitting the business in half is like "cutting the baby in half" — in order to truly split the assets, the business either has to close its doors completely or the entire family business has to be sold to a third party and split the proceeds – an extremely difficult situation for a business owner who has spent a lifetime building a company.

Another less-than-ideal option is to continue working with the spouse as a business partner, which may not bring good outcomes provided the marriage didn't work out well. A personal break-up does not have to mean the end of business. First and foremost, both involved parties need to separate discussions concerning the business from any private and personal property discussions. Protecting the business — its worth and integrity — should be a top priority. This is possible if the parties are able to remove emotional involvement from the situation and try to think and act objectively as possible.
As part of the divorce proceedings, one of the first steps is to have the family business valued. When partners are not joint owners, agreeing on a value can prove problematic. With the owning partner looking for a low value, and the non-owning partner looking for a high one, the valuation method that is used, whether asset-based, income-based, or market-comparable-based, as well as the discounts taken, can all be a matter of dispute.

If the spouses will continue to work together in the business, the divorce will probably require a change in roles. For example, a spouse may no longer work in the enterprise, as a partner, executive or board member. In that case, the replacement of the spouse's skills and working out a transition of the business role may be part of the divorce process. If the spouse has a new role, it's essential to clearly define the spouse's decision making powers in the company, in order to prevent future disputes.
One of the most difficult problems the family needs to consider when planning succession in family business is the necessity to face the prospect of serious illness or death of the leader. Surprisingly quite a number of CEOs, (usually founders-owners), subconsciously tend to ignore their own mortality and assume death does not concern them. (de Vries, 1993) Raising the theme is a family taboo, interpreted as a hostile behaviour indicating a wish to see the leader in question ill or dead. Sometimes adult children tend to suppress the topic as its consideration causes anxiety and the feeling of guilt. They fear changes in their parents' lifestyle and worry how the transition would affect their own lives. They may worry which of the siblings will be selected to take over the management of the family firm and feel unsure if relationships with other family members would remain unchanged when their parents are no longer arbiters ready to solve misunderstandings.
For many owners-CEOs the family firm becomes the source of their self-esteem and part of their core identity. They wonder if the successors are going to respect their position

after they give up the managerial post. Several owners-leaders fear displaying lack of equal treatment of their children by selecting one to run the business, They are so anxious about not disappointing their progeny, that prefer to procrastinate the succession decision. (de Vries, 1993)

Often leaders are addicted to power and the position of a manager. Letting go is a great challenge for them. They would rather remain on top of the Board of Directors as long as it's possible than see their business being safely nestled in the hands of successors. Such attitude may also be due to the feeling of generational envy, i.e. the envy ageing parents may experience towards their young and enthusiastic children. On the top of their frustration some leaders may even humiliate their adult children and play down their achievements so as to subconsciously justify their reluctance to letting go. The CEO-owner, even reluctant to accept or introduce changes in his family business starts considering the issue of succession when his health deteriorates. Only then he cannot deny that succession is not a far ahead prospect only a vital current issue he has to deal with if the company is to survive transition to the next generation. (Dunn, 1999; de Vries, 1993). One may argue, that CEO's health problems may accelerate succession and paradoxically contribute to the family firm survival on the market.

Of course the best motivation to initiate and undertake efforts to secure reasonably smooth succession process is the vision of one's successors, autonomous and enjoying their jobs and lives and leading the company to better future.

## 7.6. Conclusion

This unit considers major factors that might disturb orderly transition. Succession is a very emotional and conflict-prone process that produces anxiety in all people involved. Reasons of resistance against introducing major changes in a family firm have been discussed and a model presenting factors promoting and reducing resistance at various levels presented.

Among factors that often impede transition, autocratic paternalism, nepotism, family feuds, gender biases, sibling rivalry can be found along with sudden family crisis such as divorce or illness/ death of the principal.

## 7.7. Reflective questions

1. Imagine you and your spouse are a parents of two young children, a girl of 10 and a boy of 8 and jointly own a small, but quickly growing family business. Your spouse has also a 17 year old son from the earlier marriage, who occasionally helps with family business in the busiest periods and during holidays. What approach would you adopt, what values would you try to stress while bringing up the children, what formal and informal steps would you take to secure a smooth and peaceful succession of the family firm in the future?

2. Imagine you're a young potential successor to a family business. Your ageing parents never talk about succession, not even mention it. You find it difficult to start the topic yourself, so as not to hurt your parents' feelings. You hate the idea they might think you are looking forward to their retirement and want to take over the business as soon as possible. On the other hand it is hard for you to plan and develop your professional career without knowing what your parents intensions are. How would you tackle the problem?

## 7.8. Additional readings

- Interesting paper on succession in women-owned family businesses: Cadieux, L., Lorrain, J., and Hugron, P. (2002) Succession in women-owned family businesses: A case study. *Family Business Review*, *15,* 17 – 30.

# Unit 8. Conflict Management During the Family Business Transition Period

*(by Romana Paszkowska)*

## 8.1. Introduction

Family business conflicts tend to be more complex than those in non-family companies due to the dual and overlapping areas of interactions between family members. Family businesses need to deal with several misunderstandings that do not occur in non-family firms such as siblings rivalry, successors' aiming towards individualism in collectivistic family environment, marital conflicts, ownership, management and leadership dispersion and many more. What's more, family members sometimes fossilize their conflicts which they find noxious for the family and business. They do not make concessions in fear of losing their status, professional standing, succession prospect or other privileges. (Poutziours et al., 2006)

Conflict management seems to gain even more importance in view of the succession process, i.e. intergenerational transition of power and ownership. On this occasion, the most difficult, long lasting and specific for family firms conflict emerges – generational conflict. Its good management and satisfactory solution often determine the survival of the company.

## 8.2. The nature of conflicts in family firms

Conflict is the "misunderstanding or struggle between at least two interdependent entities that perceive their goals as contradictory, resources as insufficient and see influence of other groups on their aims of reaching their goals" (Adams and Galanes, 2008)

Due to its specific character family companies are more prone to suffer from misunderstandings and conflicts. It is caused by the combination of two different systems in which they operate: family and business, in other words – social and economic.

Very often family conflicts occur simultaneously in both system and are strongly based on emotions. They seem to be more persistent and the interpenetration of family power and control makes conflict recognition and management even harder and more complicated. It happens that family conflicts stem from family business cross-purpose goals and the family is an arena where they are displayed. Interactions that occur among family members both in the family and business strengthen the negative effects of conflicts. (Poutziours et al, 2006)

Ward (2004) indicates that older and more developed family firms have greater probability of conflict occurrence and have usually more acute character. Family members are less close and develop different values, opinions, goals, interests, hopes and expectations.

## 8.3. Conflict types

There are several taxonomies indicating various types of family conflict.

### 8.3.1. Task and process vs. relationships conflicts

Task and process conflicts are rather constructive as they are rarely emotional and stimulate creativity and innovation. They lead to open debates and greater understanding and acceptance of choices and decisions. They seem to increase the quality of management and engage into decision process taking all involved in the conflict (Poutziours et al., 2006) Such conflicts also increase involvement of family members in the family firm activities and management. Well managed conflict may be beneficial for the company, while badly managed one can be noxious even if the original conflict carried constructive potential.

Relationship conflicts refer to asset relocation, justice, future of the company and family members (succession), nepotism, family feuds, etc. They are usually emotional, negatively affect the family business operations, worsen the quality of decisions, increase tensions among relatives, anxiety and threaten the stability and level of sustainability. Relationship conflicts often disturb normal functioning of the company and direct people's attention and energy towards conflict resolution at the expense of family firm development. Such conflicts are dysfunctional and generate frustration and other negative emotions.

Understanding of interactions between both kinds of conflicts in a family firm are crucial for its harmonious functioning. Gains of positive, Task and process conflicts are if the negative relationships ones dominate.

### 8.3.2. Communication conflicts

Communication conflicts stem from attribution errors. They stem from obstacles and disturbances in the communication process and lead to wrong understanding and interpretation of the messages true meaning and/or intention. If such conflicts appear occasionally they do not disturb the family firm operations. However, their frequent occurrence may have noxious effects and lead to negative relationships among family members.

Sometimes family members understand each other well, but cannot communicate successfully due to their varying basic value systems, visions of the future or limited asset divisions. (Stefańska, 2011)

### 8.3.3. Intergenerational conflicts

Intergenerational conflicts have existed for centuries, however the more dynamically the world changes in terms of the speed of life, cultural changes, globalisation, etc. the more intergenerational conflicts tend to escalate. There are many other factors that intensify intergenerational conflicts such as radical innovations, technological progress, approach

to personal development, and the tensions between continuity and change as represented by generations.
Whatever are the conflict roots the conflict, most often it is demonstrated by the lack of acceptation for technological and technical innovations, new management methods and work organisation in family firm. It often stems from different values.
The older generation stereotypically assume the young have little knowledge and experience and before they gain them, they should base their activities on obedience and use the skills of the older. Such attitude discourage the young entrepreneurs and lead to stagnation (Nowodziński, 2015).

### 8.3.4. Metaphorical approach to family conflicts

Interesting approach to family conflicts is presented in the paper by Piper, Astrachan and Manners (2013) They distinguish three types of conflicts and refers to them metaphorically as "The Business as family Pawn", "Retarding Maturation" and "Stagnation".

*"The Business as family Pawn"*, refers to a situation where the family firm is treated as a pawn or communication vehicle among family members in their fights, conflicts and other areas of tension in which family members believe they cannot communicate openly. In this case business is not the root cause of conflict but rather substitution of deeper emotional family conflicts which are transported onto the business. Businesses only stage and lever that intensify the conflict and brings them to the larger audience.

*"Retarding Maturation"* occurs when family business "holds younger family members hostage". Benefits they receive from the parents (financial, acceptation, etc.) depend on to what extent they do what they are told. In these cases young generation autonomy and independence is often postponed in business families, which may have detrimental effects on the succession process.

*"Stagnation"* is connected with business owners' reluctance to change their business model, explore new opportunities and markets or shed unproductive assets. They fear changes might upset the dynamics of the family and lead to destructive conflict, emotional distancing etc. They fear that changing business would mean changing their identity and thus betraying the ancestors. Another cause of stagnation is a narcissist owner who doesn't really want the business to succeed without him Stagnations means ignoring opportunities, excuses for failing activities without plans for change, avoidance of formalizing the business and seeking advice from a board.

### 8.3.5. Explicit and implicit conflicts

Explicit conflicts are verbalized, easier noticeable and sooner resolved. Hidden conflicts are more difficult to diagnose and thus much more dangerous and harmful for the organization. Deterioration of work quality and pace, as well as discipline, absenteeism, neglect of directions, bad atmosphere and conscious or subconscious worsening of the work efficiency. Lack of trust is the further effect of hidden conflicts.

#### 8.3.6. Rational and irrational conflicts

Rational conflicts are derived from circumstances that can be objectively defined as conflict. The reasons of irrational conflicts are difficult to justify as they are derived from subjective perceptions of the people involved involving attribution errors, biases, or their bad disposition. (Królik, 2011)

### 8.4. Conflict management strategies

Thomas and Kilmann model (1974) conceptualizes five conflict-handling styles based on two basic concerns: *competition* (high concern for self, low concern for others), *collaboration* (high concern for self and others), *compromise* (moderate concern for self and others), *accommodation* (low concern for self and high concern for others), and *avoidance* (low concern or self and others).

*Competition* is assertive and uncooperative - an individual pursues his own concerns at the other person's expense. It means "standing up for one’s rights," defending a position he believes is correct, or simply trying to win.
Competition is the style most compatible with authority. Similar to autocratic authority, competition imposes or forces solutions. Competition is based only on the concerns of the competitor; it does not take into account others’ concerns. If the conflict involves the owner, it will likely be resolved to the owner’s satisfaction. Thus, in resolving conflict, competition is not likely to fully address the many issues of business and family, nor ensure successful business outcome.

*Accommodating* is unassertive and cooperative. When accommodating, the individual neglects his own concerns to satisfy the concerns of the other person; there is an element of self-sacrifice in this mode. Accommodating might take the form of selfless generosity or charity, obeying another person's order when you would prefer not to, or yielding to another's point of view. Accommodation, by demonstrating supportiveness and acknowledgment of others’ concerns, should contribute to good relationships and cohesiveness. In a family business, if all parties accommodate, conflicts can be resolved to everyone’s satisfaction.
However, too strong a norm of accommodation may prevent some family members from asserting themselves, even on important issues. For example, a highly accommodative owner might sacrifice business interests to satisfy family or staff.

*Collaboration* is both assertive and cooperative. It involves an attempt to work with others to find some solution that fully satisfies their concerns. It means digging into an issue to pinpoint the underlying needs and wants of the two individuals. Collaborating between

two persons might take the form of exploring a disagreement to learn from each other's insights or trying to find a creative solution to an interpersonal problem.
Collaboration requires time and effort on the part of participants. It also requires good interpersonal skills, including open communication, trust, and mutual support. Undoubtedly, collaboration contributes to desirable family outcomes, including positive relationships and cohesion. Because it requires mutual sharing and openness, it is more likely than accommodation to promote the organizational and adaptation that should enhance business performance. Thus, collaboration should significantly contribute both family and business despite being the most difficult style of conflict management.

*Compromise* is moderate in both assertiveness and cooperativeness. The objective is to find some mutually acceptable solution that partially satisfies both parties. It falls intermediate between competing and accommodating. Compromising gives up more than competing but less than accommodating. Likewise, it addresses an issue more directly than avoiding, but does not explore it in as much depth as collaborating. In some situations, compromising might mean splitting the difference between the two positions, exchanging concessions, or seeking a quick middle-ground solution. Compared to collaboration, which is highly integrative, compromise is relatively distributive. It may contribute to achieving desired business and family outcomes, but not to the same extent as would collaboration

*Avoidance* is unassertive and uncooperative - the person neither pursues his own concerns nor those of the other individual. Thus he does not deal with the conflict. Avoiding might take the form of diplomatically sidestepping an issue, postponing an issue until a better time, or simply withdrawing from a threatening situation.

In family business context avoidance is a failure to address conflicts. Although it limitsdirect confrontations, it leads to frustration escalation, which is later displayed in other ways. For example, family members might avoid discussing conflicts at work but vent their feelings with spouses, thus adding to overall negative feelings within the family. But when individuals need time to calm down or when an issue is just not that important, avoidance can be an effective strategy.

However, avoidance certainly is not a relationship- building strategy. Too much avoidance leaves important business and family issues unresolved, and this can heighten tension and limit productive action. Thus, avoidance does not contribute to positive business or to positive family outcomes. (Sorenson 1999)

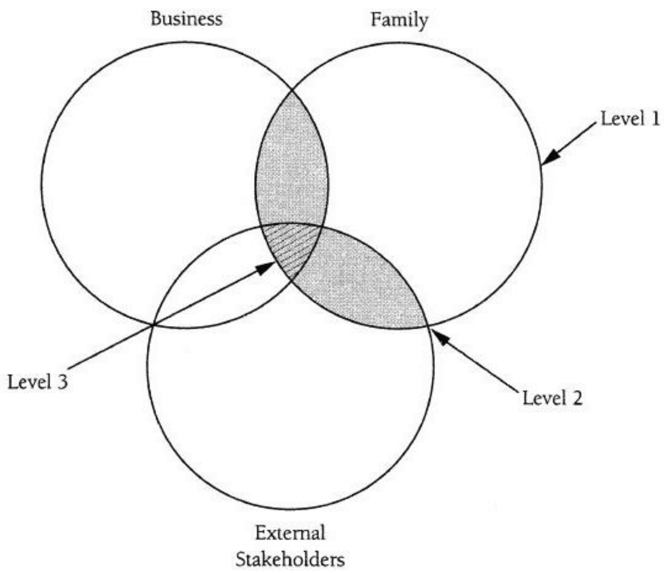
Sorenson (1999) conducted a study that provided an interesting insight into conflict management styles to find out which strategy is most efficient for resolving conflicts in family firms. It seems that the preferred conflict strategy norm in family business should consist of relatively low levels of competition and avoidance. In addition, accommodation and compromise should be used rationally for solving individual conflicts without risking issues important for business success.

The most frequently used conflict management strategy should be collaboration. This study suggests that businesses that produce the highest outcomes for both the business and the family have developed collaboration conflict management style.

“In family businesses, formal planning and coordinating meetings that encourage family members to express their concerns and that deal directly and effectively with these concerns can increase collaboration and set the tone for collaboration in other interpersonal interactions.” (Sorenson, 2011, p. 145)

Harvey (1994) attempted to find means to predict conflict relative to the phase of development of a family business, examined multiple levels of conflict and the appropriate resolution process for various levels.

Figure 8.1 Three levels of individual and collective conflict in the entrepreneurial environment




Source: Harvey, 1994, p. 335

Level 1 conflict occurs when there is no interaction among the three entities and the conflict does not spill over other constituents. E.g. family problem does not affect family business.

Level 2 conflict occur in two of these entities as they overlap and is more complex and difficult to deal with. E.g. the successor is not being accepted by the family firm staff which affects the relations between the father and son.

Level 3 conflict involves all three entities: the family, the business firm and external stakeholders. E.g. the successor is not being accepted by the family firm staff which affects the relations between the father and son and the situation is questioned and criticised by external stakeholder who demand changes in the succession process.

Table 8.1. indicates and describes the characteristics of conflict resolution process in connection to the level of conflict.

Table 8.1 Conflict resolution and level of conflict

| Aspect of Conflict Resolution | Level 1 Conflict | Level 2 Conflict | Level 3 Conflict |
|---|---|---|---|
| Focus | Individuals | Two groups | Total system |
| Nature of change to resolve conflict | Transactional | Transactional | Structural "essence" |
| Nature of interaction to resolve conflict | Interpersonal | Conflict teams | External consultant/ conflict teams |
| Impetus to resolve conflict | Internal | Internal | External |
| Role of entrepreneur | Direct | Team member | Consultation |
| Level of monitor resolution | None | Yes, cross sectional | Yes, longitudinal |

Source: Harvey, 1994, p. 343

To deal with conflicts in family firms it is important to develop methods of recognizing them at various stages of company life cycle. Table 8.2 shows six phases in a theoretical life cycle of a family business and indicate potential areas of conflict for each stage.

The ability to forecast the potential areas of conflict in the family business is one of the most important applications of a life-cycle approach to the growth of the family firm. The type of conflict identified by phase may appear at any of the phases, but usually occurs in the phase indicated in table 8.2.

The model is a useful managerial tool for preventing conflicts before they occur or dealing with them effectively when they do.

Table 8.2 Major conflict events by phase of development of entrepreneurial organizations

| Stake holder | Creative/ Definition Phase | Enterprising phase | Stabilisation Phase | Early Growth Phase | Sustained Growth Phase | Plateau/ Maturity Phase |
|---|---|---|---|---|---|---|
| Business | Translating concepts into a business Timelines not met Front-end money to go forward* | Fulfil government regulations Establish organisational infrastructure Attracting employees, customers* | Keep key employees Identify/ understand cost Increase efficiency and improve gross margin* | Ability to access market Willing to take risk Overcome cash crisis* | Ability to produce Cash generation to sustain Quality control * | Tie-in key employees Share future rewards Benefits for key employees to ensure their future* |
| Family | Support/ encouragement Use of family capital/income Emotional stability to take risk* | Lack of time for family "Free employee" Reduction in standard of living* | Salaries for family/ employees Improved communication Realities of the business as the future* | Siblings enter organisation Business/family conflict Successfully dealing with success* | Succession planning Middle crisis Maintaining business focus* | Founder plateauing Not turning loose Key personnel/ family leave business |
| External | Business design (structure) Advise/ consenting Obtaining working capital credit* | Build external network Supplier willingness/ availability "Hire" outside expertise* | Board of directors Make or buy decision (supplies) Renegotiation of loans and expansion money* | Professional management New inventors Working capital to sustain growth* | Additional funding Protection of the business Professional staff | Acquisition for extended growth Merger Nonfamily future orientation* |

Barrier Barrier Barrier Barrier Barrier

*critical juncture

Source: Harvey, 1994, p. 337

Effective conflict resolution and reducing the potential negative consequence of change can be managed effectively only if the process of stimulating change in family business is examined and assessed:

- *Consciousness raising* – collecting information about the self and the problem;
- *Self-education*- finding out what other entities think and how they feel about the conflict;
- *Self-liberation*- developing belief in their ability and the organisation's ability to change and resolve conflict, stress and tensions;
- *Counterconditioning*- identifying alternatives to those who create or prolong the conflict;
- *Stimulus control*- avoiding stimuli that elicit conflict within the organisation or involves it into inter-organisational conflicts;
- *Reinforcement*- rewarding individuals and organisations for making a change to resolve conflicts;

- *Continuing "assistance" relationship*- providing organisational and personal support to individuals after the change and to the organisation as a whole;
- *Dramatic relief*- encouraging and supporting individuals who had to change in the due course of conflict resolution process.
- *Environmental re-evaluation,* repeated checking if/how the change might lead to a new conflict eruption in the company or with outside entities
- *Social liberation*, encouraging open discussions about the change and the advantages of its introduction for the organisation and the results of conflict resolution. (Harvey, 1994, p. 334)

Conflict resolution methods should be orchestrated with the complexity and nature of the conflict. The ability to predict when the conflict is going to occur, recognise its level and elect and adopt the most appropriate resolution style and techniques could determine the success or failure of transition in the family firm.

But no good conflict resolution is possible without conversations within the family circle, whether it's informal talk or carefully prepared mediation (Węgielnik, 2011)

## 8.5. Conclusions

Family companies are fertile arenas of conflict outbursts for many reasons. The sources and nature of conflicts occurring in family businesses have been described. Several approaches to conflict type taxonomies have been presented and explained. Thomas Kilmann's five conflict-handling styles have been discussed in the context of family firms. Additionally, Sorenson's study presenting family business conflict predictability based on family firm's developmental phase, as well as resolution aspects depending on the level of family business conflict have been indicated. Finally, several steps towards effective conflict resolution reducing the negative consequence of change in family business family have been listed.

## 8.6. Reflective questions

1. What role does effective conflict recognition, diagnosis and resolution play in securing successful transition?
2. Try to analyse the family conflict described in unit 7 on page 110 (Case 7.1 'Children's clothes manufacturing company') with the concepts and taxonomies described in unit 8.
3. Which phases in the life-cycle of a family firm are most sensitive to conflict appearance? Justify your opinion.

## 8.7. Additional readings

- Classical paper by Harry Levinson on conflicts in family businesses:
  Levinson, H. (1971). Conflicts that plague family businesses. *Harvard business review*, *49*(2), 90-98.
- Article written by Amin Nasser about the nature and resolution of conflicts in family businesses:
  Understanding family dynamics and family conflicts. *Partner - Private Company Services Leader at PwC Middle East*

  Available at: https://www.pwc.com/m1/en/assets/document/family-business-docs/understanding-family-dynamics-and-family-conflicts.pdf

# SECTION III: CULTURE AND FAMILY BUSINESS TRANSITION

# UNIT 9: Organisational Culture in the Process of Transition

*(by David Devins)*

## 9.1. Introduction

Different cultures exist in different countries, in different organisations or even within a single organisation. Leaders and managers increasingly work across different cultures where organisations are collaborating with a range of stakeholders from across the globe. Globalisation and movement of people all over the world has led to multi-cultural labour markets where imported values, beliefs and norms about what is important, what is acceptable and how things should be done in organisations meld with and sometimes conflict with prevailing cultural systems. This unit focuses on organisational culture and the challenge facing leaders and managers who increasingly have to recognise and build on cultural particularities, adapting organisational policies and practices to cultures and managing employees in a manner appropriate to their culture (Gabriel, 1999). The unit specifically explores the influence of organisational culture within the context of family business transition.

## 9.2. Approaches to understanding organisational culture

In any given organisation, such as a school, airport, church or work organisation, there are individuals who bring their own cultural beliefs into that organisation. A manager having an understanding of these cultural differences is a vital ingredient of organisational success. Alvesson (2002) suggests that insights into organisational culture:

> *… may be useful in [relation] … to getting people to do the 'right' things in terms of effectiveness, but also for promoting more autonomous standpoints in relationship to dominant ideologies, myths, fashions, etc. To encourage and facilitate the thinking through of various aspects of values, beliefs and assumptions in industry, occupations and organisations seem to me a worthwhile task.* (Alvesson, 2002, p 2)

However, defining, identifying and measuring culture is a complex challenge as there is no single, universally accepted definition. There are many definitions of culture in the academic and practitioner literature that seek to describe and explain culture. Many of them refer to values, beliefs or norms that are shared amongst a group of people in a particular context. For example:

'[Culture is] a set of understandings or meanings shared by a group of people. The meanings are largely tacit among the members, are clearly relevant to a particular group, and are distinctive to the group' (Louis, 1985, p. 74).

> '[Culture is] the pattern of shared beliefs and values that give members of an institution meaning, and provide them with the rules for behaviour in their organisation' (Davis, 1984, p. 1).

Many academics and commentators draw attention to the importance of values when analysing why members of an organisation behave the way that they do. For example, Stuart-Kotze (2006) highlights the role that values play as a base for decision making and evaluating actions. Deeply held values can be powerful because they determine how people act without thinking – how they naturally react to various situations. Successful organisations link specific behaviours to values and manage the performance of their employees through their behaviours. The alignment of employee values to organisation values brings the organisation closer to attaining its goals. Proponents of a values based approach to management suggest that values drive all behaviours and help engage the hearts and minds of employees in pursuit of organisation goals. The more aligned organisational members are to the values of the organisation, the more they are able to behave in the desired way and support the organisation's strategy. Ultimately people do things because they want to do them, and then they will do them without prompting. What comes from within, defines behaviours and as behaviours are value based, understanding the values of the organisation becomes a source of competitive advantage for the organisation (Sullivan et al. 2001).

Schein (1985) uses an iceberg as a metaphor to illustrate culture, where less than ten per cent is visible and more than ninety percent is 'hidden' below the surface. In an organisation, values are hard to observe directly and deliberative efforts are required to surface them and ensure that they inform the manifest or espoused values of a culture. Often the underlying reasons for behaviour remain concealed or unconscious and to really understand a culture it is imperative to delve into the underlying assumptions which are typically unconscious but which actually determine how group members perceive, think and feel.

Schein's iceberg model of culture identifies three levels of analysis that can create an understanding of different components of culture in organisations, these are summarised in Table 9.1. Artefacts are clearly visible above the surface, values may be visible or submerged, whilst basic assumptions are often hidden some way below the surface.

Table 9.1 Schein's Iceberg Model

| Components | Examples |
|---|---|
| Artefacts | Tangible manifestations of culture |
| Values | Ethical statements of rightness |
| Basic assumptions | Unconscious and taken for granted ways of seeing the world |

Source: Schein, 1985, p. 24

Other authors use different metaphors to explain organisational culture (Morgan, 1989). For example, organisational culture can be viewed as an onion, with layers that represent rituals, ceremonies and symbolic routines. Inner layers consist of mythology, folklore, hopes and dreams that lead to values and assumptions that give meaning to the outward aspects of culture. In common with the approach advocated by Schein, it is necessary to address values at the core to impact or effect change. Viewing organisational culture as an umbrella is a further example of a metaphor used in this domain. In this instance the umbrella provides the overarching values and visions that unite individuals and groups underneath it. To effect change, a new umbrella needs to be found providing a new shared vision or reality which unites potentially divergent individuals, groups and subcultures.

However, organisational culture is rarely static, with an inflow and outflow of individuals constantly influencing the organisation's culture, sometimes imperceptibly and sometimes dramatically. As globalisation impacts on organisations and society, there is a contested space where some argue that there is some convergence, and others divergence in culture. Hofstede (1980) was one of the first to set out to measure the factors which distinguish one national culture from another. His research led him to create five indices of cultural norms (Table 9.2):

Table 9.2 Indices of cultural norms

| Indices | Description |
|---|---|
| Power-distance | This refers to the degree of social distance between senior management and workforce. If there are many levels of management within the organisation, and little contact between those at the top and those at the bottom of the organisation, power-distance can be said to be high. |
| Uncertainty-avoidance | This refers to the appetite for risk which is prevalent in any organisation. A high uncertainty-avoidance culture is characterised by low risk-taking, and vice versa. |
| Individual - collectivism | This refers to the propensity of the culture to reward individual effort, as distinct from a collective effort. This has a clear influence on the reward systems in an organisation. |
| Masculinity-femininity | This is arguably the most controversial of these indices, where a masculine culture is seen as macho and a feminine culture is seen as nurturing. |
| Long-term orientation | This refers to the distinction between those cultures which place a premium on long-term investment and others where judgements are made on short-term results. |

Source: Adapted from Hofstede, 1980

Hofstede took each of the indices and measured them using a survey of managers in one multi-national organisation. His results indicated that there are regional clusters of business culture that make it easier for those from countries with similar cultures to do business with each other.

Some-time later, Johnson and Scholes (1992) developed the cultural web as a diagnostic tool to identify the state of an organisation through six perspectives. Each perspective influences what Johnson and Scholes refer to as the organisational paradigm of the work environment. The proposition is that by analysing each of these perspectives, it is possible to take the cultural temperature of an organisation as a prelude to cultural change. The six factors in the cultural web are summarised in Table 9.3.

Table 9.3. Six factors in the cultural web

| Factor | Description |
|---|---|
| Stories | Every organisation has its folk tales, often referring to past events. |
| Rituals and routines | The day-to-day ways in which people go about their business in the organisation. Of particular importance are the behaviours which management reward and those which they prohibit. |
| Symbols | These are the visible manifestations of the organisation's culture such as dress codes, quality of office furniture, who gets what comforts in the organisation. |
| Structure | This is more than the overt reporting lines in accordance with an organisational chart, and reflects unwritten lines of power and influence within the organisation. |
| Control systems | This refers to financial controls as well as the systems for rewarding behaviour and who decides how rewards are apportioned. |
| Power structures | This refers to the hidden and informal power structures within the organisation and who really wields the power. |

Source: Adapted from Johnson and Scholes, 1992

One of the most influential models used to explore organisational culture was developed by Charles Handy (1999) where the cultures are classified into four main types: the power culture, the role culture, the task culture and the person culture.

Table 9.4 Handy's four types of organisational culture

| | |
|---|---|
| The *power culture* is illustrated as a spider's web where the key to the organisation is the spider at the centre of the web. The closer an individual is to the centre, the more power and influence they are able to exert. This type of culture relies on individuals rather than committees and control of resources is the main power base. | The *task culture* is illustrated as a net, where some strands are thicker or stronger than others, much of the power and influence is located at the intersections of the knot. This culture is job or project orientated, where bringing resources together and teams of people play an important role. |
| The *role culture* is illustrated as a building supported by columns and beams, each column and beam has a specific role to play. Rules and procedures are chief methods of influence. Individuals are role occupants, but the role continues even if the individual leaves. The significance of role culture is that is demonstrates that bureaucracy itself is not culture free. | The *person culture* is illustrated by a loose cluster or constellation of stars. The individual is the focus point and exerts substantial influence and has considerable autonomy as control mechanisms are impracticable in these cultures unless by mutual consent. |

Source: Adapted from Handy, 1999

There is a tendency to view Handy's four cultures as fixed and something that an organisation has, rather than something that is created, negotiated, shared and evolving over time. None of the four types can claim to be 'better' or superior to the alternative as they are each suited to different types of circumstances. For example, the ability of the power culture to adapt to changes in the environment is largely determined by the perception and ability of those who occupy the positions of power within it. The individuals may affect organisational change rapidly and adapt successfully or they may fail to see the need for change and die. Role cultures are largely dependent upon bureaucracies, systems' rationalities and size; they function well in steady-state environments but find it difficult to change rapidly. The task culture is a characteristic of organisations operating in a dynamic environment constantly subject to change. The person culture is characterised by a consensus model of management where individuals within the structure determine collectively the path which the organisation pursues. The rejection of formal management controls suggests that this may be appropriate for some organisations but not others.

Handy's typologies suggest that culture has critical implications for leadership and management. Managers are often tasked with delivering a 'culture change', so to understand the organisation there is a need to understand the culture. Clegg at al. (2005) suggest that to understand the culture in organisations the following questions need to be asked:

- How are things done in particular organisations?
- What is acceptable behaviour?
- What norms are members expected to use to solve problems of external adaptation and internal integration, and which ones do they actually use?

When answering these questions, it is necessary to consider the existing environment, culture and leadership styles. Some organisational units may be operating in relatively steady-state environments whilst others may be subject to a high level of change where the future is uncertain and difficult to predict. Consequently, different approaches to managing and different cultures may be required in different organisations. In addition, it

must be born in mind that different operating units within the same organisation may exhibit different cultures and require differing forms of leadership and management.
By using some established frameworks for classifying culture, managers can learn to 'read' situations, and understand the impact they can have. Exploration of different types of cultures can help point a manager towards appropriate action in a given circumstance.

### 9.3. Family business culture and the process of transition

The 'family' metaphor of organisational culture is used to describe business units in both literal and symbolic ways. The notion of family may be deployed to invoke positive associations of integration, harmony, care and loyalty in organisations. However, for others the concept of a family business represents contradictions and negative implications for social relationships. For example, Casey (1999) argues that the family can be hierarchical and repressive with paternalistic leadership often associated with family businesses as a way of controlling employees where power is exerted by the leader for the 'good' of the recipient.

There are many studies that seek to understand family dynamics and business performance (Dyer and Sanchez, 1998). Not surprisingly this perspective is dominated by research that is aligned with the interests of business owners and managers and oriented towards improving business outcomes such as firm profitability and sustainability. The overlap between family, business and ownership systems and recurring topics such as family relationships, interpersonal relationships in the business and conflict resolution feature strongly in the family business literature (Ainsworth and Cox, 2003).

The process of transition provides an action space and a significant challenge for many family businesses. Cadieux et al. (2002) note that what primarily differentiates a family business from a non-family business is the succession process, and Williams et al (2013) base their research on the premise that trans-generational intent – the plan to pass management of the business to future generations – is a defining characteristic of family firms. Williams et al. use Family Business systems theory (Distelberg and Sorenson, 2009) to suggest that leaders of family business may consult three elements of the family business system (i.e. the business, owners and the family) when making decisions about succession. This brings up the issue of ownership which is seen as a major power base in the family business, some families may pass the management of the business onto outsiders and retain ownership, which allows the family to keep the potential for future wealth.

The culture of many family businesses may be heavily influenced by the owner-manager and his or her relations who may be reluctant for a host of social, psychological or cultural reasons to consider transition (See Unit 2). Various authors have sought to categorise family business cultures including, De Vries who categorised five types of family business cultures (in Duh and Belak, 2009):

- 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),
- politicised culture (leadership responsibility is relinquished).

Influential research in the transition domain was conducted in the late 1980s by Dyer Jr. who identified the essential role that culture plays in determining the continuity of the family business after the first generation (Dyer Jr, 1986). The four cultures identified by Dyer are summarised in Table 9.5.

Table 9.5 Cultures and their attributes

| | Paternalistic | Laissez-faire | Participative | Professional |
|---|---|---|---|---|
| Nature of relationships | Hierarchical | Linear | Group | Individualistic |
| Nature of human nature | People are largely untrustworthy | People are good and trustworthy | People are good and trustworthy | People are neither good or evil |
| Nature of the truth | Truth resides in the founder family | Truth resides in the founder family although outsiders are given some autonomy | Truth is found in group decision making and participation | Truth is found in professional roles and conduct |
| Orientation towards the environment | Proactive stance | Harmonising / Proactive stance | Harmonising / Proactive stance | Reactive / Proactive 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: Adapted from Dyer Jr, 1986

Dyer (1986) suggests that how a family business approaches transition is a key to its success and sustainability. The culture, vision and values of a family business will inform how the approach to succession is decided on and whether those very same elements survive the transition. He looked at this issue from three perspectives transition during succession, by introducing professional management, or by moving to public ownership.

### 9.3.1. The first generation: founders as creators of culture

One of the most significant factors in the development of cultural configurations of family businesses is the presence of the founder. Several studies have emphasised the charismatic nature of this individual (e.g. Dyer, 1986; Trice and Beyer, 1984). The studies suggest that these charismatic leaders often have extremely high levels of self-confidence and a strong conviction in the moral righteousness of their beliefs. In addition, founders of family businesses tend to

- Distrust other authority figures
- Be self-reliant
- Reject advice from others
- Exercise power in seemingly arbitrary ways
- Be secretive about their activities
- Totally organise and control business and family activities
- Be reluctant to delegate
- Develop a philosophy that is followed implicitly
- Be portrayed as 'larger than life'

Founders such as these have a profound effect on the culture of the organisations they create:

> "the culture as created…by the founder also served to integrate members of the organisations to work cooperatively together. The founders vision helped to create a sense of meaning and direction for the employees work lives, and this vision often extended into their family lives as well" (Dyer, 1986, p. 65)

This 'founder culture' can have a number of advantages and disadvantages as illustrated in Table 9.6.

Table 9.6 Advantages and disadvantages of the founder culture

| Advantages | Disadvantages |
|---|---|
| Employee loyalty and commitment are high | Over reliance on the founder for direction |
| Power and authority are not problematic | Slow reaction to new competitive environments |
| Decisions are made quickly | Inefficient decision making processes |
| The drive and resourcefulness of the founder ensure the business survives the first stage | Lack of adequate training and development |
| | Feelings of inadequacy and incompetence in other family members |
| | Powerlessness felt by family and nonfamily members |

Source: Adapted from Dyer Jr, 1986

A business with a culture created by such a founder can be highly resistant to change, as the founder's vision and drive quickly becomes the reason for being, and as such the business becomes institutionalised. Many businesses will fail to grow to any marked extent during their lifetime and remain relatively small with the organisational culture heavily influenced by their founder. Those that do grow and develop the structure necessary to guide a larger organisation require appropriate governance systems. Charismatic founders are likely to set up governance systems more likely to sign off on the founder's policies than to change them. It is more common to see family businesses like this with a paternalistic type culture, rather than other professional or participative cultures. To allow the business to mature and flourish, the founder must rely on different power bases including expertise, experience, clear information, logic and mutual respect and this may challenge the prevailing culture.

### 9.3.2. The next generation

> "Founding families view their firms as an asset to pass onto their descendants rather than wealth to consume in their lifetime" (Anderson and Reeb, 2003, p.1305)

There may be an event such as the founder's retirement, serious illness or sudden death, or a significant change in growth or profitability that triggers consideration of transition. As the business grows, declines or changes direction, it can often be seen that the founder's skills, so useful at starting the business, start to become less relevant and useful. As the role of the founder changes, so does the cultural configuration of the business.

#### Family business example 9.1 Challenges for the next generation

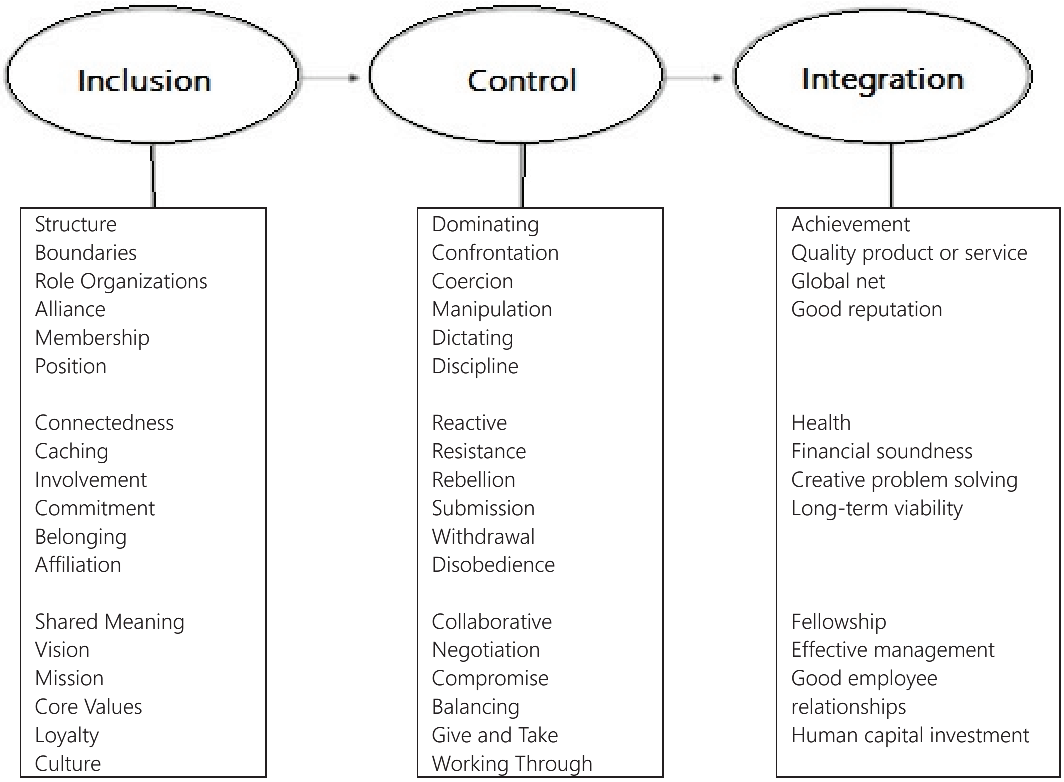
Avoiding 'Rebecca Syndrome'; in her novel Rebecca Daphne Du Maurier's unnamed narrator marries a widower, and is plagued by comparisons between herself and his former wife, Rebecca. She fails to measure up against the beautiful Rebecca on all counts. Second and third generation business leaders can have the same problem. They cannot shake the ghost of the founder; perhaps they did not want to take over the running of the family business, or feel inadequately prepared, or struggle to gain the loyalty of existing employees.

Source: Adapted from Dyer, 1986

One approach to managing culture change during the succession process is to use family Fundamental Relationship Orientation Theory (FIRO). FIRO (See figure 1) originated in Schutz's (1958) theory of group development and was later adapted for use in family business settings by Danes et al. (2002). Danes et al. found that both a sense of inclusion (roles, decision involvement) and the manner in which control issues (power and conflict management) are managed have important influences on family business integration (goal achievement, trust, fellowship). When families face major change, their patterns of inclusion, control and integration require reconstruction.

Also embedded in this theory is an optional sequence for managing change. It is suggested that without effectively addressing inclusion issues, control dynamics cannot be adequately addressed and this results in sub-optimum integration.

Figure 9.1. Fundamental Relationship Orientation Theory




Source: Haberman and Danes, p. 165

The next generation may face confusing and sometimes conflicting ideologies as they negotiate between family and business relationships, inter-generational pressures and expectations. Family members engage in their businesses to different degrees. When there are shared notions of where the business is going in terms of vision and what is important, family members are more likely to see the business as something they can engage in together. The importance of stewardship, drawing as a shared long-term commitment to looking after the business and to developing it for future generations is a feature of some family business literature. Where this approach fails to manifest itself, more individualistic and self-interested behaviours are likely to develop amongst the next generation which can threaten successful transition (Howorth et al. 2016).

The next generation may have an opportunity to re-evaluate cultural beliefs and practices as their influence and power grows over time. However, next generation leaders must take care when doing this as change in one area can have unanticipated consequences in other areas and may threaten the culture that made the business a success in the first instance.

### 9.3.3. Introducing professional management

The exercise of power and influence is a key element of organisational culture and the extent to which families are willing to cede these to non-family members is a feature of family business research (see for example Lam, 2011; Breton-Miller and Miller, 2009; Carney, 2005). The reluctance of family businesses to professionalise management, particularly in terms of hiring external managers or seeking advice and support from business support organisations or non-executive directors and the lack of external shareholder pressure is seen to reduce the drivers that challenge the economic performance of other businesses. The introduction of professional management into a family business can lead to profound changes in structure and function and therefore the culture of the family business. According to Dyer (1986) there are four significant areas for change:

1. New Leadership style; professional managers and founders often have very different background and training. Professional managers may have had formal business training, whereas founders tend to have had very little training. Professional managers often follow professional codes of conduct, may be seen as bureaucratic and can appear to be more concerned with their career than the long term future of the business. Founders develop close relationships with their teams and act quickly, relying on intuition or experience to make decisions. Such difference in background, personality and leaderships styles often lead to major changes in the culture of the family business.

2. New psychological contract between management and workers; the perceived relationship between employer and employee that determines the conditions of employment often changes with the introduction of professional management. The 'contract' with the founder is often based on the familial values that underpin the business. In contrast, the contract with the professional manager is often

utilitarian, becomes more impersonal and task oriented and tends to put increased distance between workers management, and those family members still in the business.

3. Organisation-Community Relations. Founders and families are often interested in the well-being of the local community. This can have an impact on employees who work within the founders' time and see themselves as 'company men and women' who are dedicated to the company and the local community. When professional managers join a family business they may focus on organisational success, often in economic terms, rather than achieving wider social and relational objectives.

4. Organisational Effectiveness; often professional managers are brought in to turn a company around and therefore focus on results, perhaps encouraging company growth and enhancing profits. This can be in conflict with family members' goals and aspirations for the business, and a conflict such as this makes building company policies difficult.

The role of professional managers may differ greatly from business to business, depending on the culture of the family, the business and the governing board. Professional managers may be charged with being an instrument of cultural change by the founder family, or even brought in as mediators to resolve long running familial conflict. For those family businesses with a board of directors, recruiting professional expertise can change the culture of the board which in turn can have a range of associated impacts on the family. The professional managers may hold different values to those of the family which can be a source of conflict and negative energy that adversely impacts on the family business. Notwithstanding these challenges, the professionalisation of leadership and management is often viewed as a major step in securing the long-term sustainability of a business.

### 9.3.4. Transition to public ownership

The number of family businesses that transition to public ownership is relatively small. There are a number of reasons why a family business might decide to go public (Dyer, 1986):

- To increase personal wealth
- To diversify
- To obtain capital for expansion
- To attract and motivate employees
- To satisfy investment bankers
- To professionalise management
- To sell out

Public ownership will inevitably impact on the culture of the business as new stakeholders with influence and power join the family in leading the business. The process can be associated with a number of unintended consequences for the culture of family businesses which include:

1. Conflict among executives and family members.
2. Focus on short-run results; family businesses often have long term goals, preferring to focus on longevity rather than short term profits.
3. Resentment of public scrutiny; founders can be secretive about their activities, and often do not have good decision-making mechanisms. Founders and board members have to become used to outside stakeholders taking an intense interest in the affairs of the business, which can be very uncomfortable.
4. Change in Power structure; public ownership significantly dilutes the power and influence of the founder, such changes often lead to major changes in the business culture, the governing boards and perhaps even the family. Dyer points out that "nepotism is much more difficult to maintain when one must answer to shareholders".
5. Risk of takeover.

## 9.4. Conclusions

This unit has introduced the importance of culture from a variety of perspectives. It highlights the multi-cultural nature of many labour markets and organisations and some of the challenges that this brings to leaders, managers and other stakeholders. There are difficulties in defining and measuring culture and capturing its dynamic and often seemingly intangible nature. The use of the term 'family' as a metaphor in both literal and symbolic ways invokes positive and negative organisational dynamics. The unit explores the relationships between family members, non-family members and other stakeholders, with conflict resolution, the role of the founder and professionalization featuring widely in the family business literature. The notion of culture is central to family businesses and one of the key challenges facing leaders of family firms is the extent to which 'familiness' can be harnessed as a positive business asset rather than manifest itself in a dysfunctional way that becomes a liability and threatens the sustainability of the family firm.

## 9.5. Reflective questions

1. To what extent do the models in this unit reflect reality? Choose a family business as a case study and consider the nature of their culture. What questions do you need to ask, of whom, to determine the culture
2. How do you determine different leadership styles and which ones produce the most positive outcomes for family culture

# UNIT 10: The Role of Culture in Family Business Sustainable Growth and Transition

*(by Dobrosława Wiktor-Mach)*

## 10.1. Introduction

In recent years more and more interest in family business theory and practice is devoted to cultural dimensions and embraces cross-cultural perspective. Globalisation and increasing connections between enterprises unveil the complexities of socio-cultural factors. Patterns of behaviour, values, social and ethical norms are being recognized as a crucial dimension of family business performance. This section presents the main issues in socio-cultural aspects of transition in family enterprises. Transition in the family business context is understood widely. It encompasses various changes experienced by and within organisation, in particular succession, internationalisation, hiring new employees, and cross-cultural business activities. The role of culture in these processes is complex and dynamic. On the one hand, certain cultural (and ethnic, religious) factors are frequently enablers of sustainability. Long-term orientation is an important value that can be conducive to success of a family business in the long run. Uncertainty avoidance, on the other hand, limits possible expansion and restricts new opportunities. Nepotism is seen as an ambivalent social norm, in some cases promoting smooth transition, in other hindering it. In this section we will discuss the multiple roles that culture plays in the context of family business with a focus on transition and sustainability.

## 10.2. The power of common legacy

The culture of a family firm plays an important role in determining the success of the business beyond the first generation (Dyer, 1988). As research on family businesses was expanding, awareness rose that sustainability of family firms has its unique determinants and culture plays a role in it. The power of a family legacy is a great challenge, but also an opportunity for growth. Dominant role of a founder is an issue that in the context of family business requires special attention. The founder's vision, his values, norms and ambitions directly or indirectly influence business identity and strategy. His or her impact is significant not only when the firm begins its activities, but also in successive stages (Denison et al., 2004). This cultural distinctiveness can be a source of competitive advantage. Many family businesses underestimate the powerful role of an explicit focus on family values. If the values of a family firm are recognized and nurtured properly, this can add strength and dynamism in the long-term perspective (Barney, 1986; Denison et al., 2004) (see case: "Italian design needs to go back to its origins, says Cappellini").

## Article 10.1 “Italian design needs to go back to its origins, says Cappellini”

Italian brands create "too many products that look the same", says Giulio Cappellini, whose furniture company is making a comeback under new owner Haworth.

Giulio Cappellini is creative director of the company his father started in 1946

Speaking to Dezeen, the creative director of iconic Italian design brand Cappellini said the industry had to return to the values of previous decades, channelling research and investment into innovative contemporary products.

"Sometimes looking into Italian design, I see too many products that look the same, even when they're produced by different companies," he said. "It is very important to work on strong products – products that can maybe be copied 80 per cent but not 100 per cent."

Italian design tends to focus "too much on lifestyle," he continued. "I think we have to move back to the origins of Italian design in the 50s and 60s – doing beautiful and useful objects. These products had a lot of strong research and investment.”

The gentlemanly designer, 62, was one of the most influential figures in the industry at the tail end of the last century, and the Milan-based company founded by his father in 1946 was regarded as the most innovative and glamorous furniture brand in the world.

He was among the first producers to recognise that design was becoming a global phenomenon and that Italian design could no longer rely on the shrinking pool of home-grown maestros.

He instead looked beyond Italy for emerging talent, helping to launch the careers of Tom Dixon, Jasper Morrison, Marcel Wanders, the Bouroullec brothers and Barber & Osgerby, among others.

However, the brand fell from grace in the early 2000s amid talk of financial difficulties, and it was bought in 2004 by Italian furniture group Poltrona Frau, at the time steered by investment firm Charme.

The gently spoken designer was reluctant to talk about this episode when Dezeen met him in the London showroom of Haworth, the US office furniture giant that recently acquired Charme's majority stake in the group.

Despite Icon magazine writing at the time that the company had been "rescued from bankruptcy" by the buyout, Cappellini now insists the business was fine. Instead, he claims that the company was rocked by the loss of €20 million (£16.7 million), which was allegedly embezzled by an employee.

"It was a huge shock for me," he said. "It was a very hard time."

With no-one in the family to take over the business, he puts his motivations for selling down to the need for a succession plan and the desire to compete in a global market.

More than ten years later, he claims the company is once again thriving due to a new-found appetite for Cappellini products among Haworth's contract clients.

"Thanks to Haworth, we are growing a lot in the contract market, because today it is easier to sell design products for contract – for hospitality and for offices – than for residential," said Cappellini.

The designer believes that consolidating Cappellini with other brands like Cassina and Alias from the Poltrona Frau group under Haworth's ownership has given them all an advantage internationally.

"It's not enough to do nice products; we need the possibility to promote the products everywhere in the world," Cappellini says. "The problem with a lot of Italian companies is that they may be very well known worldwide, with lots of products in different art museums, but really they are too small for the international market."

"You need to have a lot of energy to enter the international market," he adds, saying that North America and the Far East are becoming increasingly important. Cappellini's first Asian monobrand store opened in Manila in 2013, and another has recently launched in Ho Chi Minh City.

It's in these new markets that the designer is now looking to make an impact, and he believes it's his eye for "longsellers not bestsellers" that has secured a future for the once beleaguered company.

"We have some products that were designed by Morrison or other designers 20 years ago that were at the beginning maybe too avant-garde but we sell more now than in the past," he says.

Source: Rima Sabina Aouf 22 July 2016, Dezeen

Shared identity and a unique history of a family business form a legacy from which firms can draw upon. It can tell the story of a family and its contribution to the world. Family culture, permeating a family firm to a large degree, is never static. Building upon the founder's legacy does not mean that the followers should unconditionally adapt it. Their individual styles and visions are also a part of a family culture and can add to the sustainability of the company. A balance should be sought to remain true to the original view of the founder and the ideas of the next generations of owners (Denison et al., 2004).

## 10.3. Culture as a constraint to transition processes

In family business values, norms and worldviews shared by the family impact business decision-making process. This "blurring" of family and business spheres is making family businesses specific when it comes to transition issues. Strong traditions, customs and an attachment to family legacy can be a source of advantage, as it was mentioned before, but also a restrain to long-term vitality and success. In the period of rapid changes and perceived dangers, some family choose a defence strategy and keep a status quo. This conservative approach limits opportunities for innovation and development (Alderfer, 1988).

Cultural norms, values and traditional practices also exert a strong influence on the process of transition. In many societies gender issues are sensitive and daughters encounter additional problems as successors of family business. Since the 1990s there has been a discussion on "women's invisibility" in higher positions of a company (Dumas, 1992). This "glass ceiling" was attributed to conservative gender norms and stereotypes regarding the role of women in family life. The preference for male successors is a common principle and the sons usually were more likely to receive relevant education and training than daughters. The pattern is different when there are no male successors in a family (Constantinidis and Nelson, 2009). Although the proportion of female leaders in this sector remains small, it is nevertheless increasing and the corresponding social norms and attitudes are changing. According to a recent study, the proportion of female CEOs has reached 24 per cent (Thornton, 2014). There is also a growing recognition that women face additional problems in taking over and in running a family business (Sharma, 2004).

One of them is the social capital of a family business, which is a valuable asset and can constitute a competitive advantage. That is clearly visible in China, where one child policy determined succession decisions for decades, there are norms supporting daughter succession. After the Communist Party gained power in 1949 it began to promote egalitarian attitudes and women empowerment. It is not surprising that daughters in family businesses are often encouraged to become future leaders early in their lives. The process of upbringing supports their later career as the heads of family companies. There is an emphasis on the value of family and on the parent-child relationship, which are part of Confucian social structure. On the other side, however, when it comes to intergenerational succession, new female leaders face challenges from the environment. In Chinese business a key component of success lies in guanxi, the network of relationships. As an exploratory study by Deng (2015) showed the transfer of social capital – or, in other words, maintaining father's gaunxi (social ties) - was a major problem for women. The process of creating one's own authority and gaining trust is not impossible, but is more complicated and takes more time than in the case of male successors. Guanxi is not only about clients, but in the Chinese context it also influences possibilities of getting funding from a bank, winning a contract for products or services, obtaining discount prices, conflict resolution, etc. For many firms, gaunxi linking them with the political sphere was a key factor in times of crisis (Ibidem).

Internationalization process is one of the most challenging and complex forms of transition for family businesses. Generally, family businesses are more reluctant than other enterprises to enter foreign markets (Fernandez and Nieto, 2005). Family business owners regard culture as one of the main restricting factors. In particular they pay attention to disparate family goals, values and needs, and also to attitudes such as a lack of flexibility among leaders and a resistance to change coupled with significant degree of conservatism (Ward, 1998). Nevertheless, an increasing number of family businesses begin to look for development opportunities outside domestic markets (Claver et al., 2008; Fernandez and Nieto, 2005). Choosing a foreign market as a new space for business opportunities requires dealing with the problem of socio-cultural distance. Unsurprisingly, family businesses tend to prefer extending their activities in markets sharing similar features (Claver et al., 2007; Harris at al., 1994).

This phenomenon can be analysed by means of the Uppsala model of the internationalization. The updated version of the model (Johanson and Vahlne, 2009) proposes to view markets no longer in neoclassical perspective as composed of independent actors with rational outlook, but as networks of complex social relationships. Success in internationalization requires *insidership* in relevant networks. Relationships are crucial for learning processes, and emphasis is now placed on soft capabilities, such as trust building inside networks. Companies which entered foreign markets followed a pattern of establishing relationships in countries which were close in terms of *psychic distance* (i.e. "a sum of factors inhibiting firms' internationalization") (Kontinen and Ojala, 2010b, p. 103). Cultural differences – such as language, worldviews, norms, values, customer preferences, or lifestyles - can therefore create obstacles in global expansion for small and medium family firms.

For Russian family businesses, for instance, the first choice in international entrepreneurship are adjacent markets of what was before the Soviet Union. Common history is the legacy which still plays a role nowadays. Avgust, a family firm producing pesticide, which claims to be among the leaders in the sector, runs a global business. It began, however, with Belarus, Ukraine and Kazakhstan. As Boris Tarasov, one of the founders and CFO, states "the 'mindset affinity' between those countries has made it easy for us to trade between them" (*Globalization*, PwC). Establishing working networks is not an easy task and many efforts fail. It is to a large degree an informal process (Powell, 1990; Dyer and Singh, 1998), in which values, norms, expectations, communication patterns all play a role and should not be underestimated. As Johansen and Vahlne (2009, p. 1414) concludes: "The larger the psychic distance, other things being equal, the more difficult it is to build new relationships. This is the effect of the liability of foreignness." The perception of cultural barriers, according to the Uppsala model, tends to inhibit global internalization make it much slower. In case of successes at familiar markets, managers gradually increase their foreign engagement and enter psychically distant markets in a next stage. That pattern of behaviour in the case of SMEs was explained by Penrose (1956) as "gambler's earning" hypothesis - managers, like gamblers, are likely to begin the game with a small stake and only then expand their activities.

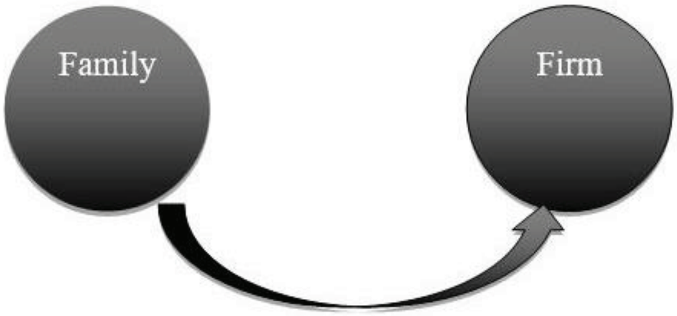
Finnish manufacturing family businesses operating in France provide another example of psychic distance as an obstacle in smooth internationalization (Kontinen and Ojala, 2010a). For firms from Finland French cultural and linguistic context was a challenge, even though formal barriers were limited due to European Union common market regulations. The researchers recommend that family business members develop capacity to overcome the factors which create psychic distance. Internationalization should be conceived of as a step-wise process. Firms gradually gain experience and learn, which allows them to enter more culturally distant markets with greater ease. Psychic distance can be diminished by „distance-bridging factors" such as establishing friendships between partners or knowledge dissemination (Kontinen and Ojala, 2010b). For example, Finnish software firms entering Japan - culturally very distant market – did manage to overcome obstacles by the means of taking advantage of various kinds of social networks: formal, informal or mediated. Mediation was a strategy used by firms which did not have direct contacts with Japanese business. A member of the family business described this process as follows:

„Japan is very difficult market to enter. We started a cooperation project with Finpro [Finnish non-profit consultancy association], where they searched a distributor that would be beneficial for our purposes. We also participated in Finpro's export partnership visit to Japan and it helped us to find the right distributor for our purposes" (Ojala, 2009, p. 10).
Another strategy that firms use to overcome the cultural barriers is to hire staff with relevant knowledge of language and culture of the target country. These were both Japanese people and Western managers who had already experience with Japanese business (Ojala, 2008).
The case of Israeli 'born-global' enterprises shows that, under some circumstances, the process of internalization can be faster that the theory assumes. Knowledge-intensive SMEs follow the general pattern. First they approach foreign markets with small psychic distance, then increase market share in those markets, and subsequently enter psychically distant markets. But, the pace of internalization is different, and the perceived obstacles were overcome in a relatively short period of time (Hashai and Almor, 2004).

## 10.4. Family values versus company values in the context of transition

For a long time research on family firms dealt with the question of boundaries between family and non-family firms. There was an assumption of significant differences between those two domains and the issue was how does family influence business (Fig. 10.1). The traditional approach stresses the distinctiveness of aims, patterns of behaviour and norms. Family is a social institution, which is focused on procreation, running a household, organizing family life, and caring about inner needs. Company is concerned with fulfilling others' needs and interests, taking a risk, and economic self-sufficiency (Safin, 2007).

Figure 10.1 Family-firm interaction: the traditional view




Source: Harrison & Leitch, 2016, p. 112

The difference between the culture of family and non-family firms is observed in normative systems. Table 10.1 presents a comparison of norms of the respective institutions.

Table.10.1 A comparison of norms of a family and a company

| *Family norms* | *Company norms* |
|---|---|
| Enabling development opportunities for relatives, especially for children | Employing only highly qualified people |
| Ensuring adequate support for arising needs | Ensuring salary adequate to one's contribution and market determinants |
| Lack of differences among siblings, viewing everyone as a person, and not as an average (in statistical sense) | Diversifying among people and identifying the best; people not are considered as individual human beings |
| Enabling everyone to learn according to his/her needs | Enabling learning process according to a company's needs. |

Source: Siefer, 1996, p. 63, after: Marjański, 2012, p. 31

Moreover, a family firm would emphasize common goals for the family and at the same time take care of distinctive needs and aspirations of each of the family members. Succession planning and leadership development strategies are also different. In family firms successor development is more personal and directed through relationships. The training of a successor includes mentoring and personal coaching as well as networking. In non-family firms the process is more task-oriented and relies on formal coursework and detailed planning (Fiegener et al., 1994). All of those socio-cultural characteristics have an impact on the process of transition.

Family values also influence global expansion of family businesses. Family firms share similar set of values and norms, in particular trust and loyalty inside a family, altruism, high commitment and long-term orientation. Moreover, social capital and strong networks serve as key resources for family businesses. Due to those socio-cultural factors international joint ventures between family businesses have more chances to last than those between family and non-family firms. And, generally, family firm members are more eager to establish relationships with other family firms. It can be a competitive advantage in the internationalization which makes the process faster and less expensive (Swinth and Vinton, 1993; Tsang, 2001).

There are family businesses that, at some point of development, decide to move from the commitment to family values towards embracing more business values. It can be a conscious move, for instance adopting a constitution, a family charter or other formal kinds of agreements. Even though it does not guarantee smooth transition, nevertheless many family businesses have profited from becoming more business-oriented. The case of Indian firms illustrate this point and also suggests that there is no universal pattern of transition, and socio-cultural determinants of sustainability remain important.

### Case study 10.1 A family constitution can bridge the gap between family and business values (Excerpts)

As more and more Indian business families adopt a constitution, it is becoming clear that for the document to be effective, the manner of drafting it has to be given due importance

It took the Burmans 18 long months, including a couple of family off-sites in Kathmandu, Nepal, to discuss and finalise the family constitution they were drafting. This was sometime in 1997-98. Dabur Ltd, the company the family owned and managed, had already made a name for itself in the fast-moving consumer goods (FMCG) space with their Ayurveda-based products, and the family's fifth generation was involved in the business. "We realised that for Dabur to grow rapidly there was a need to professionalise the management, and to attract the best managerial talent it was important to keep the top slot vacant," says Amit Burman, vice chairman, Dabur. What's more, "the family had also grown in size and the complexities in managing it were rising."

Consulting major McKinsey & Company was roped in to advise them. Soon after, family members gave up their day-to-day operational roles and professionals were brought in. Also, a family council was set up and all the male members of the family, above the age of 25, numbering over 10, were made part of it. Today, almost two decades since the family members signed on the dotted line (of the constitution document), the business has grown exponentially and the family remains united.

Indian business families have increasingly been embracing the family constitution. The Hyderabad-based GMR family is another early mover in this space, and their family constitution is even considered a gold standard. Others like Emami, Dr Reddy's and Murugappa Group too have put constitutions in place.

There has been a long-standing need for such a document. "There is a huge difference between how the family and the business are managed. Business is a reflection of capitalism where success depends on competitiveness and meritocracy. Family, on the other hand, is socialist in approach as everyone is equal irrespective of their qualification or gender," points out Ramachandran. "This creates a challenge for a family business.

When it comes to Indian business families, where culture and tradition play a large role, there are further complexities. The father's (or patriarch's) decision is rarely questioned; in many families women members do not get a shot at running the business, and the oldest son typically inherits the mantle. The other peculiarity is that in India most family members are owner-managers. This adds to the complications when it comes to offering the right roles and remunerations for everyone. "There is a clear need for a bespoke model of family constitution that factors in Indian dynamics," says Radhika Gaggar, partner at law firm Cyril Amarchand Mangaldas

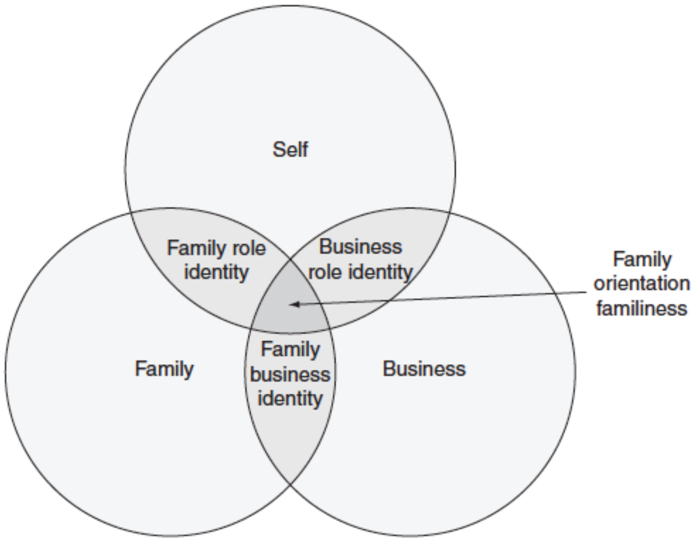
Source: Madhavan, 2017

In the perspective that opposes the dualistic approach, family and business cultural systems are not perceives as totally separate. One of the concepts employed to make sense of the socio-cultural characteristics of family enterprises is known as "familiness" (Habbershon et al., 2003). It can be summarized as follows (Chrisman et al., 2005, p. 238):

> *Because a family business is an embodiment of the aspirations and capabilities of family members, it has a strong social element affecting the decisions that determine its strategy, operations, and administrative structure. Furthermore, because the social element itself has value to the organizing family, it tends to persist over time, giving the family organization a unique character and culture.*

Familiness is also understood as an array of resources distinctive to family firms (Lubinski et al., 2013). Instead of looking at the boundaries between business values and family values, this concept directs our attention at the uniqueness of this form of entrepreneurship. Family business identity is formed at the intersection of individual, family and business identities and is influenced by the complex relationships (Fig. 10.1).

Figure 10.2 Unified systems view of identity in Family Entrepreneurship




Source: Harrison & Leitch, 2016, p. 114

This view on family business identity formation stresses the question: how do people develop and transform entrepreneurial identity? It is crucial to look at values and norms as a dynamic process of constant change. Culture is not a fixed set of patterns of beliefs and behaviours – it is recreated and reinterpreted in social interactions in a particular contexts and situations.

## 10.5. Cultural diversity in family entrepreneurship

Family businesses are highly heterogeneous, and there is no single path to sustainability. In a classic study, Dyer (1988) examined the history of over 40 family businesses and identified distinct cultural types of family businesses based on differences in how they perceive themselves, society and the outside world. There are four kinds of family businesses: paternalistic, laissez-faire, participative, and professional. Each of them has particular strengths and weaknesses and identifying them can contribute to the firm's self-awareness and to its success.

Table 10.2 Cultural patterns of the family business

| | paternalistic | laissez-faire | participative | professional |
|---|---|---|---|---|
| *Nature of relationships* | Lineal (hierarchical) | Lineal | 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 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 toward the Environment* | Proactive stance | Harmonizing/proactive Stance | Harmonizing/proactive Stance | Reactive/proactive 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, 1988, p. 19

The paternalistic model was the most prevalent in his study of 40 family businesses. Those firms organize relationships hierarchically. Most of the power rests in leaders who prefer to make key decisions on their own. Family business' members have low trust in outsiders and are inclined to supervise employees more closely. Employees accept leaders' decision and should carry out their tasks without participating in the decision-making process. Paternalistic family businesses are proactive in searching for new markets and developing new products or services. For some of those firms carrying on the firm's legacy is a crucial aspect of development. But other paternalistic firms are much more present oriented. They adapt to new circumstances and, remembering the founder's vision, creatively respond to present problems and challenges. As long as the leader has enough capabilities this pattern is beneficial to the company. The level of uncertainty is low, as it is well known who makes decisions. Leader often has enough charisma to make others follow his guidance without resistance. In this model the process of decision-making is rather fast, which is vital in the context of dynamic and rapid changes, e.g. when the survival is threatened. The benefits are more visible in small firms. Apart from advantages, paternalistic family businesses face numerous challenges. Reliance on the leader is high, which can create problems during circumstances such as his death or sudden inability to carry on business leadership. Training for the next generation tends to be overlooked and not enough attention is given to prepare successors to take over the firm. Paternalistic leader may have difficulties in managing complexities related to his company's growth or to ambiguity in the environment. In general, this cultural pattern is best suited to small family businesses under relatively static external circumstances. Larger and more complex forms, in order to ensure its sustainable development, should look for other cultural patterns.

Another cultural pattern is called the laissez-faire. It is different from paternalistic one basically in assumptions about human nature and the nature of truth. Laissez-faire family firms perceive employees as being trustworthy, and thus they get more responsibility and participation. Employees are given more autonomy and are expected to contribute to the firm in many aspects. Levi Strauss and Company in its early history exemplified this model (Cray, 1978). The founder delegated much of responsibilities to his employees who were in charge of daily duties. His successors were also known for caring relationships with people who worked for the company and secure them in tough times. The role of the leader was to provide general guidelines, and employees were actively engaged in decision-making. This cultural orientation is more conducive to the family business growth. There is a greater deal of creativity emerging from the clash of ideas of all employees. The disadvantage of the laissez-faire is its tendency to depart from the vision ad core values of founders. Family's legacy is thus more prone to change in the direction not envisioned by the family. This was the case of Levi Strauss's company in the 1970s, when after a rapid growth it encountered problems with the quality of products.

Participative cultural pattern is quite rare among family firms. It varies from the types presented above to a large degree. There is less hierarchy and more egalitarian relationships. Group orientation is prevalent to create the sense of a community. In this model, there is less emphasis on the family and its legacy and more on the autonomy and contribution of employees. Everyone is expected to develop his/her talents. It is believed that everyone should be engaged in search of solutions that lead to a high level of commitment. The focus is on present and future activities and plans and the past receives little attention. Favouritism and nepotism are largely limited, which has a direct impact on managing a transition stage. There are cultural conditions supporting innovations. In the case of W. L. Gore and Associates, founded by Bill Gore, there was a sensitivity towards terms used in the firm's structures. Employees were frequently called associates, and instead of boss or supervisor, terms such as leader or sponsor were used. Bill Gore's successors follow this tradition and stress the community atmosphere is vital for their company. Participative cultural pattern is seen as useful for complex environments that require a great deal of creativity. On the other hand, participative decision-making is much slower than hierarchical model. It can lead to delays in moments when a quick reaction is needed. The challenge is to separate those instances when decisions should be made rapidly and those when there is more time for consultations and the gathering of various opinions.

The last category is called the professional culture. It is found in family businesses that rely on nonfamily managers, who are experts in their fields. They tend to challenge traditional ways of thinking and doing in the company and transform the firm in many aspects. Individual contribution to the success of the family is evaluated. Professional career development is important. This culture favours competition which is seen as most conducive to growth. Professional culture replaces family values and traditions, as nonfamily experts relay on professional knowledge. Often the professionals join the company in times of crisis when several conflicting visions coexist and there is a willingness to remake the company and give it a fresh impulse (Dyer, 1988).

## 10.6. Family business culture and transition economies

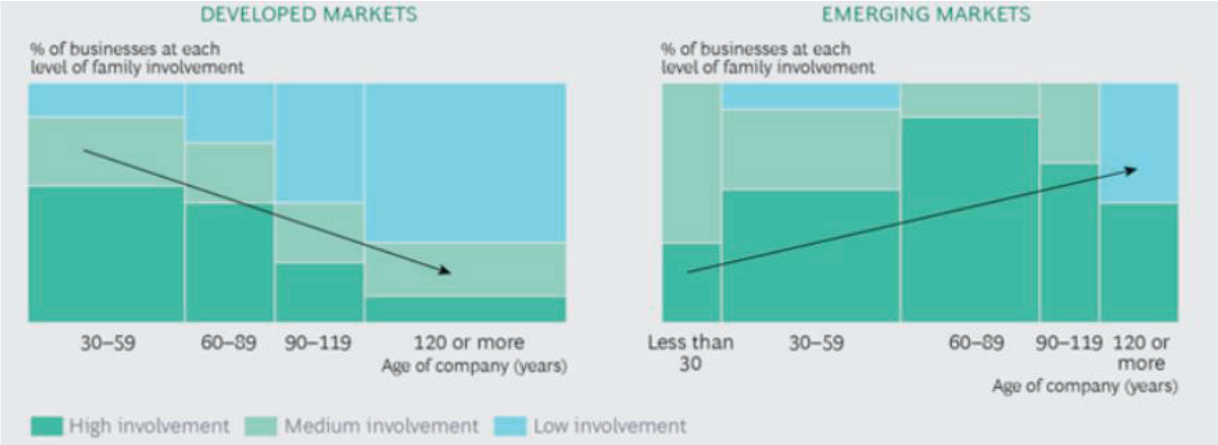
Emerging markets present unique challenges for family firms. For decades it was assumed that the Western business model is universal, and should be copied everywhere in order to bring benefits. Recent research on family businesses in the emerging economies conclude that the methods applied in the developed markets in the core fields such as leadership, transition planning or governance do not guarantee similar outcomes elsewhere.

In the 1990s, Brazilian large family businesses endorsed a Western-based corporate governance model, which at that time seemed to be the best model to follow all over the world. It imposed strict rules appropriate for the context of developed economies. As one of the Brazilian family business leader admitted that strategy “simply killed the very essence of what made us successful in the first place: the passion to create and build business opportunities” (Bhalla, Orglmeister and Tong, 2016).

In Poland, most of current family businesses emerged in the period of transformation. Entrepreneurial people eagerly explored new opportunities, which appeared in the 1990s along with economic and political development. Their initial success came about due to certain set of values and norms, such as enthusiasm, creativity, boldness, persistence, risk-taking and proactive attitudes towards their work. Intuition was important in decision making, and improvisation was a part of a daily work, which led to many successful businesses. Later on, however, those entrepreneurial features needed additional support. With the quest for sustainability a need for more established patterns of leading a firm appeared. The acknowledgement of change and openness to led to transformation of many family businesses. This entails willingness to learn and adapt to the local and global environment (Stępniewska, 2013).
What makes emerging markets so distinctive? The Boston Consulting Group made research on the characteristics of family business in developed and developing world. Different contexts account for different growth and transition patterns and thus necessitate diversified approaches. In contrast to the US and Western Europe, in emergent markets:

- family members more often keep managerial functions and responsibility for strategic decisions
- family is considered as a wide entity composed of a complex network of relatives
- culture is often more hierarchical and collectivistic and the role of a family is greater
- family businesses more frequently take risk, are ambitious and not as conservative as a typical, resilient family business from developed markets
- over the past 200 years, families got more involved in their businesses less rely on non-family members in managerial roles (see Figure 10.3)

Figure 10.3 Involvement of families in their businesses




Source: Bhalla, Orglmeister & Tong, 2016

Family firms in emerging markets should stress stewardship and their core values to ensure sustainable growth and successful transition. While designing formal contracts and charts is helpful in risk management and succession planning, it is good to build a culture of a common purpose where people share common goals and values. In India, where many conflicts in family businesses used to become public, those families that emphasized stewardship as a key principle were more successful in sustaining their operations (Bhalla et al., 2016).

## 10.7. Conclusions

The unit covers the complex and dynamic role of culture in family business sustainability. It highlights the pros and cons of common family legacy in running a business through generations. When dealt with caution, culture can be a factor facilitating transition and providing a family firm with competitive advantage. In other cases, it may hinder smooth transition and create problems. Moreover, the unit discusses differences between family and company values, and provides an example of a bridge between those two cultural systems in the form of a family constitution. Apart from similarities in family businesses, there is also a high degree of variations, and it is useful to be aware of existing cultural patterns. Emerging markets are especially sensitive to this issue, as particular cultural backgrounds influence the environment in which family firms operate. Succession planning is not a universal process in which one model can be applied everywhere.

## 10.8. Reflective questions

1. Which factors can facilitate building common legacy of a family firm?
2. Discuss advantages and disadvantages of various cultural patterns in strengthening family business sustainability.

# Unit 11: Family Business in a Cross-Cultural Perspective

*(by Dobrosława Wiktor-Mach)*

## 11.1. Introduction

Family businesses are rooted in local cultures, patterns of behaviour and social institutions. In the new era of a multipolar globalization, there is an urgent need for family businesses operating in international context to understand the impact of national cultures on business. Until now, most research on this topic had been conducted in the Western context and the universal applicability of the findings is being questioned (Lumpkin et al., 2007). Emerging economies, in particular China, India, Russia, Brazil have recently begun to attract attention from scholars interested in exploring the sociocultural factors influencing entrepreneurship. Many studies "emphasize the influence of unique country-specific factors in shaping organizations' strategic posture and processes" (Hofstede et al., 2002; Scott, 1995). Understanding the challenges of family firms worldwide require deep knowledge of local cultural contexts. This chapter will give overview of the key concepts and models in intercultural business, which can be applied to family business theory and practice.

## 11.2. International/intercultural context - culture dimensions as practical diagnostic tools for recognizing family/company values

### 11.2.1. The concept of culture

The concept of culture is essential when we intend to take account of the diversity of contexts in the global market. There are multiple concepts of culture stressing different aspects (see Table 11.1), but what they have in common is the understanding of culture as something people learn in a process of interacting with others. Acquiring culture includes absorbing patterns of thinking and acting in particular contexts that differ to a large degree. The diversity of cultures is thus a challenge for international business, which can be handled with adequate preparation.

Table 11.1 Definitions of culture

| | |
|---|---|
| Topical | Culture consists of everything on a list of topics, or categories, such as social organization, religion and economy |
| Historical | Culture is social heritage, or tradition, that is passed on to future generations |
| Behavioural | Culture is shared, learned human behaviour; a way of life |
| Normative | Culture is ideals, values, or rules for living |
| Functional | Culture is the way humans solve problems of adapting to the environment or living together |
| Mental | Culture is a complex of ideas, or learned habits, that inhibit impulses and distinguish people from animals |
| Structural | Culture consists of patterned and interrelated ideas, symbols or behaviours |
| Symbolic | Culture is based on arbitrarily assigned meanings that are shared by a society |

Source: Bodley, 1994, p. 9

A definition of culture which early gained popularity in business environment and among business scholars was proposed by Geert Hofstede. He refers to culture as "the collective programming of the mind which distinguishes the members of one human group from another" (Hofstede 1980, p. 25). This definition is wide enough to include many of the ideas related to culture, but also it stresses its core aspects. According to Hofstede, members of a group (be it society, community, company, family) tend to share similarities in the way they react, behave, think, or perceive world. A group shares, to some degree, meanings, ideas, perceptions, understandings, and they make this group distinct from others.

In order to grasp the basic differences, cultural measurement methods have been developed. Various theoretical tools are being built to assess and compare cultures in a comprehensive way. Several classic models offer useful frameworks to enable regional, international and intercultural comparisons and an identification of a family firm's culture in a contextual way.

### 11.2.2. Dimensions of culture in business

The basic model of culture distinguishes between visible and invisible aspects. In Edgar Schein's model, described in more details in chapter 9.2 on organizational culture, the key challenge is to decipher the basic assumptions shared by a group. They are crucial in a proper reading and interpretation of artefacts as well as beliefs and values. That is where the essence of culture lies. Only after understanding this hidden and taken-for-granted dimension, we are able to grasp other and to devise strategies to deal with cultural differences in a proper way.

Geert Hofstede is a pioneer in analysing the effect of culture on entrepreneurship. Cultural dimensions that he proposed enable relative comparisons of business national cultures with an emphasis on values and norms. His empirical investigation revealed that national cultures differ along 6 key dimensions. Differences on those dimensions offer a chance to better comprehend the variety of organizational behaviour patterns (which might influence family business succession planning). The basic cultural dimensions are (Hofstede and Hofstede 2005; Hofstede et al., 2010):

(1) Power distance (Small versus large) (PDI) – attitudes to authority, the distance between individuals in a hierarchy,

(2) Group orientation - Individualism versus collectivism (IDV), the issue of identity and relations to others, independence and interdependence, the loyalty towards oneself and towards a group,

(3) Masculinity versus femininity (MAS) – importance of work goals (earnings, career, advancement), compared with personal goals (cooperation, relationships), the definition of success and purpose in life,

(4) Uncertainty avoidance (weak versus strong) (UAI) – the degree of tolerance for uncertainty, instability, unpredictable environment.

Subsequently, another two dimensions were added:

(5) Long versus short-term orientation – fostering virtues linked to the past and present versus virtues linked to the future,

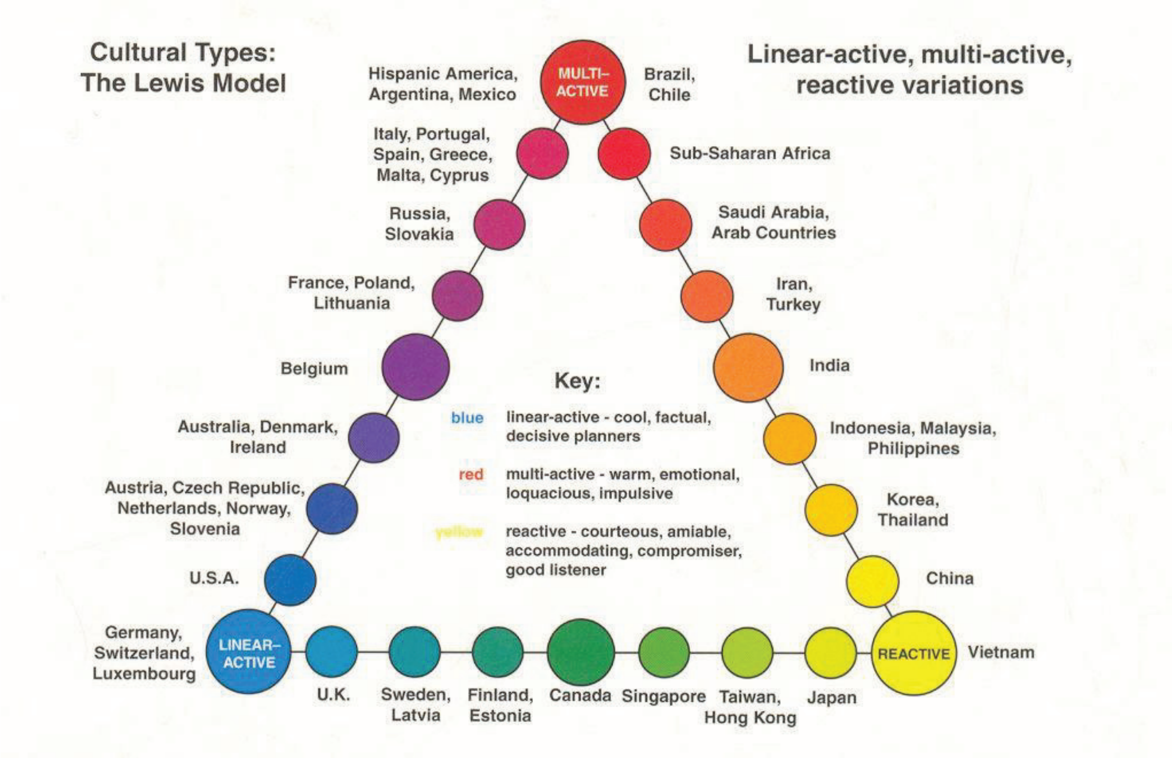
(6) Indulgence versus restraint – strict versus relaxed social norms, is the most recent extension.

C. Hampden-Turner and A. Trompenaars (1993) analysed cultural diversity by utilizing three categories: relations to other people, to time and to environment"

- Universalism versus particularism.
- Individualism versus communitarianism.
- Specific versus diffuse.
- Neutral versus emotional.
- Achievement versus ascription.
- Sequential time versus synchronous time.
- Internal direction versus outer direction.

R. Lewis (2006) proposes to distinguish three categories of cultures from the perspective of communication patterns and priorities at work. He identified: linear-active, multi-active and reactive cultures, each with a set of specific socio-cultural characteristics. Although those models were not devised specifically for SMEe, they have nevertheless potential which can be explored. Linear cultures, e.g. Germans or the Swiss, are relatively more data and facts-oriented. Work is a high priority, usually before personal relationships. Deadlines are treated as unchangeable. Multi-active societies, e.g. Latin Americans, act with more flexibility. Relationships with other people are highly valued and are more important that rules and procedures. Planning is more spontaneous, and deadlines are more relaxed. Human transactions are crucial and are considered as the best way to invest one's time. People are emotional, display feelings and talk a lot. Reactive cultures, such as Japanese, are rather passive and rarely initiate discussions. They are very people-oriented and react to partner's words and actions. They easily connect professional and social life.

Figure 11.1 Cultural types model




Source: Lewis, 2006, p. 42

One of the most comprehensive attempts to study differences in national values and norms and the way they interfere with doing business is the Global Leadership and Organizational Behaviour Effectiveness Research Project (GLOBE). It is based on, among others, Hofstede's model and develops it further into nine cross-cultural dimensions (House et al. 2004):

- Uncertainty Avoidance – the extent to which a society, organization, or a group relies on social norms, rules and procedures to alleviate the unpredictability of future events
- Power distance – the degree to which a collective expect power to be distributed equally
- Institutional Collectivism – the degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective actions
- In-Group Collectivism – the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families
- Gender egalitarianism – the degree to which a collective minimizes gender inequality
- Assertiveness – the degree to which individuals are assertive, confrontational

and aggressive in their relationships with others

- Future Orientation - the extent to which individuals engage in future-oriented behaviours such as delaying gratification, planning and investing in the future
- Performance Orientation – the degree to which a collective encourages and rewards group members for performance improvement and excellence
- Humane Orientation – the degree to which a collective encourages and rewards individuals for being fair, altruistic, generous, caring and kind to others

On the basis of similarities across those dimensions several clusters were identified to provide some order into the multiplicity of empirical data. These are: South Asia, Anglo, Middle East (Arab) Germanic Europe, Latin Europe, Eastern Europe, Confucian Asia, Latin America, Sub-Sahara Africa and Nordic Europe. Clusters make it easier to compare and analyse similarities and differences between groups. Family businesses in each of those regions show peculiar characteristics (Javidan and House, 2004; Chhokar et al., 2007; Gupta and Levenburg, 2010).

Table 11.2 Characteristics of cultural clusters

| Region | Characteristics |
|---|---|
| Anglo | Competitive and result-oriented |
| Confucian Asia | Result-driven, encourage group working together over individual goals |
| Eastern Europe | Forceful, supportive of co-workers, treat women with equality |
| Germanic Europe | Value competition, aggressiveness, more result-oriented |
| Latin America | Loyal & devoted to their families and similar groups |
| Latin Europe | Value individual autonomy |
| Middle East | Devoted and loyal, women afforded less status |
| Nordic Europe | High priority of long-term success, future orientation, women treated with greater equality |
| Southern Asia | Strong family & deep concern for their communities |
| Sub-Sahara Africa | Concerned & sensitive to others, demonstrate strong family loyalty |

Source: Northouse 2007, pp. 309-312

On the basis of the GLOBE classification, it is possible to compare family businesses with regard to social and cultural characteristics. The findings show significant differences existing within Europe. A comparison of Anglo, Germanic and Nordic cultures show evidence that those regions share similarities and differences. Family business is an important form of entrepreneurship (approximately 75-90% of all firms in the Anglo cluster, 80% in the Netherlands, 85% in Switzerland, and the majority of all SMEs in the Nordic cluster). There is a common legacy of Protestantism affecting business in those regions. Moreover, in those cultures generally family orientation is not strong and that is a common feature across the regions. But, on the other hand, there is heterogeneity of contexts. For instance (Gupta et al., 2011):

- In Anglo cluster most family businesses tend to build transparency and diligence by regulating the way family is engaged in business. There is an emphasis on flexibility and adaptation to changing circumstances, as those factors are regarded as crucial in the market competition
- In Germanic cultures family business hold high regard in their communities, male and female family members are encouraged to be involved in running a business. Continuity of family business and passing it to the next generations is highly valued
- Nordic family business seek balance between conservatism and growth. For many families it is vital to stay with family form of business even during crisis, as it forms part of their identity. When faced with challenges, they eagerly seek new opportunities and show flexibility
- Cultural patterns of family businesses in the Nordic region share with Germanic region stronger future orientation as well as uncertainty avoidance.
- In the Anglo and Germanic regions performance orientation is relatively tougher.
- The lowest power distance is characteristic of family business culture in the Nordic region.

What is the use of simple, but based on empirical observations and research, categorizations? The models discussed above enable people to (Lewis 2006, p. 29):

- predict a behaviour of people based on their cultural backgrounds,
- clarify why people acted in a particular way,
- avoid offences,
- search for compromise and a kind of unity,
- standardize a company’s strategy.

## 11.3. Cultural dimensions crucial to family business transition process

Most attention in family business research is paid to those cultural dimensions, which are thought to have implication for transition. In particular the following dimensions are regarded as crucial:

- individualism-collectivism,
- weak/strong uncertainty avoidance,
- long/short-term orientation (Lumpkin et al., 2010; Yan and Sorenson 2006).

In collectivist societies (see Table 11.3) there is a strong emphasis on passing the business to family members. Individuals should adapt to the group and subordinate one`s ambitions to serve family. In many cases family in collectivist societies is understood as an extended family or a clan, including many relatives. Chinese family businesses often follow Confucian philosophy which teaches primacy of group interests over personal goals and that the basic unit of society is family. This principle is a factor positively contributing to sustainability of family businesses as opposed to values prevalent in individualistic societies (see article 11.1: „The effect of Confucian values on succession in Chinese family business")

Table 11.3 Summary of Hofstede's differences in collectivist and individualistic societies

| Collectivist | Individualistic |
|---|---|
| People are born into extended families which protect them in exchange for loyalty | Everyone is expected to take care of him- or herself and his or her immediate family only |
| "We" - consciousness | "I" - consciousness |
| Stress on belonging | Right of privacy |
| Harmony should be maintained | Speaking one's mind is healthy |
| Others classified as in-group or out-group | Others classified as individuals |
| Opinions and votes predetermined by in-group | Personal opinion expected: one person one vote |
| Transgression of norms leads to shame feelings | Transgression of norms leads to guilt feelings |
| Languages in which the word "I" is avoided | Languages in which the word "I" is indispensable |
| Purpose of education is learning how to do | Purpose of education is learning how to learn |
| Relationship prevails over task | Task prevails over relationship |

Source: Hofstede, 2011, p. 11

### Article 11.1 The effect of Confucian values on succession in Chinese family business

Research suggests that a family business following Confucian guidelines encounters less resistance to succession and experiences smoother transition process. Therefore, understanding Confucianism is key to understanding the dynamics of Chinese, and other Asian, family businesses.

Confucianism influences worldviews and practices of around 20% of the global population, mostly in eastern and south-eastern Asian countries. It is an ancient philosophy rooted in the teachings of Confucius (551-479 BC), which permeates all layers of Chinese culture. Even among overseas Chinese people, Confucian principles and values are still key points of references, and have a significant impact on interpersonal relationships inside a family and in society, as well as on the way people do their work.

Confucian teachings puts emphasis on norms and values such as obedience and submission, loyalty and trust, duty and hard work, harmony and consensus, cooperation and reciprocity. These principles should be an integral part of every human activity in all spheres of life, from family life to business.

A summary of the Confucian philosophy, which influence succession in family entrepreneurship:
- collectivism – individuals adapt to the group. Emphasis is on a group interest over personal desires and ambitions.
- family is the basic unit of society – business is regarded as family property and family members are expected to work for the common interest. Key value guiding family conduct is harmony.
- Conflicts should be omitted as far as possible. Socialization process limits individualism and promotes harmony.
- parent-child relationship – a reciprocal relationship which puts obligations on both sides. Parents not only bring up and educate their offspring, but also give guidance in all phases of life. Leaving good name is also a duty to the next generations. Children are taught to be able to scarify for the family, as the family continuity is of a paramount importance
- children must serve their parents with filial piety and submission (xiao) and be loyal to them. Parents' decision regarding family business is regarded as the best option for the whole family, and therefore potential successors should accept them. Moreover, this social norm ensures that older family members will be cared for by the younger generation when they no longer work, which is a conducive factor to handing over a family business.

- there is a golden rule in Confucian teaching that "in order to enlarge ourselves, we must help others to enlarge themselves," a rule which should encourage family business' owner to help his successors take over the business and develop it further.

- family relationships are fixed and guided by precise rules. Respect and obedience to older family members is a norm. There's a hierarchy among siblings and the oldest son is expected to take on the family leadership after the father's death.

- strong social relationships – most kinds of relationships are guided by a high level of hierarchy (employer – employee, teacher - student, etc.). Mutual trust and support are the desired virtues among friends and business partners. In family business, children grow in the informal and trusting atmosphere pervading social relations. Becoming a successor, the person already has strong support from other members of the firm, including family and non-family members who are also referred to as friends.

- "bamboo networks" – the firm's social and economic networks enable firms to survive and are important social capital especially under tough circumstances.

- inheritance of family property (feng chia) – equal distribution of family property traditionally among all sons, who are then expected to cooperate. This gives rise to extended families working closely together.

Generally, the Confucian effect on succession process is perceived as mostly positive. It may, nevertheless, impose some limits on transition and sustainability of a family business. One potential problem is the Confucian principle to favour the oldest son. It restricts the choice of a successor and may lead to overlooking a more suitable and competent leader among the younger generation as well as among daughters. Moreover, the rule of feng chia to divide family assets equally among all male descendants is a hindering factor to sustainability as the company's capital is being diversified

Source: Yan & Sorenson, 2006, pp. 235-250

The ability to deal with uncertainty (see Table 11.4) is crucial when family business faces transition. Internalization, succession, or formation of new alliances entail inevitable risks and ambiguities. Therefore, the degree to which a company is ready to take risk and open to new possibilities, is determining its future growth.

The GLOBE research suggests that in Germanic societies uncertainty avoidance is relatively strong. Although change is an important point of reference, at the same time there are a lot of regulations, rules and structures. There is a cautious approach towards new ideas. Consequently, transition can be slower and more problematic, but also family members are more prepared to changes (Gupta et al., 2011).

Table 11.4 Summary of selected Hofstede's differences in uncertainty avoidance patterns

| Weak uncertainty avoidance | Strong uncertainty avoidance |
|---|---|
| The uncertainty inherent in life is accepted and each day is taken as it comes | The uncertainty inherent in life is felt as continuous threat that must be fought |
| Ease, lower stress, self-control, low anxiety | Higher stress, emotionality, anxiety, neuroticism |
| Higher scores on subjective health and well-being | Lower scores on subjective health and well-being |
| Comfortable with ambiguity and chaos | Need for clarity and structure |
| Dislike of rules – written or unwritten | Emotional need for rules – even if not obeyed |

Source: Source: Hofstede, 2011, p. 10

Short versus long-term orientation (see Table 11.5) is another key dimension that determines the success of family business. The choice of time horizon for decisions and plans influence the family businesses' performance. Long-term orientation is positively associated with characteristics such as innovativeness and proactiveness. It is often assumed that family businesses are more long-term oriented than the non-family businesses. In many family-controlled businesses managers usually have longer tenures and are more likely to promote long-term perspective. Besides, there is an interest in maintaining family legacy and passing the firm on to the next generations of family members (Lumpkin et al. 2010).

Long-term orientation is a feature of some, but not all, family businesses. The GLOBE project, which explores the diversity of business cultures around the world, strongly emphasizes that firms from different social clusters are likely to operate according to different cultural patterns. Future orientation is useful for distinguishing between the values and practices of different types of family firms. Nordic family businesses have long-term orientation and rely on loyalty to the family, commitment and long-term plans, which enable them to achieve growth at the level of non-family firms (Gupta et al., 2011).

Table 11.5 Summary of Hofstede's Differences in the company's orientation

| Short-term orientation | Long-term orientation |
|---|---|
| Most important events in life occurred in the past or take place now | Most important events in life will occur in the future |
| A good person is always the same | A good person adapts to circumstances |
| Traditions are sacrosanct | Traditions are adaptable to changed circumstances |
| Family life guided by imperatives | Family life guided by shared tasks |
| Service to others is an important goal | Thrift and perseverance are important goals |

Source: Source: Hofstede, 2011, p. 15

Family businesses can benefit from intercultural knowledge in many ways. The unique solutions found in some cultural contexts can provide new ways of solving problems typical of family entrepreneurship and be an advantage in a competition with non-family firms. Acknowledging cultural differences can be extremely beneficial to companies, which are engaged with multinational teams, or plan internationalization in culturally-diverse markets. Moreover, understanding the complexities of cultural determinants may be useful in forming alliances with family businesses from other cultural circles and in developing internationalization strategies (Gupta et al., 2011).

## 11.4. Conclusions

Unit 11 presents an intercultural perspective on family business. The impact of national culture on running a business has been acknowledged for a long time. However, in the family business sphere only recently this framework has begun to gain ground. We present the main cross-cultural concepts related to family firms developed by the leading researchers, including G. Hofstede and his collaborators, as well as the results of the Globe project, which form the basis of identifying the cultural clusters around the world.

## 11.5. Reflective questions

1. Which of the cultural dimensions are the most relevant in your opinion to the study of family business
2. You have read about the influence of culture on family business performance. What do you consider to be most important for a family business success in a cross-cultural context

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What is trust:

https://www.step.org/sites/default/files/Branches/hongkong/Leaflets/What_is_a_trust_HK2015.pdf

# ANNEX 1
# National specifications

## 1. Poland
### (Romana Paszkowska)

#### 1.1. Introduction

One of the most typical challenges for family firms all over the world is the succession process. The transition from one generation to the next is connected with the change of the management at the top levels of the organisation. It is the key challenge for 50% of Polish family businesses (compared to 27% in Central Europe and 36% in the global scale). Vast majority of Polish family companies have operated on the market for the last 20-25 years, since they were founded after 1989. The transformation is thus the first succession in their firms' history and it will probably set transformation patterns for further generations. Most of the statistical data concerning the succession in family businesses in Poland come from the Polish part of the PwC and Family Business Institute report of the "2015 Family Firms Survey: Poland against Central-Eastern Europe and the world"

In 2016 there were around 2,300,000 private companies operating on the Polish market, 828,000 of which have been declared by their owners as family firms. (IBR Report, 2016) According to the report many Polish family businesses do not declare themselves as family firms due to their low identity consciousness. Gaining by Polish family firms their family identification might significantly help them not only to strengthen their market image and marketing power, but also deal with the problem of succession/transition.

#### 1.2. Transition/ Succession Planning

Although the majority of family firm founders who set their family businesses in the 90-ties have been now approaching retirement age, only 37% of them have definite plans for introducing ownership changes in the firm within the next 5 years. Although 60% of all the founders claim they have already selected the successor, which indicates they are aware of the need for the generation change, they seem to have difficulties in establishing a specific moment to start the transition process.

75% of those who consider passing the family firm to a younger generation want to transfer the ownership and management to their children and 33% do not exclude the option of transferring the ownership to their progeny, while employing an external manager to run the company on daily basis. This could be understood as one of the steps towards greater professionalisation of family firm management.

Only 8% of the surveyed Polish family business owners consider other solutions, such as listing the firm on the stock market or even selling it. In some cases hiring a professional manager, going public or the sale may be the most rational option, but each of them requires careful, several-year lasting preparation. (PwC report, 2015)

Safin and Pluta (2014) conducted studies on the strategies selected by Polish companies towards the succession process. The adopted research approach was to treat succession as an exchange process among interested parties, which aimed not only to investigate succession models in Poland and factors determining their selections, but also to provide a research tool for further comparative studies of the process. 390 Polish family firms from two voivodships participated in the quantitative and qualitative research and the empirical phase was conducted in 2013. The qualitative part involved 30 in-depth interviews with family firm owners and 4 focus-group interviews, while the quantitative one – 390 questionnaires.

The research confirmed that Polish entrepreneurs:

1. relatively rarely approach succession in terms of a strategic change, but rather treat it as a casual, ad hoc event which will inevitably occur in the future,

2. tend to postpone the decision about beginning the process as long as possible. 83% of the family firms owners declared they were not ready to give up managing their FB. Only 55 entrepreneurs claimed they were ready to leave and 5 –to leave the company soon, despite the fact that 16% of all respondents had over 31- year seniority and 13.3 % were over 61 year old.

Strategic profiles of the investigated Polish companies based on the above research:

| Strategic Profile | Plans towards the FB in the next 5-8 years | Frequency | % |
|---|---|---|---|
| Continuation strategy | No major changes in the company - *"We function on daily basis and try to make our FB survive on the market"* | 131 | 33,6 |
| Internal succession | Change of the FB profile by closing down the old production/services and beginning a new type of activity - *Passing the FB to a family member(s)* | 47 | 12,1 |
| Sale/ liquidation | Lowering the volume of activities and number of staff - *Sale or liquidation of the FB* | 19 | 4,9 |
| External succession | Cooperation/ fusion with another strong entity - *Winning an external stakeholder* | 47 | 12,1 |
| Not defined/mixed type | | 146 | 37,4 |

Source: Safin & Pluta, 2014, p. 28

The following table shows the succession plans models against the strategic plans of family firms in 390 Polish family firms:

| Family Firm Development strategy | Succession type | | | | Total |
|---|---|---|---|---|---|
| | Family succession | Non-family succession | Not defined/ no plan | No succession/ FB liquidation | |
| Continuation strategy | 31,8% (102) | 33,3% (1) | 45,5% (25) | 27,3% (3) | 33,6% (131) |
| Handing the FB over to a family member - internal succession | 13,1% (42) | 33,3 (1) | 7,3% (4) | 0% (0) | 12,1% (47) |
| Sale/liquidation | 2,5% (8) | 33,3 (1) | 5,5% (3) | 63,6% (7) | 4,9% (19) |
| External succession | 12,5% (40) | 0% (0) | 12,7% (7) | 0% (0) | 12,1% (47) |
| Undefined/ mixed | 40,2% (129) | 0% (0) | 29,1% (16) | 9,1% (11) | 37,4% (146) |
| Total | 82,3% (321) | 0,8% (3) | 14,1% (55) | 2,8% (11) | 100% (390) |

Source: Safin & Pluta, 2014, p. 29

The study included also attempts to analyse factors and conditions which determine the character and selection of succession models in Polish family companies. Among them the authors mention:

- The size of the company - the bigger/higher valued the family firm, the more succession planning occurs;
- The post-succession plans and aspirations of the owners - the clearer plans for the future the entrepreneurs have, the more willingly they pass the FB to a younger generation. Out of those entrepreneurs who selected internal succession to a family member, 58% want to con tinue working in business – 38% intend to remain in the family firm, 29% want to start new projects, 11% have not yet decided what kind of activity they want to undertake.
- Material status of the owner's family and the family business. The better off the family and the company, the more willingness towards succession.
- Family life model. Those entrepreneurs who chose internal succession select the more partner-type family model, as opposed to traditional one where the woman is responsible for carrying out the daily chores at home or reverse model, when the husband/man runs the household.
- The influence of non-family members. Out of 321 investigated companies 161 didn't have any non-family members in their board and 160 did. In the first group only 74,5% selected internal succession, while in the second group - 94,5% . Thus the presence of strangers in the management seems to stabilize the FB and encourage internal succession.

• Professional career of the entrepreneurs. Preference for a long term socialisation of the successor often reflects the career path of the company senior manager, who had a significant period of working for other companies before launching their own. Only 9% of them had no earlier other job experience. Women more often launched their firms right after the period of raising young children and staying at home (21% vs. 3% men) and during studying (29% vs. 13% of men). Men more often launched FBs after a period of working for public administration (11% men vs. 4% women) and holding jobs in other companies (57% men vs. 49% women)

• Women's approach to succession. Women owners tend to consider more succession options than men. Women are not attached to one type of succession. Only 77% of them strongly prefer internal succession and 20,8% express no preference for any, against respectively 84% and 11,9% men. (Safin and Pluta, 2014)

## 1.3. Succession challenges in Poland

In order to safely transfer the family firm over the inevitable changes people responsible for the transformation have to overcome several challenges. For Polish companies the generation gap, credibility gap and communication gap seem to be of major importance.

### 1.3.1. Generation gap

While 37% of Polish respondents indicated that they plan to introduce succession within the next 5 years, which is typical for Eastern-Central European family businesses, only 29% of family firms in the global scale have such plans. This can be easily explained, because family firms in many countries are at various phases of their life/development-cycle, while most family businesses in our part of the world approach their first succession transfers at more or less the same time. (PwC report, 2015)

The main difficulties with family firm transfers in Poland stem from the fact that the majority of founders have no experience with the succession as they have never participated nor closely witnessed such process. This is a crucial moment for the family business that may lead to its success or failure, no wonder the founders find it stressful and tend to postpone as long as possible.

For many Polish entrepreneurs the topic of succession is difficult, sometimes it's even a family taboo. This explains why Polish entrepreneurs procrastinate succession planning and the preparation of successors for taking over their firms. It is very dangerous for the family business survival on the market, because in case of the owner's sudden illness or death the change would have to be introduced without proper planning, nor preparation.

Pawlak discovered in his study (2014), that although owners/founders sometimes massively socialize the next generation towards working in the family firms, after the succession they tend to interfere in the functioning of the company, which usually strains intergenerational relations (Pawlak, 2014)

There may also be a problem with successors. A report of Adrianna Lewandowska – Polish families begin talking about succession relatively late, when the potential successors tired of waiting for their parents' decision start their own careers and lose interest in the family business.
A. Lewandowska (2014) analysed the succession process from the potential successor's perspective. She states they have reported the following issues:

- unwillingness of incumbent founder/owner to talk about the succession prospects, which negatively impacts on the motivation of the potential successor;
- This leads to the feeling of being suspended, forced to wait too long for an imprecisely specified date;
- The lack of formal succession plan;
- The perception of lack of trust in the successor's capabilities on the part of the owner/founder;
- The lack of freedom to independently act as the potential successor is overshadowed by the founder/owner;
- The lack of hope in getting eventually the power to manage the firm.

Demographic changes or technological development may turn to be a great challenge for family firms. Present owners may have doubts if their successors are ready to take over the management of the company and more often now than earlier, tend to hire professional managers to run their family business. All these factors are sometimes responsible for conflicts between owners and potential successors. (Surdej, 2015)

The founders of Polish family businesses often perceive succession as an accelerated inheritance donation. Still there are some new developments as those studied by A. Marjański (2014), who noticed a growing tendency among family firms to build family business groups. This trend can be followed mainly among medium and large family firms including companies such as Pamapol, Konspol, Fakro, Mokate, Grupa Pruszyński or Vox.  Apart from formally organized business groups there are "informal family groups", i.e. conglomerates of companies with no formal (e.g. cross-ownership) links, but operating jointly on the basis of family ties. They function as entrepreneurial family networks. Such trend may be strengthened by the anticipation of succession problems and might also lower founders' anxiety level caused by the succession prospect. Father, founder of a family firm launches several companies, and later passes them separately to his children lowering the risk that all of his life achievements may be lost.

### 1.3.2. Credibility gap

Successors face the problem of credibility building when being invited to join the top management of the family firm. The great majority of Polish successors (88%) state that they have had to work harder than average employee to prove their value for the company to co-workers and clients. 59% believe that winning respect of the management and subordinates was/is their greatest challenge. Quite a few representatives of successors decide to work for other companies before joining the family firm to build their credibility and avoid the "boss' spoilt kid" stereotype. (PwC report, 2015)

### 1.3.3. Communication gap that may lead to miscommunication

Family firms have to manage both personal and professional relations, which shows that the potential area of conflict is quite significant. More than 20% of successors or potential successors (22%) claim they are worried about their cooperation with family members and functioning within such a complex organisation as a family firm. Since the company management moves from one generation to another, the present owners need to realise the difference between "influence" and "control". 87% people from the successor generation believe their parents trust them, but 64% think the owners will have problems in letting them take control of the family firm. (PwC report, 2015)

## 1.4. Professionalisation level

Only 37% of Polish family firms indicate the need for business professionalization as a serious challenge for the coming years, while 40% of respondents globally and 52% in Eastern-Central Europe mention its importance. The figures do not differ significantly, but one should realize that many companies in the world have already been undergoing the process, while in Poland it's not very common yet.

The need for professionalisation is most often mentioned by successors who have either recently taken over family firm management or are close to doing so. Successors are also more prone to consider other ways of developing the family business, such as e.g. cooperation with Private Equity investor. They are fully aware that listing the company on the Stock Exchange or entering cooperation with a potential investor need to be well prepared. Internal procedures and standards within the family firms have to be defined and sorted out. Clear structure and discipline have to be introduced to implement the family firm's strategy, which will enable more innovation, diversification; and possibly lead to internationalisation and faster company development. (PwC report, 2015)
Professionalisation may concern the development of family firm's strategy, systems and processes, but also corporate culture and human resources management.

Such change is a great challenge for the former owners and the successors. They need to accept the fact that they will be losing part control over the family business and that more discipline will be expected from all including the managers.  It is a difficult process especially that it concerns people of strong personalities and great experience. Of those who already have their own management style and their own methods, which proved to be effective over years.

There is one more level of professionalization, considered to be most difficult for Polish family firms and thus, very rare – the professionalisation of the family. This involves building instruments that would help solve potential problems or avoid critical situations both in the company and in the family. Such negotiated "family institutions", i.e. family gatherings, family council, family constitution, etc.  set the codes of conduct for family members and organise relations between the family and the family. On the one hand they protect the family from disturbances in the family firm, on the other – protect the family business form family feuds.

# 2. United Kingdom

## (David Devins)

### 2.1. Introduction

There are a range of data sources that can be used to identify the role and importance of family business in the UK economy including statistics produced by government departments and research produced by a variety of others including business representative organisations, lobbying agencies, private sector business service providers (such as consultancy agencies and accountants) and academic Departments. The different definitions, research methodologies and analysis techniques provide a rich and sometimes inconsistent picture of family businesses in the UK. For example based on the Survey of SME employers in the UK (a stratified survey of over 4,000 employers employing between 1 and 250 employees) estimates that there are about 1.2 million family businesses in the UK (BIS, 2013) whereas estimates often quoted by IFB based on the combination of several sources suggests that there are 4.8 million family businesses in the UK (IFB, 2018). Most of the discrepancy between the two estimates appears to be accounted for by the inclusion of Sole Traders that employ no employees in the business population. Micro businesses, those with between zero and nine employees, dominate the family business sector, accounting for 97 per cent. The IFB suggest that 88 per cent of all the private sector firms in the UK are family businesses and that they contribute to £1.4 trillion in revenue. They employ over 12 million people.

Research suggests that more than three quarters of firms in the small and medium sized enterprises sector of the UK economy are controlled by the first generation founders, 10 per cent by the second generation and 6 per cent by the first and second generation family members. About one third are passed on to the second generation and one tenth reaches the third generation, the rest being closed or shut down (IFB, 2008). While the majority of family-run SMEs are in their first generation, multi-generational firms make up an important share of the family business sector, accounting for 21 per cent of family-run SMEs in 2016 (IFB, 2018). Multi-generational firms tend to have more employees – some 38 per cent of medium-sized firms were in at least their second generation of family ownership, and three per cent in at least their fifth. Surveys tend to show that the bigger and probably older the firm, the more likely that it has already been passed onto future generations. Family firms in the SME sector with at least 10 employees are twice as likely as those with fewer employees to be controlled by the second generation. The generation of ownership also varies by sector, with agricultural businesses most likely to be controlled by the second-generation family members.

A defining feature of family business transition is the intersection of family and business values, objectives and relationships. Some family members may take an active role in the leadership and management of the business whilst others may not. Some may professionalise and welcome external advice and guidance whilst others may not.  Some may wish to grow rapidly and internationalise and others not.  Some choose to formalise the legal entity of the business whilst the majority do not. Some may have tight family ownership and management structures whilst others do not. However it would be misleading to present these as dichotomous relationships as they are more useful as dynamic continuum where a myriad of other options may be pursued and outcomes achieved. There is a substantial heterogeneity associated with the family business population that can be neglected and marginalised in family business discourse.

### 2.2. Transition/ Succession Planning

It is important to recognise that there is a range of potential outcomes associated with the succession process that includes family inheritance, selling part or all of the family business, selling to employees or selling on the stock exchange.  When 'keeping it in the family', a distinction can be drawn between ownership transition (i.e. the next generation receives – or buys – equity in the business) and management transition (i.e. the next generation takes over running the business). These processes can often occur at the same time, although research tends to focus more on management rather than ownership transition (Nordqvist et al., 2013).

Bjornberg and Nicholson (2012) point out that studies overwhelmingly suggest that the survival of family firms depends on the involvement and inclusion of next generation (NxG) family members. Indeed, commitment among NxG members has emerged as one of the key factors that contribute to the effective and smooth succession of leadership.  They argue that the antecedents of commitment and willingness to become a full-time member of a family business can be traced back to the psychology of the relationship between the individual and the family business system, consisting of family, business and ownership.

Jaffe (2005) suggests that the strategic future of the business involves determining the next generation leadership team and not just the top person, but also several capable people who are young enough and dedicated enough to lead the company to the next level of development. The development of the necessary talent to ensure the sustainability and success of the family firm is often identified as a critical success factor in the transition process. "Succession of generation is not an event. It often takes place over many years, with a long period of cross-generational partnership. As life spans and careers lengthen, so do the number of years the two generations, even three, work together……..The task of succession governance is not simply selecting the next leader. The business is not a prize or a trophy. Rather, it is developing the talent, focus and resources for the business to continue to be successful.

Often the talent is dispersed in the family, or between several managers, and some form of shared leadership emerges" (p56).

Survey evidence consistently suggests that many family firms are ill prepared for succession and transition. A survey of managers in 1,454 small and mid-sized family businesses operating in a wide range of sectors in 28 countries revealed that 48% of family firms had yet to identify their successor (PWC, 2007). Research by the Insurance company Legal and General suggest that just 42 per cent of UK family businesses had any form of succession planning in place. The insurer's SME research looked specifically at the impact of a critical event on different types of businesses across the UK, including family-run enterprises, and found that 48 per cent of family businesses rated the death or critical illness of the business owner as the highest risk to their operations. The survey of over 800 small businesses found that without the necessary preparations, only 27 per cent of family businesses would survive the transition to the second generation. The impact of the death or critical illness of a business owner was likely to be particularly hard, with 57 per cent of family-run firms saying they would have to cease trading within a year and a quarter stating they would have to close their doors immediately (SBC, 2018).

### 2.3. Succession challenges in the UK

Succession planning and intergenerational transfer is an ongoing challenge in the UK. It is an issue that is often raised in reports exploring various aspects of family business development and growth.

The SME survey asks participating SMEs about whether they anticipate the closure or full transfer of their business in the next five years (BIS, 2013). In successive surveys a higher proportion of family businesses anticipated closure or transfer of their business compared to non-family firms. In 2012, 26% of family businesses anticipated closure (9%) or full transfer (17%), compared with 18% of non-family businesses anticipating closure (7%) or full transfer (11%). In absolute terms this would equate to around 266,000 family firms anticipating closure and over 500,000 anticipating full transfer in the next five years. Businesses over 10 years old are three times more likely to anticipate closure than those aged four years or less. However the research evidence on the propensity of transition to actually result in a specific outcome, and the positive or negative impact of a specific outcome, is patchy and likely to be contingent upon specific context and circumstances. One way of framing succession outcomes is through the lens of entrepreneurship, i.e. succession as a process of entrepreneurial exit and entry and it is unclear whether those that anticipate closure actually close the business or close it only to reopen another one.

Succession challenges in the UK can be framed under several headings including: the characteristics of the next generation; planning for succession; and the death of the founder.

### 2.3.1. The next generation

Research focusing on the attributes of successors confirms that family member commitment is a critical component in situations of intergenerational transfer of leadership. Committed family members are more likely to become professionally engaged in their family firm, cooperate through the leadership transition, and experience higher levels of satisfaction with the succession process (Dyck et al. 2002).

Some have argued that trends within families toward becoming more democratic and emphasising individual autonomy in the succession process (particularly with regard to ownership) have made the perpetuation of the family firm more difficult. Difficulties associated with the succession process may arise when life cycle stages in the family are misaligned and when members are anxious, creating resistance to change. Relational factors that impede successful succession also include lack of trust, lack of motivation on part of the successors, incumbent or other family members (Bjornberg and Nicholson, 2012).

### 2.3.2. Planning for succession

Effective succession planning is clearly one means to enable successful transition. However, the literature suggests that many founders and leaders in family businesses do not anticipate or plan for succession. A study based on a survey of family firms suggested that most have no definitive plans about what to do with the firm in the future with 61% of owners saying that they had made no decision about what would happen when they stepped down from the helm. Of the remainder 16% had already decided on a successor, 13% planned to sell the business, while 10% planned to close it down (IFB, 2008).

Many family businesses contain non-family members and the success or failure of succession can be affected by whether non-family managers support or obstruct the succession that in turn depends on the procedural justice climate surrounding the process. Barnett et al. (2012) argue that the strength of the vision and the extent to which the family and non-family members are bought into the vision are important factors in successful transition. Family business transitions appear to occur more smoothly when successors are better prepared, when relationships among family members are more affable, and when family businesses engage in more planning for wealth-transfer purposes. The founders of family businesses have been often accused of being the main obstacle to successful family business succession: the business founder's unwillingness or failure to let go, to plan for succession or implement succession planning, are among some of the accusations. Craig and Moores (2005) suggest that without succession plans, professionalization of the firm is seriously inhibited. Arguably, what makes internal processes, particularly changing these processes, more problematic in family businesses is the influence of the founder and the preparation for succession.

### 2.3.3. The death of the founder

One of the major themes for smaller family firms is associated with business transition following the death of an owner (Gaffney-Rhys and Jones 2013). As a business run by a sole proprietor is not a legal person, business debts belong to the owner just as the business assets do. If there are insufficient business assets to meet the debts, the deceased personal property must be used to pay the creditors. It is the responsibility of the personal representatives to pay the deceased debts before any payments are made to beneficiaries. The sustainability of the business can be threatened as this can mean that personal assets or even the business itself would need to be sold to satisfy creditors. However the valuation of family business is often a complex and subjective process. Much of a value of a business resides with the family members and the extent to which they contribute and continue to contribute to the business is often a key issue. Practical complications can arise if the business property, for example vehicles or computer equipment is also used by the owner or family members in a personal capacity. This makes the valuation of assets and the passage of property more complex as ownership can be contested.

Research by Legal and General suggests that there is a relatively high degree of uncertainty amongst family businesses about how they would manage the death of a business owner. One in five said they would expect shareholders to buy shares from the deceased estate, though it was not clear where the funding would come from. 17% expected to sell their shares to a third party, leaving uncertainty around the price they would achieve, whilst a fifth would have to close the business down (SBC, 2018).

For many family businesses, the connected nature of personal and business wealth makes making a will a critical feature of personal and business forward planning. Research suggests that about one third of adults in the UK have made a will although the research provides no indication as to whether business owners were more or less likely to write a will than other members of society. In a relatively small-scale survey of small businesses in South Wales (n=250), Gaffney-Rhys and Jones (2013) report that that almost half the respondents had made a will, significantly higher than the average among the general population. They suggest that one possible reason for the higher propensity to make a will is that business owners are in contact with professional advisors who inform them of the need or desirability to make a will. Gaffney-Rhys and Jones found that company directors were more likely to have made a will than partners or sole traders which seems to be linked to the level of formality required to operate each business form and the fact that the company directors participating in the study were more likely to have a regular solicitor or accountant. The reasons given by business owners for not having made a will are often consistent with those cited in national surveys and included apathy and being too young to think about death.

### 2.4. Professionalisation level

Family businesses differ in the degree of family and non-family involvement and leadership and management in the business. Some families will take a role in the day to day running of the business whilst others will take a more hands-off approach and involve professional non-family managers. Some researchers suggest that family businesses are slower and more reluctant to professionalise than non-family businesses, particularly in terms of hiring external managers or seeking external advice and support (from both business support organisations and non-executive directors), while the relative lack of external shareholders results in less external pressure to challenge how the family runs the business (e.g. Breton-Miller and Miller 2009).

Many business founders are reluctant to seek external professional advice in the process of family business succession. A study undertaken by Lam (2011) suggests that business founders should see that they have varied and sometimes conflicting roles in the family business succession process. Many business founders are reluctant to seek external professional advice in the process of family business succession: many do not see the value and rationale behind it, while others feel that it demonstrates their incompetence to lead a family and hand over the business to the next generation.

It is also worth noting that the larger the business is, the more likely they are to have developed a succession plan, mainly because of the increased complexity, hierarchy and formality which inevitably accompanies growth, while small businesses tend not to plan in such detail (Sharma et al., 2011). This applies in general to all businesses in the UK, not just family businesses, but in the latter the greater complexity of succession planning and the intertwined motivations of the family may make it more complex and urgent to plan in advance, if it is to increase the likelihood of a positive outcome.

# 3. Hungary

## (Krisztina Németh)

### 3.1. Introduction

Yet family businesses form an important segment of business environment all over the world, and as a relevant set of the SME sector at international level, there is no secondary database available to precisely reveal among the Hungarian enterprises the family businesses' role and presence in the sectors, size categories; several studies underline the family businesses' importance in national and local economy (Csákné, 2012; Németh, 2018; Kása et al, 2017). There is not a generally accepted definition for family businesses in Hungary either; the family businesses can be arbitrarily defined along the characters determined by the researchers and classified this way. The ratio of family businesses in Hungary is around 50-70% (Kása et al, 2017).

### 3.2. Transition/ Succession Planning

Bálint (2006) has identified two preferred ways for succession - based on his research in Hungarian SME's - on the one hand generational succession, on the other hand the selling of the business for a thirdly part and the following factors have an influence to the choice: incumbent's age, personnel characteristics of the potential successor, features of the industry and rate of the family ownership.

Csákné Filep (2012) analysed possible outputs from a company sample with a staff of 3-100 employees, and identified the following results for each output:

- ownership and management of the company remain within the family (48.5%)
- the ownership of the company remains within the family, the management performs an external party (15.8%)
- sale to owner co-owner (6.9%)
- sale to employees (0.8%)
- sale to third parties (8.9%)
- did not think about it (14.6%)
- closure of a business (4.5%).

According to Csákné Filep (2012), 18.2% of the sample had a formal succession plan in the 2008 survey, 49.3% made only informal succession plans, while 32.5% did not deal with succession planning process.

Németh (2017) focused on medium-sized companies in her survey (n=192), 39% of the respondent companies has less than 25 employees, 8% between 26 and 50 employees, 20% between 51 and 100 employees, 28% between 101 and 250 employees, while only 5% of them has more than 251 employees and apart from the 127 family firms, 35% went through the family succession. In the next 10 years, 58.3% of respondents are expected to have a generation change and 23% of respondents currently have family ownership / leadership role transfer. The 83.2% of family businesses aim at retaining the family business, so the commitment to preserving the long-term attitude towards family businesses and the familiarity of generations across generations seems to prevail. 66.4% of respondents believe it is important for the business to prepare the next generation for succession, sharing knowledge between the incumbent and the successor, and 71.1% say that it is important to develop the family's human capital. However, only the 7% of the respondents have a formal succession plan.

### 3.3. Succession challenges in Hungary

Based the latest information of the National Ministry of the Economy at least half a million FB have to confront the process of succession in the near future. There are some current challenges in connection with succession in Hungary (Csákné Filep, 2012; Konczosné, 2014; Makó et al, 2017; Heidrich et al, 2016; Németh, 2017, Makó et al, 2016):

(1) Succession and strategic planning; defining an exact timing of the transition

The generational succession usually passes off without formal or informal succession plan in Hungary. The main reasons of the succession are the following: disaster of the founder, dead of the founder, flit of the founder family, burn out and lifestyle change, divorce, fusion etc. If the founder family not makes a succession plan and not makes arrangements to the succession or professionalization of the family business, it will be the devil to pay.

(2) Lack of trusted advisor

The culture of family firms in Hungary is much closed, so the first generation of the small or medium sized family firms manage the firm's succession process without external specialist, coach, mentor or mediator.

(3) Few succession experience in Hungarian SME sector;

Most family firms have been founded in the last 25 years and are micro-, small- or medium sized enterprises.

(4) Closed business culture, paternalistic leadership;

(5) Lack of potential family or non-family successor;

A non-significant proportion of Hungarian university student (3-3,8%) reported in the GUESSS research (Farkas – Gubik, 2016) that they intended to work as successor in family firm after graduation.

(6) Lack of parallel planning process and family government methods in the Hungarian family firms;
(7) Emotional attachment
The family firms founders are characterized by emotional attachment to the firm, so they tend to postpone their decision to withdraw from the business again and again with succession candidates remaining in a prolonged waiting position.
(8) Disharmony among the family members, intergenerational conflicts and sibling rivalry are very important factor in succession process.
(9) In Hungarian SME sector don't have enough information in connection the succession process, the contingencies and the threats of the different variant solutions (tax, fee, judicial outgrowth and accounting tasks); financial aspects of succession.
(10) Lack of credence of the Trust as atypically exit strategy.

A significant fraction of family businesses in Hungary with significant domestic impact are currently facing important questions that the succession of generations raises, strategically, legally, and logistically; or they are struggling with the legal clarification of issues raised by succession (the relationship with each other of parties; selection of legal framework; the legal standing/situation of family member and non-family member managers), which have an intense impact on operational challenges, possibilities of growth, strategic decisions and at the same time on staying competitive. Another phenomenon, which is going on in parallel with the one just mentioned, is a kind of professionalization, which results in the growth of the competitiveness of certain family businesses, but which causes others to be left behind in the face of competition. These two effects are not only visible in Hungary: businesses founded just after the regime changes all over Central and Eastern Europe must deal with individual local problems of succession, of becoming professional organizations, and the possible effects of these on firms' competitiveness, growth prospects and performance.There are some scenarios or alternative ways for the business continuity but these versions have several effects on the family and the business too.

### 3.4. Professionalization level

Based on the empirical research (Németh, 2017) we can conclude that 60% of the family businesses (n=113) have strategic and business plans written down, and less than 60% of the family businesses operate accounting, controlling, internal audit and enterprise resource planning systems. As for formalised training system and corporate social responsibility institutionalisation is of even a lower level. The next segment in the concept of professionalism to be analysed is the application of strategic management instruments, the type and the number of the instruments applied. Family businesses can be characterised by a higher strategic instrument intensity than the non-family ones; while the number of the strategic decision support tools applied by family businesses is 3.15 on average. The application frequency of strategic and operative methods is presented in Table 1 and Table 2.

The most popular strategic tools are strategic planning and competitor analysis, more than the half of the businesses in question use them. Only in case of one third of the businesses appear the SWOT analysis, strategic pricing, customer profitability analysis and value analysis. The other methods show lower application frequency than that in case of the businesses in the sample.

Table 1. Strategic management decision support tools and techniques in the sample (N=113)

| Strategic management support methods | |
|---|---|
| Strategic planning | 57,7% |
| Competitor analysis | 53,6% |
| Strategic pricing | 37,1% |
| Value analysis | 36,1% |
| SWOT analysis | 35,1% |
| Costumer profitability analysis | 34,0% |
| Quality costing | 28,9% |
| Target costing | 28,9% |
| Strategic cost management | 22,7% |
| Lifecycle costing | 20,6% |
| Benchmarking | 15,5% |
| Balanced Scorecard | 11,3% |

Source: Németh, 2017, p. 134.

The intensity of operative decision support tool application is only slightly exceeds the extension of the strategic tool application (3.39).

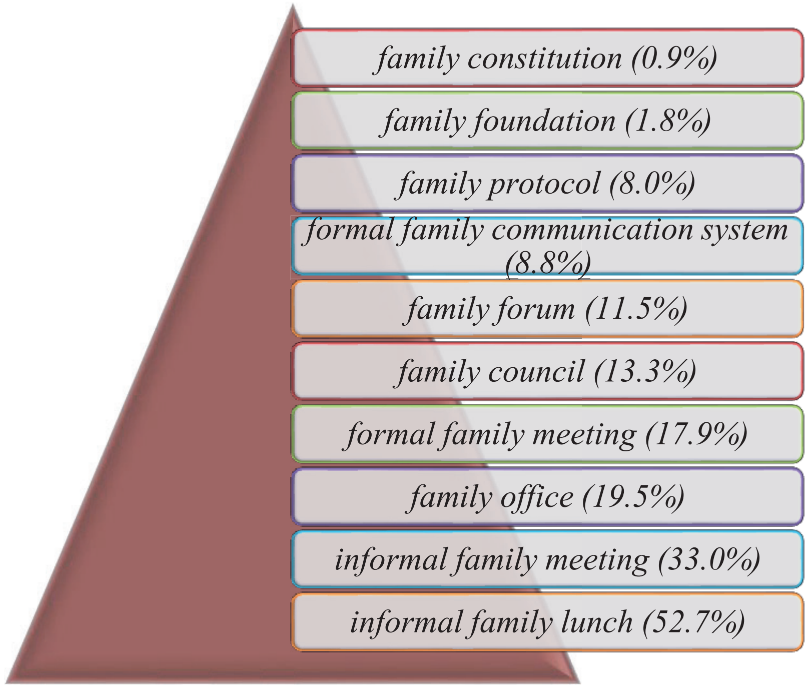
Table 2. Operative management control methods
(n=113)

| Use of operative management control methods in the sample | |
|---|---|
| Full costing (total cost calculation) | 78,0% |
| Cash-flow planning, liquidity controlling | 60,0% |
| Budgeting | 52,0% |
| Plan-Actual analysis | 48,0% |
| Break even analysis | 46,0% |
| Variable costing | 44,0% |
| Forecasting | 30,0% |
| Activity Based Costing | 18,0% |
| Process costing | 16,0% |
| Optimisation | 12,0% |

Source: Németh, 2017, p. 134.

In the course of the research Németh (2017) analyzed the popularity of the corporate governance tools in Hungary, and visualizing this as the so-called family governance pyramid he divided it into three family corporate governance segments: widely spread informal methods, formalized methods for restricted employees, and as being the quasi legal category solutions relevant in succession planning and management of gap between generations.

Figure 1. Frequencies of the family governance methods




Source: Németh, 2017. p. 137.

The 27 percent of family businesses interviewed do not apply family corporate governance solution at all. The 31 percent of respondents use 1-2 governance methods, with 24% already 3-4 family governance solutions integrated into the family business management system, while only 4% of respondents are considered to be truly professional in terms of the extent of the applied methods of corporate governance.

In the family businesses' life and their growth potentials it is a critical point when the founder recognizes the limits of the leadership based on intuition and traditions, and by applying professional tools and principles he ensures seeing clear in connection with the economic effects of decisions. The founder generation's task and responsibility is to develop the family members' human capital in favour of a long-term orientation.

In the family businesses' growth path in many cases a break is a consequence of that the family management does not recognize in time if professionalism is needed since they mean the obstacle in the business' development. If the idea and the need for calling in an external professional manager are born in a family businessman, it can be a beginning of a new growth phase.

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