PART TWO
THE DOMAINS OF ENTREPRENEURSHIP

Part 2 contains four chapters that develop concepts introduced in Part 1 in different domains of entrepreneurship. The role of the entrepreneur is examined within different organisations and in different domains.

Many firms are family businesses and Chapter 3 examines the role of the entrepreneur in family businesses and develops theory relevant to this domain, yet placed against *'Entrepreneurship in Action'* case examples of entrepreneurial family firms. The role of women and ethnic minorities as entrepreneurs is examined in Chapter 4. Challenges that face such 'minority' entrepreneurs are discussed and compared and we build further issues around the concepts of entrepreneurial opportunity and recognition set against the challenges. Entrepreneurial diversity provides the theme for discussion of opportunities and challenges. *'Entrepreneurship in Action'* cases provide examples of such diversity to provide the context for consideration of different issues that determine firm development.

Chapters 5 and 6 continue the theme of diversity in entrepreneurial domains by examining the role of social and corporate entrepreneurs and how our earlier entrepreneurial concepts need to be modified in the light of different organisational contexts. Entrepreneurial opportunity and recognition are still important concepts, but they need to be re-examined in the light of these different contexts. *'Entrepreneurship in Action'* cases provide further examples of how entrepreneurs operate in different environments and in different organisations.

DAVID LYSAGHT[1]

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INTRODUCTION

David Lysaght understood from the moment that his business idea was conceived that starting a business would be a challenging prospect and that the possibility of failing would be high. During the late summer of 2010, the economic recession that Ireland was suffering had taken its toll on many businesses, and David wondered if he should abandon his plans to establish a not-for-profit business that would organise hill-walking and mountain-trekking to raise funds for charitable organisations. The charity market had recently become extremely competitive in Ireland because: (1) there was substantially less funding available from the public and private sectors to give to charities; (2) there had been a sharp decline in philanthropic activity because the wealth of high-worth individuals had been badly hit by the recession; and (3) there was also a large increase in the number of not-for-profit organisations seeking to secure funding. David also faced an additional challenge that few other entrepreneurs have to face: he has cerebral palsy. Cerebral palsy is generally characterized by an inability fully to control one's motor functions, particularly muscle control and co-ordination. While David had a very positive attitude to life, he wondered if organizing expeditions was a good business choice for someone with his condition. He also thought about getting a business partner as people frequently changed their behaviour when they met him and saw his disability. He had arranged a meeting with his business mentor in seven days' time, and David decided that he needed to consider all of the positive and negative aspects to his personal and business situation in preparation for this meeting. This analysis would help him determine the next step in the development of his business idea.

THE BUSINESS CONCEPT

David's idea involved establishing a not-for-profit business called Charity Voyage. Through this business he would arrange hill-walking/mountain-trekking events which would allow people to raise money for a charity of their choice. The idea is that each person that takes part in one of the events will have to raise a minimum amount of money; some would go to Charity Voyage to cover the cost of organising the event and the remainder would go to the chosen charity. This form of fundraising had become very popular in recent years, enabling individuals to undertake a personal challenge while simultaneously raising substantial sums of money for charities across the country. Indeed, the idea had become so popular that a number of commercial businesses had been established in Ireland to organize such events and the scale, type and location of activities had grown substantially. A quick browse of the Internet had shown David that a person could now participate in a challenge in many countries across the world, in many different activities, and almost for any charity. David wanted to maintain the charitable nature of the activity and so he decided to establish a not-for-profit organization rather than a commercial business. He also decided to stay focused on organizing events in Ireland and that the only activity offered would be hill-walking and mountain-trekking. He envisaged four types of events:

1. 'Six of the Best' – climb six mountains within three days
2. 'Six of the Best (Deluxe)' – climb six mountains within three days in comfort
3. A two-day event
4. A one-day event

[1] This case is written with thanks and respect to the late John Butler of Century Management.

The ‘Six of the Best’ would be his main event and the one which he would expect to be the most popular. In this, participants would take part as teams of three to five members and climb six mountains around the island of Ireland (including Carrantuohill and Slieve Donard). However, he recently started having second thoughts about how to organize this event and considered instead that it should be made up of 20 individual members all doing it for their own charity and they would only have to pay the cost of doing the event. Instead of paying a minimum sponsorship fee, each member would decide with their own charity how much money they needed to raise in advance of the event. David needed to clarify these options.

FINANCES

Like any business, David understood that there would be costs involved in managing Charity Voyage. He was fortunate in that he could start the business from his mother’s house. He would, however, have to pay for insurance, promotional activities, telephone, petrol, etc. He estimated that his mobile-phone calls would cost €80 a month and that this would include personal and business phone calls. For the running of the business, he allocated no more than 75 per cent of the total bill to be spent on business calls, although his business mentor had argued that his phone bill could be higher, particularly if one takes Internet charges into account.

In addition to these ongoing costs, David intended to promote the business initially by sending an introduction package to the 270 charities that he identified in his analysis of the Irish charity market. This package would include a letter explaining the background of Charity Voyage and its business philosophy, an events brochure, details of the website and a business card with David’s contact details. He had not gathered any projected costs for the promotional materials and support activities, but he estimated that €5,000 would be a minimum requirement.

As he began to prepare projected costs for each individual trip, David knew that keeping budgets very tight would be critical to the success of his business. Basing his figures on challenges in which he had previously participated, he estimated that the costs for the Deluxe version of the ‘Six of the Best’ would be as shown in Table 1.

TABLE 1 ESTIMATED COSTS OF ‘SIX OF THE BEST – DELUXE’*

Item	Unit	Cost
Hotel @ 25pn pp	Two nights	€2,200
Petrol	1 bus	€200
Mountain leaders	360	€1,080
Water	480 litres	€160
Tea	1 box	€4
Coffee	1 box	€4
Sandwiches	€5 per head × 3 days	€660
Stew	€5 per head × 3 days	€660
Apples	1 box of 100	€20
Oranges	1 box of 100	€20
Bars	2 boxes of 48	€45
	Total	€5,713

* Based on 40 participants and 4 mountain leaders.

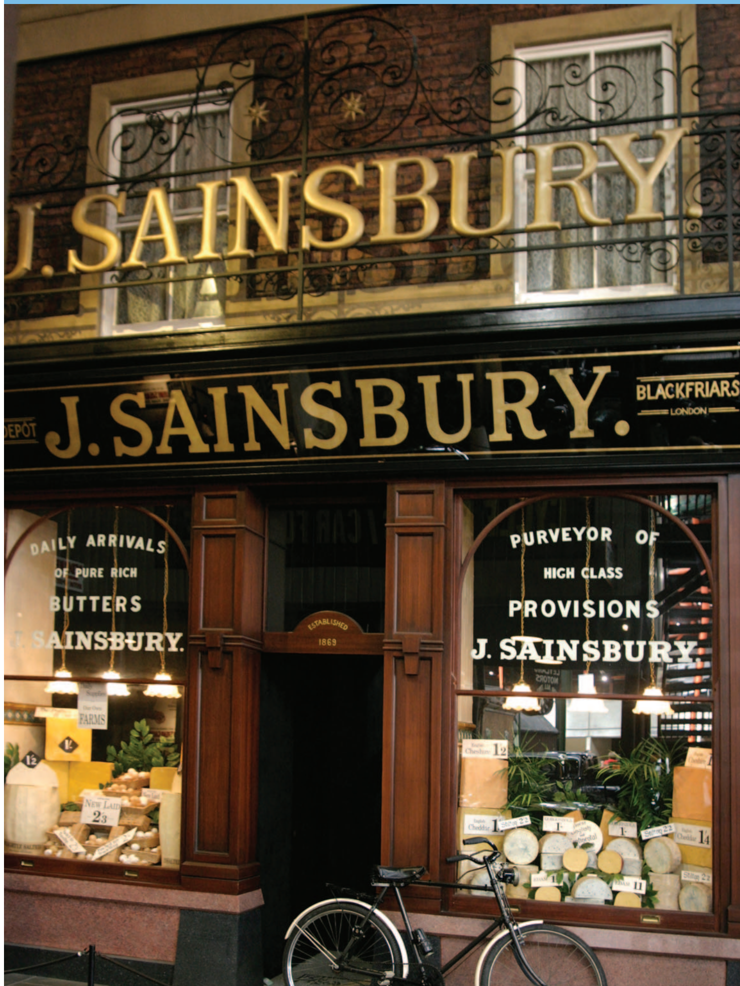
However, after a brief review of the figures, an accountant friend highlighted that the table did not include the cost of hiring the bus, that the cost of the mountain leaders on a daily basis seemed very low (€90 per person per day), and that for a Deluxe model he was offering very little comfort. He also highlighted that, based on a minimum sponsorship fee of €4,500 with 40 per cent going to Charity Voyage, each participant would be contributing €1,800 to the organisation of the event. Given the figures that David was presenting, it suggested that if he had 40 people on the trip then Charity Voyage would make a gross profit on each event of €66,287 (€72,000 – €5,713). The accountant suggested that either this was a really exciting business opportunity or that David needed to re-examine his figures again.

David had been frugal with his money over the years and had managed to save €5,300. He had made some enquiries to the local Enterprise Support agency regarding the possibility of securing financial support for his business and had discovered that there were no soft loans or grants for which he was eligible. In the current economic climate, he would have great difficulty in persuading a bank manager to give him a loan on such a risky business proposition, particularly when he had no collateral which he could offer as security against his loan. His family had always been very supportive of him and it seemed his only real hope of raising money was through them. He estimated that, at best, he might get €6,000 from his family, which potentially left him with a maximum investment of €11,300. He did not know if this would be enough to get him started.

CONCLUSION

David felt that he was making good progress with his business planning. However, he was not fully confident about the viability of his idea, particularly when the accountant asked him to reconsider the figures. He was also uncertain about the funds required to get the business started and where further funding might be sourced. David also needed to think more about the organizations and participants he should target as customers, how much he should spend on website development and promotional materials, and the transport and accommodation he should provide. More importantly, he wondered if he should find a partner because of his disability (although he felt that it would be for the sake of others rather than for his own). Maybe he could find a partner who would bring experience and money to the business. As David was preparing for the meeting with his mentor, he received a phone call from the manager of the mentoring programme giving him terrible news. His mentor had died unexpectedly on the previous day leaving behind a wife and a young family. His mentor was a successful businessman in his early fifties who had recently begun to enjoy the fruits of many years of hard work. It came as a terrible shock to David and it reminded him that he needed to make the most out of life as one never knew what might happen next!

3 FAMILY BUSINESSES



Learning Outcomes
Introduction
Defining the Family Business
The Prevalence of Family Business
Family Business Research
Characteristics of Family Firms
Other Considerations in Family Firms
Exiting the Family Firm
Conclusions
Review Questions
Suggested Assignments
References
Recommended Reading

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LEARNING OUTCOMES

At the end of this chapter you should be able to:

- Discuss the importance of family businesses in the modern economy.
- Describe the potential range of family stakeholders in the family firm.
- Discuss the advantages and disadvantages of starting and developing a family business.
- Discuss the issues often pertinent in family firms.
- Describe the problems of succession planning in the family business.
- Describe the main elements involved in a succession plan for a family business.

INTRODUCTION

The SME sector in most countries includes a preponderance of family firms.[1; 2] According to Peter Drucker[3] (p. 45): 'The majority of businesses everywhere – including the United States and all other developed countries – are family-controlled and family-managed.' Certainly this is true in the UK, where the Association of Chartered Certified Accountants (ACCA) estimates that three out of four businesses are family owned,[4] and in Australia where a Boyd Partners survey estimated that family businesses account for two-thirds of the total firms.[5] In developing countries the proportion of businesses that are family concerns is even higher, including Latin America, Southeast Asia and Africa.[1]

Family firms range from the small lifestyle firm to those with high entrepreneurial growth potential, as discussed in Chapter 10. Between these two poles, like other SMEs, there is infinite variety. Since many family firms span several generations, family firms have the potential to prevail for many years:[1] amongst the oldest surviving family businesses are the Zildjian Cymbal Company, now American, but founded in Constantinople (Istanbul) in 1623, and Waterford Wedgewood of Dublin, founded in 1759. Intergenerational family firms may have gone through various stages of development, from establishment and sustainability through to periods of high entrepreneurial growth. Most often these intergenerational changes are borne of variation in the external conditions in which the firm operates and the attitudes and ambitions of different owners through the generations. The stereotype of 'rags to riches and back again in three generations' is not entirely without foundation, but there are also many examples of family firms that once established by the founder have gone from strength to strength as a result of second and third (and more!) generational entrepreneurship.[6] An example of this is given later in the chapter in the box on the Fiat Legacy.[7]

DEFINING THE FAMILY BUSINESS

Family businesses are all around us and influence our lives in many ways. Most often they are defined as firms in which the ownership is controlled by the family unit, either having been started by two or more members of the same family, or having been passed from an original founder to next generations of the family. Elsewhere, family firms are defined as those that have a significant family presence such as ownership and management, but not necessarily both.[2] Nordqvist and Melin[1] point out that family can include immediate family, extended family (cousins, uncles, aunts), and family by marriage. Thereafter different generations of

these various branches can be involved. If business ownership is shared between and amongst some combination of these, we tend to refer to their firm as a family firm. The family firm is therefore a somewhat amorphous concept.

THE PREVALENCE OF FAMILY BUSINESS

As noted in the introduction to this chapter, many family firms are small and lifestyle in orientation; local businesses passed on through one generation or more, such as carpenters or even a family farm. There is also, however, impressive precedent for the demonstration of entrepreneurship within family firms throughout the world; some of the most innovative and entrepreneurial firms are family-controlled.

Family Business Magazine[2] provides a compilation of the world's 250 largest family businesses, i.e. those with annual revenue of $1 billion or more. The list includes data from 28 countries, and within it a wide variety of industries are represented. 130 of these top family firms are based in the USA, with France having 17 and Germany 16. Korea has three companies in the 250 (Samsung, LG Group and Hyundai Motor), all of which are in the top 20 with 2 in the top 10. It was made clear in the report that data had been missed from the compilation because many companies operate through complex holding companies (particularly in Asia and Europe), therefore it is reasonable to conclude that this list represents a conservative account of the impact of the top-performing family firms.

FAMILY BUSINESS RESEARCH

Despite the importance of family-owned entrepreneurial businesses in modern economies, they have been the subject of comparatively little academic research. The practitioner community on the other hand, has a long tradition of profiling successful family firms and issues most often encountered in them. For example, in his book on leadership in family firms, Nicholson[8] identifies three main areas of particular concern:

- Succession
- Insularity
- Family conflict and governance.

Thus there is an opportunity for academic researchers to investigate family firms in a robust and systematic way, and indeed, there is a recent and emerging research literature using the family firm as a unit of analysis. Amongst these, notable developments include recent special editions in respected journals such as *Entrepreneurship and Regional Development*[9] and the *Journal of Family and Economic Issues*[10] on family business. Issues identified in these and other recent publications that are peculiar to, or at least most pertinent in, family firms include relationships within the family, intergenerational changes and succession and sustainability.[1] The interested reader is encouraged to examine the recommended reading for additional issues and insights into the areas of research in family-owned businesses. It is a potentially rich area that deserves ongoing further investigation by researchers in the entrepreneurship field.

CHARACTERISTICS OF FAMILY FIRMS

Family firms are said to have advantages and disadvantages that are unique to them, or at least more pertinent, than non-family firms. These can be felt in the firm during every stage of its development.

At the business start-up phase, dependence on family for support is a common occurrence and comes with advantages as well as disadvantages. The advantages include the fact that the family members know the would-be entrepreneur and their characteristics. They may also be prepared to make any loan at low or zero interest and the time limit for returning the funds may be elastic. There may also be advice and support from family

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members who have business experience. On the downside, there may be some unwanted interference regarding the way the business is run, particularly where family has been used as a funding source.

Support from family is found to be an important part of the start-up phase for entrepreneurs generally.[11] While most investigation of family firms includes focus on the founder, the role of family as an ongoing resource is often overlooked. In the literature on the influence of women in family firms in particular, both popular accounts of business and the academic literature have been criticized for placing too much focus on the formal structure of the business and the official owner.[12] This is discussed more fully in the section 'Other Considerations in Family Firms' later in this chapter.

As a business grows and becomes established, there are a number of issues that can more acutely affect a family firm compared with a non-family firm. Most prevalent amongst these are the company culture, relationships between owners and other family stakeholders and succession. The very same elements that can be the making of a family firm can also be the undoing. In this section we will look at the issues specific or pertinent to family firms and investigate how these can impact positively or negatively on the firm and on the family.

COMPANY CULTURE

For successful family firms the implicitly understood company culture can comprise advantage. Family firms can exhibit a 'sense of future' that comes from passing the organization through generations. Often the entrepreneurial passion of the founder is spread through the family and subsequent generations. Learning from past experiences also increases the store of knowledge, know-how and networks that the family operates in. Family involvement may also influence the adoption of a long-term view for the organization and the industry it is in. As reputation grows over the long term, so standards expected from the business and its employees also develop. There are many examples of family firms having generated strong businesses on the back of a shared culture and co-operation, long-term vision and established reputation. Marshall B. Paisner[13] (pp. 2–4), a family firm veteran himself, emphasizes in his book on managing family firms that the business culture in the family can be built by involving family members from a young age in what the business is all about by talking about it at the dinner table. This develops in family members deep and detailed knowledge of the business, its products, contacts and markets and this knowledge along with emotional ties to the firm can comprise significant advantage; it can drive focus on value and success. The 'family' ethos can also be extended to staff who are not family members: for example, John Spedan Lewis made staff partners in the John Lewis family firm invoking shared company values and commitment to the development of the firm.[14]

The culture in a family firm is borne of the firm comprising the sum of individuals who have shared business aims and are bonded by emotional ties. While collective vision and activity are important in all firms it is more likely to be more impactful in family firms because it is strengthened in many cases by family relationships and bonds. The complex relationship dynamics in family firms can also often be detrimental too. Nordqvist and Melin[1] maintain that conflicts can include:

> **sibling rivalry, perceived unfairness in the division of ownership among family members, children's wishes to differentiate themselves from their parents, and marital discord.**
>
> **(p.223)**

So, while family can strengthen a business, it can also be a divisive force, and it is to the importance of family relationships in the family firm context that we now turn.

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FAMILY RELATIONSHIPS

Taking part in a family business can perhaps be summed up by this statement from Carol Kennedy[14] (p. 1) in her account of three of the UK's most well-known family firms: Sainsbury, Cadbury and John Lewis: 'Being part of a family is a universal human experience, at once suffocating, infuriating, comforting and supportive.'

Peter Leach,[15] (p. 1) expands on this idea. He claims that the entwined relationships – as family and as business associates – are complex and require that those involved manage them effectively for the benefit of the family and of the firm:

> **As well as making the right decisions on the commercial problems that beset all enterprises, family business people have to be able to analyse the special dynamics that surround their businesses and their families.**

If members of the same family start a firm, or if a firm owned by one family member employs other family members, there are often major issues to be dealt with. Many of these stem from the relationships within the family group. As well as the organizational structure,[16] issues of survival and/or success can depend on how individuals work together.[17] Lank investigated stakeholders with interests in family businesses and found that these parties have key roles to play if their goals are aligned with the business.[18] The parties associated with the family may be fairly broad-ranging, but one would expect that the group may include, in the direct line, parents, children and grandchildren. Also the group may include spouses, siblings and even cousins.[19] As a business develops over time, and particularly through generations, the complexity increases: for example, in 1990 there were 300 members of the Cadbury family with shares through trusts set up by previous generations.[14] For many firms, relationships have to be managed: family relationships and business relationships are not the same and there can be conflict in terms of prioritizing the family as a unit or the business as a unit.[1] The Stepek family case study at the end of this chapter illustrates some of the problems a family can face from internal and external pressures on the business and the family.

The favouring of family from a business perspective can be highly detrimental to a firm: employing family members can cause much friction amongst non-family staff, particularly where the family appoints inept or less able family members in senior positions, or where inequitable reward systems based on family status are applied. In turn these kinds of issues can act as barriers to recruitment of talented staff from outside.

Where relationships between family members are not good, further problems can arise and issues brought into the organization can become difficult to deal with. Sibling rivalry can cause major areas of concern such as in-fighting, jealousy and power struggles.[20; 21; 22] Fleming[23] identifies seven deadly sins, including sibling rivalry, that can destroy a business and one cause of this can be that the children have not resolved critical issues from their childhood.

Growing concerns associated with the business in its initial stage are likely to be dealt with by the founder and their immediate colleagues (family, siblings or partners) and, just as firms pass through stages similar to or the same as those identified by Churchill and Lewis[24] (see Chapter 10), the family firm may experience periods of stress that have a bearing on their relationships both as business associates and as family. In larger organizations, tensions can become public knowledge and cause possible harm. For example, the relationship between Henry Ford and his son Edsel was known to be fraught with problems and Henry was often seen to over-rule, dominate and humiliate Edsel publicly. Despite this, Edsel's contribution to the Ford business was significant during his short reign of the firm (Edsel died early leaving the firm in the hands of his son Henry Ford Jr). He developed the firm from production of the original Model T through to the introduction of other cars as the industry developed commercially and competitively.[25]

Relationships in family firms can impact the business, and in turn, business can impact family relationships. These can be horizontal relationships between siblings and spouses, or vertical relationships through generations as illustrated by the Ford example. It is to these intergenerational issues that we now turn.

FAMILY FIRMS THROUGH THE GENERATIONS

The proportion of family firms surviving through to the third generation and beyond is small and figures from Leach and Bogod[26] show that only 24 per cent of family businesses survive to the second generation and that only 14 per cent survive to the generation after that. Similar is found by Smyrnios and Walker in Australia[5] in which it is estimated that around 67 per cent of firms are family-owned businesses with approximately 55 per cent surviving the first generation and 28 per cent the second. French data covering much of the twentieth century[27] show that the proportion of managers at the second generation or beyond never exceeded 35 per cent. In part, this was seen as being caused by the difficulties in the transmission of ownership of the firm within the family group; that is, the succession of ownership, which will be discussed in the next section of this chapter.

It is difficult enough, in today's economic climate, to grow and develop a business and keep control. For example, firms in high-technology niche markets may well have competitors or customers trying to buy them out for their knowledge and expertise.[28] Alternatively, they may attract investors who offer development funds for a share in the firm. Thus, the business may not exist for long enough to be passed down through the family.

Although the large majority may not survive to the third generation, some of the survivors go on to become major international players. In fact, many of the big businesses emerging from families are household names such as Levi-Strauss, Mars, Wal-Mart Stores and Michelin. In Italy, the Agnelli family has become renowned because of the vast power and influence acquired that spans industry, politics, finance, the press, culture and society. The family owns the Fiat industrial complex, which not only makes cars, but a wide range of other

THE FIAT LEGACY

Fiat is one of Europe's largest companies with interests in many different industries including transportation, bio-engineering and financial services. As well as manufacturing automobiles, the company is also involved in commercial vehicles, engine components and tractors. The company was founded in 1899 by Giovanni Agnelli and other businessmen in Turin in Italy. The company began manufacturing automobiles and engine parts in the early part of the twentieth century and an early aim of the business was to control better the manufacturing process by reducing dependence on other suppliers. With the help of Vittorio Valletta from 1921, the company began to grow and diversify. Agnelli set up a holding company in 1927, Industrial Fiduciary Institute (IFI), which is now owned and operated by Agnelli's heirs. In 1945, with the death of Giovanni Agnelli, Vittorio Valletta took over as President and Managing Director. In 1966 he was succeeded by Giovanni Agnelli III, the founder's grandson. A merger was struck with Ferrari in 1969 and they also took control of Lancia. By 1999 they owned 90 per cent of Ferrari. Umberto, Giovanni's brother, a talented salesman, became second-in-command in 1972. Over the years the company has endured turbulent times at home and abroad as a result of competition and economic fluctuations. These also afforded the firm opportunities, however: for example, the company thrived in developing markets such as eastern Europe and South America. In the late 1970s the company reorganized and modernized its manufacturing processes including the use of assembly robots. Output per worker increased by over 60 per cent.

Giovanni Agnelli III died in 2003 and his brother Umberto became Chairman until he died in 2004. Luca Cordero di Montezemolo was named as Chairman, and Agnelli's heir John Elkann became Vice Chairman.[7; 29] See also www.fiatgroup.com.

products such as defence equipment (see box on the Fiat legacy).[29] Another family business to make it on the international scene (and also Italian) is Benetton. This family business has developed a brand which has been extremely adept at inventing and reinventing itself.[30]

Other intergenerational issues for entrepreneurial family firms include those associated with the development of the firm as it passes through growth and other entrepreneurial phases and ownership changes as a result of both family and business developments. For many family firms, particularly those that experience entrepreneurial growth, the role of the family changes as the organization develops.[15; 23] Ownership and control may change over time as shareholders and professional management are brought in and difficulties can be experienced; for example, in investment, direction and expansion. Family ownership may begin to move from total control to a diluted holding through the introduction of private shareholders or public shareholders. The life cycle of these development phases generally begins from the entrepreneurial owner-managed firm and this is passed through to the new generation after training and the development of the individuals. The next phase of the development generally coincides with changing direction for the business that involves the inflow of new partners or shareholders. Overall, if handled successfully, this results in a power transfer from the family through to professional management. However, it is common that, although the large shareholding is no longer with the family, the name of the family and key individuals are retained because of their importance to shareholders and the market. A famous British example of this is Cadbury. Sir Adrian Cadbury was still Chairman of the Board while his family held only 2 per cent of the shares.[14] In fact, from 1962 the Cadbury-Fry family held 50 per cent of Cadbury following the flotation of the company and this has been diluted over the years, including trustees of the family trusts diversifying portfolios into other areas following the change away from family ownership.

On the flip side of this, some previously successful family firms can experience periods of (sometimes serious) contraction or even failure as a result of either or both the business environment during subsequent generations and the style, ambitions and abilities of proceeding generations of owners. An example of this is given in the case study McGonagall Hats later in this chapter, whereupon the heir was unable to sustain the success of his father's firm. Similarly, the case study on Stepek at the end of this chapter illustrates that the complexities of family relationships, often amongst post-founder generations, can result in business failure, as family attention to business is distracted by rivalries and in-fighting.

SUCCESSION

Birley et al. found in their study of family firms that from 208 respondents, 45 per cent were children of the founder and 27 per cent were grandchildren.[31] Research conducted by Harvey[4] on family firms' succession practices identifies the following types of firm transition.

- Having one heir, 'the crown prince' – however chosen. A good example of this is Samsung where the founder chose his successor from the family (see box on the entrepreneurial global family firm).
- Having a 'sibling partnership', where roles are enacted according to the talents of the family – such as Baxters (see below).
- The 'cousin consortium', where the family ownership means that some members are active at senior levels while others are working their way up the organization. Some may also be passive shareholders.
- The 'stop-gap manager', who holds the fort until the next generation is ready. In part this was the case at Fiat, but Vittorio Valletta was more than this and held the top position for 21 years.
- Family ownership and professional managers. In this situation the family may not have anyone who could run the business, or who wanted to run the business, so professionals are brought in while the family retains ownership.

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- A management buy-out.
- Selling the business in the marketplace.
- Disposing of the organization as an asset sale; that is, liquidating assets to get cash.

Succession in family firms can prove difficult for a number of reasons including the different ambitions and attitudes of the next-generation family members.[32]

While the original aim of the founder may have been to pass the firm on to future generations, this may not always be the best course of action for the firm. Where a business is passed to an heir, resentment can prevail amongst staff, especially where the heir is less able, is ill-qualified or ill-equipped to lead the organization. To a non-family member, who may well have much-needed knowledge or skills, this can cause great frustration as demonstrated in the case of McGonagall Hats later in this chapter. Over and above this, there are well-documented cases of autocratic or paternalistic styles of management within the family dynasty: Henry Ford, for example, was known to micro-manage and dominate the firm even after his son had officially taken over leadership.[25] Other issues involve sibling rivalry, as illustrated in the Stepek case. This type of rivalry can be an amplification of established family rivalries. Audrey Baxter, of the Baxter Foods family, outlined the importance of the roles with her siblings[33] (p. 15) when she succeeded her father as CEO: 'We are three very different people but our reasons for being in the company are the same.' She also explained that she and her siblings made a point of communicating much and often in order to keep everyone informed about company activities.

ENTREPRENEURSHIP IN ACTION

Byung-Chull Lee and Samsung

The Samsung Commercial Company was incorporated by Byung-Chull Lee in 1938. He had moved to Taegu in south-eastern Korea in 1936 and established a rice mill, using an inheritance to do so. Between 1936 and 1938 he traded in a wide range of products including wool and textiles. By 1938 the company employed 40 staff and began to expand into Manchuria and China. Today, Samsung's flagship division, Samsung Electronics, is one of the world's largest makers of computer memory chips – after Samsung became involved in 1980 with the purchase of the Korea Telecommunications Company. The division also manufactures a wide range of commonly used electronic products such as mobile phones and microwave ovens. Other divisions in the group deal in heavy industries, life insurance, securities and trading. Before his death in 1987, Byung-Chull Lee chose his third son, Kun-Hee Lee, as his successor and gradually relinquished control to him. This is regarded as unusual, as the eldest son is normally in this position, but it is believed that Byung-Chull Lee felt that Kun-Hee Lee was most capable of operating the company. Samsung Electronics (2007) is listed at 46 in the Fortune Global 500 (Electronics, electrical equipment) with revenues of $89 476 million, and 138 000 employees.[7] See also www.samsung.com.

Succession is not only a difficult issue for family firms: it affects all privately owned businesses. Succession is most often thought of in terms of retirement of the business owner, but in fact it is brought about for a variety of reasons. The report *SME Ownership Succession* by Martin et al.,[34] for the former Small Business Service (SBS), cites harvesting, personal reasons or retirement as the three most common inducements to succession,

most often when owners are in their late fifties or early sixties. New owners of the business may come from external buyers or a continuation of the business from inside.

The research for the former SBS [34] was conducted in three regions of England and business advisers interviewed during the course of the study were concerned about the high proportion of ageing owners who were making no provision for the succession or continuity of their businesses when they withdrew. Owner-managed firms without a distinct management team and having between 10 and 50 employees were seen as being particularly vulnerable to succession failure. The SBS's statistics suggest that some 54 000 small firms in the UK (based on 35 per cent of owners exposed to age-related issues and representing around 1 million jobs) were at risk of succession failure.

Succession in family firms can be problematic for a variety of reasons. First, business growth can often be personal to the owner who might have difficulty relinquishing control.[34] They may believe that their successor is not good enough to do the job or they may take exception to a change in vision and direction of the organization their successor is planning. This can present some difficulties, but diplomacy and discussion are essential in order to bring both visions into line for the future of the organization. Also problematic are circumstances where successors are dependent upon the original owner/manager making decisions or cannot or will not take full control while the founder is still alive – even where he or she might have officially exited the firm. Other problems arise where there is no natural internal successor and the founder has to continue until such time as an heir comes of age or experience or an alternative manager can be found. In many cases an owner ignores the need for succession altogether. Fleming[23] suggests that in some family firms the succession issue is avoided because it can raise unpleasant family problems and issues that cause pain and conflict; the issue of succession forces the parent(s) to confront their own mortality and they may fear a loss of personal control in the business.

The report, *Leadership in Family Business*[8] by Nigel Nicholson of London Business School, found that from a sample of approximately 150 UK companies, the average age of board members was over 50. While 30 per cent of the sample had actually gone beyond the third generation, more than half of the companies were unable to state what kind of succession they would be looking for in the future; that is, from a family member or from someone from outside the business. Nicholson highlighted that loyalty was ranked very highly, in the top three of the important qualities sought by the boards. Perhaps significantly, 60 per cent of the sample did not have a non-executive director on their board – showing that these family businesses were still dominated by the family.

For many family firms though, over time family ownership may begin to move from total control to some degree of a diluted holding. This occurs through the introduction of private or public shareholders. The succession phase may well coincide with a change of business development and can coincide with a change in direction for the business. With the inflow of new partners or shareholders, a power transfer from the family through to professional management may be the result. This leads to a number of key questions relating to the personal qualities of CEOs; that is, the way to choose a successor and the involvement of the outgoing owner(s).

Robert Heller[35] outlines instances of disaster for family succession and he gives advice that fits all types of business, including promotion on merit and promoting talent in the organization. He also suggests the use of elder states-people to guide the younger managers – similar to the use of mentoring in entrepreneurship. Crucially, like business guru Tom Peters,[36] he advocates keeping close to the customer base. Successful succession in a family business requires an understanding of the situation, and appropriate training and experience of the successor. Failure to implement a successful succession may be due to reasons related to members of the family wishing to exit from the business, for example where the immediate heirs are seeking to establish themselves in different careers. Planning for succession is vital and a number of approaches and guides are available

from sources, such as the ACCA[4] and BDO Stoy Hayward.[37; 38] Guides such as these most often identify the following issues as critical for succession:

- Plan for succession early
- Develop a written succession plan, involving relevant family and business colleagues
- Make use of outside help
- Establish a training process for the next generation

The importance of succession in business cannot be underestimated, particularly if incoming investors are involved, who not only wish to protect their investment but also want to see a successful business achieve its potential. The timing of succession and the departure by either the founder or chief executive of the company is not trivial. It is not just about age; it is also associated with the individual's energy and his or her willingness to push ahead with the things they are attempting to achieve.

McGONAGALL HAT FACTORY[1]

Contributed by Dr John Sanders, Heriot-Watt University

BACKGROUND

McGonagall Hat Factory was established in the early 1900s by Angus McGonagall to fill a growing demand for headwear in New Zealand. New Zealand has a largely temperate climate, but the weather can change unexpectedly, average rainfall is high and evenly spread throughout the year, and the level of solar ultraviolet radiation is very harsh, particularly during the summer months. As a consequence, immigrants demanded high quality hats that were durable enough to survive New Zealand's climatic conditions.

Up until the early 1960s nearly every New Zealander wore a hat, so hat-making thrived. However, during the mid-1960s, hat-wearing went out of fashion and the industry went into rapid decline. The hat-making companies that survived, including McGonagall Hat Factory, got into manufacturing cotton and straw hats requiring big production runs that kept operations viable. These surviving hat-makers were also helped by supplying a demand that was very heavily protected by import licensing which kept out overseas products. However, with deregulation of the New Zealand economy in the early 1980s, the company had to compete with an influx of cheap overseas, imports. In 1986, due to declining earnings and profits caused by low-cost hats from overseas, the great-grandson of Angus McGonagall sold the company to the clothing wholesaler Ben Harris and Sargood, a company that had acquired other hat-makers during the demise of the hat trade during the 1960s.

ALF PERKINSON

Eighteen months after Ben Harris and Sargood's acquisition of McGonagall Hat Factory, they sold the company along with a number of other clothing-related businesses due to debt problems. In a management buyout, Alf Perkinson, who managed hat operations for Ben Harris and Sargood, successfully purchased the McGonagall Hat Factory. Alf had been in the hat business for 30 years. He mortgaged his house and invested all of his savings to acquire the company. Along with the factory the purchase also included

[1] The case study McGonagall Hats is based on a firm in New Zealand. Names and some details have been changed.

around 500 hat blocks (some hat blocks were decades old). Hat blocks are essential for shaping either felt or straw into the specific style of hat required by the hat-maker. The number of hat blocks owned by the company gave it the greatest variety of hat styles and head sizes available in Australasia.

Alf's first decision as the new owner of the McGonagall Hat Factory was to focus on making up-market hats. This meant ending the factory's low-cost hat production. He also started to make branded hats (i.e. hats featuring organisational logos and names) for new customers like large companies, schools and sporting bodies.

One of the challenges for Alf was to find ways to sell hats. Most of Alf's stocks ended up in major department stores in both New Zealand and Australia. But what really gave his business a big boost was when the company began making hats under licence. In the late 1980s he began to make hats for the likes of the All Blacks, New South Wales and English rugby league teams and Canterbury International. Licensing work was secure as long as quality was maintained.

MELANOMA SCARE

The company received a further boost in sales due to the high incidence of the skin cancer known as melanoma in New Zealand, the deadliest of the known types of skin cancer. It appears that years of enjoying the sun during the warmer months without wearing a hat had taken its toll on New Zealanders' health. Between 1960 and 1990 the number of cases of melanoma in New Zealand doubled. Publicity surrounding melanoma caused a big surge in demand for casual hats.

With the return of the hat there was a rapid increase in the number of competitors making them, but they were mainly small boutique and designer operations, not volume producers like McGonagall Hat Factory. By the early 1990s the McGonagall Hat Factory was making more than NZ $4 million worth of head gear per year and producing about 350,000 hats annually in Auckland and Wellington. At this point it had become the largest hat-making company in the country. The company made almost 800 different styles, everything from bush hats, felt and wool hats, beach straws and sport caps, to ladies high fashion.

ALF PASSES AWAY

In early 2006, aged 70, Alf had a stroke and died suddenly. Control of the company passed to his son, Craig. Forty-three-year-old Craig had been a senior civil servant so had very limited knowledge and experience of the factory's operations or business in general. Craig's management style was in some respects like Alf's, as they both had a preference for being autocratic in their decision-making. However, the difference between the two is how they applied this preference. Alf in many ways behaved as a father figure to the workers; he was interested in their welfare, but still perceived that it was his exclusive right to make every decision. Most of the employees tolerated Alf's management style because he had saved their jobs back in 1986 and then he had gone on to improve company performance. Craig's management style on the other hand was much less subtle. He was dictatorial in terms of how operations should be run, and he expected absolute obedience. He closely supervised and controlled workers in all of their tasks, and was known as a micro-manager. Over time his style of management demotivated the highly skilled and experienced workforce and created a 'him and us' organisational culture. Craig did not seem to realise that he could not afford to alienate his workforce, because their individual skills were extremely valuable and would be difficult to replace if they decided to leave in large numbers. Craig was also seen as an interloper who had been given responsibility of the company via birth rather than merit.

Craig's objectives for the firm were exclusively about increasing output. In an effort to improve factory layout and utilisation Craig sold or dumped over 100 of the hat blocks Alf had tenderly cherished.

Performance standards procedures were implemented to maximise production from the workforce. Added to this, high-quality suppliers had been replaced in favour of low-quality and cheap providers. Quality problems started to emerge throughout each stage of the production process, i.e. via checks of hat finish, shape, body and feel. Quality was not a feature of either management strategy or workforce commitment. Craig believed that financial performance would be maintained and growth could be accomplished by refocusing on cheap bulk outputs.

CASH CRISIS

In 2007, the company confronted a number of major problems. First, declining quality standards had seen the departure of several key customers (i.e. Air New Zealand, the army, the police and the fire service) to its major competitor in New Zealand, Hills Hats Ltd. Second, within 12 months the company's good mix of customers and good debtors' book had shifted to a focus on fewer customers and a debtor book less well spread. Third, in February 2007, without any notice, its last remaining major customer went into liquidation. The demise of this customer meant McGonagall's faced a large bad debt problem. A tax payment was due to compound McGonagall's cash-flow problems as well. After more than 100 years of operations, McGonagall Hat Factory was in crisis.

DISCUSSION QUESTIONS

1. Having worked in the millinery industry all his life Alf Perkinson jumped at the chance to buy McGonagall Hat Factory. Since 1986 he steered the business through turbulent times and treated it as a labour of love. Without being aware of it, Alf made several mistakes though, and these contributed to the eventual crisis McGonagall Hats faces now. What were the mistakes he made?
2. What could Alf have done to avoid the mistakes you identified for Question 1?
3. What are the problems with Craig Perkinson's management of McGonagall Hats?
4. Describe the changes you would need to make to ensure the survival of the McGonagall Hat Factory.

OTHER CONSIDERATIONS IN FAMILY FIRMS

As with most studies of entrepreneurship and business the most common research focus is at the level of the founding entrepreneur or the business as a unit of analysis. Several researchers have questioned the extent to which this is a valid and appropriate means by which to investigate the complexities and nuances of most business ownership and operation.[12] The family firm is a very good example of a business entity that does not easily 'fit', in many cases, the traditional means of inspecting much of the activities and function of firms and the issues that affect them.

In Chapter 4 of this book women's entrepreneurship and the fact that much female entrepreneurship is 'hidden' by the fact that many firms are co-owned with men by women (and therefore are not usually included in the 'women's entrepreneurship' count) are discussed. Many family firms are started by a husband and wife team – sometimes this team is formally structured and in other cases the arrangement is less formal, whereby the husband 'owns' the firm but is supported, assisted and sometimes even employs (paid or unpaid) the owner's wife (as was the case for Jan Stepek detailed at the end of this chapter). Marshack[39] refers to women in business with their husbands as 'copreneurs' and certainly, businesses that are co-owned or that employ people related by birth or marriage to the owner are well within the definition of family firms. The role of women in family firms is

an under-researched area; however, Hamilton[40] provides some insights. Findings from Hamilton's research demonstrate the complexity of family firms – that no two are the same and that a wide variety of management and operational styles can be observed. The research also implicates the role of family support – emotional and operational – as a significant factor in business success in many cases. Critically, Hamilton's study refutes the idea, common in entrepreneurship research, that firms are started and developed by the 'heroic male' stereotype and she demonstrates that control, decision-making and management are not always exclusively the domain of the male 'head of family' in family firms. Indeed she provides an example of a firm in which the male owner appears to customers, suppliers and stakeholders the dominant partner, but in fact this bears no relation to the power, control and operations internal to the business. In this case, it is the wife who runs the firm and the presentation to the outside world is a deliberate strategy on the part of the family in response to common perceptions amongst the business community about who *should* be in charge (p. 267).

The complexity of family firms reflects the ongoing business and family relationship and resource dynamic. Yilmazer and Schrank[11] identify that the extent to which the family is used as a business resource, and indeed the extent to which family resources and business resources are indiscriminate for families with firms, is not well understood. It is likely that the role of family members, especially women, and the appropriation and use of resources in family firms merits more investigation from researchers. Indeed, the suggestion is that it would afford a better understanding of entrepreneurship generally, that takes into account the infinite variation and complexity of roles and functions of different actors within firms.

EXITING THE FAMILY FIRM

There are many reasons for a family wishing to exit from a business. Amongst these is business failure: the 'rags to riches and back again in three generations' phenomenon. Failure may occur through the lack of innovation, a lack of investment, or disinterest from the family. If the company stagnates, through lack of innovation in its products or services, it may become outmoded or outdated and require substantial investment to rectify. Other considerations include family members seeking new pastures and different areas in which to work. It may be that the family members do not want to be involved in the family business and wish to pursue their own business and careers. Most of us will have some knowledge of a business where the founder and owner-manager has developed, in some cases, a multimillion-dollar business, only to find that family members do not wish to stay with the business and have hopes and aspirations for other careers they wish to pursue. A 2004 study featuring a sample of minority ethnic business owners for the Scottish government, illustrated that first-generation immigrants may have started a business in sectors such as retailing and catering, but problems now exist in transferring succession due to the different aspirations of the second generation. Their children were not willing to accept the long hours of work associated with running such businesses.[41] While this was observable amongst this group within the context of identifying issues for specific ethnic minorities, the sentiment can be representative of any family firm – many children of entrepreneurs have no desire to be involved in the family business. In other cases, passing a business on to a family member who is not sufficiently capable or devoted to the success of the firm can spell disaster and can be a source of much frustration to non-family members who might have been better equipped to take control, as in the McGonagall Hats case.

Failure is not the only way family firms experience cessation, however. From the founder's point of view, succession may be their first option, but there are other alternatives such as selling the business altogether[42] – thus becoming a one-generation organization. They may allow a management buy-out based on the workforce they built up or a management buy-in where an external group of managers would take over the firm. As mentioned earlier, in some cases the firm as a family organization need not disappear; family may keep shareholdings while external management run it, as was the case with Cadbury-Fry. Yet another alternative is to sell the business to other relatives.[43]

CONCLUSIONS

The importance of the family business cannot be understated. Although a large number of these organizations come and go, some achieve great growth, influence and contribution to the economy. The attrition rate is high and research from around the world indicates that few family-owned buinesses make it to the third generation and beyond.

Although family businesses may have problems, such as internal family politics and the normal rivalries that exist between siblings, the family business has played an enormous role in building the society in which we live. A great deal of support can come from the family and company culture and values are seen as important. New generations of family members need to fill an appropriate role and situations can arise that warrant the inclusion of professional senior managers – for example, where family members are not experienced enough or sufficiently qualified to take on senior positions.

The question of succession in family firms is vital and occupies a great deal of the research available on family-owned businesses. The obvious successor need not necessarily be the oldest family heir and planning the succession process is vital for ensuring success. Planning early is important and ensuring that stakeholders are involved will aid success of the plan – setting up a family group or council may be the best way forward. Formal education and training are vital ingredients for the execution of the plan. Although the succession issue can arise through death or retirement, there may be other reasons such as ill health or the founding entrepreneur wishing to move on to a new project.

In some instances the heir to the business may not come from the family, for example where a senior manager fills a stop-gap role until the family member is ready to assume a senior role. There may also be management buy-out situations where the family will sell their shares to an experienced internal management group and, in this instance, venture capitalists may become involved by providing funds, expertise and even a new CEO.

The role of the outgoing CEO is important and he or she may act as an adviser or mentor to the new CEO. It may also be difficult for them to accept the position they are in and part of the planning process has to include aspects of acceptance and change. At the heart of a business it is all about people, and family businesses also cope with the relationships, good and bad, that exist between family members.

The case study, 'Stepek', illustrates some of the key issues in family-owned businesses.

SUMMARY

PROBLEMS OF MANAGEMENT IN FAMILY BUSINESSES

- Family positions, either their role in the business or the various stances they may take over decision-making. For example, individuals may find themselves in a proactive role when they feel they are not qualified for it or even want to take on the role. Situations like this can occur due to the death of a parent.
- Politics within family factions can arise. For example, due to the role given to a family member's heir, i.e. not the CEO, or in the shareholding allocation to family members.

- The decision-making process may prove difficult because of the dominance of certain family members and a lack of objectivity, or because the business's best interests are not central. It may also be that the family involvement is so broad that it is difficult to get consensus.
- Sibling rivalry can result from many things including jealousy on almost any basis, e.g. company position, earnings, shareholding and potential prospects.
- Conflict can arise from the above as well as from external sources such as a rival wishing to buy the business.
- Nepotism can occur through the appointment of family members over those outside the family who have greater experience and qualifications for the position they are given. This can give rise to discontent in the workforce and the loss of very able members of staff.
- Flotation of the business can bring many problems (as well as benefits) for the family. Initially they will lose the amount of shareholding and control they have, external directors will be appointed and some members may be removed from their positions in favour of qualified individuals.

ENTREPRENEURSHIP IN ACTION

Jan and Martin Stepek and the Stepek family business[2]

INTRODUCTION

Polish-born Jan Stepek had a turbulent youth. He lost his mother to starvation, had endured slavery in a Soviet gulag, and as a Polish Navy radar operator had survived hunger, typhoid, dysentery, malaria, the invasion of Sicily and the Normandy D-Day landings during the Second World War.

In 1945 he was demobbed from the Navy in Plymouth and headed for Glasgow to study Engineering at the Royal College of Technology (now University of Strathclyde). Using his navy and engineering skills he became self-employed and repaired radios at people's houses, while his wife kept the business books. His good name and reputation grew and he opened the first shop in 1953 and formed a limited company in 1957. By 1960, he had built the business to a chain of six shops. The business grew into television rental and sales of electrical goods, where they competed against big High Street names in Scotland. As the business grew, so did the Stepek family: Jan and his wife had ten children. The oldest son, John, joined the firm in 1968, straight from school, followed between 1975 and 1983 by the other children – some more suited to business than others. By 2000 company turnover was £12 million.

THE FAMILY/BUSINESS SITUATION

It seemed like a good idea at the time, so right, so clever. Make maximum use of legal loopholes to reduce tax by giving your children shares in the family business stage by stage, in trusts. It appeared simple: ten kids, each to inherit 10 per cent of the shares each. Nice round numbers, no decimal points, no need even for a calculator. Coupled with this was investment in pensions. In good years, the idea was to contribute to

[2] We are grateful to Martin Stepek for the 'Entrepreneurship in Action' box on the Stepek family business.

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the family pension scheme as much as possible, in each of the names in the group, up to the legal maximum. The business had the finest lawyers and accountants and followed their sage advice.

Some 20 years later and the motley crew of young men and women who were the Stepek siblings had become adults in their thirties, forties and fifties. All were now married, nine of the ten siblings had children of their own, and of course spouses. Ten spouses for 10 siblings, 20 children for 20 married husband and wives – and all those shares and pension funds. Sounds like a ball, does it not? Problem – whose ball was it? And whose rules were the Stepeks to play by?

Unfortunately, the financial plan did not turn out the way it had been planned. Because of those ingenious schemes to avoid tax, by 1999 one brother had over 15 per cent of the shares in his family, while the youngest had about 3 per cent. And those pension contributions? Well, they did not really reflect normal salaried levels of pension contributions so over the decades they were skewed. They were in fact more like profits than standard 10 or 12 per cent of salary pension schemes.

The family reviewed the history of the pensions contributions and reasoned as follows:

> If they were actually more like profits, shouldn't they be considered quasi-dividends? Well maybe, but what's in a label? Dividend, pension contribution, it's all just money, isn't it? Except, dividends get paid according to how many shares you owned, while pensions are supposed to reflect salary or effort or something like that.

Of course, *some* of the pension money was *actual* pension money and that could be worked out retrospectively by calculations. But what about all the extra contributions? The thinking was that they could be called dividends retrospectively too. So the family could start to redistribute the excess pension holdings and share it equally among the 10 siblings. Aware that shareholdings were not distributed by the 10 per cent per individual that was supposed to happen, the first step was to redistribute the shares first to 10 per cent apiece, *then* redistribute the pension holdings that – maybe – was dividend. This would mean it would be all sorted the way Mum and Dad wanted, the whole wealth distribution would reflect equal ownership and individual sweat equity and the family could get back to running the business again. Except – family issues reared to the fore!

> Well, says one sibling – or two, or ten, it does not matter who said what now in hindsight – I have my own kids to worry about and my spouse says why do we need to redistribute anything anyway? After all it was all done legally and agreed at the time, and anyway, we were just kids, it was Dad who chose to do it this way; and yes, I know we have a lot more than 10 per cent of the shares and six times your pension pot, but well I have my own spouse and kids to consider. Of course if it was just the 10 of us brothers and sisters it would be easy…

Meanwhile, the business had been going very well until a change in fiscal policy in the year 2000. The government increased IPT (insurance premium tax) from 4.5 per cent to VAT levels. The problem for the Stepeks was that they had tens of thousands of rental televisions and videos all with IPT. The key issue was that if they passed on the cost to the customers, all those old televisions and videos would come piling back into the warehouse because their competitors, Radio Rentals and Granada, had sufficient reserves to maintain their rental rates. This loss of customers would severely affect the company's cash flow. Potentially, income would dwindle to the extent that the company could go bust. So the Stepek family directors decided to maintain their rental rates. The result of this decision meant that they lost over £1 million from the bottom line which ultimately put them in the red – to the tune of £500 000.

THE END GAME

The in-fighting about the distribution of dividends and pensions started to drain the much-needed energy required for running a family business. Interminable board meetings to try to unravel all of the family issues

went on year after year, leaving little energy or family unity to focus on the fast-changing electrical retail market. The family could not resolve their issues and the business suffered from a lack of energy and will to continue. The company went bust in 2002. Three hundred and fifty employees lost their jobs. A household name in Lanarkshire, well respected, with a unique culture of real care for their customers, was gone. A major part of the loss was that family issues had impacted the management and operations of the firm to the extent that business and market focus was lost. Comments Marin Stepek:

> If we had focused on the business, the family would have come crashing down. So we focused on the family and the business came crashing down. With sound advice and deep training in family business issues we'd have avoided most of this and handled what remained.

The demise of the business was not entirely due to family matters: some management mistakes had been made and the firm had suffered also from bad timing, ill-luck, and increased competitiveness in the electrical retail sector. By the time the company folded, they had reached around £12 million turnover and had returned to profit. Sound plans were developed, but just too late. In hindsight, perhaps without the incessant family issues they would have made the necessary decisions and transitions in time and survived, even grown.

COMMENT AND EXERCISE

This case illustrates some key issues of family and business and the complexity of relationships within them, and there are many lessons to be learned. In this story, the business goes down – but not the family! As Martin Stepek, CEO of the Scottish Family Business Association (SFBA), says:

> Still, I'm glad it was the business that went down rather than the family. I still have my seven brothers, two sisters, infinite in-laws and nephews and nieces and they're what matters ultimately. You can be very happy and successful without a family business. I've found that out. You can't be happy if you have the most successful business in the world but you've alienated your family. But it would have been best if we could have managed to keep family and business.

REVIEW QUESTIONS

1. How would you define a family firm?
2. What are the advantages of owning and developing a family business?
3. What are the drawbacks to owning and developing a family business?
4. Assume that your father was the founder of the family firm. What problems might you face in taking over as CEO?
5. What are the options available to the founder if no one in the family wishes to succeed him/her?
6. What are the key elements in managing succession?
7. Why do family businesses need a succession plan?
8. What are the founder's options if his or her heirs are not yet old enough or not yet suitably qualified or experienced to take over the family firm?
9. What characteristics and attributes would you look for in a member of a management buy-out?
10. When do you think the family business is most vulnerable?

SUGGESTED ASSIGNMENTS

Using the case study provided of the Stepek company:

1. Identify the key family issues in the case
2. How would you resolve the family/business issues outlined in this case?
3. What advice would you have given to them?
4. How would you organize succession of your firm if you had ten children?

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