CHAPTER 5

The Family Business

PART 2
Starting from Scratch or Joining an Existing Business
What Is a Family Business?

**Family Business**

- An organization in which *either* the individuals who established or acquired the firm, or their descendants, significantly influence the strategic decisions and life course of the firm.

**Examples of small businesses**

- Laundromats, restaurants, etc.

**Examples of large businesses**

- Ford
- Levi's
- Walmart
World’s oldest businesses

How old is the OLDEST family business?

From what country?

**Kongo Gumi**, founded by a Korean in Osaka in 578, is a builder of Buddhist temples, Shinto shrines and castles—and now also offices, apartment buildings and private houses.

**Hoshi Ryokan**, a Japanese inn founded in Komatsu in 718. Run by Zengoro Hoshi, **the 46th generation of the family** to be in charge, the firm’s motto is unusually practical: “Take care of fire, learn from water, co-operate with nature”.

All are family businesses.

<table>
<thead>
<tr>
<th>Antique dealers</th>
<th>Date of founding*</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kongo Gumi</td>
<td>578</td>
<td>Japan</td>
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<tr>
<td>Hoshi Ryokan</td>
<td>718</td>
<td>Japan</td>
</tr>
<tr>
<td>Château de Goulaine</td>
<td>1000</td>
<td>France</td>
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<td>Fonderia Pontificia Marinelli</td>
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<td>Barone Ricasoli</td>
<td>1141</td>
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<td>Barovier &amp; Toso</td>
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<td>Hotel Pilgrim Haus</td>
<td>1304</td>
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<td>Richard de Bas</td>
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<td>Grazia Deruta</td>
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<td>Fabbrica D’Armi Pietro Beretta</td>
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<tr>
<td>William Prym</td>
<td>1530</td>
<td>Germany</td>
</tr>
</tbody>
</table>

Source: familybusinessmagazine.com

*Approximate in some cases
Exhibit 5.1  Competing Interests in the Family Business

Family and Business Overlap

• Family Concerns
  ➢ Care and nurturing of family members
  ➢ Employment and advancement in the firm
  ➢ Loyalty to the family

• Business Concerns
  ➢ Production and distribution of goods and/or services
  ➢ Need for professional management
  ➢ Effective and efficient operation of the firm

Which issues are most important from each section? Can they co-exist?
Advantages of a Family Business

- Strong motivation of family members to see business succeed
- Developing firm-specific knowledge among family members
- Focus on the long run
- Reduced cost of control

- Ability to use family theme in promotions
- Shared social networks among family members
- Preservation of the firm's reputation based on maintenance of high standards
Disadvantages of a Family Business

• Conflict among family members about:
  ➢ Risk (consequences of failure) to the family in launching a business
  ➢ Nepotism and the differences in competencies and merit of family members involved in the business
  ➢ Family traditions versus the business need to innovate and seize opportunities
  ➢ Unity and cooperation of family versus business need to foster diversity and competition
  ➢ Family loyalty versus the necessity to provide opportunities for non-family employees
Commitment of Family Members to the Family Business

Family members that are more likely to support and promote change have:

Desire-based and Obligation-based Commitments

Family and Business Overlap

Good Communication is VITAL
(especially in family businesses – communications channels are often “hidden”)

Sure there is stress – but it can all be handled if communication exists
FILM on a day in the life of a family business
The Need for Good Management in the Family Firm

Nonfamily Employees in a Family Firm

- **Hazards:**
  - Competition with family members for advancement
  - Getting caught in the crossfire and politics of family competition within the firm

- **Solutions:**
  - Identify family-only reserved positions in advance.
  - Treat both family and nonfamily employees fairly in matters of reward and promotion.
Family Retreats

- A gathering of family members, usually at a remote location, to discuss family business matters.
- Use of an outside facilitator may be necessary.

Guidelines

1. Set a time and place.
2. Distribute an agenda prior to the meeting.
3. Plan a schedule in advance.
4. Give everyone a chance to participate.
5. Keep it professional.
Conditions Favoring Successful Leadership Succession in a Family Firm

- A sound, profitable business
- Stable, healthy family relationships
- Advance planning for leadership succession
- Positive family leadership and a team-oriented management structure
- Presentation of career opportunities without pressure
- Open communication on family business issues

Discuss Pros and Cons of a Family Business
Independent America (unique perspective) - FILM
Entrepreneur Interview Project

- Discuss progress to date . . .
- Questions - for project completion?
- Anyone Need the Handout?
- Access files for project completion:
  http://instruction2.mtsac.edu/rjagodka/CourPage.htm
  Entrepreneur Interview Instructions (txt) (Right click and "Save Target As ...")
  Entrepreneur Interview On-Line Form

- Work on/ edit your content (paper then txt file)
- Complete the project by entering into on-line form
- Later can view archive results