DEFINITION OF FAMILY BUSINESS pdf

1: Family Business | Definition of Family Business by Merriam-Webster

Family business definition is - a business owned or operated by one's family. How to use family business in a sentence. a business owned or operated by one's family.

Conceptual overview[edit] Family business is the oldest and most common model of economic organization. The vast majority of businesses throughout the worldâ€”from corner shops to multinational publicly listed organizations with hundreds of thousands of employeesâ€”can be considered family businesses. In many cases, they are not subject to financial reporting requirements, and little information is made public about financial performance. Ownership may be distributed through trusts or holding companies, and family members themselves may not be fully informed about the ownership structure of their enterprise. However, as the 21st-century global economic model replaces the old industrial model, government policy makers, economists, and academics turn to entrepreneurial and family enterprises as a prime source of wealth creation and employment. Congresswoman Pelosi greets employees of McRoskey Mattress Company , a family-owned, San Francisco mattress manufacturer founded in The "Global Family Business Index" [6] comprises the largest family firms around the globe. Family businesses can have owners who are not family members. Family businesses may also be managed by individuals who are not members of the family. However, family members are often involved in the operations of their family business in some capacity and, in smaller companies, usually one or more family members are the senior officers and managers. In India, many businesses that are now public companies were once family businesses. Problems[edit] The interests of a family member may not be aligned with the interest of the business. For example, if a family member wants to be president but is not as competent as a non-family member, the personal interest of the family member and the well being of the business may be in conflict. The interests of the entire family may not be balanced with the interests of their business. For example, if a family needs its business to distribute funds for living expenses and retirement but the business requires those to stay competitive, the interests of the entire family and the business are not aligned. For example, a family member who is an owner may want to sell the business to maximize their return, but a family member who is an owner and also a manager may want to keep the company because it represents their career and they want their children to have the opportunity to work in the company. The three circles model[edit] The challenge for business families is that family, ownership and business roles involve different and sometimes conflicting values, goals, and actions. For example, family members put a high priority on emotional capitalâ€”the family success that unites them through consecutive generations. Executives in the business are concerned about strategy and social capitalâ€—the reputation of their firm in the marketplace. Owners are interested in financial capitalâ€—performance in terms of wealth creation. Family, Ownership and Management. This model shows how the roles may overlap. Everyone in the family in all generations obviously belongs to the Family circle, but some family members will never own shares in the family business, or ever work there. A family member is concerned with social capital reputation within the community , dividends, and family unity. An owner is concerned with financial capital business performance and dividends. The Management circle typically includes non-family members who are employed by the family business. Family members may also be employees. An employee is concerned with social capital reputation , emotional capital career opportunities, bonuses and fair performance measures. A few peopleâ€”for example, the founder or a senior family memberâ€—may hold all three roles: These individuals are intensely connected to the family business, and concerned with any or all of the above sources of value creation. The genogram[edit] A genogram is an organization chart for the family. It is an enhanced family tree that shows not only family events like births and deaths, but also indicates the relationships close, conflicted, cut-off, etc. It is a useful tool for spotting relationship patterns across generations, and decrypting seemingly irrational behavior. Family mythsâ€—sets of beliefs that are shared by the family membersâ€—can play important defensive and protective roles in families. Myths help people cope with stress and anxiety and, by prescribing ritualistic behavior patterns, will enable them to establish a common front against the outside world. They provide a rationale for the way people behave, but because much of what makes up a family myth takes place deep beneath the surface, they also conceal the true issues, problems, and conflicts. There are five critical issues where the needs of the family and the demands of the business overlapâ€”and require parallel planning action to ensure that business success does not create a family or business disaster. Control Who has decision-making power in the family and firm? Careers How are individuals selected for senior leadership and governance positions in the firm or family? Conflict How do we prevent this natural element of human relationships from becoming the default pattern of interaction? Culture How are the family and business values sustained and transmitted to owners, employees and younger family members? Fair process[edit] Fairness is a fundamental issue in family business decision-making. Solutions that are perceived as fair by the family and business stakeholders are more likely to be accepted and supported. Fair process helps create organizational justice by engaging family members, whether as owners and employees, in a series of practical steps to address and resolve critical issues. Fair process lays a foundation for continued family participation over generations. Emotional dimension[edit] The challenge faced by family businesses and their stakeholders, is to recognise the issues that they face, understand how to develop strategies to address them and more importantly, to create narratives, or family stories that explain the emotional dimension of the issues to the family. Many years of achievement through generations can be destroyed by the next, if the family fails to address the psychological issues they face. Applying psychodynamic concepts will help to explain behaviour and will enable the family to prepare for life cycle transitions and other issues that may arise. Family-run organisations need a new understanding and a broader perspective on the human dynamics of family firms with two complementary frameworks, psychodynamic and family systematic. Structuring[edit] When the family business is basically owned and operated by one person, that person usually does the necessary balancing automatically. For example, the founder may decide the business needs to build a new plant and take less money out of the business for a period so the business can accumulate cash needed to expand. In making this decision, the founder is balancing his personal interests taking cash out with the needs of the business expansion. When the second generation sibling partnership is in control, the decision making becomes more consultative. When the larger third generation cousin consortium is in control, the decision making becomes more consensual, the family members often take a vote. In this manner, the decision making throughout generations becomes more rational. The first situation is when the founder wants to change the nature of their involvement in the business. Usually the founder begins this transition by involving others to manage the business. Involving someone else to manage the company requires the founder to be more conscious and formal in balancing personal interests with the interests of the business because they can no longer do this alignment automaticallyâ€”someone else is involved. The second situation is when more than one person owns the business and no single person has the power and support of the other owners to determine collective interests. For example, if a founder intends to transfer ownership in the family business to their four children, two of whom work in the business, how do they balance these unequal differences? The four siblings need a system to do this themselves when the founder is no longer involved. The third situation is when there are multiple owners and some or all of the owners are not in management. Given the situation above, there is a higher chance that the interests of the two off-spring not employed in the family business may be different from the interests of the two who are employed in the business. Their potential for differences does not mean that the interests cannot be aligned, it just means that there is a greater need for the four owners to have a system in place that differences can be identified and balanced. These three scenarios can be mitigated by following the guidelines of TMP, or "The Maria Principle" Succession[edit] There appear to be two main factors affecting the development of family business and succession process: Potential successors who had professional experience outside the family business may decide to leave the firm to found a new one, either with or without the support of the family. Instead, successors tend to be characterized by professional experience only within the family business. The education of potential successors is a critical issue in the succession process because it affects the endowement of managerial capabilities of the firm. In the past, succession was reserved for the first-born son, then it moved on to any male heir. Now, women account for approx. Daughters are now considered to be one of the most underutilized resources in family businesses. To encourage the next generation of women to be valuable members of the business, potential female successors should be nurtured by assimilation into the family firm, mentoring, sharing of important tacit knowledge and having positive role models within the business. Family-owned companies present special challenges to those who run them. They can be quirky, developing unique cultures and procedures as they grow and mature. That is fine, as long as they continue to be managed by people who are steeped in the traditions, or at least able to adapt to them. Some of the skill sets that might be needed include communication, conflict resolution , family systems, finance, legal, accounting, insurance, investing, leadership development, management development, and strategic planning. If all the shares rest with one individual, a family business is still in its infant stage, even if the revenue is strong.

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2: family business | Definition of family business in English by Oxford Dictionaries

A family business agreement is a non legally binding document that provides a clear framework for how your family directs matters when it comes to the family wealth and the family business. A family business agreement can help protect wealth.

At times a student or parent will claim rental property is a business. Generally, it must be reported as real estate instead. A rental property would have to be part of a formally recognized business to be reported as such, and it usually would provide additional services like regular cleaning, linen, or maid service. It continues "Significant services do not include the furnishing of heat and light, cleaning of public areas, trash collection, etc. Note that the verification guide is not merely saying that the type of schedule filed indicates whether the rental property is a business asset or not, but rather referring to the same underlying criteria. So while Schedule C or Schedule C-EZ can be an indication of a business, college financial aid administrators will examine the schedule looking for signs of "significant services" besides basic utilities. They may also want to see evidence that the family is treating it as a business, such as registration with the local municipality and the state, an employer identification number EIN , a fictitious name registration, a separate business checking account and so on. It is not just which schedule was filed, but whether the taxpayer was entitled to file that schedule. Personal use of the rental property e. If the family owns multiple rental properties and materially participates in the management of the properties, they are more likely to be considered business assets. Page 21 of IRS Publication elaborates on the criteria for filing Schedule C, indicating that Schedule C is reserved for real businesses and not casual rental income: If you are a real estate dealer who receives income from renting real property or an owner of a hotel, motel, etc. If you are not a real estate dealer or the kind of owner described in the preceding sentence, report the rental income and expenses on Schedule E. You are a real estate dealer if you are engaged in the business of selling real estate to customers with the purpose of making a profit from those sales. Rent you receive from real estate held for sale to customers is subject to SE tax. However, rent you receive from real estate held for speculation or investment is not subject to SE tax. Hotels, boarding houses, and apartments. Rental income you receive for the use or occupancy of hotels, boarding houses, or apartment houses is subject to SE tax if you provide services for the occupants. Generally, you are considered to provide services for the occupants if the services are primarily for their convenience and are not services normally provided with the rental of rooms for occupancy only. An example of a service that is not normally provided for the convenience of the occupants is maid service. The IRS treats rental activities as passive activities even if the taxpayer materially participated in the activity, unless the taxpayer is a real estate professional. The term "real estate professional" is defined on page 15 of IRS Publication as: You qualified as a real estate professional for the tax year if you met both of the following requirements. More than half of the personal services you performed in all trades or businesses during the tax year were performed in real property trades or businesses in which you materially participated. You performed more than hours of services during the tax year in real property trades or businesses in which you materially participated. Real property trades or businesses. A real property trade or business is a trade or business that does any of the following with real property. Develops or redevelops it.

3: What does family business mean?

A family business is a commercial organization in which decision-making is influenced by multiple generations of a family â€" related by blood or marriage or adoption â€" who has both the ability to influence the vision of the business and the willingness to use this ability to pursue distinctive goals.

Family Owned Businesses Family Owned Businesses Law and Legal Definition A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family. Family-owned businesses may be the oldest form of business organization. Farms were an early form of family business in which what we think of today as the private life and work life were intertwined. In urban settings it was once normal for a shopkeeper or doctor to live in the same building in which he or she worked and family members often helped with the business as needed. Since the early s the academic study of family business as a distinct and important category of commerce has developed. Today family owned businesses are recognized as important and dynamic participants in the world economy. According to the U. Bureau of the Census, about 90 percent of American businesses are family-owned or controlled. Family businesses may have some advantages over other business entities in their focus on the long term, their commitment to quality which is often associated with the family name , and their care and concern for employees. But family businesses also face a unique set of management challenges stemming from the overlap of family and business issues. Graphically, this concept can be presented as two intersecting circles. Family businesses may include numerous combinations of family members in various business roles, including husbands and wives, parents and children, extended families, and multiple generations playing the roles of stockholders, board members, working partners, advisors, and employees. Conflicts often arise due to the overlap of these roles. The ways in which individuals typically communicate within a family, for example, may be inappropriate in business situations. Likewise, personal concerns or rivalries may carry over into the work place to the detriment of the firm. In order to succeed, a family business must keep lines of communication open, make use of strategic planning tools, and engage the assistance of outside advisors as needed. Family versus Non-family Employees There are a number of common issues that most family businesses face at one time or another. Attracting and retaining non-family employees can be problematic because such employees may find it difficult to deal with family conflicts on the job, limited opportunities for advancement, and the special treatment sometimes accorded family members. In addition, some family members may resent outsiders being brought into the firm and purposely make things unpleasant for non-family employees. But outsiders can provide a stabilizing force in a family business by offering a fair and impartial perspective on business issues. Family business leaders can conduct exit interviews with departing non-family employees to determine the cause of turnover and develop a course of action to prevent it. Employment Qualifications Many family businesses also have trouble determining guidelines and qualifications for family members hoping to participate in the business. Some companies try to limit the participation of people with certain relationships to the family, such as in-laws, in order to minimize the potential for conflicts. Family businesses often face pressure to hire relatives or close friends who may lack the talent or skill to make a useful contribution to the business. Once hired, such people can be difficult to fire, even if they cost the company money or reduce the motivation of other employees by exhibiting a poor attitude. A strict policy of only hiring people with legitimate qualifications to fill existing openings can help a company avoid such problems, but only if the policy is applied without exception. If a company is forced to hire a less-than-desirable employee, analysts suggest providing special training to develop a useful talent, enlisting the help of a non-family employee in training and supervising, and assigning special projects that minimize negative contact with other employees. Salaries and Compensation Another challenge frequently encountered by family businesses involves paying salaries to and dividing the profits among the family members who participate in the firm. In order to grow, a small business must be able to use a relatively large percentage of profits for expansion. But some family members, especially those who are owners but not employees of the company, may not see the value of expenditures that reduce the amount of current dividends they receive. This is a source of conflict for many family firms and an added level of difficulty in making the necessary investments into the business for continued success. To ensure that salaries are distributed fairly among family and non-family employees, business leaders should match them to industry guidelines for each job description. When additional compensation is needed to reward certain employees for their contributions to the company, fringe benefits or equity distributions can be used. The key to avoiding conflicts about who will take over a business is having a well-defined plan in place. A family retreat, or a meeting on neutral ground without distractions or interruptions, can be an ideal setting to open discussions on family goals and future plans, the timing of expected transitions, and the preparation of the current generation for stepping down and the future generation for taking over. When succession is postponed, older relatives who remain involved in the family firm may develop a preference for maintaining the status quo. These people may resist change and refuse to take risks, even though such an attitude can inhibit business growth. The business leaders should take steps to gradually remove these relatives from the daily operations of the firm, including encouraging them to become involved in outside activities, arranging for them to sell some of their stock or convert it to preferred shares, or possibly restructuring the company to dilute their influence. Family business leaders can take a number of steps in order to avoid becoming caught up in these common pitfalls. Having a clear statement of goals, an organized plan to accomplish the goals, a defined hierarchy for decision-making, an established plan for succession, and strong lines of communication will help to prevent many possible problems from arising. All family members involved in the business must understand that their rights and responsibilities are different at home and at work. While family relationships and goals take precedence at home, the success of the business comes first at work. When emotion intrudes upon work relationships, something that happens in all businesses from time to time, and the inevitable conflicts between family members arise, the manager must intervene and make the objective decisions necessary to protect the interests of the firm. Rather than taking sides in a dispute, the manager must make it clear to all employees that personal disagreements will not be allowed to interfere with work. This approach should discourage employees from jockeying for position or playing politics. The business leader may also find it useful to have regular meetings with family members, and to put all business agreements and policy guidelines in writing. In fact, planning may be more crucial to family businesses than to other types of business entities, because in many cases families have a majority of their assets tied up in the business. Since much conflict arises due to a disparity between family and business goals, planning is required to align these goals and formulate a strategy for reaching them. Family Planning In family planning, all interested members of the family get together to develop a mission statement that describes why they are committed to the business. In allowing family members to share their goals, needs, priorities, strengths, weaknesses, and ability to contribute, family planning helps create a unified vision of the company that will guide future dealings. A special meeting called a family retreat or family council can guide the communication process and encourage involvement by providing family members with a venue to voice their opinions and plan for the future in a structured way. By participating in the family retreat, children can gain a better understanding of the opportunities in the business, learn about managing resources, and inherit values and traditions. It also provides an opportunity for conflicts to be discussed and settled. Topics brought to family councils can include: Leadership of the family council can be on a rotating basis, or an outside family business consultant may be hired as a facilitator. Business Planning Business planning begins with the long-term goals and objectives the family holds for themselves and for the business. The business leaders then integrate these goals into the business strategy. In business planning, management analyzes the strengths and weaknesses of the company in relation to its environment, including its organizational structure, culture, and resources. The next stage involves identifying opportunities for the company to pursue, given its strengths, and threats for the company to manage, given its weaknesses. Finally, the planning process concludes with the creation of a mission statement, a set of objectives, and a set of general strategies and specific action steps to meet the objectives and support the mission. This process is often overseen by a board of directors, an advisory board, or professional advisors. Succession Planning Succession planning involves deciding who will lead the company in the next generation. Unfortunately, less than one-third of family-owned businesses survive the transition from the first generation of ownership to the second, and only 13 percent of family businesses remain in the family over 60 years. Problems making the transition can occur for any number of reasons: Lack of planning, however, is by far the most common underlying reason for a company to fail in the generational transition. At any given time, a full 40 percent of American firms are facing the succession issue, yet relatively few make succession plans. Business owners may be reluctant to face the issue because they do not want to relinquish control, feel their successor is not ready, have few interests outside the business, or wish to maintain the sense of identity they have for so long gotten from their work. Family businesses are advised to follow a five-stage process in planning for succession: In the initiation phase, possible successors are introduced to the business and guided through a variety of work experiences of increasing responsibility. In the selection phase, a successor is chosen and a schedule is developed for the transition. Analysts almost unanimously recommend that the successor be a single individual and not a group of siblings or cousins. To some degree, by selecting a group, the existing leadership is merely postponing the decision or leaving it to the next generation to sort out. During the education phase, the business owner gradually hands over the reigns to the successor, one task at a time, so that he or she may learn the requirements of the position. Finance preparation involves making arrangements so that the departing management team can withdraw funds enough to retire. The more time is used in preparing for the financial implications of this transition the more likely a business will be able to avoid being burdened in the process. In the transition phase, the business changes handsâ€”the business owner removes himself or herself from the daily operations of the firm. This final stage can be the most difficult, as many entrepreneurs experience great difficulty in letting go of the family business. It helps when the business owner establishes outside interests, creates a sound financial base for retirement, and gains confidence in the abilities of the successor. Estate Planning Estate planning involves the financial and tax aspects of transferring ownership of the family business to the next generation. Unfortunately, tax laws today provide disincentives for families wishing to continue the business. Heirs are taxed upon the value of the business at a high rate when ownership is transferred. Due to its complexity, estate planning is normally handled by a team of professional advisors who include a lawyer, accountant, financial planner, insurance agent, and perhaps a family business consultant. An estate plan should be established as soon as the business becomes successful and then updated as business or family circumstances change. One technique available to family business owners in planning their estate is known as "estate freeze. Since the majority of shares in the firm are preferred and do not appreciate, estate taxes are reduced. The heirs are required to pay gift taxes, however, when the preferred stock is transferred to them. A variety of tools are available that can help a business owner defer the transfer taxes associated with handing down a family business. It is also possible to pay the estate taxes associated with the transfer of a family business on an installment basis, so that no taxes are owed for five years and the remainder are paid in annual installments over a ten-year period. Since laws change frequently, retaining legal assistance is highly advisable. The consultant is a neutral party who can stabilize the emotional forces within the family and bring the expertise of working with numerous families across many industries. Most families believe theirs is the only company facing these difficult issues, and a family business consultant brings a refreshing perspective. In addition, the family business consultant can establish a family council and advisory board and serve as a facilitator to those two groups. These boards consist of five to nine non-family members who meet regularly to provide advice and direction to the company. They too can take the emotions out of the planning process and provide objective input. Advisory board members should have business experience and be capable of helping the business to get to the next level of growth. In most cases, the advisory board is compensated in some manner. As the family business grows, the family business consultant may suggest different options for the family. Often professional non-family managers or an outside CEO are recruited to play a role in the future growth of the business. Some families simply retain ownership of the business and allow it to operate with few or no family members involved.

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4: family business definition | English definition dictionary | Reverso

Times, Sunday Times () Teller worked in the family business, making bows for string instruments for a year, until he had an asthma attack. Times, Sunday Times () It is rare for a family business to survive four generations or more.

Family Business The family business has arrived into its own as a distinct enterprise with unique concerns and issues. In the broadest sense, a family business is an enterprise where family members have influence over strategy and major policies, maintain the intention of keeping the business in the family, own significant portions of stock, and sit on the board Shanker and Astrachan Other criteria for a family business include that the founder, or the descendants of the founder, still run the company on a daily basis, and where multiple generations participate in daily operations, and have significant management responsibilities Holland and Boulton Employee-owned businesses vary in their size and type. Sole proprietorships as family businesses represent upwards of 17 million organizations in the United States , 10 percent of which are family farms Shanker and Astrachan A sole proprietorship is owned by a single person with other family members likely to help out. Partnerships owned by two or more people represent 1. Private corporations owned by three or more people in the family represent 3. Of more than 21 million family-operated companies, over 11, have publicly traded stock Shanker and Astrachan Examples of family-owned international businesses abound: Estimates of contribution to the global Gross Domestic Product GDP from international family businesses is up to 70 percent throughout the non-communist world Neubauer and Lank Thus, family businesses can range from a "mom and pop" enterprise with fewer than twenty employees to one that is significantly larger, such as the Coors Brewing Company, to even larger multinational corporations. Perhaps more importantly, these businesses also have a significant impact on the global economy. Among the most emotionally wrought issues in a family enterprise is who will be the successor to the business. Succession is the transfer of ownership and control to the next generation Churchill and Hatten ; Ward ; Goldberg Succession planning involves efficiently and fairly distributing assets from older to younger generations, passing control of the business in a way that will ensure effective business leadership, and maintaining and promoting family harmony. An assumption of succession is that all parties to the process are satisfied with the outcomes of the process itself Stempler Because the rate of succession for family businesses is lowâ€”30 percent of family firms are passed from the first generation to the second and 10 percent survive to be passed onto the third generationâ€"it is important to understand how the family business works and what will determine whether or not the business will be successfully passed onto the next generation. Of particular interest to those who study family business succession is how family members who have a business manage conflict, as this is considered to be a key to surviving the succession process. Because continuity is a unifying concern among all members, succession is considered the ultimate test of a family business Gersick et al. Thus, conflict can be perceived either as the ultimate threat or ultimate opportunity for a family enterprise. Conflict is a disagreement between two or more interdependent parties who perceive incompatible goals, scarce resources, and interference from others in achieving their goals. Therefore, as part of the succession process, family businesses need to be aware of the five points in which conflict is most likely to occur: Roles can be defined by the number of heirs in line for succession Bork ; Rutigliano ; Scranton , the relative position of each heir in the family and the business Barnes ; Kaye , and the clarification of roles and responsibilities of family members in the context of the business Handler ; Rosenberg For example, due to birth order older siblings with more experience in the family business may hold managerial positions in the firm expecting to be in line as successor to the enterprise, while younger siblings who have gone to college to obtain knowledge badly needed by the enterprise may expect to take over the business. This in turn may slow decision making regarding the succession process Dyer Conflict over the mutual acceptance of roles is also an opportunity to enhance mutual respect, trust, and understanding among family members. In the conflict between the younger and older siblings vying for the role of successor, the incumbent can view disagreements as opportunities for siblings to learn from one another developing their relationships , exchange information that will enhance the business for all everyone brings necessary knowledge, skills, and abilities to the table , and create respect for what each sibling has to offer the family business without privileging one experience over the other. Thus, managing conflict effectively means viewing disagreements as opportunities rather than threats, and seeing conflict as an opportunity to learn rather than the destruction of important family relationships. Opportunity is an important view of conflict because when the aforementioned relational features are present in the family business e. Family business members need to be sensitive to the mutual acceptance of roles during the succession process, and utilize disagreements and conflict as a means to clarify perceptions of incompatibility, negotiate the amount of influence each family member has in the business relationship, and promote win-win, mutually satisfying relationships. Agreement to Continue the Business Agreement to continue the business occurs when family members are committed to the perpetuation of the business and are willing to work together to ensure its future Handler Research has shown that the agreement to continue the business is positively related to perceived family harmony Babicky and payoffs from the business e. Although the agreement to continue the business is not correlated with any negative aspects, the decision to continue the family business is not a simple one. Family members must unanimously agree regarding the future of the business, what constitutes continuity, and what opportunities for the future are possible. Thus, the decision to continue the business must be one of consensus with clear gains for those involved in the agreement. Additionally, each member of the family business must be willing to put forth what is necessary to perpetuate the enterprise. Propensity of a Successor to Take Over Propensity of a successor to take over is the inclination of a successor to take over the leadership of a business Christensen Taking over the leadership of the business entails influence, authority, and control. Research has shown that the propensity of a successor to take over is positively related to the acceptance of individual roles, career interests Handler , and payoffs from the business Malone Conflict may occur when anyone voices or displays the interest in taking over the business. This display of interest may lead to resentment from other family members who feel they are being forced to accept roles among family members. Such is the case from the earlier example where both the older siblings who worked in the family business "learning the ropes" as managers and the younger siblings who went to college express interest in becoming successor. Will siblings who expect to become the successor mutually accept another as successor and their unexpected subordinated role? Other family members may also be upset because there is a perceived lack of financial reward for the potential successor. If the enterprise itself has matured or if there is the perception that profits cannot be enhanced or sustained or the market share cannot grow, then a potential successor may not come forward. Thus, without the perception of monetary financial gains, the family enterprise may not succeed to the next generation. Other family members may also believe the potential successor lacks continuity between his or her career interests and the opportunities available in the family enterprise or that the potential successor does not have the type of leadership style needed. Managed effectively, conflict can serve to define terms and clarify needs, expectations, and goals, leading to productive and positive outcomes. Propensity of an Incumbent to Step Aside Propensity of an incumbent to step aside is the ability of the present family member manager to let go of the leadership of a family business and hand it over to a successor Davis Thus it is important not only that the successor have a high desire to take over and a high level of confidence in his or her own ability to take over the business, but also that the present manager be involved in activities outside the enterprise and look forward to pursuing new activity outside the business. Conflict can arise when the incumbent endangers the long-term vitality or existence of the enterprise by not adequately addressing continuity issues in turning over the business. If the older and younger siblings cannot reach an agreement regarding their roles following a selection of the new successor, the incumbent may not step down or choose to dissolve the enterprise, and the business will not succeed to the next generation. Conflict regarding the propensity of an incumbent to step aside provides the opportunity to make expectations explicit regarding the work, and prepare both the incumbent and successor for a satisfying personal life in the family itself. However, if the incumbent perceives that the older and younger siblings will not work effectively together for the good of the business, or if their family relationships will erode, leading to family members no longer speaking to one another, then the incumbent may choose to not have the business succeed. Succession Planning Succession planning is the process for the transfer of management control from one family member to the next Christensen Research has shown that succession planning is positively related to the propensity of the incumbent to step aside, the presence of an active advisory board Christensen , and the agreement to continue the business Wong, McReynolds, and Wong Conflict during succession planning can arise when no written plan exists, and when the stockholders connected with the enterprise, including the founder, the family members, the managers, suppliers, and customers, are uncertain of the significant changes associated with the impending shift in power and authority. Additionally, conflict in succession planning may involve disagreements about the knowledge, skills, and abilities of the successor, the educational level, experience, and background of the successor, and the level of trust, faith, and goodwill the successor can generate. Conflict during succession planning can also include disputes over whether family members should take over the enterprise or not, whether the incumbent has accomplished everything desired and possible during his or her reign of the enterprise, whether the incumbent was ready to give up power, what criteria would be used to identify the successor, and how decision outcomes are communicated. International Family Business Succession Research on international family business and conflict is incomplete because most studies focus on United Statesâ€”based family enterprises. There are, however, studies that may shed light on conflict and family business succession in an international context. Differences in ethnic background may influence the expectations of family business members in a succession process Sharma, For example, Chau , McGoldrick and Troast , and Wong suggest that there are differences in the basic philosophy and underlying assumptions of the family members of different ethnic backgrounds with regards to the way succession is handled. For example, while Chinese family enterprises divide the family assets equally among the male members, Japanese family enterprises often have one male heir who is the successor and receives all the assets. Other succession issues that vary across cultures are patterns of communication e. For example, in Japan, succession is viewed as a foundation for the professionalism of the children and not a priority, and in China, succession is viewed as a family legacy and a top priority Dean ; Wong, McReynolds, and Wong Additionally, in Japan women have been denied a visibly prominent role in the family business; however, recent findings have reported that women own 23 percent of all family businesses in Japan Wild, Wild, and Han In Australia women own 33 percent of the family businesses, in Canada 31 percent, in Mexico 16 percent, and in the Netherlands women own 15 percent of the family businesses Wild, Wild, and Han Conclusion The family enterprise continues to be an important element of the world economy and a location for understanding conflict in family relationships internationally. Managing conflict effectively in the process of succession is crucial to preserving the impact family enterprise has on our economy and families themselves. Therefore, whether the family business is based in the United States or across the world, one needs to be aware of the five points in which conflict is most likely to occur:

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5: Family business : definition of Family business and synonyms of Family business (English)

Definition of family business: Company owned by one or more family members. In some cases, a family business may be owned by more than one family. Dictionary Term of the Day Articles Subjects BusinessDictionary Business Dictionary.

This work is protected by copyright and may be linked to without seeking permission. Permission must be received for subsequent distribution in print or electronically. Please contact mpub-help umich. Abstract Increasingly family businesses are being viewed as distinctive and economically significant business entities. This article reviews alternative definitions of family businesses and describes potential sources of conflict that may arise between family members in these enterprises. The authors discuss guidelines to assist in the successful transition of the business from one generation to the next. In the last decade, the phenomenon of the family business has received increasing attention from academics and consultants. Today, family businesses are recognized as a vital and distinct organizational form. Definition of Family Business There are a number of misconceptions about family business. Perhaps the most common is the "mom and pop" image associated with these enterprises. Although many family businesses are small, these enterprises run the gamut with respect to size, and can be either private or public. Shanker and Astrachan note that a common definition of what constitutes a family business does not exist. Some definitions suggest that the presence of two or more family members in the business qualifies the business as family controlled. Other definitions are based on the ownership and control of the company. In this context, control is considered to be the degree of influence in organizational governance sufficient to influence operating strategies. The broadest definition requires that the family have some degree of effective control over strategic direction, and that the business is intended to remain in the family. The middle category would encompass the criteria of the broadest group, plus it would require that the founder or descendant s of the founder manage the company. The narrowest family business definition would require that the business have multiple generations involved, direct family involvement in daily operations, and more than one family member with significant management responsibility. Ianarelli observes that the family business offers two separate but interconnected systems of family and business with uncertain boundaries, different rules, and different roles. Family businesses are different from other businesses due to the inclusion of family and relational bonds among family members. Thus, there is the integration of family and business cultures. Family issues thus place restraints on the businesses. For example, the family has the power to pursue its own objectives even when these are at variance with customary business practices. This authority may include the promotion of a less than fully qualified family member or paying family members at above-market rates. Novak and Jaffe point out that firms which are family controlled also differ in certain other characteristics of their corporate cultures. These include being more socially conscious, caring about providing jobs for people, treating workers fairly, offering greater opportunities for women, and being preferred by consumers. Davis and Taguri maintain that these characteristics are due to the existence of "bivalent attributes directly derived from the overlap of family, ownership, and management status. The Importance of Family Businesses in the U. Economy In the aggregate, family businesses play a significant role in the United States economy. Based on current levels of GDP, a conservative estimate of the annual production of goods and services by U. While precise numbers are not available, Dreux suggests that one could conservatively estimate that there are 1. Thus, he concludes that the family business universe approaches and possibly exceeds the entire publicly owned universe in size and scope of economic activity. A number of studies have shown that family firms outperform their industry peers and their non-family counterparts. He concluded that family firms provide a higher return on investment, have a better-managed capital structure, and more efficient allocation of resources. In addition, he found that these enterprises also offered higher accounting based returns than their non-family counterparts. Family enterprises are more inclined than other types of corporations to re-invest in themselves in an attempt to perpetuate wealth to succeeding generations. Unlike their widely held publicly traded counterparts, these firms are able to resist the pressures of security analysts to maximize short-term returns. Dreux also contends that family businesses generally tend to be overcapitalized, with lower levels of debt and substantial liquidity. These operating characteristics reinforce the long-term orientation of family controlled firms. The operating philosophy of family firms is often guided by a personalized mission related to the integrity of the family name. Successful family enterprises offer family members prestige and prominence in their communities. In order to preserve their reputation, Lyman argues that family firms are more involved with customer service and more committed to quality than their non-family counterparts. On the other hand, founders and their successors in family firms tend to be accountable to themselves and tend to maintain both a strong sense of family and community responsibility. As a result, family enterprises offer greater opportunities for mutual loyalty, responsibility, and accountability between the organization and its employees. Family businesses also generally provide for more direct contact with management, are less bureaucratic, have a built-in trust factor, and enable the next generation to gain early exposure to the business through hands-on training. These factors, in turn, lead to a continuity in management policies and operating focus and enable firms to react more rapidly to changes in their operating environments. These enterprises also provide a unified management-shareholder group since managers and shareholders are one and the same. Financial theory suggests that firms experiencing lower levels of agency costs generally provide superior financial performance. The same characteristics which are sources of strength for family firms e. The interplay between the family and the business may become critical in these situations. Conditions that may exacerbate problems include the existence of role ambiguity, communication difficulties among family member, and business decisions which negatively affect families. Harvey and Evans b report that family firms are fertile grounds for conflict. Conflict often occurs when a corporate culture of the family business which has been formed "by the personality, values, and beliefs of the founding generation" conflicts with the culture of the family units. Disharmony that is allowed to linger without being addressed may result in very complex problems which affect both the business and the family. Often family business members cannot identify the cause of disharmony or find ways to resolve the conflict. However, being able to forecast when friction may arise helps in the resolution of that conflict. Research has shown that family businesses evolve through a set of phases. If one can understand and identify the phase, one can often predict the conflict issues which may arise. Each level of conflict is associated with the number of constituencies involved in the conflict: When only one is involvedâ€”for example, the business aloneâ€”resolution is the easiest; when two are involvedâ€”the business and the familyâ€—there is a compounding of the conflict. When all three constituencies are involved, the conflict level is at it greatest and is the hardest to resolve. Change is one of the major sources of conflict. Although change occurs in non-family businesses, change as a source of conflict is more likely in family businesses dominated by a strong founder. Conflict will be a continuing dysfunctional occurrence for family businesses if it is not dealt with. If families have knowledge of this dynamic, knowing when conflict is going to occur assists families in effectively managing conflict situations. Succession Planning Succession planning entails the transfer of assets, capital, contacts, power, skills, and authority from one generation to the next in a family business. Although this process is essential to the continuity and economic well being of both the company and the family, succession in family business is problematic. As larger numbers of family-held companies change hands from one generation to the next, more and more family legacies are lost due to poorly planned transitions. It is estimated that approximately nine out of ten U. Accordingly, Aronoff and Ward view succession planning as the ultimate management challenge. To be effective, succession planning requires a balancing of personal aspirations and family goals. Accordingly, the generation in power must let go and the succeeding generation must desire to be involved in the business. To survive as a family business, the family must produce heirs with the requisite skill, values, and motivation. As a result, the impact of the transition is often negative, both in terms of company financial performance and influence on family members. There have been a number of studies that have tried to identify factors which enhance a successful succession. For a review see Harvey and Evans, a. In general, it is suggested that succession should be seen, not as an event, but rather as the result of a significant planning process. Despite the existence of a planning process, sometimes succession occurs unexpectedly. Events such as a death in the family, divorce, inheritance or the departure of a key employee may precipitate the entry of a sibling into a managerial role in the family business. The possibility of this type of event emphasizes the need for succession planning. In most studies, effective is defined as those successors who have managed to increase the revenues and profits over a period of not less than five years. A recent study attempted to elicit the characteristics of effective successors of family-owned businesses. Several factors appeared to influence the ability to succeed: The timing of entry of siblings can be linked to stages in their career development and in the family life cycle. Families contemplating the involvement of a new generation in the family firm need to define rules for the employment of offspring in the business. First, the heirs should have education appropriate for the job sought. Second, the heirs should have three to five years of suitable work experience. Finally, the children should enter the firm into an existing, needed job with precedents for both compensation and performance expectations. Aronoff and Ward contend that succession planning is ineffective when the senior generation does not allow the junior family members the opportunity to grow, gain the necessary skills, and eventually assume the leadership of the business. As a result, relationships between parents and children may deteriorate, and communication between family members breaks down. The transition is more likely to be successful when children have a positive image of the family business. This is more prone to happen when the children have gained substantial exposure to the family business and when participation in the family business is viewed as an opportunity rather than an obligation. Unfortunately, founders often do not make good mentors for the younger generation. Teaching requires patience and the relinquishment of control. Frequently, however, founders are ill suited for a teaching role because they tend to be impatient, action-oriented individuals who can not let go. Only rarely can business owners retire "cold turkey. A Prescription for Successful Succession? If a prescription for successful succession could be written and implemented, many families would survive into the second, third, and fourth generation. However, there is no one prescription which can be written.

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A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family.

Family businesses can have owners who are not family members. Family businesses may also be managed by individuals who are not members of the family. However, family members are often involved in the operations of their family business in some capacity and, in smaller companies, usually one or more family members are the senior officers and managers. Many businesses that are now public companies were family businesses in India. Problems The interests of a family member may not be aligned with the interest of the business. For example, if a family member wants to be president but is not as competent as a non-family member, the personal interest of the family member and the well being of the business may be in conflict. Or, the interests of the entire family may not be balanced with the interests of their business. For example, if a family needs its business to distribute funds for living expenses and retirement but the business requires those to stay competitive, the interests of the entire family and the business are not aligned. Finally, the interest of one family member may not be aligned with another family member. For example, a family member who is an owner may want to sell the business to maximize their return, but a family member who is an owner and also a manager may want to keep the company because it represents their career and they want their children to have the opportunity to work in the company. Structuring When the family business is basically owned and operated by one person, that person usually does the necessary balancing automatically. For example, the founder may decide the business needs to build a new plant and take less money out of the business for a period so the business can accumulate cash needed to expand. In making this decision, the founder is balancing his personal interests taking cash out with the needs of the business expansion. When the second generation sibling partnership is in control, the decision making becomes more consultative. When the larger third generation cousin consortium is in control, the decision making becomes more consensual, the family members often take a vote. In this manner, the decision making throughout generations becomes more rational Alderson, K. Scenarios Balancing competing interests often become difficult in three situations. The first situation is when the founder wants to change the nature of their involvement in the business. Usually the founder begins this transition by involving others to manage the business. Involving someone else to manage the company requires the founder to be more conscious and formal in balancing personal interests with the interests of the business because they can no longer do this alignment automaticallyâ€”someone else is involved. The second situation is when more than one person owns the business and no single person has the power and support of the other owners to determine collective interests. For example, if a founder intends to transfer ownership in the family business to their four children, two of whom work in the business, how do they balance these unequal differences? The four siblings need a system to do this themselves when the founder is no longer involved. The third situation is when there are multiple owners and some or all of the owners are not in management. Given the situation above, there is a higher chance that the interests of the two sons not employed in the family business may be different than the interests of the two sons who are employed in the business. Their potential for differences does not mean that the interests cannot be aligned, it just means that there is a greater need for the four owners to have a system in place that differences can be identified and balanced. These three scenarios can be mitigated by following the guidelines of TMP, or "The Maria Principle" Succession There appear to be two main factors affecting the development of family business and succession process: Arieu proposed a model in order to classify family firms into four scenarios: One of the largest trends in family business is the amount of women who are taking over their family firms. In the past, succession was reserved for the first born son, then it moved on to any male heir. Now, women account for approx. Daughters are now considered to be one of the most underutilized resources in family businesses. To encourage the next generation of women to be valuable members of the business, potential female successors should be nurtured by assimilation into the family firm, mentoring, sharing of important tacit knowledge and having positive role models within the business Alderson, Some of the best and worst practices in succession planning are discussed in a book by Frederick D. Family-owned companies present special challenges to those who run them. They can be quirky, developing unique cultures and procedures as they grow and mature. Some of the skill sets that might be needed include communication, conflict resolution , family systems, finance, legal, accounting, insurance, investing, leadership development, management development, and strategic planning. If all the shares rest with one individual, a family business is still in its infant stage, even if the revenue is strong. Examples of family businesses.

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A family business is a business in which one or more members of one or more families have a significant ownership interest and significant commitments toward the business' overall well-being. In some countries, many of the largest publicly listed firms are family-owned.

Choose your location to get a site experience tailored for you. In a recent survey by The Boston Consulting Group, family business leaders ranked succession as the second-most-important subject on the their minds, topped only by the closely related issue of achieving alignment among family members on critical topics. Even so, our research found that more than 40 percent of family businesses have not adequately prepared for succession during the past decade. Indeed, poorly planned successions are among the biggest value-destroying events for family-owned businesses. Although our study focused on family-owned businesses in India, the findings offer cautionary insights for companies in any country. We found a percentage-point differential in revenue growth over two years when comparing family businesses that had planned transitions with those that had not. We also found a percentage-point differential in market capitalization growth between companies that had planned transitions and those that had not. Moreover, unplanned transitions yielded EBITDA margins that after two years were more than 4 percentage points lower than those achieved by companies that successfully planned succession; margins remained below the trend line for the peer group for more than four years after unplanned transitions. Clearly, an enormous amount of value is destroyed by unplanned transitions, with potentially catastrophic consequences for the business. A Difficult Subject to Discuss and Address Head-On What lies behind the reluctance of many family-business leaders to openly discuss succession planning and tackle the challenges head-on? Succession planning sits at the intersection of family considerations, which typically involve emotions and feelings, and business considerations, which are typically driven by merit and economics. This juxtaposition of sentimental and financial concerns can make succession an especially complex topic. Moreover, many incumbent leaders are unwilling to talk about relinquishing the helm, because their personal identity is often tightly linked to the family business itself. A charismatic founder having a strong personality, formidable capabilities, and a long record of managing all aspects of the business often casts a lengthy shadow over younger generations. In such cases, succession can be a nearly taboo subject that is difficult to broach. Even when succession is high on the leadership agenda, family businesses face significant challenges to getting it right. First, they need to decide whether to select a successor from within or outside the family. Several family members may each aspire to take the reins, and talented nonfamily executives may also be interested in leading the company. Then, if the business designates a young family member as the successor, it must define a plan for how he or she will prepare for the role and gain acceptance as the leader by other family members and executives. Finally, the departing leader must be willing to let the successor emerge from under his or her shadow and take charge as planned. Succeeding with Succession Planning for a smooth succession starts with recognizing that it will be one of the most complicated transitions that a family business will experience. The family must also recognize that it is never too early to start discussing succession and that the costs of getting succession wrong will be nothing short of catastrophic for the business. These challenges mean that family members must focus strongly on succession planning, giving it their undivided attention on many occasions. Based on our experience advising family businesses on succession, we have identified ten principles that improve the chances of succeeding with succession. Families may hesitate to plan succession because they are uncertain how the interests, choices, and decisions of different family members will play out over years or decades. But succession planning should start as soon as possible despite this uncertainty. Although things may change along the way, leaders can often anticipate the potential scenarios for how the family will evolve. Issues to consider when developing scenarios include the number of children in the next generation and whether those individuals are interested in the family business as a source of full- or part-time employment or purely as an investment. Families should also consider how the scenarios would be affected by marriages or the sudden demise of a family member or potential successor. It is important to plan a succession process and outcome that will work for the different foreseeable scenarios. Set expectations, philosophy, and values upfront. Although setting expectations, philosophy, and values is central to many family-business issues, we have found that doing so is essential when it comes to succession planning and must be done up front, even if the specific mechanics of succession come later. In our experience, the family businesses that thrive and succeed across generations are those that possess a core philosophy and set of values linked not to wealth creation but to a sense of community and purpose. Long before decisions will be made about specific potential successors, the family must agree on overarching issues such as whether family unity will take precedence over wealth creation, whether all branches of the family will have an equal ownership right and voice in decisions, and whether decisions will be based purely on merit and the best interests of the business. These guiding principles will provide the framework for more specific decisions. Understand individual and collective aspirations. Leaders of the succession process should meet with family members and discuss their individual aspirations for involvement in the business. Or does an individual want to chart his or her own course outside of the business? Does the family want its business to be the largest company in the industry? Is maintaining the business as a family-owned-and-operated company of paramount importance, or does the family want to relinquish operational responsibility in the coming years? Understanding these aspirations helps in managing expectations and defining priorities in the succession process. This distinction makes it essential to consider what is right for the business independent of family preferences when developing a succession plan. It is therefore important to think about succession from a purely business perspective before making any adjustments based on family preferences. This allows leaders to be transparent and deliberate in the trade-offs they may have to make to manage any competing priorities. The preparation should occur in phases starting at a young ageâ€"even before the successor turns The challenges of leading a family business are even greater than those faced by leaders of other businesses. Given the rapidly increasing complexity of business in the twenty-first century, we often strongly recommend that potential successors gain experience outside the family business in order to broaden their perspective. Some of the best-managed family businesses have elaborate career-development processes for family members that are the equal of world-class talent-management and capability-building processes. Define a clear and objective selection process. A company needs to define a selection process to implement its succession modelâ€"whether selecting a successor exclusively from the family or considering nonfamily executives as well. The selection process should be based on articulated criteria and delineate clear roles among family governance bodies and business leaders, addressing who will lead the process, propose candidates, and make decisions. An early start is especially important if several family members are under consideration or the potential exists to divide the business to accommodate leadership aspirations. To obtain an objective perspective on which members of the younger generation have the greatest leadership potential, some families have benefited from the support of external advisors in evaluating talent and running the selection process. It is important to note that the selection process, while critical, is the sixth point on this list. Points one through five are prerequisites for making the selection process itself more robust and effective. Find creative ways to balance business needs and family aspirations. Addressing this complexity often calls for creative approachesâ€"beyond the traditional CEO-and-chairperson model. For example, the leader of one BCG client split his conglomerate into different companies, each to be led by one of his children; the split occurred without acrimony and in a planned, transparent manner. Beyond helping family members fulfill their aspirations, such a planned split can often greatly enhance value for the business. Another client systematically expanded its business portfolios as the family grew and tapped family members to take over the additions, thus ensuring that several members of the family had a role in the leadership of the businesses. Stepping into an executive position is not the only way family members can contribute to the business or help the family live its values. As an alternative, family members can serve on the board of directors or take leading roles in the family office or its philanthropic activities. Build credibility through a phased transition. Successors should build their credibility and authority through well-defined phases of a transition into the leadership role. They can start with a phase of shadowing senior executives to learn about their routines, priorities, and ways of operating. Next, we suggest acting more as a chief operating officer, managing the operations closely but still deferring to the incumbent leaders on strategic decisions. Ultimately, the successor can take over as the CEO and chairperson and drive the family business forward. It is important to emphasize that the family member who assumes leadership of the business does not necessarily also become the head of the family, with responsibility for vision setting, family governance and alignment, and wealth management. The transition of family leadership can be a distinct process. Each phase of the transition often takes between two and six months. The transition should be defined by clear milestones and commensurate decision rights. Ask departing leaders to leave but not disappear. Most leaders bring something distinctive to a family business. Holding onto this distinctiveness in a transition is essential but requires a delicate balance. Although departing leaders should relinquish managerial responsibility for the business, they should remain connected to one or two areas where they bring the truly distinctive value that made the family business successful under their guidance. However, the leaders should be involved in these activities through a formal process, rather than at their own personal preference and discretion. Departing leaders should stay available to guide the new leader if he or she seeks their advice. Although such adjustments can be made outside the context of succession, they often become particularly relevant after transitions to the second or third generation. Motivate the best employees and foster their support. The company needs to ensure that these executives have opportunities to develop professionally and take on new responsibilities and that morale remains high. Involving executives in the succession process can help to foster their support for the new leader. For example, they can be asked to serve as mentors for the successor or lead special projects relating to the succession. Surrounding the new leader with a strong and supportive senior team is a key ingredient for success, and the departing leader should ensure that such a team is in place. Has the family clearly articulated its values and the principles that will guide its decisions and succession process? Has the current leader committed to a fixed retirement date? Has the family evaluated the pipeline of leadership talent within its younger generation? Has it looked at potential leaders who come from within the business but not within the family? Has the company defined a succession model and determined the timing for selecting a successor so that he or she has a sufficient opportunity to prepare for the leadership role and build credibility before the current leader retires? Does the family understand how it will accommodate the aspirations of family members not selected for leadership roles, in order to maintain harmony and avoid discord during the transition to new leadership? In many cases, family businesses will find that the answers to questions like these indicate the need to devote much more time and attention to succession planning. Most important, the current leader, other family members, and the top management team will need to begin having an open and candid discussion about succession-related issues to enable the business to thrive for generations to come. These discussions are never easy, but they are essential. Getting succession wrong can be an irreversible and often fatal mistake for a family business.

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Family Businesses. Definition: A business actively owned and/or managed by more than one member of the same family. If you own a family business, you probably worry even more than the average.

Family Limited Partnerships ; Closely Held Corporations ; Succession Plans A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family. Family-owned businesses may be the oldest form of business organization. Farms were an early form of family business in which what we think of today as the private life and work life were intertwined. In urban settings it was once normal for a shopkeeper or doctor to live in the same building in which he or she worked and family members often helped with the business as needed. Since the early s the academic study of family business as a distinct and important category of commerce has developed. Today family owned businesses are recognized as important and dynamic participants in the world economy. According to the U. Bureau of the Census, about 90 percent of American businesses are family-owned or controlled. Family businesses may have some advantages over other business entities in their focus on the long term, their commitment to quality which is often associated with the family name , and their care and concern for employees. But family businesses also face a unique set of management challenges stemming from the overlap of family and business issues. Graphically, this concept can be presented as two intersecting circles. Family businesses may include numerous combinations of family members in various business roles, including husbands and wives, parents and children, extended families, and multiple generations playing the roles of stockholders, board members, working partners, advisors, and employees. Conflicts often arise due to the overlap of these roles. The ways in which individuals typically communicate within a family, for example, may be inappropriate in business situations. Likewise, personal concerns or rivalries may carry over into the work place to the detriment of the firm. In order to succeed, a family business must keep lines of communication open, make use of strategic planning tools, and engage the assistance of outside advisors as needed. Family versus Non-family Employees There are a number of common issues that most family businesses face at one time or another. Attracting and retaining non-family employees can be problematic because such employees may find it difficult to deal with family conflicts on the job, limited opportunities for advancement, and the special treatment sometimes accorded family members. In addition, some family members may resent outsiders being brought into the firm and purposely make things unpleasant for non-family employees. But outsiders can provide a stabilizing force in a family business by offering a fair and impartial perspective on business issues. Family business leaders can conduct exit interviews with departing non-family employees to determine the cause of turnover and develop a course of action to prevent it. Employment Qualifications Many family businesses also have trouble determining guidelines and qualifications for family members hoping to participate in the business. Some companies try to limit the participation of people with certain relationships to the family, such as in-laws, in order to minimize the potential for conflicts. Family businesses often face pressure to hire relatives or close friends who may lack the talent or skill to make a useful contribution to the business. Once hired, such people can be difficult to fire, even if they cost the company money or reduce the motivation of other employees by exhibiting a poor attitude. A strict policy of only hiring people with legitimate qualifications to fill existing openings can help a company avoid such problems, but only if the policy is applied without exception. If a company is forced to hire a less-than-desirable employee, analysts suggest providing special training to develop a useful talent, enlisting the help of a non-family employee in training and supervising, and assigning special projects that minimize negative contact with other employees. Salaries and Compensation Another challenge frequently encountered by family businesses involves paying salaries to and dividing the profits among the family members who participate in the firm. In order to grow, a small business must be able to use a relatively large percentage of profits for expansion. But some family members, especially those who are owners but not employees of the company, may not see the value of expenditures that reduce the amount of current dividends they receive. This is a source of conflict for many family firms and an added level of difficulty in making the necessary investments into the business for continued success. To ensure that salaries are distributed fairly among family and non-family employees, business leaders should match them to industry guidelines for each job description. When additional compensation is needed to reward certain employees for their contributions to the company, fringe benefits or equity distributions can be used. The key to avoiding conflicts about who will take over a business is having a well-defined plan in place. A family retreat, or a meeting on neutral ground without distractions or interruptions, can be an ideal setting to open discussions on family goals and future plans, the timing of expected transitions, and the preparation of the current generation for stepping down and the future generation for taking over. When succession is postponed, older relatives who remain involved in the family firm may develop a preference for maintaining the status quo. These people may resist change and refuse to take risks, even though such an attitude can inhibit business growth. The business leaders should take steps to gradually remove these relatives from the daily operations of the firm, including encouraging them to become involved in outside activities, arranging for them to sell some of their stock or convert it to preferred shares, or possibly restructuring the company to dilute their influence. Family business leaders can take a number of steps in order to avoid becoming caught up in these common pitfalls. Having a clear statement of goals, an organized plan to accomplish the goals, a defined hierarchy for decision-making, an established plan for succession, and strong lines of communication will help to prevent many possible problems from arising. All family members involved in the business must understand that their rights and responsibilities are different at home and at work. While family relationships and goals take precedence at home, the success of the business comes first at work. When emotion intrudes upon work relationships, something that happens in all businesses from time to time, and the inevitable conflicts between family members arise, the manager must intervene and make the objective decisions necessary to protect the interests of the firm. Rather than taking sides in a dispute, the manager must make it clear to all employees that personal disagreements will not be allowed to interfere with work. This approach should discourage employees from jockeying for position or playing politics. The business leader may also find it useful to have regular meetings with family members, and to put all business agreements and policy guidelines in writing. In fact, planning may be more crucial to family businesses than to other types of business entities, because in many cases families have a majority of their assets tied up in the business. Since much conflict arises due to a disparity between family and business goals, planning is required to align these goals and formulate a strategy for reaching them. Family Planning In family planning, all interested members of the family get together to develop a mission statement that describes why they are committed to the business. In allowing family members to share their goals, needs, priorities, strengths, weaknesses, and ability to contribute, family planning helps create a unified vision of the company that will guide future dealings. A special meeting called a family retreat or family council can guide the communication process and encourage involvement by providing family members with a venue to voice their opinions and plan for the future in a structured way. By participating in the family retreat, children can gain a better understanding of the opportunities in the business, learn about managing resources, and inherit values and traditions. It also provides an opportunity for conflicts to be discussed and settled. Topics brought to family councils can include: Leadership of the family council can be on a rotating basis, or an outside family business consultant may be hired as a facilitator. Business Planning Business planning begins with the long-term goals and objectives the family holds for themselves and for the business. The business leaders then integrate these goals into the business strategy. In business planning, management analyzes the strengths and weaknesses of the company in relation to its environment, including its organizational structure, culture, and resources. The next stage involves identifying opportunities for the company to pursue, given its strengths, and threats for the company to manage, given its weaknesses. Finally, the planning process concludes with the creation of a mission statement, a set of objectives, and a set of general strategies and specific action steps to meet the objectives and support the mission. This process is often overseen by a board of directors, an advisory board, or professional advisors. Succession Planning Succession planning involves deciding who will lead the company in the next generation. Unfortunately, less than one-third of family-owned businesses survive the transition from the first generation of ownership to the second, and only 13 percent of family businesses remain in the family over 60 years. Problems making the transition can occur for any number of reasons: Lack of planning, however, is by far the most common underlying reason for a company to fail in the generational transition. At any given time, a full 40 percent of American firms are facing the succession issue, yet relatively few make succession plans. Business owners may be reluctant to face the issue because they do not want to relinquish control, feel their successor is not ready, have few interests outside the business, or wish to maintain the sense of identity they have for so long gotten from their work. Family businesses are advised to follow a five-stage process in planning for succession: In the initiation phase, possible successors are introduced to the business and guided through a variety of work experiences of increasing responsibility. In the selection phase, a successor is chosen and a schedule is developed for the transition. Analysts almost unanimously recommend that the successor be a single individual and not a group of siblings or cousins. To some degree, by selecting a group, the existing leadership is merely postponing the decision or leaving it to the next generation to sort out. During the education phase, the business owner gradually hands over the reigns to the successor, one task at a time, so that he or she may learn the requirements of the position. Finance preparation involves making arrangements so that the departing management team can withdraw funds enough to retire. The more time is used in preparing for the financial implications of this transition the more likely a business will be able to avoid being burdened in the process. In the transition phase, the business changes handsâ€”the business owner removes himself or herself from the daily operations of the firm. This final stage can be the most difficult, as many entrepreneurs experience great difficulty in letting go of the family business. It helps when the business owner establishes outside interests, creates a sound financial base for retirement, and gains confidence in the abilities of the successor. Estate Planning Estate planning involves the financial and tax aspects of transferring ownership of the family business to the next generation. Unfortunately, tax laws today provide disincentives for families wishing to continue the business. Heirs are taxed upon the value of the business at a high rate when ownership is transferred. Due to its complexity, estate planning is normally handled by a team of professional advisors who include a lawyer, accountant, financial planner, insurance agent, and perhaps a family business consultant. An estate plan should be established as soon as the business becomes successful and then updated as business or family circumstances change. One technique available to family business owners in planning their estate is known as "estate freeze. Since the majority of shares in the firm are preferred and do not appreciate, estate taxes are reduced. The heirs are required to pay gift taxes, however, when the preferred stock is transferred to them. A variety of tools are available that can help a business owner defer the transfer taxes associated with handing down a family business. It is also possible to pay the estate taxes associated with the transfer of a family business on an installment basis, so that no taxes are owed for five years and the remainder are paid in annual installments over a ten-year period. Since laws change frequently, retaining legal assistance is highly advisable. The consultant is a neutral party who can stabilize the emotional forces within the family and bring the expertise of working with numerous families across many industries. Most families believe theirs is the only company facing these difficult issues, and a family business consultant brings a refreshing perspective. In addition, the family business consultant can establish a family council and advisory board and serve as a facilitator to those two groups. These boards consist of five to nine non-family members who meet regularly to provide advice and direction to the company. They too can take the emotions out of the planning process and provide objective input. Advisory board members should have business experience and be capable of helping the business to get to the next level of growth. In most cases, the advisory board is compensated in some manner. As the family business grows, the family business consultant may suggest different options for the family. Often professional non-family managers or an outside CEO are recruited to play a role in the future growth of the business. Some families simply retain ownership of the business and allow it to operate with few or no family members involved.

9: Succeeding with Succession Planning in Family Businesses

Definition 4 The family business is a business governed and/or managed with the intention to shape and/or pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of *families in a manner that is potentially sustainable across.*

DEFINITION OF FAMILY BUSINESS pdf

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