Master's programme in **Family Business Management**

Project N°: 619264-EPP-1-2020-1-KH-EPPKA2-CBHE-JP

Training Workshop

Philippines - ADMU

29th June – 2nd July 2022

Family &

Family Business


Walmart
Supercentre


Ford

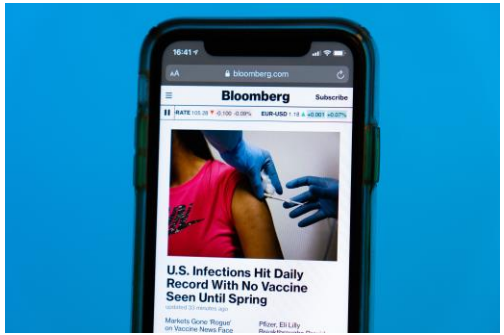

BOSCH


LEVI'S


Heineken


THOMSON
REUTERS


PRADA
PRADA
PRADA
PRADA


16:41
bloomberg.com
Bloomberg
Subscribe
U.S. Infections Hit Daily Record With No Vaccine Seen Until Spring
Markets Gone 'Rogue' on Vaccine News Face
Pfizer, Eli Lilly


L'ORÉAL


NIKE
NIKE


N°5
CHANEL
EAU DE PARFUM

Family Firm Definition

Definitions of Family Business in the Literature

Author(s)	Definition
Alcorn, 1982	a profit-making concern that is either a proprietorship, a partnership, or a corporation If part of the stock is publicly owned, the family must also operate the business (p 230)
Babicky, 1987	is the kind of small business started by one or a few individuals who had an idea, worked hard to develop it, and achieved, usually with limited capital, growth while maintaining majority ownership of the enterprise (p 25)
Barnes & Hershon, 1976	Controlling ownership is rested in the hands of an individual or of the members of a single family (p 106)
Bernard, 1975	an enterprise which, in practice, is controlled by the members of a single family (p 42)
Carsrud, 1994	closely-held firm's ownership and policy making are dominated by members of an "emotional kinship group" (p 40)
Churchill & Hatten, 1993	what is usually meant by family business is either the occurrence or the anticipation that a younger family member has or will assume control of the business from the elder (p 52)
Davis, 1983	are those whose policy and direction are subject to significant influence by one or more family units. This influence is exercised through ownership and sometimes through the participation of family members in management (p 47)
Davis & Tagiuri, 1985	a business in which two or more extended family members influence the direction of the business (quoted in Rothstein, 1992)
Donckels & Frohlich, 1991	if family members own at least 60 percent of the equity (p 152)
Donnelley, 1964	when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family (p 94)

Dreux, 1990	are economic enterprises that happen to be controlled by one or more families (that have) a degree of influence in organizational governance sufficient to substantially influence or compel action (p 226)
Gallo & Sveen, 1991	a business where a single family owns the majority of stock and has total control (p 181)
Handler, 1989	an organization whose major operating decisions and plans for leadership succession are influenced by family members serving in management or on the board (p. 262)
Holland & Oliver, 1992	any business in which decisions regarding its ownership or management are influenced by a relationship to a family or families (p 27)
Lansberg, Perrow, Rogolsky (1988)	a business in which members of a family have legal control over ownership (p 2)
Leach, et al (1990)	a company in which more than 50 percent of the voting shares are controlled by one family, and/or a single family group effectively controls the firm, and/or a significant proportion of the firm's senior management is members from the same family (quoted by Astrachan, 1993, pp 341-342)
Lyman, 1991	the ownership had to reside completely with family members, at least one owner had to be employed in the business, and one other family member had either to be employed in the business or to help out on a regular basis even if not officially employed (p 304)
Pratt & Davis, 1986	one in which two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights (chap 3, p 2)
Rosenblatt, deMik, Anderson, & Johnson, 1985	any business in which majority ownership or control lies within a single family and in which two or more family members are or at some time were directly involved in the business (pp 4-5)
Stern, 1986	owned and run by the members of one or two families (p xxi)
Welsch, 1993	one in which ownership is concentrated, and owners or relatives of owners are involved in the management process (p 40)

Ownership and Management

First, with few exceptions, the definitions do not differentiate between governance and management.

Second, some require controlling ownership or family management alone while others require both ownership and management.

Thus, the definitions include three qualifying combinations of ownership and management.

- (A) family owned and family managed;
- (B) family owned but not family managed; and
- (C) family managed but not family owned.

Ownership and Management and Vision

The definition according to Handler (1989) includes **family ownership** and **management** as well as the **vision**.

Family control does not necessarily imply only ownership, but in the literature it is referred to as family influence on the business strategy.

For the transfer of the business to the next generation, the definition considers the control of its ownership as a prerequisite. For this transfer, the availability of family successors who will facilitate the realization of the vision is necessary.

Succession & Professionalisation

According to Chua, Chrisman and Sharma (1999), family business has concerns about succession and professionalization within the company.

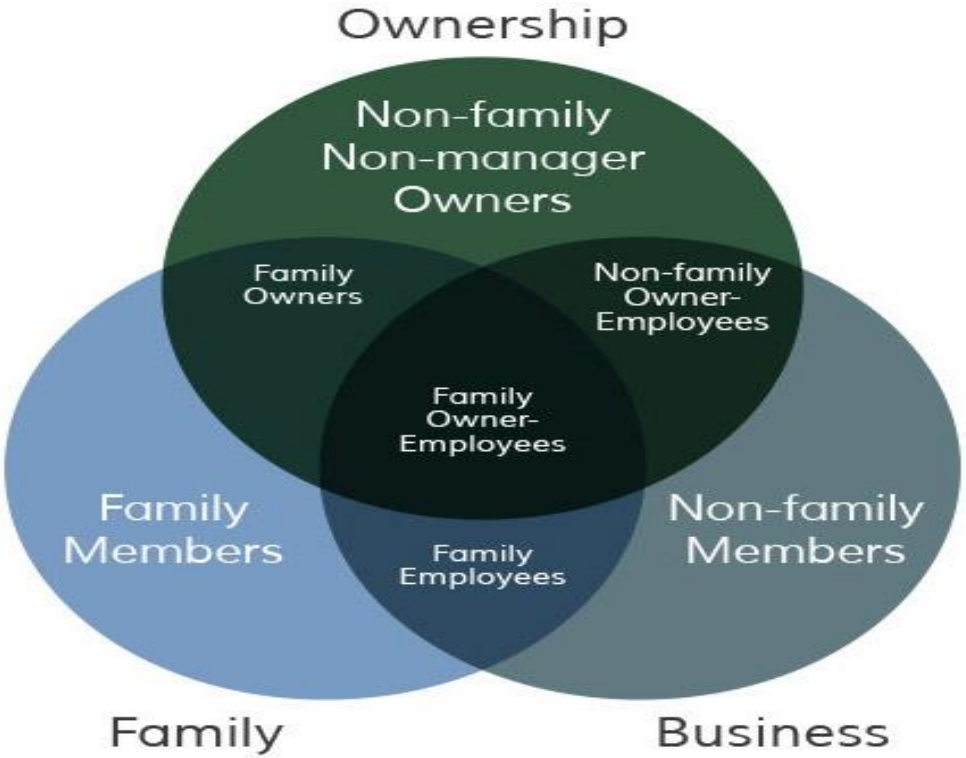
Ownership

Third, while some definitions do not require family ownership, those that do imply, they differ with respect to the acceptable patterns of controlling ownership. The list of controlling owners include:

- (1) an individual;
- (2) two persons, unrelated by blood or marriage;
- (3) two persons, related by blood or marriage;
- (4) a nuclear family;
- (5) more than one nuclear family;
- (6) an extended family;
- (7) more than one extended family; and
- (8) the public ownership

The 3 Circle Model

Tagiuri and Davis, 1982



European Commission Expert Group

The definition accepted by the European Commission Expert Group was proposed by the Finnish Working Group on Family Entrepreneurship. The expert group proposes the following definition: (E.C. Expert Group, 2009)

A firm, of any size, is a family business, if:
1) The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.
2) The majority of decision-making rights are indirect or direct.
3) At least one representative of the family or kin is formally involved in the management of the firm.
4) Listed companies ***meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 percent of the decision-making rights mandated by their share capital.***
5) More than one generation should become involved into the business.

The study shows that the ***self-employed***/one-person enterprises are considered family businesses in approximately one third of the countries surveyed. ***Sole proprietors*** (i.e. companies with one owner but that may employ other family and/or non family members) are considered to be family firms in most countries. (E.C. Expert Group, 2009)

A new Academic Field

A new academic discipline

The research field of family businesses in Europe is young – compared to other entrepreneurship research areas.

Family enterprises have become subject of socio-economic research only in the last 20-25 years, but in some European countries even later.

Although family businesses have been in existence and operating for thousands of years, it wasn't until the 1990s that the field was viewed as a separate academic discipline.

Wortman (1994) pointed out that family business as a field was 30 years old and Handler (1989) notes that prior to 1975, research in the area of family business were relatively limited.

Sharma, 2004
An Overview of the Field of Family Business Studies

An Overview of Family Business Studies: Current Status and Directions for the future

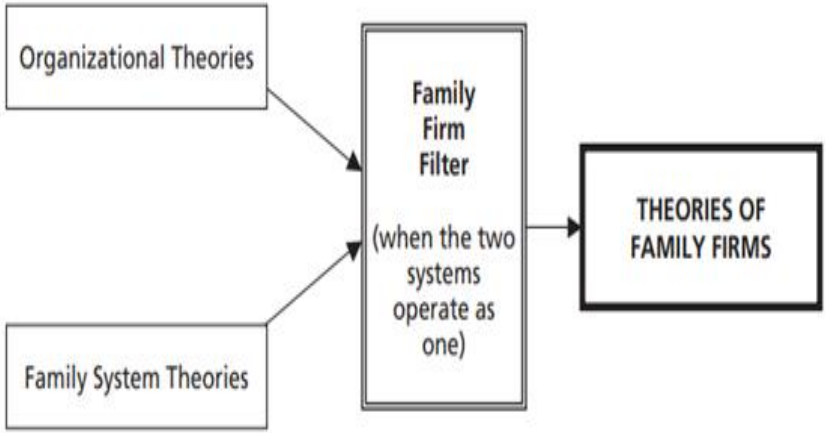


Figure 2 Toward the Development of Theories of Family Firms.

Academic Research

Academic Journals

- ***Family Business Review (FBR)*** *published in 1988.*
- ***Journal of Family Business Strategy (JFBS)*** *started publishing in 2010.*
- ***Journal of Family Business Management (JFBM)*** *and*
- ***European Journal of Family Business (EJFB)*** *published in 2011.*

International Conferences

- ***International Family Enterprise Research Academy (IFERA)***
- ***Family Enterprise Research Conference (FERC).***
- ***European Institute for Advanced Studies in Management (EIASM)***

International Organisation

The ***Family Firm Institute (FFI)***, a global association of individuals and organizations involved in family businesses, with a history of over 30 years.

Family Business in the Global Economy

The **Indicators** based on which the presence of Family Businesses is examined are:

- **Share of Enterprises**
- **Share of employees**
- **Share of turnover**
- **Share of GDP or value added** (GDP or Value Added)

Across **Europe**, about ***70% - 80% of all European companies are family businesses*** and they account for about ***40% - 50% of employment.*** Family businesses account for about ***40% of private sector turnover*** whereas ***their share in national GDP or value-added ranges from about 20% to about 70%*** (E.C. Expert Group, 2009).

A ***large share of European SMEs is family businesses***, and ***some of the largest European companies are also family businesses.***

In Luxembourg, Norway or Sweden, for example, research pinpoints that about 30 % of the largest companies are family businesses.

In Belgium, this respective share is even higher (about 50 %).

IFERA (2003) indicates that not only Wal-Mart as the world's largest enterprise is a family business, but further 37 % of the Fortune 500 companies are family firms.

In some of European countries the **share of family businesses** is **measured on the SME population** instead of (or next to) total enterprise population. The cross-national comparison shows quite diversified results. This is at least partly due to the definitions used.

In some European countries the issue of family businesses is, however, rather neglected as regards public and policy discussions. **Limited interest for this business type can be found, for example, in Greece.** Across the individual European countries the **time horizon** since when family businesses are considered in **public and policy discussions** varies. Thereby, there is **a split between Eastern and Western European countries**. KMU, (2008)

In some countries ***family businesses are equated to SMEs in public and policy discussions***. This is particularly the case in ***Central and Eastern European countries***

while in ***Northern, Southern and Western European countries*** the ***awareness*** about the ***heterogeneity*** of *family businesses* regarding their size class is more ***widespread***.

Furthermore, there is a **slight relationship between this assessment** and the ***country's size*** (in terms of the number of inhabitants), i.e., *in smaller countries family businesses and SMEs are considered to be the same more often than in larger countries*. KMU, (2008)

Sectors of Activity

Family businesses are active in all sectors of the economy. In some countries, data are available highlighting that ***Family firms are more prevalent in traditional and labour intensive sectors such as agriculture, manufacturing/crafts, construction, tourism or retail trade***

while they are **underrepresented** in, for example, the financial sector (with national exemptions, see below) or high-tech industries.

The Family Business Monitor of FBN International also pinpoints that **at least 40 % of all family businesses are concentrated into three sectors: manufacturing, construction and wholesale /retail trade** (FBN International, 2008).

EY in collaboration with the **University of St Gallen** have developed the **Global Family Business Index**, which provides important information about the largest family businesses in the world and forms a broader ranking of the **500 largest companies in the world**. For a company to participate in the Global Family Business Index, the family must have substantial ownership of the business.

These include private companies in which the family controls *more than 50% of the shares and voting rights*, as well as *public companies in which the family owns at least 32% of the shares and voting rights*. In addition, a business must be *run by the second or next generation*. *One or more family members must be involved in the operation of the business*, ie they must be part of either the *board of directors or the executive leadership*.

Familiness

Familiness represents that intangible resource that is a fundamental competence for family businesses and shapes their competitive advantage (Chirico, Ireland and Sirmon, 2011).

Habbershon and Williams (1999) define familiness "*as the only set of resources a business has because of the interactions that take place within a family, its members, and the business*."

The concept of familiness is an attempt to *highlight the differences between family businesses and all other non-family businesses*.

Resource-Based Theory (RBV)

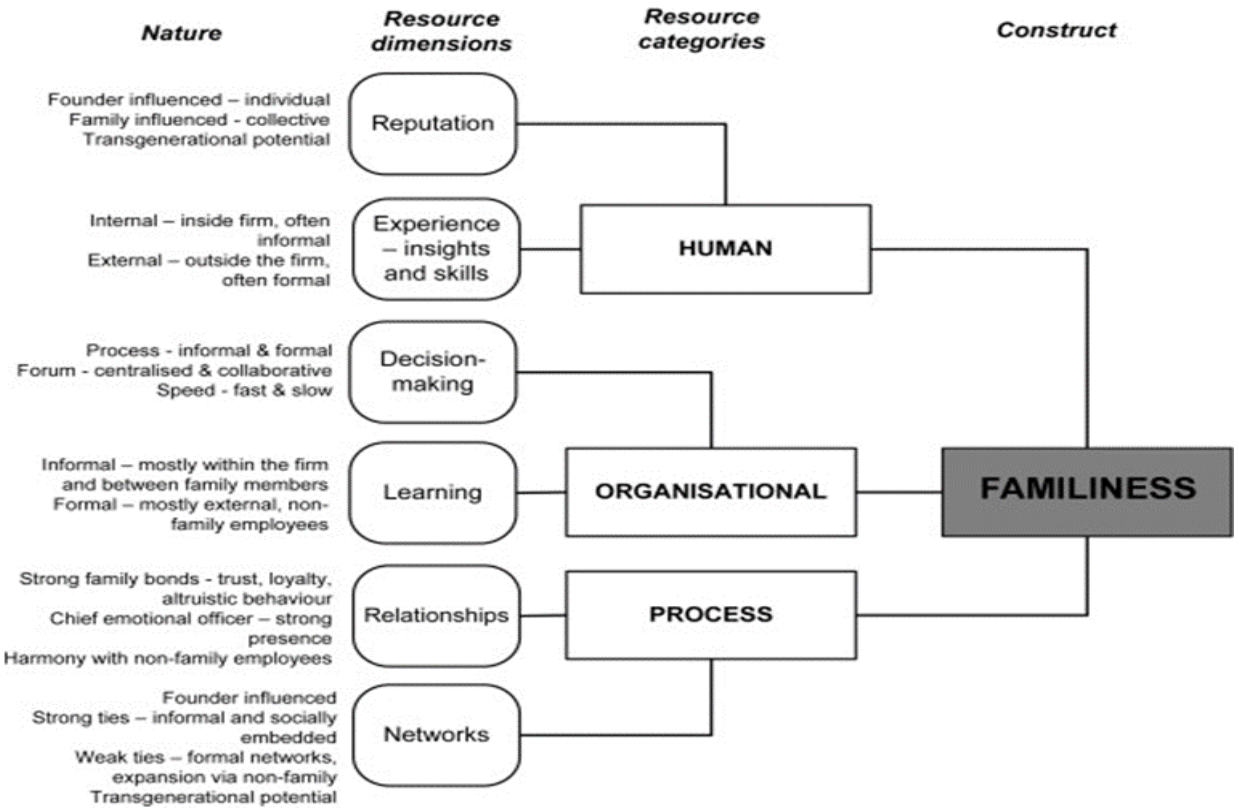
Irava WJ., Moores K., (2010) in the light of **Resource-Based Theory (RBV)**,

define that **Familiness** is composed of:

Human Resources (reputation and experience),

Organizational Resources (decision making and learning)

Process Resources (relationships and networks).



A Social Capital Model

Pearson, A. W., Carr, J. C., Shaw, J. C. (2008)

Familiness: A Social Capital Model

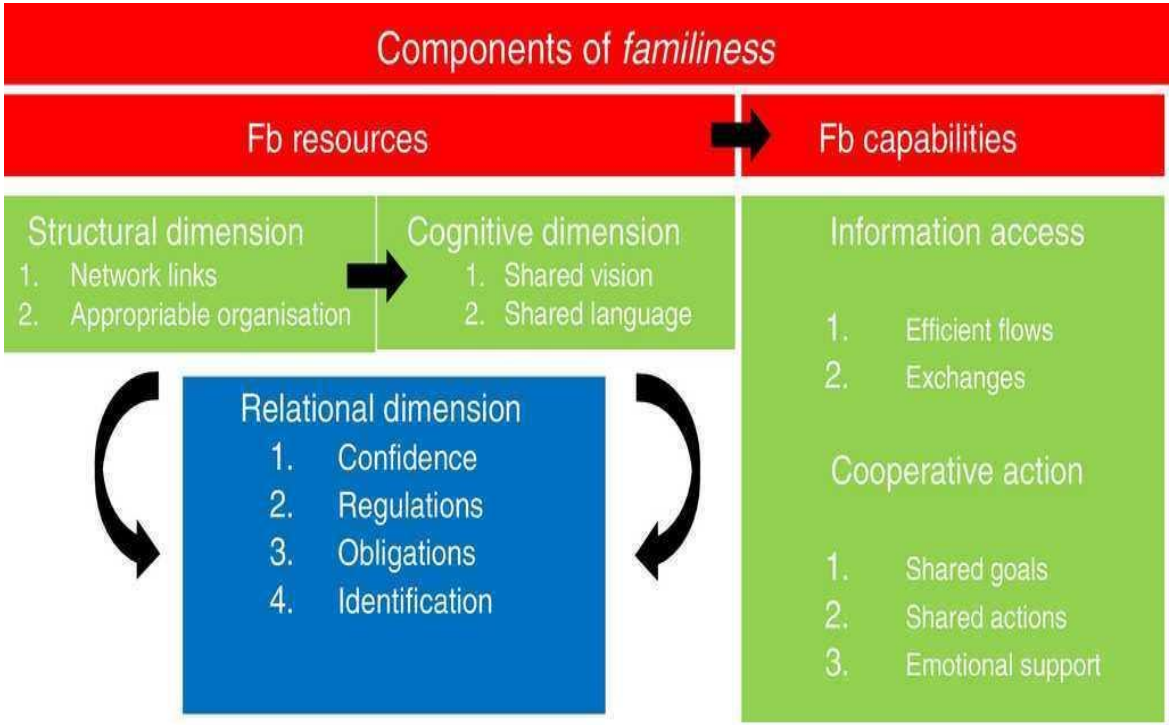
This model highlights the role of specific family resources in creating a competitive advantage.

Social capital is expressed through the

Structural dimension
(appropriate organization, networks)

Cognitive dimension
(common vision and language)

Relational dimension
(trust, norms, common obligations)



European Journal of Family Business. 2016;6:75–85

Three Dimensions Model

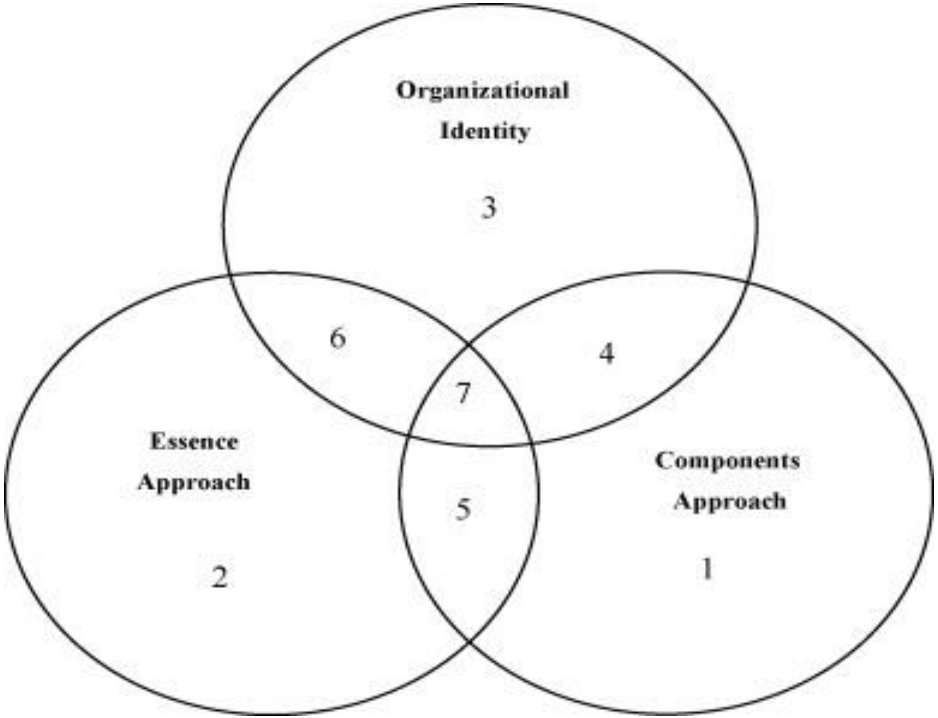
Zellweger, Eddleston and Kellermanns (2010) develop a **model** to describe and explain **familiness** by distinguishing three dimensions:

"the components of family involvement", which focus on family **ownership, management and control,**

"the essence of such involvement", which describes the impact of a **family's behavior and skills** on a business (Chua, Chrisman and Sharma, 1999) and the

"organizational identity", which is based on **family identity** and records the **perception** of the business as a family business by family and staff.

According to this model, **familiness is the result of a (selective) interaction of these three dimensions.**



Section 1: A company with family ownership but non-family management. The company is simply a source of wealth for the family members.

Section 2: A restaurant owner, who uses family work, perhaps unpaid, and at the same time does not consider the business as family nor do the family members share in the ownership of the business.

Section 3: The organizational identity approach emphasizes the concept of "we are a family business". An example of an identity-driven business is one in which the entrepreneur starts the business with the goal of one day getting his daughters to join it. Another example would be a business owner who would take over his father's business, but no other family member contributes or shares ownership of the business.

Section 5: Many large family businesses such as Wal-Mart (www.walmart.com) and IKEA (www.ikea.com) rank in this area. These companies are controlled and supported by families, but they do not make a conscious effort to link the family image to their products.

Sector 6: Southwest Airlines often portrays itself as a family of employees. For example, their website states, "Being a Southwest employee makes you a member of the Southwest family! "As our Company grows, we know how important it is to maintain these family ties."

Section 7: These businesses have **family involvement, reflect the essence of the family and define themselves as family businesses**, thus extracting the multiple benefits of family influence and capturing the benefit of family involvement in a business.

Pictet (www.group.pictet), one of Switzerland's largest private banks, presents itself as a family-owned company with a family heritage of over two hundred years. At Pictet, the family supports the business through involvement in management and ownership.

SC Johnson (www.scjohnson.com) advertises with the slogan "A family business", it can be expected that the business brings out the positive characteristics that consumers associate with family involvement in a business. In communicating with shareholders, Johnson promotes a strong organizational culture that incorporates family spirit with high employee commitment and loyalty.

PICTET	“We are a 214-year-old start-up”
1805	Rémy Best - Managing Partner Pictet

scJohnson
A family company
at work for a better world

F-PEC Scale of Family Influence

Astrachan, J. H., Klein, S. B., Smyrnios, K. X. (2002)

The F-PEC Scale of Family Influence

Family

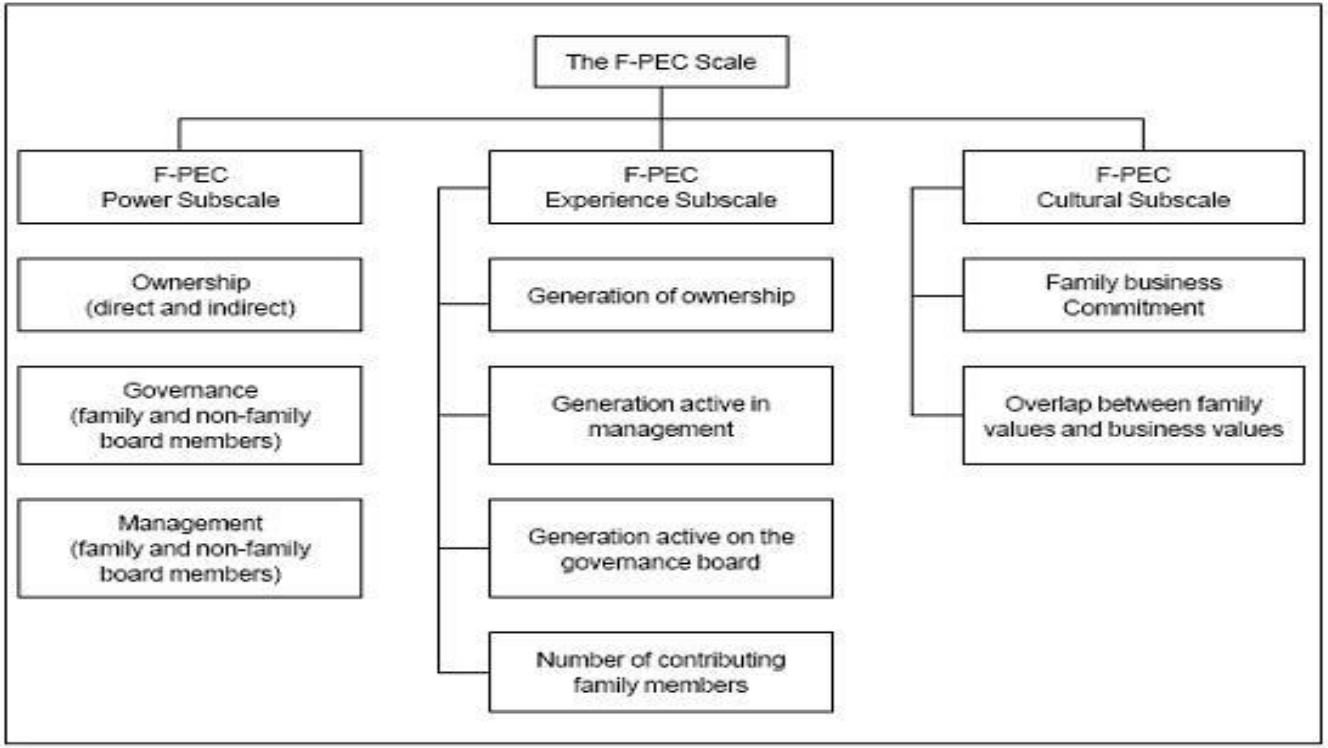
Power

Experience

Culture

Figure 3

F- PEC Scale



Source: Astrachan et al. (2002).

Stewardship & Agency Theory

Socio Emotional Wealth (SEW)

Stewardship Theory

According to Stewardship Theory, family owners seek to meet their financial and non-financial needs, such as security. This leads them to act as Stewards in order to protect and promote the value of the organization, resulting in the benefit of all shareholders (Davis, Schoorman and Donaldson, 1997; Miller, Le Breton-Miller and Scholnick, 2008; Corbetta and Salvato , 2004).

Managers do not seek to achieve their own individual goals, but rather act as Steards (Davis, Schoorman, and Donaldson, 1997). Thus, they behave altruistically as managers and follow a path aimed at achieving favorable results for the whole organization (Donaldson, 1990; Donaldson and Davis, 1991). In addition, it is generally accepted that wealth creation is not necessarily the sole or primary goal of all family businesses (Davis and Tagiuri, 1989; Sharma, Chrisman and Chua, 1997; Tagiuri and Davis, 1992).

Agency Theory

Agency Theory attempts to explain that the separation of ownership and management creates conflicting goals between shareholders and managers.

A representation relationship is a contract under which a person hires another person, to perform certain tasks or services on behalf of the former, partly transferring the decision-making power.

The problems of representation can then take on two dimensions: the unfavorable choice, which refers to the misrepresentation of the trustee's skills and abilities, and the moral hazard, which refers to the trustee's lack of effort (Eisenhardt, 1989).

Researchers who have studied the theory of representation in family businesses have focused mainly on the relationship between owners and managers (problem of representation A) and secondarily between the majority and minority of shareholders (problem of representation B).

Socio Emotional Wealth - SEW

Socio-emotional wealth (SEW), such as identity, the ability to exert family influence, and the perpetuation of the family dynasty, is the key dimension that distinguishes family businesses from non-family businesses.

Family business are more likely to be motivated in the long run than in the short run in terms of financial goals, due to their intergenerational thinking. Profit maximization does not become the primary goal, instead they focus on community support, social status and the belief that family involvement in the business is one of the most important goals.


LADY GAGA
ADAM DRIVER
JARED LETO
JEREMY IRONS
AND AL PACINO
A LEGACY WORTH KILLING FOR
HOUSE OF GUCCI
DIRECTED BY RIDLEY SCOTT
INSPIRED BY THE TRUE STORY
MUSIC BY HARRY GREGSON-WILLIAMS
PRODUCED BY RIDLEY SCOTT, p.g.a. GIANNINA SCOTT, p.g.a. KEVIN J. WALSH, p.g.a. MARK HUFFAM, p.g.a.
BASED ON THE BOOK "THE HOUSE OF GUCCI" BY SARA GAY FORDEN
STORY BY BECKY JOHNSTON
SCREENPLAY BY BECKY JOHNSTON AND ROBERTO BENTIVEGNA
DIRECTED BY RIDLEY SCOTT
COMING SOON
MGM

Thank you


ΙΩΑΝΝΗΣ ΚΙΝΙΑΣ
Επίκουρος Καθηγητής Πανεπιστημίου Αιγαίου
ΟΙΚΟΓΕΝΕΙΑΚΕΣ ΕΠΙΧΕΙΡΗΣΕΙΣ
ΤΖΙΟΛΑ
ΕΚΔΟΣΕΙΣ ΤΖΙΟΛΑ

https://fab-project.eu

Co-funded by the Rights, Equality and Citizenship (REC) Programme of the European Union

Thisroll-up is part of the HANNAH Project funded by the European Union's Rights, Equality and Citizenship Programme (2014-2020). The content represents the views of the author only and is his/her sole responsibility. The European Commission does not accept any responsibility for use that may be made of the information it contains.