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Entrepreneurial Family Businesses

Innovation, Governance, and Succession

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To my academic brother, professor Léo-Paul Dana*, for his never-ending support and contribution to my professional development*
Veland Ramadani

To my family for the endless support
Esra Memili

To my family as my biggest support ever
Ramo Palalić

To all the descendants from the Chang and Espino families, who know how hard is to run a business, and to all my students who believe in doing rather than talking
Erick P. C. Chang

Foreword

This is an exciting time to study family firms, what makes them unique, how they compete and survive, and how many of them live for generations. Besides being among the most ubiquitous organizational firms around the world, family firms offer a distinct environment in which to experience entrepreneurship and train future entrepreneurs. Earlier in my career, I had the great fortune of working for such a firm where I learned from the owner and his family how they innovate and infuse the entrepreneurial spirit throughout their business. Several of the employees were non-family members like myself and who later went on to create their own successful companies. I ended up researching entrepreneurship and family business. Such was the enduring impact of our working experience in a small family firm so many years ago.

It gives me great pleasure to introduce this book that comprehensively covers the different topics associated with managing and growing family businesses. Grounded in the most current literature, thorough in its treatment of the issues involved, richly illustrated, and well written, this book provides the readers with the state-of-the-art knowledge of the field—its different theories and their applications. The authors, who clearly have a strong passion for family business research, do a wonderful job making their ideas accessible to their readers, enriching their presentation with illustrative case studies and timely examples.

Readers will find this book a great reference that will deepen their appreciation of the contributions of family firms, their unique cultures, and dynamics. They will gain a greater appreciation of the role of the family in creating value and introducing innovations that make our lives better. They will also learn how members of the owner family learn the business and how to work with each other and others who are not part of the family. Readers will also learn how family dynamics influence the strategic choices these business firms make as well as the social and economic goals they pursue. They will analyze the rich but complex interplay of the "family" and "business" parts that give these companies their distinctive quality as they manage the opportunities and challenges that flow from these dynamics. Equally important, readers will appreciate the prominent place family firms occupy in today's globalized world! There is so much to learn from reading and studying this book. So, enjoy the journey—it is the start of many discoveries and considerable learning.

Carlson School of Management
University of Minnesota
Minneapolis, MN, USA

Shaker A. Zahra

Endorsements

As the attention to family firms increases, and educators are beginning to recognize the importance of the subject matter in the classroom, the book Entrepreneurial Family Businesses helps fill an important gap in the instructional literature by dealing with the key issues students will have to confront when working in a family business as owner, potential successor, or employee.

James J. Chrisman
Mississippi State University, MS, United States

Family businesses act as the economic bedrock of countries, economies, and communities. The nature of family business and the factors that influence the economic and social contribution made by family businesses are a key dimension of our knowledge of the ways in which businesses operate. Entrepreneurial behaviors, human resource management, and socio-emotional wealth contribute to our understanding of family businesses and the ways in which family businesses survive and thrive through multiple generations. This new text will be of considerable benefit to researchers and practitioners alike as they seek to develop their understanding of the myriad factors that influence family businesses.

Claire Seaman
Queen Margaret University, Edinburgh, UK

Veland, Esra, Ramo, and Erick have written a simple and powerful book that tackles some of the most important issues that entrepreneurial family firms are called to face. It is a useful, compelling reference for scholars and experts who are eager to know more about the distinctive behavior of family firms.

Alfredo De Massis
Free University of Bolzano, Bolzano, Italy &
Lancaster University Management School, Lancaster, UK

An insightful textbook on macro and micro issues in family firms. The new go-to resource for student and faculty alike.

Franz W. Kellermanns
University of North Carolina, Charlotte, United States
WHU–Otto Beisheim School of Management, Germany

Nowadays, researching in entrepreneurial family businesses area is interesting and timely. This book gives scholars, entrepreneurs, and policy makers the opportunity to learning and sharing a piece of deep knowledge about this exciting topic. The book offers several practical experiences, methods, and tools in different international family business contexts.

João J. Ferreira
University of Beira Interior, Beira, Portugal

From renowned family business scholars, the authors have written a textbook which not only considers the day-to-day dynamics in a family business, but also places a strong emphasis on the entrepreneurial skills needed for a family business to survive and to thrive today and tomorrow. 'Entrepreneurial Family Businesses provides family business best practices relevant to both students and family business owners/managers.

Clay Dibrell
The University of Mississippi, MS, United States

As more and more challenges arise in terms of managing family businesses—in particular with regard to succession issues—the book Entrepreneurial Family Business lays the foundation of understanding and responding to them adequately. The book, which elaborates and discusses a number of best practice examples, can be considered as a valuable guide not only for scholars but for students who aim to study these challenges.

Sascha Kraus
Durham University, Durham, UK

With family businesses playing an important role in the business landscape for centuries, they still continue to attract a lot of attention from scholars, educators, business leaders, and policy makers. The authors of this new textbook emphasized on the daily operational challenges of family business management and also stressed on the importance of entrepreneurial skills necessary for a family business succession. Definitely, a must-have textbook for faculty and students.

Shqipe Gërguri-Rashiti
American University of the Middle East, Kuwait City, Kuwait

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About the Authors

Veland Ramadani is Professor of Entrepreneurship and Family Business at Faculty of Business and Economics, South-East European University, North Macedonia. His research interests include entrepreneurship, small business management, and family businesses. He has authored or coauthored around 120 research articles, 10 textbooks, and 14 edited books. He has published in the *Journal of Business Research, International Entrepreneurship and Management Journal, International Journal of Entrepreneurial Behavior & Research,* and *Technological Forecasting and Social Change,* among others. Dr. Ramadani has recently published the coedited book *Organizational Mindset of Entrepreneurship* (Springer). Dr. Ramadani is Editor-in-Chief of *Journal of Enterprising Communities* (JEC). He has received the *Award for Excellence 2016—Outstanding Paper* by Emerald Group Publishing. In addition, Dr. Ramadani was invited as a keynote speaker in several international conferences and as a guest lecturer by President University, Indonesia, and Telkom University, Indonesia. In 2017, he was appointed as a member of Supervisory Board of Development Bank of North Macedonia, where for 10 months he served as an acting Chief Operating Officer (COO).

Esra Memili is Associate Professor of Entrepreneurship and Dean's Notable Scholar at the Bryan School of Business and Economics, University of North Carolina-Greensboro. She is the author of manuscripts that have appeared in *Entrepreneurship Theory and Practice, Global Strategy Journal, Long Range Planning, Family Business Review, Journal of Small Business Management, Journal of Family Business Strategy, Small Business Economics*, and others. She is an Associate Editor of the *Journal of Family Business Strategy* and an Editorial Review Board member of *Journal of Management Studies*, *Family Business Review*, *Journal of Leadership and Organizational Studies*, *Entrepreneurship Research Journal*, and *International Journal of Management and Enterprise Development.* Dr. Memili has recently published a coedited book titled *The Palgrave Handbook of Heterogeneity among Family Firms*.

Ramo Palalić is Assistant Professor at the Economics and Management Department, Faculty of Business and Administration, International University of Sarajevo (IUS), Sarajevo, Bosnia and Herzegovina. He is a Coordinator of Leadership and Entrepreneurship Centre (LEC). His research interests are entrepreneurship, leadership, marketing, SMEs, and family businesses. He teaches at all three cycle study levels in the above areas. Apart from this, he is actively involved in business projects in the areas of entrepreneurial leadership and marketing management, in private and public organizations. He has authored and coauthored many articles in reputable international journals, several books, and many book chapters. Additionally, he is serving a few journals as a reviewer/editorial board member.

Erick P. C. Chang is Associate Professor of Management at Neil Griffin College of Business in Arkansas State University. He comes from an entrepreneurial family, who has run businesses in Guatemala, the USA, and other countries over the last five generations. He has published in *Journal of Business Venturing, Entrepreneurship Theory and Practice*, and *Family Business Review,* among others. He is an editorial board member of *Family Business Review* and *Journal of Family Business Strategy*. His achievements include

6 Arkansas Governor's Cup as advisor; 2016 C. Sam Walls Entrepreneurship Educator of the Year for Arkansas; 2016 A-State Service Faculty Award; 2009 Hispanic Achiever; 2008 Finalist for NFIB Dissertation Award; 2010 College Research award; 2007 Triple Crown for PhD Student research awards; and a Fulbright scholarship from 1995 to 1997. He resides in Guatemala during school breaks to run a business with two high school friends.

Nature of Family Business

1

Learning Objectives
After reading this chapter, you should be able to:

- Define family business
- Understand the lifecycle of the family business
- Explain the three-dimensional model
- Identify the elements of the institutional clash
- Know the basic characteristics of the family business

Profile: Byung-Chull Lee—Samsung
Byung-Chull Lee (1910–1987) is the founder of Samsung Group. He was the son of a wealthy landowning family, a branch of the Gyeongju Lee clan, in the Uiryeong County. On March 1, 1938, Byung-Chull Lee started a business in Taegu, Korea, with 30,000 won and 40 employees located in Su-Dong (now Ingyo-Dong). He named his business as Samsung Sanghoe Daegu. In Korean, Samsung means "three stars." His business was focused primarily on trade export, selling dried Korean fish, vegetables, and fruit to Manchuria and Beijing. In a decade, his business prospered very well, and in 1947, he moved the company's head office in Seoul.

The Korean War forced him to leave Seoul and look for any other business opportunity. He founded Cheil Jedang, a sugar refinery in Busan, and later, in 1954, Lee founded the largest woollen mill ever in the country. In 1961, besides many charges for illegal profiteer and family scandals of smuggling, Lee grew his business by diversifying into paper products, department stores,

(continued)

Note: Selected sections of this chapter have been reused from the author's own work [Chapter: Entrepreneurial Family Businesses and Succession Management. In *Effective Entrepreneurial Management*, by Robert D. Hisrich and Veland Ramadani, ©Springer, 2017] used with permission.

V. Ramadani et al., *Entrepreneurial Family Businesses*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-030-47778-3_1

and publishing. In 1969, he establishes Samsung Electronics, which was focused on producing of inexpensive TVs (black-and-white TV model: P-3202), microwave ovens, and other consumer products for Sears and General Electric. In 1970, Lee and Samsung expanded the business in ship building, petrochemicals, and aircraft engines. In 1988, Samsung Electronics was merged with Samsung Semiconductors and Telecommunications, and its focus was in home appliances, telecommunications, and semiconductors.

In 1987, Byung-Chull passed away. His son, Kun-Hee Lee, succeeded him as the new Chairman. Samsung Group was separated into four business groups leaving the Samsung Group with electronics, engineering, construction, and most high-tech products. Retail, food, chemicals, logistics, entertainment, paper, and telecom were spun out among the Shinsegae Group, CJ Group, and Hansol Group. Kun-Hee Lee challenged himself to restructure old businesses and enter new ones with the aim of becoming one of the world's top five electronics companies. Kun-Hee Lee, in 1996, was involved in a corruption scandal and got a suspended sentence for bribery. In 2008, he was involved again in corruption and bribery scandal with influential prosecutors, judges, and political figures in South Korea. Initially he denied the allegations against him, but later, he pleaded guilty and said, "I am responsible for everything. I will assume full moral and legal responsibility." Seoul Central District Court had found Lee guilty on charges of financial wrongdoing and tax evasion. Prosecutors requested Lee be sentenced to 7 years in prison and fined 350 billion won ($312 million), but the court fined him just 110 billion won ($98 million) and sentenced him to 3 years in prison. Kun-Hee Lee has not responded to the verdict, and some months later, the president of South Korea, Lee Myung-Bak, pardoned him.

During the late 1980s and early 1990s of the last century, Samsung Electronics made significant invesments in research and development in order to drive the company to the forefront in the global electronics industry. Here are some of the main investments that Samsung made during this period: in 1982, Samsung built a television assembly plant in Portugal; in 1984 and 1985, Samsung built a factory in New York and Tokyo; in 1987, Samsung built facilities in the United Kingdom; and in 1996, Samsung built facilities in Austin. The investments of $5.6 billion in Austin were considered as the largest foreign investment in Texas and one of the largest single foreign investments in the United States. The 1990s are considered as years, when Samsung started to rise as an international company. The construction branch of Samsung was contracted to build one of the two Petronas Twin Towers in Malaysia, Taipei 101 in Taiwan, and the Burj Khalifa in Dubai. In addition, Samsung manufactures a variety of aircraft of the 1980s–1990s. However, Samsung Motor sold 80.1% of its stakes to Renault due to significant losses. Samsung, in comparison with many Korean companies, survived the well-

(continued)

known Asian financial crisis in 1997 and had only minor effects in its business operations.

Later, the main concentration of Samsung was in electronics, where in 2005, Samsung became the world's largest manufacturer of LCD panels. In 2006, Sony partnered with Samsung to develop a stable supply of LCD panels for both companies. Although it was a 50:50 partnership, Samsung owned one share more than Sony, in order to have control over the manufacturing. In 2011, Samsung bought Sony's stake in the partnership and took full control. In 2012, Samsung became the largest manufacturer of mobile phones. In order to remain this position, Samsung has earmarked $3–4 billion to upgrade their Austin, Texas, semiconductor manufacturing facility. On September 3, 2014, Samsung announced the virtual reality device, Gear VR, which was developed in collaboration with Oculus VR for the Galaxy Note 4. In October 2014, Samsung announced a $14.7 billion investment to build a chip plant in South Korea. In October 2014, Samsung announced a $560 million investment in the construction of a new 700,000 m^2 production complex in Vietnam.

Samsung applies an excellent method of quality control, called "stop line" system, which informs the employees that the product is found to be substandard, and they should stop the production process. This system made the company to be successful in providing only the best products to the whole world.

The main subsidiaries and affiliates are *Samsung SDS* (provides IT systems: ERP, IT infrastructure, IT consulting, IT outsourcing, data center); *Samsung Electronics* (produces air conditioners, computers, digital televisions, liquid crystal displays, active-matrix organic light-emitting diodes, mobile phones, monitors, printers, refrigerators, semiconductors, and telecommunications networking equipment); *Samsung Engineering* (construction of oil refining plants; upstream oil and gas facilities; petrochemical plants and gas plants; steel making plants; power plants; water treatment facilities; and other infrastructure); *Samsung Everland* (Environment and Asset, Food Culture and Resort), *Samsung Life Insurance* (a multinational life insurance company), etc.

Samsung is the largest South Korean business group, accounted for around 17% of the country's GDP. In 2018, Samsung's revenues were $208.5 billion, net income was $37.1 billion, total assets were $265 billion, total equity was $265 billion, and the number of employees was 320,671.

Today, Samsung continues to be the best technology provider in the world. Samsung is characterized by highly qualified employees, who are very determined in offering excellence in their respective fields and with the constant improvement of its management structure and the application of its philosophies: "We will devote our human resources and technology to create superior products and services, thereby contributing to a better global society."

Sources: Based on Hisrich and Ramadani (2017) and Samsung.com

1.1 Introduction

Family businesses represent the oldest and the most common form of organizations and generate the most of new jobs in most of the countries (Kraus et al. 2011; Memili and Dibrell 2019; Ramadani et al. 2017; Hoy and Sharma 2010). Researchers have recorded the predominance of family businesses in countries throughout the world, where approximately 90% of all businesses worldwide are family businesses. These businesses play a very important role in the economy and society (Brigham 2013). It should be emphasized that not all family businesses are small—they range from neighborhood's micro-businesses to multibillion-dollar companies. According to *Bloomberg Businessweek*, around 35% of *Fortune500*-listed companies can be classified as family businesses (Perman 2006). This chapter treats the most important issues related to family businesses, such as family business definitions and categories, members of family businesses, family business systems, theoretical approaches, etc.

1.2 Nature and Uniqueness of Family Businesses

1.2.1 Definition Approaches

Family businesses constitute the dominant and the oldest form of business organizations. Understanding family businesses ranges from small business serving a neighborhood to large conglomerates that operate in multiple industries and countries (IFC 2008). Therefore, the definition of a family business is a complex issue. The key component represents the interaction of the family system and business (Chua et al. 1999). The founding editors of *Family Business Review* asked, "What is family business? People seem to understand what is meant by the term *family business*, yet when they try to articulate a precise definition, they quickly discover that it is a very complicated phenomenon" (Lansberg et al. 1988, p. 1). Hoy and Verser (1994) noted that the editors chose not to define the term family business, instead deciding that the dialogue engendered by *Family Business Review* might help determine the boundaries of the field. The editors expected manuscript submitters to specify what definition they were using so that readers would know how to compare studies.

Diaz-Moriana et al. (2019) noticed that there are five main family business definition approaches:

1. *Circle models*. This approach defines family businesses based on the two and three-circle models. The two-circle model treats family business as two highly interdependent systems: family and business, where the family system is based on emotions, inward-looking, long-term loyalty, conservative stance to change, and ensuring the equilibrium of the family remains intact, while the business system is oriented toward task accomplishment, results, and performance. The three-circle

model (Tagiuri and Davis 1996), by using three spheres of influence in the family business—owners, managers (employees), and family members, introduces the bivalent attributes of the family businesses. This model will be discussed later in this chapter.

2. *Defining family business by behavior.* This approach is based on Chua et al. (1999) who require defining family business based on distinctive behavior. They contend that the family business is defined by its specific behavior and "not on the basis of the components of family involvement, but by how these components are used to pursue the family's vision" (1999, p. 27).
3. *By degree of family involvement.* Based on this approach, definitions of family businesses accentuate the family participation in the business and their significant influence and control over the business future strategic direction and the owner intentions for active involvement of multiple family generations in the business operations.
4. *Familiness.* This approach applies the resource-based view (RBV) to the family business context. Chrisman et al. (2003) defined the familiness construct as "resources and capabilities related to family involvement and interactions" (p. 468). The authors argue that the family business system creates resources, and by influencing on them, they become valuable, rare, and highly inimitable by competitors.
5. *Family Influence on Power, Experience, and Culture (F-PEC) scale and Substantial Family Influence (SFI).* According to F-PEC scale, the family business definition should allow for heterogeneity, and instead of evaluating particular traits or behaviors, F-PEC measures the family based on its influence on the company, such as family ownership, voting control, family management, family employment, generational transfer, and interdependent subsystems and is multiple inclusive (Astrachan et al. 2002). SFI evaluates the full power of family by measuring the family's share in equity (zero to one), the family share of the supervisory board (zero to one), and the share of the top management team (zero to one) (Klein et al. 2005).

Considering the different approaches for defining family businesses, Memili and Dibrell (2019), based on 82 different empirical studies, found the following criteria used in family business definitions: ownership, management, control, generational, subsystems, perception, and others (Table 1.1).

It's generally accepted that there is not a single definition about the family business, "which is exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, and to the provision of statistical data and academic research"(Mandl 2008, p. 1). Astrachan et al. (2002) have pointed out that "a definition of family is often missing. . .this notable absence poses problems, particularly in an international context where families and cultures differ not only across geographical boundaries, but also over time" (p. 167). The general concept of the family business includes any business in which the bulk of the ownership or control lies in a family and in which two or more family members are involved directly (Brockhaus 2004). Family

Table 1.1 Criteria for family business definition

Definitional criterion	No. of occurrences	Frequency (%)
Ownership	54	66
Management	32	39
Control	31	38
Generational	14	17
Subsystems	12	15
Perception	4	5
Others	26	32

Note: Percentages add to more than 100% because studies typically use multiple criteria
Source: Based on Memili and Dibrell (2019, p. 342)

business is a double-complex system, comprising business and family. These systems overlap and are both dynamic organisms that develop and change and are both unique with their particular history, challenges, strengths, weaknesses, opportunities, and threats that are exposed. Family members who are involved in the business are part of a system of tasks of business and part of the family system. For this reason, conflicts may occur because each system has its own rules, roles, and requirements. Families can have their own style of communication and conflict resolution which can be good for the family, but it does not mean that this will be good for resolving business disputes. Entry to the family system is from the birth, adoption, and marriage, with membership assumed to be permanent, whereas entry into the business system is based on experience and opportunities. Conflicts may arise when the problems from one system are transferred to the other system (Gashi and Ramadani 2013; Bowman-Upton 2009).

A definition of family business should determine why it is unique, and this raises the question of "what is unique?". This has nothing to do with the fact that family members own or manage a business. What makes a family business unique is that the model of ownership, governance, and succession management materially affects the objectives, strategies, structure, and the way in which it is formulated, designed, and implemented as business activity (Chua et al. 1999; Mandl 2008; Xi et al. 2015).

According to Poza and Daugherty (2013), if a business is to be considered a family business, it must meet the following characteristics: (a) ownership control (15% or higher) by two or more members of the family; (b) strategic influence by family members on the management of the firm, either by being active in management, by continuing to create culture, by serving as an advisor or board member, or by being an active shareholder; and (c) concern for family relationships, the dream or possibility of continuity across generations. Further to this list of features, Poza and Daugherty add several features: (a) the presence of the family; (b) the overlap of family, management, and ownership, with its zero-sum (win-lose) propensities, which in the absence of growth of the firm, render family business particularly vulnerable during succession; (c) the unique sources of competitive advantage (e.g., a long-term investment horizon), derived from the interaction of family, management, and ownership, especially when family unity is high; and (d) the owner's dream of keeping the business in the family (the objective being business continuity from generation to generation).

According to European Commission (2009), a company of any size is considered family business if:

- The majority of decision-making rights are in the possession of the natural person (s) who established the company, or in the possession of the natural person (s) who has/have acquired the share capital of that company, or in the possession of their spouses, parents, child, or children's direct heirs.
- The majority of decision-making rights are indirect or direct. At least one representative of the family or kin is formally involved in the governance of the company.
- Listed companies meet the definition of family business if the person who established or acquired the company (share capital) or their families or descendants possess 25% of the decision-making rights mandated by their share capital.

According to Chua et al. (1999), a family business is "a business governed and/or managed with the intention to shape and 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 generations of the family or families" (p. 25).

Family businesses differ from non-family ones in many ways. Differences between them, based on a review of different studies, are summarized in Table 1.2. There can be seen that in the center of the firm in family businesses is family, which formally or informally, directly or indirectly influence the firm; their main objectives are both economic and noneconomic, respectively, sustainability/ long-term family income (stability) as well as family satisfaction; their business orientation is satisfaction of internal and external stakeholders (mainly family, clients, employees, local community); the style of management is value-driven, emotional, and goal alignment; they compete on quality, reputation, long-term relationships, etc. Alternatively, in the center of non-family businesses are owner (s) or managers; their main objectives are only economic (quick profits/growth); their business orientation is satisfaction of owners/ shareholders; the style of management is facts-and-figures-driven, rational and use agency control mechanisms, etc.

A very important issue raised recently is whether the family business should be "family business" during the whole its life cycle or not. Mandl (2008) noted that the status of being a family business must not be considered "fixed" (Fig. 1.1). According to her, there are several businesses that are family businesses over their whole life cycle (Fig. 1.1a). On the other hand, there are businesses which could be "transferred" over their life cycle from family business to non-family business and vice versa. For instance, a business may start as a family business, which is owned and managed by family members, but over the time, property and management due to various reasons may be distributed or transferred to persons outside the family,

Table 1.2 Main differences between the family and non-family business

	Family business	Non-family business
Centre of the firm	Family (formally or informally/directly or indirectly influencing the firm)	Owner(s)/managers
Necessary governance	Company and family sphere	Company sphere
Main objective	Economic and noneconomic (sustainability/long-term family income (stability) as well as family satisfaction)	Economic (quick profits/growth)
Mindset orientation	Transfer among generations, sustainability over the lifetime of the enterprise	Sale of the business, sustainability over the professional lifetime of the entrepreneur
Competitive strategy	Quality, reputation, long-term relationships	Price
Assets	Financial, social, cultural	Financial
Company climate	Familiness, trust, cohesion, involvement, commitment, engagement, enthusiasm, informality	Business goal orientation, formality, contractual agreements, distance
Business orientation	Satisfaction of internal and external stakeholders (mainly family, clients, employees, local community)	Satisfaction of owners/shareholders
Management style	Value-driven, emotional, goal alignment	Facts-and-figures-driven, rational, agency control mechanisms
Allocation of profits	Reinvestment into the company	Distribution among owners/ shareholders

Source: Based on Mandl (2008, p.70)

and in the maturity phase, the business will lose the status of being a family business (Fig. 1.1b). Some businesses could reach the status of being a family business again in their declining phase, if non-family members (owners or managers) withdraw from the business, and hence, the family power ceases (Fig.1.1c). Also, often it could happen that a business is established as a non-family business consisted of the entrepreneur and few non-family members only. Later, when the entrepreneur and his/her children grow, the issue of transfer of business and interest of the second generation to take over the business may occur, which intensifies the role and involvement of the family in the business. After the completion of the transfer phase, two situations can happen: the entrepreneur and his/her family are still involved in the business (Fig.1.1e) or they could withdraw from the business and shifting the status of the business from "family" to "non-family" (Fig. 1.1d).

Commonly, *family business* could be defined as a business that is owned and governed by the family, in which are employed some of its members and is based on the assumption that the younger members of the family will set control over the business, following the elder ones.

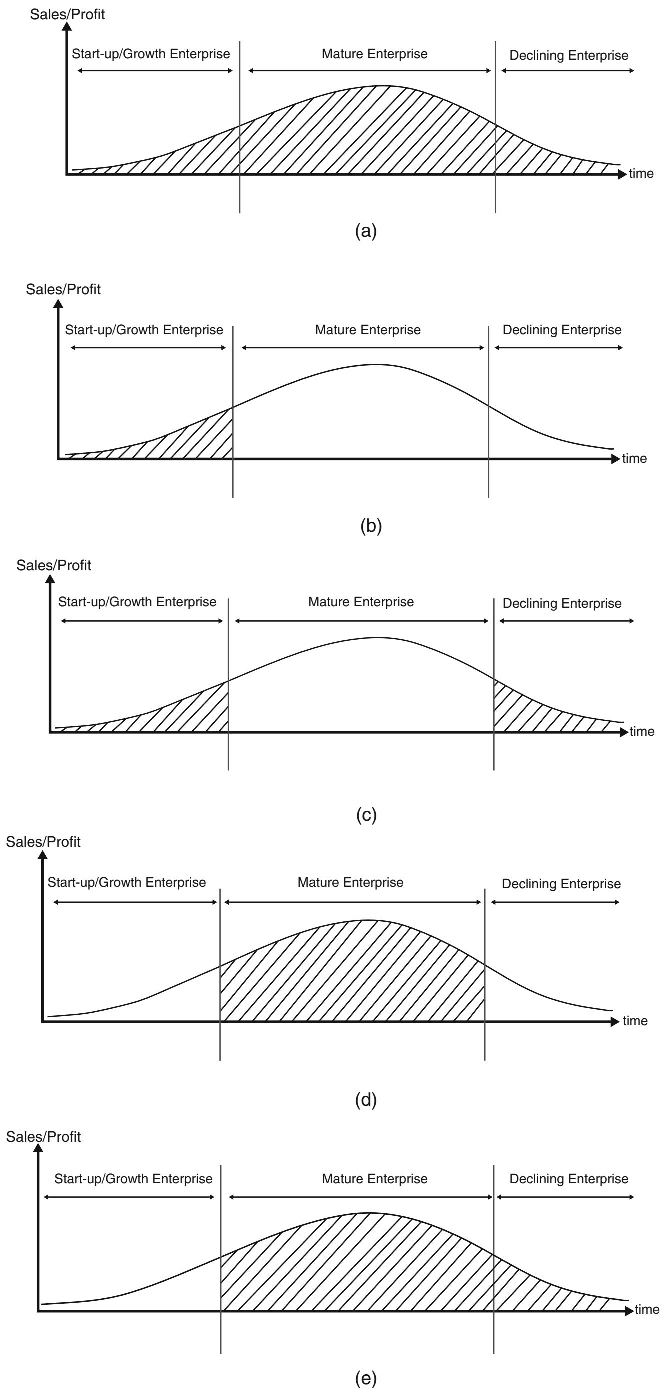

Fig. 1.1 Potential family businesses status over the company life cycle. (**a**) Family business status during the whole life cycle. (**b**) Family business status during the start-up/growth phase only. (**c**) Family business status during the start-up/growth and declining phase. (**d**) Family business status in mature phase only. (**e**) Family business status from mature phase onward. Source: Based on Mandl (2008, pp. 14–15)

1.2.2 Participants in the Family Business

In general, participants in a family business can be divided into two groups: family members and non-family members. These groups are shown in Fig. 1.2. Sharma (2004) divides them into internal and external family business members. Internal members are those who are involved with the business, such as employees, owners, and/or family members. External members are those who are not linked to the family business, whether through employment, ownership, or family membership. Venter et al. (2012) categorize participants in family business into four groups: *non-family members* (includes non-family employees, outside professionals, experts, consultants, advisors, who offer expertise and skills, are part of the management team and assist in strategic business decisions), *inactive family members* (includes those members who are not being involved in the family business in terms of interfering in the business decision-making or disagreements), *the senior generation* (includes parents and their willingness to delegate authority, share important information related to the business and resign control, as well as ensuring their financial protection after retirement), and *the incumbent generation* (includes children as active family members being able to realize their personal ambitions and satisfy their career needs in the context of the family business). Each participant has personal approaches and ways of thinking and abilities to put pressure on business and family (Bowman-Upton 2009; Sharma 2004).

1. Family Members
   (a) *Neither an employee, nor an owner*. In this group usually belong children and in-laws. Even though they may not be part of the business, however, have the opportunity to influence and exert pressure on the family that runs the business. For example, children can criticize their parents for spending too much time on business and very little devotion to them. This presents a problem because this raises feelings of guilt to parents for not finding time for their children, and this can affect business decision-making. In-laws may be counted as outsiders, intruders, or allies and are usually neglected, ignored,

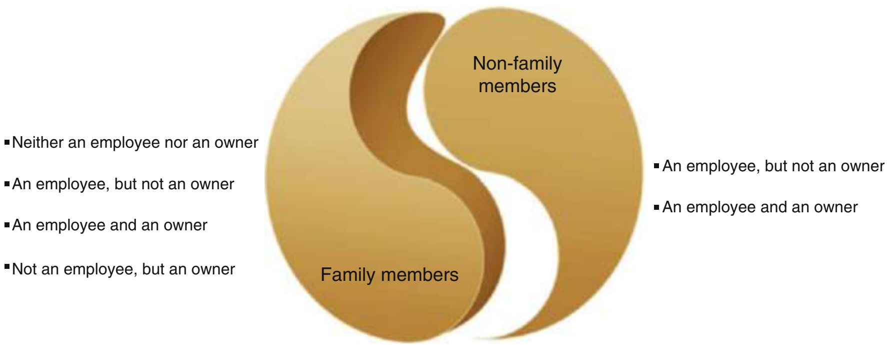

Fig. 1.2 Participants in the family business. Source: Based on Bowman-Upton (2009)

and misunderstood. For example, from daughter-in-law, it is required to support and understand her husband in business activities without a clear understanding of family or business dynamics. It can lead to problems in family or putting her between family confrontations. Sons-in-law are in the same situation or difficulties. They can be counted as competitors from the wives' brothers. Sons in-law, although may not be involved in business, can exert pressure on families and businesses through their wives.

(b) *An employee, but not an owner*. These members are active in the business, but do not have an ownership position. For this group, there may raise problems of different nature. For example, when compared with those family members who are not employees, but are business owners, raise the feeling of inequity. This situation is often manifested with the words: "while I do all the work, others just stick and reap profits." Or the problem may occur when owners bring decisions without consultation with employees, family members who are not owners. This is manifested by the words: "I deal with daily affairs of the company, knowing how decisions will affect the company's work, while they do not ask me about it at all." Employees who are family members generally expect to be treated differently from employees who are not part of the family.

(c) *An employee and an owner*. The members of this group may have the most difficult position in the enterprise. They must manage effectively with all members involved in both of systems, family and business. As owners, they are responsible for the welfare and business continuity, as well as for daily business activities. They must deal with the concerns of employees that are family members and for those who are not. In this group fall founders, as owners and executive directors.

(d) *Not an employee but an owner*. This group consists of brothers/sisters and retired relatives. Their main interest is the income/profit provided by the business, and everything that might jeopardize this can be a problem for them. For example, while managers/owners wish to implement development strategies that can spend the wealth and put it in danger, it may encounter resistance from retired relatives who are concerned primarily about dividend or profit from business.

2. Non-family Members

(a) *An employee, but not an owner*. This group of employees often faces with the issues of nepotism and coalition building as a result of family conflicts caused by daily business activities. Family business owners to employees who are not family members and who have little or no option at all for promotion (advancement) should try to uphold their motivation by implementing appropriate policies of recruitment, accepting children of non-family employees into the business, and minimizing policies that favor family employees over non-family employees.

(b) *An employee and an owner*. With the introduction of plans and opportunities for corporate enterprise transformation, this group becomes very important. Employees may become owners during the succession process. In businesses where a successor is selected, partial ownership of the business by its employees can accelerate the cooperation with the new management, because employees will be more interested about the benefits and responsibilities of the business. In situations where the successor is not selected, a part of the business is likely to be sold to employees who are not part of the family but who have actively participated in its development. The employees in this case will require to be treated as owners, which can be difficult to detect and accept by family members.

1.3 Family Business Systems

Carlock and Ward (2001) described a family business as a scale which should be balanced between the requirements and business opportunities and the needs and desires of the family. The balance between these two "forces"—business and family—can be achieved based on five variables: (a) *control:* setting in a fair way who will participate or make the decisions; (b) *career:* need to make it possible for family members to be rewarded and promoted based on their performance; (c) *capital:* family members can reinvest without damaging the interests of other family members; (d) *conflict:* conflict must be addressed due to the proximity between business and family; and (e) *culture:* family values have to be used in the development of plans and actions.

The essential problem in the functioning of family enterprises is the institutional overlap of norms in which families and businesses rely. Institutional overlap is shown in Fig. 1.3. The primary role of the family is to maintain social relations among its members, while the economic function of the company is to produce and provide products and services, the sale of which will generate satisfactory profit. One way to overcome this institutional collision is to acknowledge the decisions, arising as a result of a compromise between contradictory family and business principles. This way of decision-making, however, often results in suboptimal decisions, regarded from management aspects. Family members that work in the family business and fail to align personal goals with those of the business should question their position or status in the business. Also, in family businesses, the career path and the training of the family members should be planned (Lansberg 1983).

1.4 Theoretical Frameworks of Family Businesses

1.4.1 Three-Circle Model

A two-dimensional model of two interrelated systems, the family and the business, has driven many research studies. Tagiuri and Davis (1996) introduced the three-circle model, where the dimension of ownership was added. Figure 1.4 presents the *three-circle model of family business*, which shows how individuals can be included

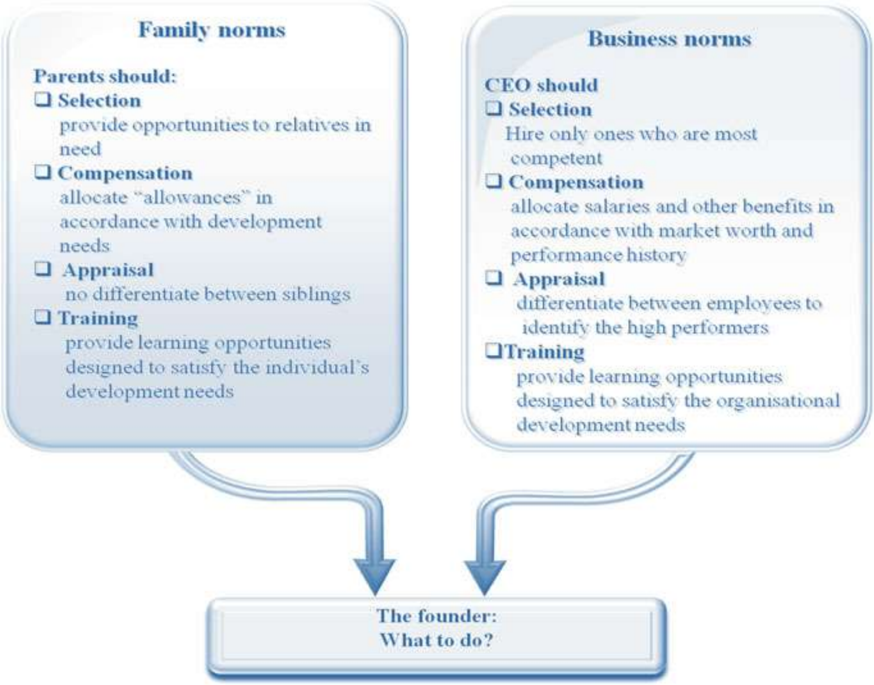

Fig. 1.3 Institutional overlapping in family businesses. Source: Based on Lansberg (1983)

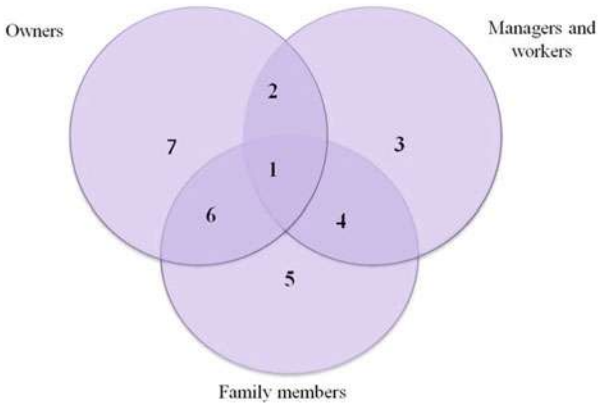

Fig. 1.4 Three-circle model of family businesses. Source: Based on Tagiuri and Davis (1996) and Hoy and Sharma (2010)

in a family business: as family members, as owners, and as workers/managers (see also Sharma and Hoy 2013).

This model represents family members who are employed and are owners; (1) family members who are employed but are not owners; (2) employed in the family business which are not family members; (3) employed in a family business who are not family members and are not owners; (4) non-family owners; (5) family members who are not employed in the family business but are owners; (6) and family members that are not involved in the business.

1.4.2 Developmental Model

Gersick et al. (1997) designed the *developmental model*, which consists of ownership, family, and business axes. The ownership axis includes four stages: controlling owner, sibling partnership, and consortium of cousins. The family axis includes four stages: young business family, entering the business, working together, and passing the baton. And, the business axis goes through the four stages of start-up, growth/formalization, and maturity. This model is presented in Fig. 1.5.

Hoy (2012), in his review of Gersick et al. (1997) *Generation to Generation*, noted that, the Tagiuri and Davis *three-circle model* remains dominant in education and consulting practice, even though in a Google Scholar search, there can be found over twice as many citations for Gersick et al. (1997) as for Tagiuri and Davis (1996).

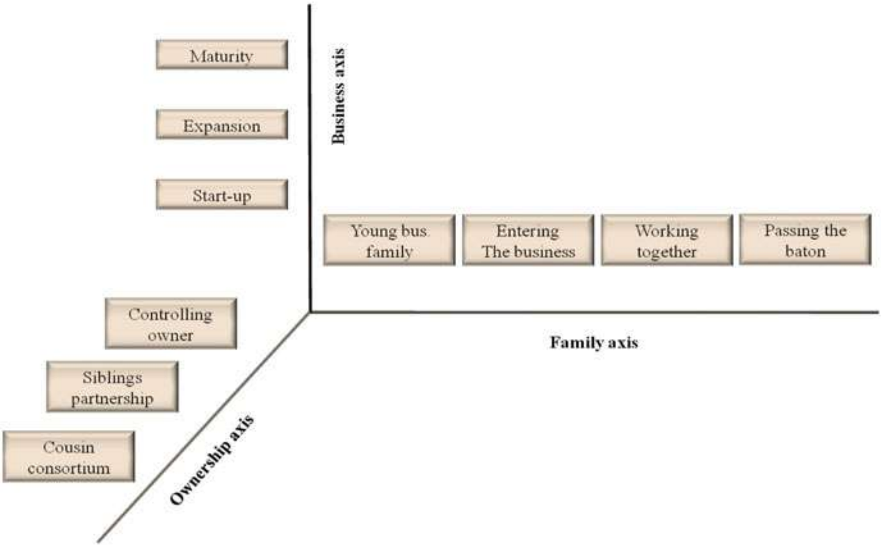

Fig. 1.5 Developmental model. Source: Based on Gersick et al. (1997, p.17)

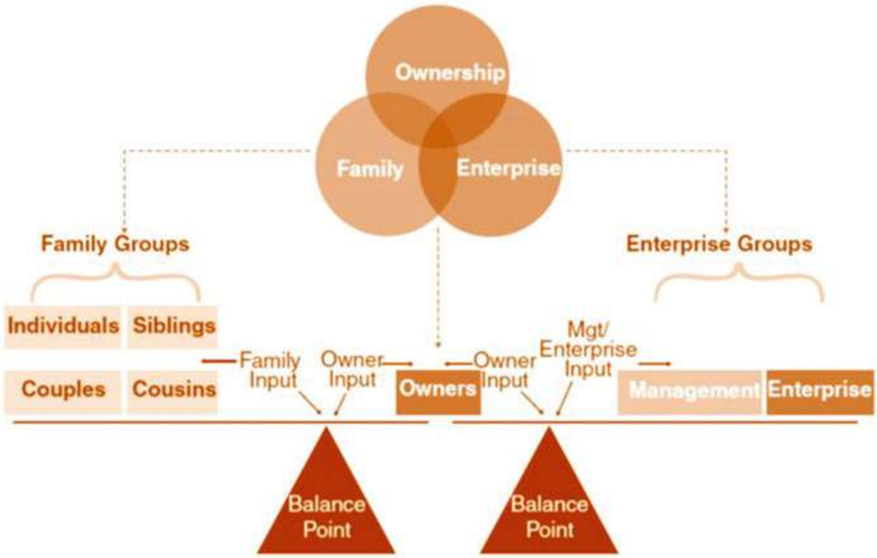

Fig. 1.6 Balance point model. Source: Based on Hause and Tuteman, as mentioned in The Family Firm Institute (2014)

1.4.3 Balance Point Model

The balance point model (Fig. 1.6) describes the alignment of family business systems and identifies the balance points within the company. The most important thing in this model is to establish and maintain alignment of the family, owners, and company interests. This model is a balance of separation and integration. Separation helps to clarify roles, responsibilities, authority, and accountability, while separation helps to identify values, needs, and goals. All these groups—family, owners, and company—have their own interests, roles, procedures, values, and needs. In order to achieve a balanced interdependence among the groups, all of the interests should be aligned or integrated. When this will be achieved, the system is considered in balance (The Family Firm Institute 2014).

1.5 Entrepreneurship in Family Business

The term entrepreneurship has historically referred to as the efforts of an individual who takes on the odds in translating a vision into a successful business. While some definitions focus on the creation of new organizations, others focus on wealth creation and ownership (Hisrich et al. 2020). The concept of entrepreneurship from a personal perspective is reflected in three behavioral attributes of an entrepreneur: (1) initiative taking, (2) organizing, and reorganizing of social and economic mechanisms to turn resources and situations to practical account and (3) acceptance of risk or failure. Entrepreneurship is a process of "creating something new with value by devoting the necessary time and effort assuming the accompanying financial, psychic, and social risks and uncertainties; and receiving the resulting rewards of monetary and personal satisfaction" (Hisrich and Ramadani 2017).

For many years, entrepreneurship and family business have been studied separately. Previously, many researchers have focused their studies mostly on succession issues, governance, and performance of family businesses. Now, few of them oriented their studies to entrepreneurial activities within the family businesses, known as *family entrepreneurship*. (Fayolle and Begin 2009; Hoy and Sharma 2010; Wright et al. 2016). Bettinelli et al. (2014) define family entrepreneurship as "the research field that studies entrepreneurial behaviors of family, family members, and family businesses" (p. 164).

Wright et al. (2016) argue that family entrepreneurship analyzes the family behaviors and mindset toward "risk-taking, innovativeness and proactiveness, but also focus on security and control (of family assets), stability (versus growth and a willingness to change) and long-term view (stewardship of the firm for the long term and being conscious about the next generation)" (p. 8). The ame authors claim that entrepreneurship in family business depends on three core practices: embedding, enabling, and evaluating (Fig. 1.7). *Embedding* concerns how entrepreneurial activities are established in family businesses, respectively, how family and business as separate entities, within themselves, increase risk tolerance, innovativeness, proactiveness, and orientation to growth and change. *Enabling* concerns about the ways how family businesses encourage entrepreneurship to take place, respectively, how the family's decision-making authority impacts on business decisions and how the family is commited to undertake entrepreneurial activities based on the goals, intentions, and motivations that drive family owners. *Evaluating* includes the governance mechanisms that are developed by the family businesses in order to address the risks associated with entrepreneurship and their influence on the family business performance.

Fig. 1.7 Building a culture of family business entrepreneurship. Source: Based on Wright et al. (2016, p. 10)

1.6 Economic Contribution of Family Business

Family businesses as the predominant form of business organization provide a sizeable contribution to the countries' economies. The data in Table 1.3 indicate the contribution of these businesses to the whole economy, for example, worlwide, they present around 80–98% of all businesses, produce 75% of the gross domestic product (GDP) in the most countries, and employ more than 75% of the workforce worldwide. In United States, they produce 49% of the GDP, employ 80% of the workforce, and create 86% of new jobs.

In 2017, in the United Kingdom, there were over 4.8 million family businesses and comprise 85% of all the private sector, employed 13.4 million people, i.e., accounted for 50% of private sector employment, and 38% of all employment and produced £598 billion of GDP (IFB Research Foundation 2019). In Canada, 80% of the companies listed on the Toronto Stock Exchange are considered as family businesses (Gulzar and Wang 2010). Spanish Family Business Institute data show that family businesses make 85% of the Spanish business sector, produce 70% of national GDP, and employ 70% of the workforce in the private sector (Fernández-Olmos et al. 2016). In Saudi Arabia, family businesses comprise 95% of all businesses and produce around 30% of the GDP (Rahman et al. 2017). All these figures confirm that family businesses contribute to the development of communities, generate new working places, and improve the people's quality of life.

Table 1.3 Family business contribution to economy

Family business constitute	80–98%	of the business in the worldwide-free economy
Family business produces	49%	of the gross domestic product (GDP) in the United States
Family business produces more than	75%	of the gross domestic product in the most countries worldwide
Family business employs	80%	workforce in the US
Family business employs more than	75%	of the workforce worldwide
Family business creates	86%	of new jobs in the United States
A total of	37%	of Fortune 500 companies are family businesses
A total of	60%	of all public companies in the United States are under the control of family businesses
The number of family owned businesses in the United States is	17 million	
The number of family owned businesses in the United States with revenues greater than 25 million is	35,000	
Performance of family businesses from non-family businesses in the United States	6.65% a year in returns on assets (ROA)	10% in market value
Performance of family businesses from non-family businesses in Europe	8–16% per year in return on equity (ROE)	

Source: Based on Poza (2010) and Poza and Daugherty (2013)

1.7 Advantages and Disadvantages of Family Business

Based on the literature, several advantages and disadvantages of the family business can be identified (Dana and Ramadani 2015; Ramadani and Hoy 2015). The advantages of the family business are:

1. Family members are owners and managers of the business, and ownership is potentially inherited in the future generations. Therefore, the majority of these businesses reinvest their profits in the business.
2. Employment of family members means employment of people who have multiple interests in the success of the business. If problems occur, most probably, they will be more worried than an ordinary employee who is not a family member.
3. Family business represents a benefit not only for the family but for the society as well. A family business, besides employment of family members, provides job opportunities also for other people who have values and capabilities to deal with business.
4. Another advantage can be improvement of relations with customers. It frequently happens that a family business has close familiar or friendly relations with many customers, which guarantees the long-term stability of the business. Customers perceive that the family name on the company is a symbol of trust, i.e., that the family will not want to jeopardize its reputation through poor, unethical or illegal practices.

As all businesses, however, the family business has its disadvantages. Some of them are mentioned below:

1. Family business can be the cause to many problems in the family: gambling, anxiety, worries, drug and alcohol abuse, etc. It is in very rare cases that family emotions do not interfere with business practices at some point.
2. Family business managers find it hard not to employ their relatives, even when they do not possess the skills required in the business. Moreover, in many cases, these family members have been found to misuse their positions in the business, just because they are part of the family.
3. Family members, more specifically parents who have spent many years at the top of the business, cannot accept the fact that the time has come for them to be replaced by descendants or other family members who will manage the business better and bring something more innovative to the family business.

1.8 Summary

This chapter treated the main family business aspects. The complexity of family businesses arises as a result of the interconnectedness of two separate systems—family and business—where each one has different needs and requirements, with uncertain boundaries, different roles, and different rules. Family businesses should be prepared to manage business and family overlapping, most importantly, trying to balance the business requirements and opportunities and the family needs and desires. In this chapter, we also discussed the main theoretical approaches, such as the three-circle model, developmental model, and balance point model. The chapter was closed by family businesses contribution to the economy and their advantages and disadvantages.

Case Study: Family business issues in Euro-Aktiva

Euro-Aktiva was established by Nuhi Aliu and operates in Macedonia and Kosovo as well. Euro-Aktiva has started its business in 1996 in Kosovo, being as an exclusive distributor of Sidenor which is a successful company based in Greece, which manufactures mainly steel but sells as well other building materials. Euro-Aktiva has started its roots 15 years ago, mainly selling building materials in Kosovo; then after 5 years, the same business started operating in Skopje as well.

Indeed, Euro-Aktiva started expansion by becoming a distributor for many other companies which contributed in achieving of becoming a leader in the building business, by covering 70% of the Macedonian market and 80% of the Kosovo market. Since then it has continually expanded its market in many other branches such as opening a petrol station, restaurant, and service for cars; it has its own security agency, construction, and building and gathering scrap metal. Moreover, we believe that the founder who has also been the owner for 15 years has entrepreneurial soul who is always looking for new opportunities in the market that are more likely to add more value to the name Euro-Aktiva and make it even stronger. If we present the business plan of Euro-Aktiva, you are about to see how completed and related every branch and aspect of this business family is.

The owner together with his two brothers has stick together in the worst and best times of this company by putting the needs of the company first, and then dividends were distributed after the storms would leave. This company still is led in a traditional way, there is no board in charge, but the owner is willing to start changing the day-to-day operations. The founder is still the owner and the CEO where one of the brothers is the vice president and finance consulate, and the other one is in charge of supplies. The three main and strongest positions are led by them since they still feel the need to be in charge of everything. The owner thinks that the best time to transfer the business management is between 55 and 60 where he himself is slowly approaching that age. Therefore, he believes that the next 5 years managing together with the offsprings, he will help the next leaders gain higher experience, and he will be more positive that the family business will run more years to come successfully.

As we mentioned above, this is a family-run business where the owner has always emphasized the long-term continuity of this company mainly because most of the employees hired are family.

(continued)

Around 50% of the employees are family members, starting from the lowest position to the highest. Nevertheless, communication and trust between family and business are high which have helped maintain control and effectiveness over the business for all these years.

The founder and the brothers have prioritized and encouraged their children to study and get well educated by sending them outside the country for a better education. Moreover, the second generation has started working at a young age whether as a salesperson in one of the markets they have or working at one of their warehouses for building materials. Nevertheless, they have been part of the family business while they were in high schools which has appointed and prepared them from that age that 1 day, they are going to have to be part of this business. Furthermore, there was no room for other "dreams" or whatsoever; the decision has already been made. In their defense, the next generation had everything they needed ready to show more success and grow even more.

Moving on, as the offspring grew, responsibilities grew for them. The daughter of the owner and the son of one of the brothers had finished their master's studies, so now the company started to adapt to the family structure and have divisions accordingly to them so each of them can be included. The owner has always encouraged their heirs to be part of other projects as well occurring in this country whether in nongovernmental or foreign organizations in order to gain more experience. He says, "I need to have you fully prepared for our market, so people, companies will have to pay you for your opinion." Moreover, what his point has always been that no matter what happens in the future with this company, you are still going to be able to survive by finding good jobs if you have the needed background. Nevertheless, the responsibilities did not finish here; the heirs had to enrich their social networks and grow each day more.

The founder continues to be the CEO till his retirement, but he is looking into joining venture before he leaves. One of the businesses of Euro-Aktiva has already created partnership with a Turkish company, but he is looking forward to having the entire company partnered with the same Turkish company in order to move the company into a higher and more perspective level.

Questions

1. What kind of problems can be appeared in the future in this family business? How should they be solved?
2. What will you recommend to Mr. Aliu regarding the succession issues?
3. What Mr. Aliu thinks when he says to his heirs: "I need to have you fully prepared for our market, so people, companies will have to pay you for your opinion"?

Source: Hisrich and Ramadani (2017, pp. 226–227)

Questions for Discussion
- How do you define family business?
- What do you understand by institutional clash? Illustrate it with an example!
- Explain the three-circle model of family business!
- Explain the developmental model of family business!
- Explain the balance point model of family business!
- What are the advantages and disadvantages of the family business?

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Suggested Activities
- Find one family business and one non-family business of the same sector from your city. Make a list of similarities and differences between them!
- Select three family businesses from your neighborhood and try to draw the three-circle model and/or developmental model based on the data you receive.

Keywords
- Balance point model
- Developmental model
- Entrepreneurship
- Family
- Family business
- Family entrepreneurship
- Non-family business
- Three-circle model

Appendix 1. The World's Top 30 Family Businesses Ranking

Rank	Company name	Family owner(s)	Founded	Listing status	Country	Family shareholding	2017 revenues in USD m	2017 number of employees	Sector
1	Walmart Inc.	Walton	1945	Public	United States	50.70	495,012.00	2,300,000.00	Retail and consumer products
2	Volkswagen AG	Porsche and Piech	1937	Public	Germany	52.20	276,995.68	642,292.00	Automotive and assembly
3	Berkshire Hathaway Inc.	Buffett	1955	Public	United States	37.60	239,289.00	377,291.00	Wealth and asset management
4	Exor NV	Agnelli	1899	Public	Netherlands	53.00	171,175.55	307,637.00	Wealth and asset management
5	Ford Motor Company	Ford	1903	Public	United States	40.00	156,776.00	202,000.00	Automotive and assembly
6	Schwarz Gruppe	Schwarz	1930	Private	Germany	100.00	127,616.16	410,000.00	Retail and consumer products
7	BMW AG	Quandt and Klatten	1916	Public	Germany	72.70	118,489.43	133,475.00	Automotive and assembly
8	Cargill, Incorporated	Cargill and MacMillan	1865	Private	United States	88.00	109,699.00	155,000.00	Diversified industries
9	Tata Sons Ltd	Tata	1868	Private	India	73.40	100,000.00	695,669.00	Manufacturing and industrial products
10	Koch Industries, Inc.	Koch	1940	Private	United States	84.00	95,155.50	120,000.00	Manufacturing and industrial products
11	Comcast Corporation	Roberts	1963	Public	United States	33.60	84,526.00	164,000.00	Technology, media, and entertainment
12	Pacific Construction Group Company Ltd	Yan	1995	Private	China	90.00	77,205.00	365,425.00	Real estate, hospitality, and construction
13	Dell Technologies Inc.	Dell	1984	Public	United States	75.00	77,151.00	145,000.00	Technology, media, and entertainment

(continued)

14	Aldi Group	Albrecht	1913	Private	Germany	100.00	74,002.98	188,000.00	Retail and consumer products
15	Amer International Group Company Ltd	Wang Wenyin	1994	Private	China	100.00	72,766.00	17,886.00	Manufacturing and industrial products
16	ArcelorMittal	Mittal	1976	Public	Luxembourg	37.40	68,679.00	222,000.00	Mining and metals
17	Auchan Holding SA	Mulliez	1961	Private	France	87.80	63,826.85	355,107.00	Retail and consumer products
18	Gunvor Group Ltd	Törnqvist	1997	Private	Switzerland	60.00	63,000.00	1,600.00	Power and utilities
19	Reliance Industries Ltd	Ambani	1966	Public	India	45.20	59,696.20	187,729.00	Oil and gas
20	LG Electronics Inc.	Koo	1947	Public	South Korea	37.50	57,473.18	85,905.00	Retail and consumer products
21	Roche Holding AG	Hoffman and Oeri	1896	Public	Switzerland	50.10	57,201.20	93,734.00	Pharmaceuticals and medical products
22	Anheuser-Busch InBev SA/NV	Anheuser and Busch	1366	Public	Belgium	41.30	56,444.00	182,915.00	Retail and consumer products
23	JD.com, Inc.	Liu	1998	Public	China	79.50	55,685.95	175,366.00	Retail and consumer products
24	Continental Aktiengesellschaft	Schaeffler	1871	Public	Germany	46.00	52,845.22	244,582.00	Manufacturing and industrial products
25	LVMH Moët Hennessy Louis Vuitton S.E. (aka Groupe Arnault)	Arnault	1978	Public	France	46.60	51,195.97	145,000.00	Retail and consumer products
26	Hinduja Group Ltd	Hinduja	1919	Private	India	100.00	50,000.00	150,000.00	Diversified industries
27	JBS SA	Batista	1953	Public	Brazil	42.40	49,256.63	235,000.00	Retail and consumer products
28	China Evergrande Group	Hui	1996	Public	China	77.20	47,800.27	129,534.00	Real estate, hospitality, and construction
29	Banco Santander SA	Botin	1857	Public	Spain	0.00	47,312.68	202,251.00	Banking and capital markets
30	Hanwha Corporation	Kim	1952	Public	South Korea	36.00	47,183.69	36,000.00	Diversified industries

Source: Based on Bain (2019). The World's Top 750 Family Businesses Ranking. Available at: https://www.famcap.com/the-worlds-750-biggest-family-businesses/ (accessed: Feb 04, 2020)

Appendix 2. The World's Oldest Family Businesses Ranking

Rank	Company name	Family owner(s)	Founded	Listing status	Country	Family shareholding	2017 revenues in USD m	2017 number of employees	Sector
1	Anheuser-Busch InBev SA/NV	Anheuser and Busch	1366	Public	Belgium	41.30	56,444.00	182,915.00	Retail and consumer products
2	Merck KGaA	Merck	1668	Public	Germany	70.30	18,404.18	54,756.00	Pharmaceuticals and medical products
3	Wendel-Participations SE	Wendel	1704	Public	France	100.00	10,001.32	125,165.00	Wealth and asset management
4	Franz Haniel & Cie. GmbH	Haniel	1756	Private	Germany	100.00	4989.19	18,732.00	Diversified industries
5	Kirchhoff Group	Kirchhoff	1785	Private	Germany	0.00	2565.52	12,300.00	Automotive and assembly
6	Thai Beverage Public Co., Ltd	Sirivadhanabhakdi	1786	Public	Thailand	65.90	5834.25	41,367.00	Retail and consumer products
7	Molson Coors Brewing Company	Coors and Molson	1786	Public	United States	92.50	11,002.80	17,200.00	Retail and consumer products
8	Jerónimo Martins, SGPS, SA	Soares dos Santos	1792	Public	Portugal	56.10	19,543.89	104,203.00	Retail and consumer products
9	Thomson Reuters Corporation	Thomson	1799	Public	Canada	59.60	11,333.00	46,100.00	Technology, media, and entertainment
10	Schroders plc	Schroder and Mallinckrodt	1804	Public	United Kingdom	35.80	3471.78	4619.00	Wealth and asset management

(continued)

11	Albert Bonnier AB	Bonnier	1804	Private	Sweden	100.00	3148.57	8411.00	Technology, media, and entertainment
12	D'Ieteren SA	D'Ieteren	1805	Public	Belgium	60.70	4148.78	31,222.00	Automotive and assembly
13	J. Bünting Beteiligungs AG	Klopp	1806	Private	Germany	0.00	2278.86	14,500.00	Retail and consumer products
14	Bucher Industries AG	Hauser	1807	Public	Switzerland	35.20	2716.51	12,640.00	Manufacturing and industrial products
15	Swire Pacific Ltd	Swire	1816	Public	United Kingdom	54.90	10,275.74	130,000.00	Diversified industries
16	Wieland-Werke AG	Schwenk/ Schleicher	1820	Private	Germany	54.70	3564.22	6965.00	Mining and metals
17	Bollore Participations SA	Bollore	1822	Public	France	63.80	22,004.32	81,420.00	Travel, transport, and logistics
18	Röchling SE & Co. KG	Röchling	1822	Private	Germany	50.00	2210.52	8796.00	Diversified industries
19	Globus Holding Gmbh & Co. KG	Bruch	1828	Private	Germany	100.00	7421.93	35,176.00	Retail and consumer products
20	Jardine Strategic Holdings Ltd	Keswick	1832	Public	Hong Kong	50.10	31,556.00	444,000.00	Retail and consumer products
21	Ayala Corp.	Zobel de Ayala	1834	Public	Philippines	40.00	5337.85	55,264.00	Banking and capital markets
22	Sulzer AG	Vekselberg	1834	Public	Switzerland	48.80	3128.59	15,031.00	Manufacturing and industrial products
23	Bertelsmann SE & Co. KGaA	Mohn	1835	Private	Germany	100.00	20,751.68	120,807.00	Technology, Media, and entertainment
24	Hermès International SA	Hermes	1837	Public	France	74.70	6663.30	13,764.00	Retail and consumer products

(continued)

25	B. Braun Melsungen AG	Braun	1839	Private	Germany	100.00	8151.86	61,583.00	Pharmaceuticals and medical products
26	Aker ASA	Rokke	1841	Public	Norway	68.20	5083.27	19,444.00	Banking and capital markets
27	Wilh. Werhahn KG	Werhahn and Goder	1841	Private	Germany	70.80	4062.55	9931.00	Manufacturing and industrial products
28	C&A Group (aka Cofra Holding)	Brenninkmeijer	1841	Private	Switzerland	100.00	6836.58	60,000.00	Diversified industries
29	Hyster-Yale Materials Handling, Inc.	Taplin, Butler, Rankin	1844	Public	United States	64.00	2885.20	6800.00	Manufacturing and industrial products
30	Laing O'Rourke Corp. Ltd	O'Rourke and Dempsey	1848	Private	United Kingdom	100.00	3674.96	15,273.00	Real estate, hospitality, and construction

Source: Based on Bain (2019). The World's Top 750 Family Businesses Ranking. Available at: https://www.famcap.com/the-worlds-750-biggest-family-businesses/ (accessed: Feb 04, 2020)

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Governance in the Family Businesses

2

Learning Objectives
After reading this chapter, you should be able to:

- Identify unique family business governance characteristics
- Understand the importance of governance in the family business
- Explain the types of family involvement
- Know the differences between private and publicly traded family firms
- Understand the family governance mechanisms and tools

Profile: Firma Roleski

Marek Roleski founded the company named Firma Roleski as a family business in 1972 in Poland. The bold start-up initiative in agriculture and food industry by Mr. Roleski and his family endured through challenging times due to the communist rule since the 1940s when the national economy was mainly state controlled based on the Soviet model and characterized by the strict rules and regulations of Comecon (Council for Mutual Economic Assistance), an organization of former Eastern-Bloc countries dominated by the Soviet Union. In 1970s, the era in which Firma Roleski started, the Polish economy, was facing limited growth, largely because of government control and subsidies with low productivity.

Despite the drawbacks associated with the struggling economy and ineffective regulatory framework limiting entrepreneurial spirit and effort, Firma Roleski became the first Polish enterprise to transform the state monopoly and obtain license required for mayonnaise production, although the production of mayonnaise was mainly controlled by the government.

However, the country level economic challenges were not over yet. In the late 1980s, an increasing government deficit and hyperinflation resulted in

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V. Ramadani et al., *Entrepreneurial Family Businesses*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-030-47778-3_2

economic crisis, and then 1989 marked the end of communism and the collapse of Comecon.

In the 1990s, the Polish economy became increasingly involved in the market-oriented global economy. This had a substantial positive impact on Firma Roleski, and the years of resilience and persistence started to pay off. When particularly international retailers and their chains began entering the Polish market, Firma Roleski started growing and expanding with increased demand for Roleski products. This was followed by cooperation with other retail chains.

The developments led to the extension of the product line to include products such as mayonnaise sauces, ketchup, and tomato puree. Then, mustard was introduced to the market, and it quickly became the most popular product category. Roleski mustards (sarepska, horseradish, or table mustard) are still one of the favorites of the Polish consumers to this date. Currently, other Roleski products are sauces and dressings. The company pays close attention to the consumers' preferences and responds to them by delivering expected products and even creating new product categories. By following the healthy food trends, Firma Roleski also innovatively created a line of organic products.

Today, Firma Roleski is proudly promoting itself as a family owned and Polish company with more than 40 years of experience in the food industry by stating that "We put great emphasis on the fact that we are a Polish family business, as we believe this is where the highest quality of our products and our customer-oriented approach stem from." According to Dr. Jacek Lipiec from Warsaw School of Economics in Poland, a family business scholar who takes a closer look at this firm, Firma Roleski is innovative in terms of not only extending the product line but also implementing governance mechanisms and tools by developing a family business constitution in 2010.

A family business constitution is a formal written agreement including rules and procedures for governing family business relationships, and it is signed by the family business owners. Some may question the rationale for the use of a family business constitution despite the proven success and harmony within the family and the firm. According to Dr. Lipiec, a plane crash the founder Mr. Roleski survived prompted him to have such governance tool to inform and guide the family business members throughout generations.

Eventually, having a family business constitution also helped Firma Roleski maintain and further expand business partnerships as a documented proof of long-term standing. Today, Firma Roleski is still 100% family owned with a legacy of success along with long-lasting international partners.

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Based on Arteaga and Menéndez-Requejo (2017)

2.1 Introduction

The key factor distinguishing family firms from others is the family's involvement in the governance of their firm through participation in ownership, management, and board (if any) along with their intentions for maintaining family control over the firm across generations (Chua et al. 1999). Firma Roleski in the profile of this chapter is an example.

The level of family involvement in governance depends on a firm's being private or publicly traded, firm age, firm size, industry in which it operates, and family size as well as other family dynamics (Chrisman et al. 2014; Memili 2011). In the profile firm Firma Roleski, aside from 100% family ownership and involvement in management, a family constitution is in place not only to ensure the continuity of the family business success but also to facilitate the succession to future generations.

2.2 Importance of Governance in Family Firms

Families insert influence on the firm through participation in governance. In turn, this impacts firms' goals, decisions, and performance (Chrisman et al. 2012, 2005a). The unified ownership and control elevate the power and authority of the family (Carney 2005).

Despite the prevalence of family firms across countries, a relatively small percentage of family firms are able to survive throughout generations (Chang et al. 2008; Handler and Kram 1988). For instance, about 30% of the family firms in the United States pass the business to the second generation, and approximately 10% transfer the business to the third generation (Beckhard and Dyer 1983a, b). This necessitates effective family governance and support mechanisms and tools. Therefore, in the following sections, types of family involvement, differences in private versus publicly traded family firm governance, and family governance mechanisms and tools are covered at the end of this chapter.

2.3 Types of Family Involvement

2.3.1 Family Ownership

When families make equity investment into their ventures, their property rights endow them with legitimacy, authority, and power (Chrisman et al. 2012). When the level of family ownership increases, legitimacy, authority, and power of the family are also elevated. This enables them to be influential on the firm goals, strategies, actions, and performance, if they intend to.

2.3.2 Family Management and Board Membership

Aside from family ownership, family's involvement in management and board (if any) facilitates families' exerting influence on the businesses. In fact, management and board memberships represent active family involvement in governance compared to the passive family involvement through ownership only in case when families prefer to play the investor role solely rather than running the company (Andres 2008). Research shows that there is a significant difference between the impact of active (i.e., via management and/or board membership) versus passive family involvement (i.e., via ownership only) on firm performance in particularly larger family firms (Maury 2006; Westhead and Howorth 2006).

2.3.3 Intra-family Succession Intention

Intra-family succession intentions, and the increasing number of generations of family members involved in the firm by that, are also a critical component of family governance (Chrisman et al. 2012). Owner management is a characteristic of most small firms. Therefore, ownership and/or management by family members alone may be insufficient to determine if the family will exert its influence to develop goals and strategies that will differ from other owner-managed firms because these components do not indicate if the family has an underlying rationale or willingness to exert its influence (Chua et al. 1999; Dyer 2006; Memili et al. 2011).

In other words, family firms may have the ability to use their discretion to behave differently from non-family firms (Carney 2005), but that does not mean they will do so. Accordingly, family ownership and management that lack the intentions to maintain family control through intra-family succession may not differ significantly in their decision-making processes from those without family involvement because while they have the ability, they lack a critical reason for doing so (Chua et al. 1999). Indeed, the intention for transgenerational control through intra-family succession is an important indication of a family's willingness to use its influence to distinctively affect firm behavior (Memili et al. 2011). Such intentions imply that a firm's strategic behaviors will be oriented toward preserving the economic as well as noneconomic value of the firm for the family in the long run (Gómez-Mejía et al. 2007; Le

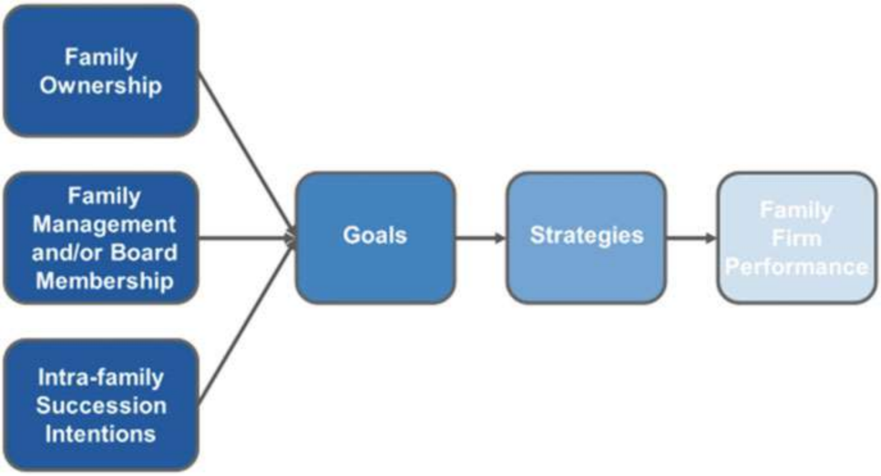

Fig. 2.1 A model for family governance and family firm outcomes. Sources: Adapted from Chrisman et al. (2012); Chua et al. (1999); Memili (2011)

Breton-Miller and Miller 2006). By that, the preference for preserving family involvement makes the family-centered goals such as family harmony, identity, and status even more important (Chrisman et al. 2012).

When a family has distinctive intentions with regard to how the firm should serve the interests of the family, it is likely to develop particularistic strategies that are consistent with those intentions and that differ in meaningful ways from the strategies of non-family firms (Carney 2005). Put differently, when family objectives and business strategies are linked (Aronoff and Ward 1995; Habbershon and Williams 1999), distinctive effects on firm behavior are more likely (Sharma et al. 1997). For example, because intra-family succession requires that the firm survives and prospers as a family institution beyond the life of its founder, the time horizon of its decision makers should be longer than it would otherwise be (Anderson and Reeb 2003; Habbershon and Williams 1999; James 1999; Ward 1997; Zahra et al. 2008). Hence, intra-family succession intentions facilitate a firm-wide long-term orientation.

In sum, family's involvement in governance through ownership, management and/or board membership, and intra-family succession intentions can influence firm goals, strategies, and firm performance (Fig. 2.1).

2.4 Private Versus Publicly Traded Family Firms

2.4.1 Private Family Firms

The majority of private businesses across countries are family firms, and they substantially contribute to the economies (Westhead and Howorth 2007). Private family firms initially exhibit unified ownership and management where family members are involved in both (Carney 2005).

As family firms pass the baton from one generation to the next, changes in the level and structure of ownership and management can occur (Westhead and Howorth 2007). For instance, due to increasing family size, more family members may join in ownership. Family firms may also choose to sell ordinary voting shares to other stakeholders such as employees and/or external individuals/parties. Therefore, ownership of the private family firm may be mostly held by a family group or it can be dispersed by including owners outside the family (Westhead and Howorth 2007). For example, the profile firm Firma Roleski at the beginning of this chapter represents a private family firm where 100% of the ownership is held by the family group. Another private family firm Sheetz, according to the Chair and CEO Joe Sheetz, 90% is owned by about 85 Sheetz family members, and the rest by 16,000 employees through an employee stock ownership plan. This plan allows any employee at Sheetz with more than a year employment to own stock of the company, as well as hundreds of former employees (Altoona Mirror 2015).

2.4.2 Publicly Traded Family Firms

Many publicly traded firms across countries are controlled by the founding families despite the common presumption that family firms tend to be small and medium sized (Villalonga and Amit 2006a, b, 2009; Memili 2011). In corporations, family involvement occurs when a family participates in corporate governance through ownership and management and/or board (Chrisman et al. 2004, 2005b; Memili 2011). Hence, family controlled publicly traded firms are those in which the founders or the family group take the officer, director, or large shareholder role (s) (Villalonga and Amit 2009; Memili 2011). This type of family involvement can affect corporate goals and strategies (Carney 2005), in turn impacting family firm behavior and performance which are expected to be distinct from those in non-family firms within the corporate context (Memili 2011).

There is variation in the level of family involvement in corporate governance across countries. For example, in the United States, ownership in corporations is relatively more dispersed in order to minimize blockholdership of one individual, group, or entity (Gedajlovic and Shapiro 1998; Memili 2011). The US legal system also enforces that shareholdings are diffused (Morck and Steier 2005; Memili 2011). Additionally, litigious shareholders and the corporate takeover mechanism legally available can discipline or eliminate ineffective corporate members, including large shareholders (Memili 2011; Morck et al. 2005). However, families can maintain or elevate their control by using control- enhancing mechanisms which can elevate voting rights over their cash flow rights (Memili 2011; Villalonga and Amit 2006a, b). For example, the controlling family's voting rights largely exceeded its cash flow rights at the Ford Motor Co., whereas in 1998, the Ford family owned only 6% of the shares while holding 40% of the votes via dual-class shares (Memili 2011; Villalonga and Amit 2006b). In Europe and Asia, families' ownership and involvement in management and/or board in publicly traded family firms appear to be at higher levels (Jiang and Peng 2011; Maury 2006).

2.5 Family Governance Mechanisms and Tools

2.5.1 Family Council and Assembly

Aside from the main components of family involvement in governance through ownership, management and/or board membership, and succession intentions, there are also mechanisms and tools legally available to families in how they manage their firms as well as family relations.

Family assembly is a periodic, generally annual gathering of the extended family (Gersick and Feliu 2014), whereas the family council is a group of family members who meet regularly to discuss and make decisions on the issues related to the family's involvement in the firm (Gersick et al. 1997; Melin and Nordqvist 2007). The family council is often above the board of directors with decisions parallel to the owners' annual meeting (Melin and Nordqvist 2007).

In relatively larger families, these family governance mechanisms also help manage inter-family conflicts by balancing the interests of the different subgroups of the family that are involved in the firm (Van Aaken et al. 2017). Moreover, family assemblies and councils provide a forum in which different values, opinions, and attitudes about the firm are provided and presented to the firm management. Effective communication can help family members with variant interests reach agreement on various issues, stay in line with management, and strengthen the emotional bonds within the family (Van Aaken et al. 2017).

Family assemblies and councils can also advise, monitor, and support management (Van Aaken et al. 2017). For example, when management needs to make difficult decisions such as implementation of change or the dismissal of family members, family councils can facilitate the decision-making process. Family assemblies and councils can also assist in resolving policy issues such as the rights and responsibilities of family business owners and managing relations between family managers and non-family managers (Gersick et al. 1997).

2.5.2 Family Constitution

A family constitution, often referred to as a family protocol, or family creed, or family agreement, is a legal written agreement signed by family business owners including a set of rules and procedures for governing the members' relationships (Arteaga and Menéndez-Requejo 2017). Family constitutions may involve the firm history and the future vision and mission of the family firm by also providing norms and rules for family members regarding their roles in the business. Other topics of interest are succession planning and shareholder agreements such as the transfer of shares, dividends, firm valuation, and power structure. This helps continuity of the family firm throughout generations by providing a road map.

In the profile firm Firma Roleski, we have covered that transgenerational intra-family succession intentions led to the necessity for the founding family to develop and implement a family constitution. This has been helping the family firm not only guide current and future generations but also signal the long-term orientation of the business to other stakeholders such as business partners and alliances.

2.5.3 Family Charter

A family charter represents the code of conduct to the family business members (Michiels et al. 2015). It can facilitate the development of formal policies by documenting principles and guidelines regarding the relationship of the family to the business (Michiels et al. 2015). Since the development of a family charter is usually through the participation of the entire family, it can help maintain family unity, culture, and transparency (Michiels et al. 2015; Poza 2009).

2.6 Summary

This chapter focuses on the unique family business governance characteristics and explains how family governance is different from the governance in non-family firms. Additionally, governance variations among family firms (e.g., private vs. publicly traded) are discussed. After also highlighting the importance of governance in the family business, different types of family involvement in governance (i.e., family ownership, family management and board membership, and intra-family succession intentions) are covered. Other governance mechanisms and tools available to family firms are family council and assembly, family constitution, and family charter.

While the level and type of family involvement vary among family firms depending of the families' preference and internal environment such as firm size, family size, firm age, and generation in charge, they are also affected by the factors in the external environment such as industry and overall entrepreneurial ecosystem encompassing regulatory framework, access to finance, market, technology, research and development (R&D), culture, values, and skills (Kshetri 2019).

Case Study: Marriott International Inc.

The founder J. Willard Marriott and his wife, Alice, started their small family business initially as the first A&W root beer stand franchise in Washington, D.C., in 1927. Their mission to provide "good food and good service at a fair price" set the foundation for Hot Shoppes restaurants, and then for Marriott International as their family business grew. Soon after the A&W franchise start-up, the Hot Shoppes restaurants emerged by adding food items to the menu within the same year by the Marriotts. Just a year later, Hot Shoppes started branching out by also creating the first drive-in restaurant in East Coast. In 1953, Hot Shoppes, Inc. stock became public at $10.25/share and sold out in 2 hours of trading.

After the successes in the restaurant industry, Marriott family started their hotel business in 1957. Under the management of J. Willard Marriott's son, Bill, the world's first motor hotel opened in Arlington, VA. The following 25 years, Marriott became an exemplary global family business which has been substantially influential in the hospitality industry.

When J. Willard Marriot passed away in 1985, the son J. W. (Bill) Marriott, Jr. was elected Chair of the Board. His involvement in the family business early on facilitated a successful transition in governance. Bill Marriott then led the company to become a multinational corporation during his long career. In 2012, at age 80, he transferred the CEO responsibilities over to Arne Sorenson with the title of President and CEO of Marriott International Inc. Arne Sorenson was also well prepared for the leadership role because of his former Chief Operating Officer and other positions at Marriott International Inc. since he joined Marriott in 1996 although he was a non-family executive, and the norm was to pass leadership to a family member until that time at Marriott International Inc.

Through new leadership along with other family members involved in corporate governance, Marriott International Inc. continued to grow successfully with many brands within the company. In 2016, Marriott International Inc. became the world's largest hotel company across 30 brands such as *Marriott Hotels & Resorts*, *Courtyard by Marriott*, *Fairfield Inn by Marriott*, and many more in over 110 countries.

However, the successful company is not immune from the unexpected threat and damaging effects of COVID-19 outbreak on the hospitality and tourism industry that started in early 2020. In an emotional video message on March 19, 2020, to Marriott International employees, CEO Arne Sorenson considered the coronavirus crisis as more severe for the hotel chain than the Great Depression and World War II. He also informed that the global business performance was about 75% lower than normal with hundreds of hotels closing, and some may never reopen. According to him, this financial situation

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is the most challenging in the company's history. Arne Sorenson also explained that initial actions such as executive pay suspension and cuts, suspension of marketing and advertising, and hiring freeze with the exception of critical positions have been taken.

Questions

1. In the short run, aside from the measures taken, what other actions will you recommend to Arne Sorenson in dealing with this crisis associated with COVID-19 outbreak?
2. What issues in terms of corporate governance can Marriott International Inc. face in the long run in this family business? How can they be solved?
3. What could be the advantages and disadvantages of being a family business while dealing with this type of crisis?

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Questions for Discussion

- What are unique family business governance characteristics?
- Why is governance important in the family business?
- Explain the types of family involvement
- What are the differences between private and publicly traded family firms?
- Explain the family governance mechanisms and tools

Additional Readings

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Suggested Activities

- Select one private family business and one publicly traded family firm. List the similarities and differences between them.
- Find a family business applying a governance mechanism or tool such as family assembly, and/or family council, and/or family constitution. Analyze the effects on the family involved in the business and the family firm.

Keywords

- Family governance
- Family involvement
- Family ownership
- Family management
- Family board membership
- Intra-family succession
- Private family firm
- Publicly traded family firm
- Family council
- Family assembly
- Family charter
- Family constitution

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3 Strategic Management in the Family Businesses

Learning Objectives
After reading this chapter, you should be able to:

- Understand strategic management in the family businesses
- Know about the importance of governance in the family business
- Explain the family firms' internal organization in terms of resources, capabilities, and competitive advantages
- Learn about the risk taking in family firms
- Understand the family firm strategy implementation

Profile: Sheetz

Bob Sheetz founded Sheetz, Inc. in 1952 by purchasing one of his father's five dairy stores located in Altoona, Pennsylvania. In 1961, he hired his brother Steve Sheetz to work part-time at the store. The second store was opened under the name "Sheetz Kwik Shopper" in 1963. After opening the third store in 1968, Steve joined Bob in the business as general manager in 1969. The brothers strategically planned to expand by opening one store per year with a target of seven stores by 1972. In 1972, the number of stores actually doubled by expanding from seven to 14 stores. One year later, Sheetz added gasoline pumps and introduced self-serve gasoline to Central Pennsylvania.

By 1983, Sheetz had opened 100 stores. The following year, Bob retired and handed over the leadership of the company to his brother Steve. In 1995, Stan Sheetz, Bob's son, became President, and Steve became Chair of the Board. With new family leadership, the company continued with growth and innovation such as touchscreen ordering feature for customers, Sheetz Bros. Coffeez, Made-To-Go, and Shweetz Bakery products by uniquely providing quality food at a convenience store context.

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In 2013, the family leadership has been successfully transferred to Joe S. Sheetz (son of Bob's brother Joe M.) who became President and CEO. Stan became the Chair of the Board, and Steve took the role of Chair of the Sheetz Family Council. In 2015, Altoona, Pa.-based Sheetz was a leading regional chain of more than 500 convenience stores in Maryland, North Carolina, Ohio, Pennsylvania, Virginia, and West Virginia. At that stage, Joe Sheetz stated: "We are not for sale and will remain private." Joe Sheetz also explained that the family, in fact, did not own the entire company although multiple generations of Sheetz family were involved in the management team. Sheetz rather provides an Employee Stock Ownership Plan, and any employee with more than a year employment owns stock, as well as hundreds of former employees. Therefore, approximately most of 85 members of Sheetz family owned shares in the company along with 16,000 employees as of 2015. By 2017, Sheetz became the first two-time Chain of the Year winner in the award's 28-year history and was recognized by Fortune as one of the 100 Best Companies to Work For, a Top 12 Best Places to Work for Women, and Top 35 Best Workplaces for Millennials with nearly \$6 billion in revenue and approximately 18,000 employees.

Aside from an emphasis on employee care, Sheetz has also been a major supporter of charities. The company has been providing substantial amount of donations to charities along with two corporate charities, the Sheetz Family Charities and Special Olympics. The funds raised for Sheetz Family Charities go to the For the Kidz Holiday Event and the Make-A-Wish Foundation. Sheetz For the Kidz is a charitable organization operated by Sheetz employees. In 2016, it provided \$1.6 million to provide gifts to 9000 children for holidays. This has helped more than 100,000 children raising \$22.9 million. Through Make-A-Wish, Sheetz sponsors approximately 50 family trips to Walt Disney World annually. Since 2005, it has been able to grant more than 450 wishes. In 2017, with also the help of customers, the company donated more than \$650,000 to the Special Olympics. Sheetz remains Pennsylvania's largest contributor to the organization and was an inductee into the Special Olympics Hall of Fame in 2000. As much as Sheetz family prioritizes education and personal development within the family, the company donates substantially to the education and developmental programs within the community such as the Boy and Girl Scouts, libraries, youth development, athletic, and arts programs.

In early 2020, Sheetz was one of the fastest-growing family owned convenience store chains with more than 20,000 employees in the United States. The company operates 600 store locations throughout Pennsylvania, West Virginia, Virginia, Maryland, Ohio, and North Carolina. Moreover, the company has been recognized as one of the 2020 *Fortune 100 Best Companies to Work For*, according to global research and consulting firm Great Place to Work® and *Fortune* magazine. This is the sixth time in 7 years that Sheetz has

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been included in this prestigious list. Sheetz CEO Joe Sheetz stated, "We are truly honored by this recognition and are deeply committed to investing in our people by providing competitive wages, substantial benefits, career growth opportunities and more to ensure they feel valued and have the resources they need to succeed." By this, Sheetz is an exemplary family business growing by not only focusing on the family but also its employees and community members by treating them as "family."

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3.1 Introduction

In the preceding chapter, we covered that family's involvement in the business can lead to intentions to pursue unique goals and strategies, and controlling families are likely to exert a significant influence on firm behavior (Carney 2005; Memili et al. 2011). In other words, the "essence" of a family firm is thought to be a function of a family's influence on the culture, functioning, and behavior of the firm owing to the pursuit of a family's vision for the firm (Chrisman et al. 2003; Chrisman et al. 2005; Chua et al. 1999). Accordingly, a family firm's strategic behaviors tend to be oriented toward preserving the economic as well as non-economic value of the firm for the family in the long run (Gómez-Mejía et al. 2007; Le Breton-Miller and Miller 2006).

In this chapter, the profile family firm Sheetz exhibits growth as a primary strategy through employee care and empowerment, community engagement, and social responsibility. The fast growth of the convenience store chain is proficiently managed by the family as well as employee ownership. The strategies such as employee care, community engagement, and social responsibility are reflective of the family's strong commitment to values such as unity, harmony, and continuity not only within the family but also in the communities they serve in.

3.2 Importance of Governance in Family Firms

Strategic management involves the analysis of internal and external environments of a firm in order to maximize the utilization of resources based upon firm objectives and goals (Bracker 1980). The attainment of competitive advantages and prosperity by that are crucial for all firms. Nevertheless, strategic management can be particularly important for family firms aiming the best use of the family's wealth and transgenerational prosperity.

The longer time horizon derived from an intention for continuing family control of the firm in order to preserve the family's continuity, stability, unity, and legacy can help its leaders avoid managerial myopia, forgo short-term earnings (Anderson and Reeb 2003; James 1999; Le Breton-Miller and Miller 2008; Upton et al. 2001), and direct efforts toward maintaining enduring relationships with key stakeholders such as employees, customers, and community members (Memili et al. 2011; Mustakallio et al. 2002; Zahra 2005), as can be seen in the profile firm Sheetz.

3.3 Family Firm's Internal Organization

3.3.1 Resources and Capabilities

Firm resources (i.e., tangible and intangible) such as assets, organizational processes, attributes, information, and knowledge are used to implement strategies (Barney 1991). Firms differ from each other in terms of resources and capabilities (Peteraf 1993). When these resources and capabilities are distinct and superior from those of the competitors, this can lead to competitive advantages (Peteraf 1993). The inability of competitors to duplicate the strategy makes a competitive advantage sustained (Barney 1991). Therefore, not all resources can lead to sustained competitive advantages. Only the firms with firm resources that are valuable, rare, inimitable, and non-substitutable can attain sustained competitive advantages (Barney 1991).

Within the context of family firms, the bundles of resources that are distinctive to each family firm, as a result of the family involvement and the interactions between the family, individual members, and the business, are identified as the "familiness" of the firm (Habbershon and Williams 1999). These bundles of resources involving unique human capital (i.e., knowledge, skills, and capabilities of employees), social capital (i.e., relationships between individuals or between organizations), patient capital (i.e., investment with a longer time horizon), and survivability capital (i.e., family members' contributions in the forms of free labor, loaned labor, equity investments, or financial loans) require strategic management in order to lead to competitive advantages (Sirmon and Hitt 2003). For instance, in the profile firm Sheetz, the firm invested in the development of both family and non-family employees that facilitated creativity and innovativeness, in turn leading to firm growth.

3.3.2 Competitive Position and Advantages

While unique, rare, inimitable, and non-substitutable resources can lead to competitive advantages (Barney 1991), a firm can position itself relative to competitors along multiple dimensions including products, services, advertising and promotion, pricing, and distribution (Morrison and Roth 1992; Stewart and McAuley 2000). The extent to which a firm differentiates itself from competitors determines its competitive position (Knight 2000; White 1986; Wind and Robertson 1983).

Family firms' focus on the long haul is likely to lead to a competitive position and advantages through providing superior and sustainable value to stakeholders. For example, close monitoring and control by family owner managers with a long-term perspective can lead to a higher priority being given to the quality of products and services, which facilitates competitive positioning based on differentiation (Upton et al. 2001). The long-term orientation that occurs when the firm is viewed as a legacy to pass on to future generations also increases the value of developing strong relationships built on goodwill and trust with stakeholders (Poppo and Zenger 2002; Sako 1991; Weigelt and Camerer 1988). Indeed, the concern form the long haul may help family firms to leverage their patient investments and long-run strategies by demonstrating to stakeholders that they are here in the long run and committed to serving their long-term needs.

Furthermore, family owner managers that make business decisions based on a long-term commitment to both the family and the firm seem to develop stronger reputations with internal and external stakeholders based on the family name (Aronoff and Ward 1995; Dick and Basu 1994; Habbershon and Williams 1999; Lyman 1991). Since a competitive position seems more likely to lead to strong relationships and reputation with customers, family owner managers whose self-esteem and self-worth are tied to the family's continuing control of the business (Dutton et al. 1994; Smidts et al. 2001), may be more motivated to ensure that the firm develops such a competitive position and advantages via strategic management. Accordingly, family firms tend to avoid faddish trends (Craig et al. 2008) and hold a long-standing position through competitive positioning rather. Since the firm is considered as an entity to service the family's future generations through jobs, income, and security, intra-family succession intentions tend to push them to protect their family name and pursue competitive positioning for long-term prosperity and success (Dyer and Whetten 2006; Gómez-Mejía et al. 2007; Miller et al. 2007). Thus, family firms have strong incentives and motivation to develop a strong competitive position and advantages through strategic management. As we have seen in the Sheetz profile firm example at the beginning of this chapter, Sheetz family firm has been vigilant of the customers' changing needs, expectations, and lifestyles over time and adapted to those changes relatively quickly by constantly creating value to the customers and differentiating products and services from competitors. This ensured competitive position and advantages in its industry.

3.4 Risk Taking in Family Firms

Risk taking in organizations involves considerations for financial risk due to commitment of assets and/or borrowing and the individual risk that firm leaders take in making such decisions while facing some chance of costly failure or high returns by capturing opportunities in the market (Brockhaus 1980; Lumpkin and Dess 1996; Lumpkin and Lichtenstein 2005; Miller and Friesen 1978).

In family firms, risk taking is pursued to ensure transgenerational sustainability and success (Corbetta and Salvato 2004; Zahra 2005). Indeed, research shows that entrepreneurial risk taking can lead to higher family firm performance (e.g., Memili et al. 2010). However, research shows that the level of risk taken in family firms tends to be lower than in non-family firms in both small- and medium-sized and publicly traded family firm contexts (Huybrechts et al. 2013; Naldi et al. 2007; Short et al. 2009). In the profile firm Sheetz, expansion involves a certain level of risk; however, it is closely monitored and controlled by family and employee owners, managers, board members, as well as the family council while remaining private.

3.5 Family Firm Strategy Implementation

Strategic decisions and implementation can be relatively easier and faster than in non-family firms in relatively small- and medium-sized family firms with unified ownership and management due to less bureaucracy (Welsch 1993). In larger and publicly traded family firms, family's involvement in corporate governance through ownership, management, and board also facilitates efficient decision-making in line with the controlling family's preferences in many cases (Memili 2011). In publicly traded family firm context, family owners participate in governance by voting based upon equity rights. Top management team often involving family members makes strategic decisions, and the board also involving family members approves (or disapproves). Once a strategic decision is approved, then strategic implementation takes place.

3.6 Summary

This chapter takes a closer look at strategic management in the family businesses as it is important in family firms' long-term survival and success. Resources and capabilities and strategic decisions on the effective use of them can lead to competitive advantages in the market's family firms are operating. Strategic decisions and actions also involve certain levels of risk taking. The controlling families tend to be influential on decisions and implementation depending on the level of their involvement in governance through ownership, management, and/or board membership.

Case Study: Walmart Inc.
Sam Walton started his family business as a single discount store with the idea of selling more for less in Rogers, Arkansas, in 1962 and eventually became the largest global retailer in the world. There are currently 11,500 Walmart stores in 27 countries and ecommerce websites with revenue of $524 billion and 2.2 million associates across countries in 2020.

The company officially incorporated as Wal-Mart Stores, Inc. in 1969, became publicly traded in 1970, and was listed on the New York Stock Exchange in 1972. This facilitated further expansion of the business. The company added Sam's Club to its stores chain in Midwest City, Oklahoma, in 1983. In the 1990s, Walmart started going global by opening and/or acquiring stores in Mexico, Canada, China, and the United Kingdom.

In 1988, Sam Walton's CEO position was transferred to a non-family executive David Glass while Walton remained as Chair of the Board. David Glass had been in the company with various prominent roles such as Executive Vice President of Finance for Wal-Mart Stores, Vice Chairman, Chief Financial Officer, and Chief Operating Officer since 1976 until January 2000. Glass was also a member of the board of Wal-Mart Stores, Inc. from 1976 until his death in 2020.

In 2000, H. Lee Scott, Jr. became the CEO. Walmart.com was founded, and US customers started shopping Walmart products and services online. This and continuing store expansion led to Walmart's Fortune 500 ranking of America's largest companies for the first time in 2002. In 2009, Mike Duke became the CEO. Then, Doug McMillon succeeded Mike Duke as CEO in 2014 as the company continued to grow. In 2015, Rob Walton, the eldest son of Helen and Sam Walton, retired as the Chair of the Board after his tenure in this role for 23 years, and he continues to serve as a director. Greg Penner succeeded Rob Walton as the Chair of Wal-Mart Stores, Inc.

In 2018, the company changed its legal name from Wal-Mart Stores, Inc. to Walmart Inc., and Judith McKenna became President and CEO of Walmart International. In 2019, John Furner was appointed to be the President and CEO of Walmart in the United States. In the early 2020, while Walton family was represented by the board members Rob Walton and Steuart Walton and family shareholders, the majority of the executive managers and the board members were professionals who were non-family members.

Although the founder Sam Walton had passed away shortly after receiving the Presidential Medal of Freedom in 1992, his *10 Rules for Building a Business* that are shared in the corporate web site have been the guiding light for company leadership to date:

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1. Commit to your business.
2. Share your profits with all your associates and treat them as partners.
3. Motivate your partners.
4. Communicate everything you possibly can to your partners.
5. Appreciate everything your associates do for the business.
6. Celebrate your success.
7. Listen to everyone in your company.
8. Exceed your customers' expectations.
9. Control your expenses better than your competition.
10. Swim upstream.

Questions

1. Aside from the successful global expansion and innovations such as online selling, could there be other strategies you may recommend to the Walmart Inc. leadership?
2. What could be some issues and challenges Walmart Inc. may face during Covid-19 outbreak? How can they be solved?
3. What strategic changes would you recommend to Walmart Inc. in the short run and in the long run?

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Questions for Discussion

- How do family business members participate in strategic management?
- Why is strategic management important in the family business?
- Explain family firms' internal organization
- What are the differences between family and non-family firms in terms of risk taking?
- Explain strategy implementation in family firms

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Suggested Activities
- Select one family business and one non-family firm. Compare them in terms of risk taking.
- Find a family business implementing a strategy such as growth through expansion. Analyze the resources, capabilities, competitive position, and competitive advantages of this family firm.

Keywords
- Strategic management
- Resources
- Competitive position
- Risk taking
- Internal organization
- Competitive advantages
- Strategy implementation
- Familiness
- Human capital
- Social capital
- Patient capital
- Survivability capital

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Innovation in Family Businesses 4

Learning Objectives
After reading this chapter, you should be able to:

- Understand the need for innovation in the family firm
- Know about the different types of innovation
- Identify avenues of family firm growth via innovation
- Understand the need for involving family members in the innovation process

Profile: Marjorie M. Post and the Frozen Food Acquisition
Throughout the years, the life of Marjorie Merriweather Post has been associated with being the sole descendant of Charles William (CW) Post who endured several marriages, engaged in philanthropy, and developed Mar-a-Lago, the current estate where the President of the United States, Donald Trump, spends his weekends during the winters.

However, the History Channel's special series *The Food that Built America* showed her legacy as an innovator on the business side. She had the business genes of her father who started Postum Cereal. The first product developed was Postum, a beverage alternative to coffee made from wheat. Then, it introduced Grape-Nuts, the first dry cereal in 1897, and started a competitive battle against the Kellogg brothers until his death.

Born in March 15, 1887, Marjorie was only 8 years old when his father started the company. She attended the Mount Vernon Seminary and College while she got married for the first time in 1905 to investment banker Edward Bennett Close. Marjorie had two daughters, Adelaide and Eleanor, from this marriage that lasted until 1919.

In May 1914, her father died and left her an estate valued at about $250 million. The estate included Postum Cereal, and Marjorie became the wealthiest and youngest woman in the United States. By 1920, her second

(continued)

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husband, Edward Francis Hutton, became the chairman of the board to oversee the company. At that time, the American society was still not ready to have a woman in charge of running a publicly traded corporation. In 1923, she gave birth to her youngest daughter, Nedenia, who later became an actress known as Dina Merrill.

Marjorie's business decisions moved Postum Cereal to what it later became General Foods in 1929. Working from her home, she approved a series of acquisitions that move the company from the cereal business to other products such as Jell-O or Sanka Coffee.

During the different acquisitions done by Marjorie and Edward, the biggest challenge was buying a frozen food company owned by Clarence Birdseye in 1929. Marjorie saw value on this expansion despite consumers' complaints about texture and flavor after the food became thawed. In contrast, Edward believed frozen foods were a fad as not all homes owned refrigerators. At the end, Marjorie took the action toward an acquisition that required a long-term vision for becoming profitable. Particularly, Marjorie's vision moved General Foods to radically change the grocery industry.

Birds Eye acquisition gave General Foods the access to the technology for improving the different offerings of frozen foods. Over the years, the company researched and invested in new products that successfully hit the market as the demand for home refrigerators increased in the country. Also, as a particular strategy for getting allies with the retail outlets, the company's managers worked with supermarkets to design the packaging, sizes, and spaces for the frozen food sections.

By the 1950s, frozen food became part of the regular item list to shop in American grocery shops. General Foods was taking the majority of the market share, and the invention of the "TV dinner" and the microwave penetration at homes increased its popularity.

Once her time with the company was done, Marjorie became a philanthropist and art collector. She died at the age of 86 in September 1973. Keeping the family tradition, Dina Merrill married one of the heirs of Colgate-Palmolive and followed her mother's steps by becoming a board member in Lehman Brothers, the bank who acquired his father's company: E.F. Hutton & Co. (later merged with Shearson Lehman/American Express).

After several restructurings, the remains of General Foods are now part of Heinz, and Post Cereal is an independent company. Birds Eye is still a dominant brand in the frozen food market, but it is currently owned by Cargill, another family business.

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4.1 Introduction

The opening profile sets the tone for the importance of always pushing for generating ideas and exploring expansion options in the family business. The vision of Marjorie Post to move beyond the cereal business and convert her father's business into a food conglomerate needs to motivate families to continue improving and do not decay in the competitive landscape. Particularly, the main characteristic for a family business is the long-term orientation and the search for ideas that not always will produce immediate success. In the case of the frozen food movement, General Foods needed homes with refrigerators, so families were able to store food. Later, the introduction of the low-cost microwaves makes frozen food part of the regular diet in American households. Obviously, it took close to 40 years for Marjorie's vision to get a specialized product to become a commodity with multiple companies offering similar products. Thus, there is a need for persistence, research, and the emergence of different factors that can make an innovation valuable for the family business.

This chapter considers innovation to be an important component for assuring continuity and involvement of family in the business. The dilemma of innovate or perish moves the family to explore for options that may even alter its current offering of products or services (e.g., Christensen 1997). That is the main challenge for family businesses over the next years: the need to innovate to keep ahead (PwC Global Family Business Survey 2018). After reading the chapter, students will learn the different forms of innovation, the importance of the product life cycle, the need for involving family in the innovation process, and the implementation stages to accomplish both business and family goals.

4.2 Why Innovation Matters in the Family Business?

Most of today's notions of innovation can be traced back to Schumpeter (1934) when he viewed the entrepreneur as the one who brings new combinations that disrupt the market. On his view, new combinations can take the form of new products, services, or processes that can even destroy existing offerings, companies, or even industries. The success or failure of these entrepreneurs is based on the responses from consumers who will accept the new offerings and motivate other entrepreneurs to bring similar products or services, and the innovation will become diffuse and adopted at the general level (Drucker 1985).

Even though the majority of entrepreneurial family businesses tend to operate in industry sectors such as retail, services, or basic manufacturing that do not require processes of continuous innovation (Carney 2005; Chang et al. 2008; Classen et al. 2014), there is a need for being innovative to capture a distinction in the market and compete against other firms. For example, Herr's Potato Chips, one of the largest producers of potato chips with about 375 varieties, and Enterprise Rent-A-Car, a rental car service that picks up customers, are family-owned businesses that started with very interesting models of innovation to compete against other firms (Kammerlander and van Essen 2017).

For families who started businesses with successful new combinations, the challenge occurs when other businesses start to replicate or develop better alternatives. This is when the idea of "innovating again!" starts to permeate in the family leaders. The potential outcomes can cause alterations in the current business model so other family members may resist as they prefer to remain conservative and stick with the legacy and vision set by the business founder. In that respect, one can say that being innovative is not at the core of the family business given limited resources or lack of experience in their family management about exploring new ideas (Kraus et al. 2012).

However, researchers found that family businesses may invest less than other organizations in research and development (R&D) efforts, but they are more efficient in managing the smaller budgets to provide more new products, increasing sales, or even new patents (Duran et al. 2015). For example, the Follet family recognized that just being a regular bookstore inside college campuses could not sustain the business with online retailers selling at lower prices (Stone 2016). Thus, they started selling online and developed its own production of digital content for libraries that resulted in doubling its annual sales.

Also, family owners can even accept lower returns than non-family companies to pursue innovation. In a survey of 399 private firms, more family business owners than non-family ones accepted to sacrifice dividends or even accept losses to invest in innovation activities (Berent-Braun et al. 2018). The survey also found that it was crucial for the new leader to keep innovating and more than 62% of the respondents introduced at least one new product or service in the last 3 years. In that regard, there is a need to match what a family wants to pursue and what innovation management can provide (e.g., De Massis et al. 2015). Thus, without innovation, the chances for family businesses to survive the next generation will be very slim.

Chang et al. (2011) offer a good angle for exploring the family's need to innovate as they found how prior experience and family involvement exert positive and negative influence, respectively, on the entrepreneurial success of new organizations. They used the Inc. 500 firms list of 2004 that highlights successful firms with very high-level growth rates in sales over a 5-year period. The 2004 ranking was the first time the magazine included family involvement as part of the firms' characteristics. From the 500 firms in the ranking, 205 were classified with family involvement, and their average sales growth was 1,204%. The authors

Table 4.1 Innovation and sales growth

Extent of innovation	Inc. 500	Prior experience	Family	Average sales growth (%)
Similar offering	422	149	176	1,235
Incremental innovation	61	25	21	1,359
Major innovation	17	9	8	3,050
Total	500	183	205	1,311

Source: Adapted from Chang et al. (2011)

identified how innovative each firm was by offering products and services in three categories: (a) similar offering to what other firms in the industry sell, (b) incremental innovation to what other firms in the industry sell, and (c) major innovation that totally set the firm apart from the rest of the industry. Although the sample identified only 17 firms (8 with family involvement) to offer major innovations, their 5-year sales growth average was almost three times the other two categories. Table 4.1 shows the distribution of the firms and the average sales growth.

The results show the need for companies to provide something valuable to their consumers so they were able to attain these higher levels of growth. Furthermore, even those companies that were identified with a similar offering required a level of creativity to excel against competitors. That is the challenge for families to acknowledge innovation on their strategic planning and activity.

A model for entrepreneurial families to manage innovation is presented in Fig. 4.1. The model emerges from the family's need to address innovation to achieve business and family goals. It is rooted from aspects that drive entrepreneurial success (Chang et al. 2011) with elements such as the degree of innovation (Christensen 1997; Johannessen et al. 2001; Kirzner 1973; Sharma and Chrisman 1999; Schumpeter 1934), the product life cycle (Levitt 1965; Hofer 1975), the family role (e.g., De Massis et al. 2015), and the innovation dilemmas that companies face when developing new products or services (Sharma 1999).

Finally, the model also serves as a purpose for incorporating the family members in the development of new offerings of products and/or services. Particularly, family involvement is required to shape the family goals; those must also be aligned with the business goals. Thus, the intersection between the family and the business makes this model applicable to entrepreneurial family businesses, from new to old, to maximize the economic and noneconomic family wealth (e.g., Chrisman et al. 2003, and Duran et al. 2015).

4.3 Types of Innovation

We can define *innovation* as commercializing something new to the market with the potential for transforming the competitive environment (Sharma and Chrisman 1999). It is important to include the commercialization component as companies and individuals get confused with the notion of acting or behaving innovative by

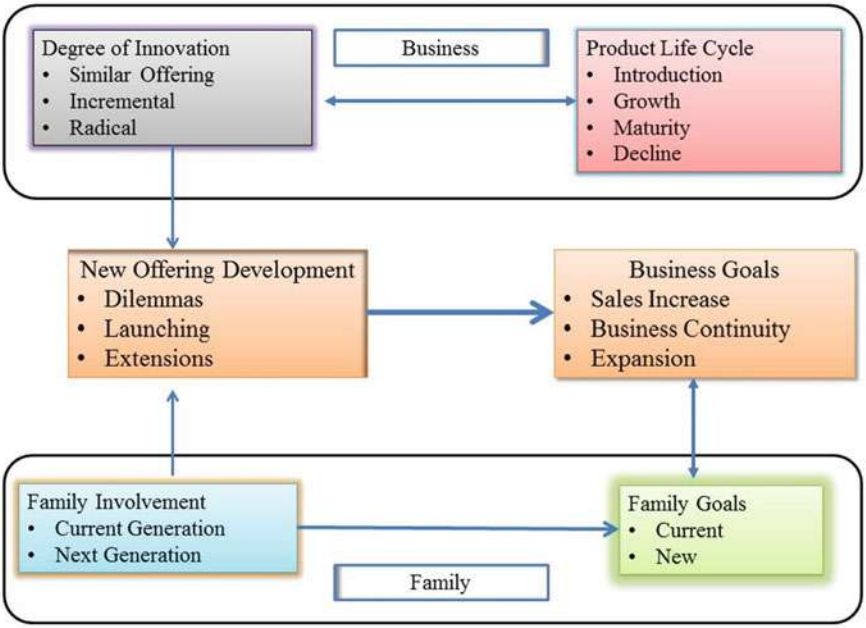


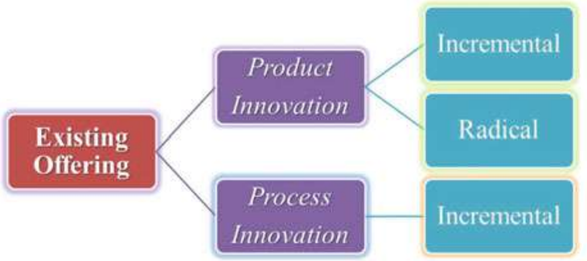
Fig. 4.1 A model for managing innovation. Source: Adapted from Chang et al. (2011), De Massis et al. (2015); Levitt (1965), Sharma (1999) and Sharma and Chrisman (1999)

"inventing" new products or "patenting" new discoveries; however, the invention or the patent protection will only have real value when these are incorporated into new services or used as an umbrella of products launched in the market (e.g., Johannessen et al. 2001).

Although researchers review R&D expenditures to measure the business commitment to innovate (e.g., Chrisman and Patel 2012; Classen et al. 2014; Duran et al. 2015), not all families enjoy the benefits of allocating human and monetary resources to this activity. Even more, some large family businesses tied R&D with a long-term perspective that seeks to achieve the long-term family goals, or even these investments are given priority when companies perceive that they are not meeting the desired level of performance aspirations (Chrisman and Patel 2012). A similar behavior was found in smaller family businesses in Germany as they sought innovation as one way for long-term survival (Classen et al. 2014). In that regard, there is a willingness from families to perceive innovation as a positive component for remaining competitive as the Ernst and Young (2018) global family business survey shows that 59% of the responses were favorable to invest in new products and services.

Several typologies have described innovation processes inside organizations (e.g., Abernathy and Clark 1985; Christensen 1997; Damanpour et al. 1989; Drucker 1985; Hage 1980; Henderson and Clark 1990; Roberts 2002). The main similarities rely on the degree of innovation that can make a business to either explore new

Fig. 4.2 Moving toward innovation. Source: Adapted from Utterback and Abernathy (1975) and Benner and Tushman (2003)



markets for finding new users or exploit to target existing ones (March 1991; Benner and Tushman 2003). The model in Fig. 4.1 follows a simple approach based on the degree of innovation: similar offering, incremental, and radical. We referred to the degree of innovation as how "new" a particular product or service is in the market (Johannessen et al. 2001).

Figure 4.2 is presented to assess how families can expand their existing offering to engage in process or product innovations that can be labeled later as incremental or radical. Particularly, companies are reluctant to innovate as they prefer to stay on what they know and fear on what they do not know (March 1991).

4.3.1 Similar Offering

A similar offering can bring the notion that almost no innovation efforts exist in launching a product or service to the marketplace. However, Chang et al. (2011) showed that this is very useful for entrepreneurs and families when competing for the first time in a given market that is also stable. The main advantage for selling similar products or services is that the potential user has some prior knowledge about their benefits and uses. In simples terms, companies are already using what the market has approved so it becomes a matter of being alerted to find opportunities and become a competitive actor (Kirzner 1973).

One example of a similar offering occurs in the pharmaceutical industry as companies can offer generic drugs after patent expiration. In the United States, the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act) allowed the emergence of the generic drug industry that reached 84% of prescriptions with a market value close to $8 billion by 2012 (Boehm et al. 2013). Similar legislation in other countries allows firms entering the market with alternate and cheaper versions of popular drugs.

Other industrial sectors enable the similar offering as companies have access to license technology and patents for its manufacturing processes and even ally with partners to share know-how and practices (Inkpen 2001). Although the big pharmaceutical entities are also taking the advantage of competing in the market (Boehm et al. 2013), family firms in this sector are enable to diversify the umbrella of products to maximize their production capacity.

In terms of services, the restaurant industry brings multiple stories of companies with similar offerings where no major innovation is required to be competitive in the market. Although Darden Restaurants is no longer a family-owned business, the founder, Bill Darden, brought the vision of creating and franchising Red Lobster to offer affordable seafood in a family-style type of restaurant (Daszkowski 2019). Currently, Darden Restaurants is publicly owned and keeps the family-style dining aspect via several franchise chains, such as Olive Garden and Longhorn Steakhouse, and a specialty type of franchises, such as the Capital Grille. These horizontal extensions diversify the offering as similar practices, methods, and procedures can be adopted to attain success beyond the original source of the business.

In that manner, similar offerings can bring families lacking resources or abilities to innovate at very low levels of investments. However, the similar offering does not imply to exactly develop replicas or copies of existing products. Aside from expecting potential litigation or quick responses from the original providers, users may not entirely buy into the family's efforts. Thus, the key aspect for making a similar offering successful is to address differentiators in terms of features, benefits, and potential new uses that the family can offer as added value to what is sold in the market. Such differentiators may also be helpful to even discover new ways for serving existing markets or capturing new customers.

4.3.2 Product and Process Innovation

Moving further from similar offerings, innovation can be distinguished between product and process. These types of innovation require time and efforts by the family to explore what is available in the market to modify, develop, and launch new products and services. Figure 4.3 shows the dynamic relationships between products and processes. The maximum performance for product innovation tends to occur at higher degrees of innovation with no major efforts for coordination. Then, at lower levels of innovation, companies expect to minimize the production costs by becoming more efficient in their manufacturing processes (Benner and Tushman 2003; Utterback and Abernathy 1975). Thus, once a new product becomes more accepted in the market, there will be a need for engaging in refinements and reconfigurations as other competitors can be capable of responding with either similar innovations or improved versions of the product.

Product innovations represent "new technology or combination of technologies introduced commercially to meet a user or a market need" (Utterback and Abernathy 1975: 642). From the customer and user's perspective, every new generation of products that hit the market represents the applications of inventors' ideas that are designed to fulfill unmet expectations or needs. As it will be described later, products can range from being highly innovative to disrupt the market or small refinements to existing products (Christensen 1997; Drucker 1985; Hage 1980; Lei and Slocum Jr. 2005; Roberts 2002).

One aspect to notice is the interpretation of what can be considered as a product or a service innovation. Currently, the emergence of new technologies have blurred the

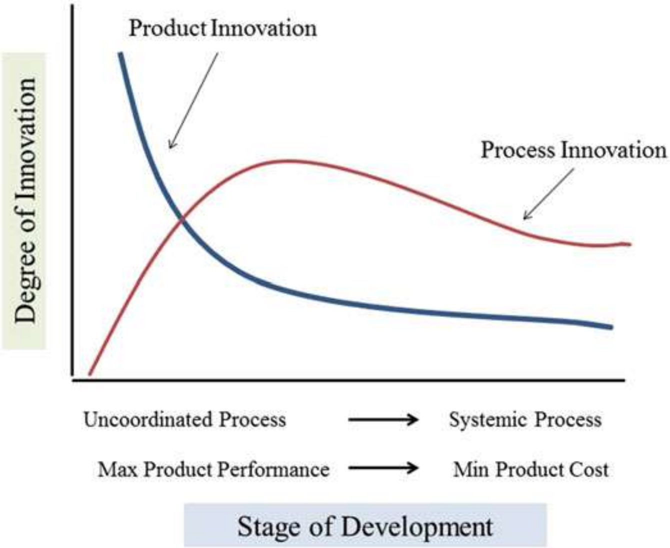


Fig. 4.3 Stage of development and innovation of products and processes. Source: Adapted from Utterback and Abernathy (1975)

distinctions between physical and virtual products so a company user can be confused about what is properly identified as a product or a service. For example, an "App" (previously called "software" in the computer industry) qualifies as a product when the developer offers it to customers in particular smartphones or tablets. Usually Apps can be games, calendars, or business templates. However, an "App" can also be a service provided by a company for their customers to use for online ordering, sending customer feedback, or tracking deliveries. Product innovation in this industry has been characterized by the development of newer versions (e.g., Android Operating System, Windows 10, Safari browser, etc.) that took companies time to develop, improve, and launch. Now, we can refer to service innovations for companies that are mostly established within service or retail industries. For example, a service innovation can be online ordering (via the Internet, social media, or a company-based App), home delivery (via own carriers or outsourcers), or even the installment of new features to existing services (e.g., new versions, formats, etc.).

In contrast, process innovations occur inside the organization for making activities more efficient and managerial practices more effective that do not necessarily develop new products or services (e.g., Damanpour et al. 1989). By reviewing Fig. 4.3, one can see that process innovation takes a predominant role for systematic routines and roles inside the organization that are highly related to cost minimization. Examples of process innovation can occur at the technical level when production time efficiencies are gained when companies improve their equipment or at the managerial level when new administrative procedures are adopted (Damanpour et al. 1989). In terms of management practices, companies can innovate processes by using TQM (total quality management), managing just-in-time delivery, employing Six Sigma, or adopting norms placed by ISO (International Organization for Standardization) (Benner and Tushman 2003).

Following the distinctions between physical products and intangible products and services, there are several examples of process innovation. On one side, a process innovation for an existing App may imply an update to lower the memory to run in a gadget (e.g., a smartphone, tablet, or desktop computer) or to increase layers of security to prevent identity theft. On the other side, existing services can gain efficiencies in process innovations. The use of dedicated BPOs (business process outsourcing) can allow a continuous 24-7 service to customers and generate an efficient use of resources and refinements in the value chain of activities for a company. BPOs have also moved to serve as centers for managing credit card authorizations, software application development, or fraud protection.

Under these considerations, families can pursue different avenues for engaging in both product and process innovations. The main key challenge lies on how to engage family and non-family members in brainstorming sessions that can assess the steps and activities to move the business forward. As a result, these interactions may take certain level of creativity, market observations, and research. The discovery on what new products can be offered or which new practices can be implemented may enable the family to be more competitive.

4.3.3 Incremental and Radical Innovations

Abernathy and Clark (1985) mapped innovations into two dimensions: (1) proximity to the current technology trajectory and (2) proximity to existing customer/market segment. From these dimensions, the extremes of innovation are incremental and radical (Benner and Tushman 2003; Dosi 1982; Green et al. 1995). On one side, incremental innovation implies small changes in the current technology to build over what is currently offered by companies. These small changes can be targeting the existing customer and/or user base or reach new users in complementary segments seeking for substitutes and alternatives. These improvements can occur in both products and processes with the goal of making companies more responsive to the market demands and avoiding obsolesce. Table 4.2 is showing some generic examples of incremental innovations that have been applied by several family and non-family businesses in different industries.

Table 4.2 Incremental innovations in products and processes

Products	Processes
• New flavors for soda drinks	• Extended hours of operations
• Child protective medicine caps	• Online ordering
• Biodegradable plastic bag	• Tax preparation software
• Low-fat cream cheese	• Mechanized crop harvester

Source: Authors

These generic examples give the idea about how minimum changes can be used to exploit a particular family business base of customers (e.g., Benner and Tushman 2003; March 1991). In that manner, families engage in the introduction of new products or processes that may not entail a larger investment or years to produce financial benefits. This is one of the aspects about innovation management that families can undertake in their daily routines. Even more, Christensen (1997) talks that frequent commitments to engage in incremental innovations can make the company sustainable in the market. Although incremental innovations may not result in crafting entire new markets that can revolutionize or cause drastic changes, these improvements help to develop the existing offering and allow the company to potentially capture new market share.

In contrast, radical innovations totally change the technological trajectory to explore new markets and customers (e.g., Abernathy and Clark 1985; Benner and Tushman 2003; March 1991. The notion of radical innovation has been covered from at least three perspectives where more emphasis is placed in products because the implementation of a radical innovation entails also the adoption of new processes and activities. First, when entrepreneurs bring new combinations to alter the circular flow of the economic cycle, the emergence of new industries to replace existing ones causes regions to foster economic development (Schumpeter 1934). Second, the disruption of new products or technologies like the Internet can totally alter the functioning of existing industry players, and those who do not adapt may fail (Christensen 1997). Third, companies may leave their current and unattractive competitive landscape to create new market space that makes existing competition irrelevant (Kim and Mauborgne 2005).

The main lessons gathered from these perspectives, (a) creative destruction (Schumpeter 1934), (b) market disruptions (Christensen 1997), and (c) blue ocean strategy (Kim and Mauborgne 2005), are that very small and new organizations can attain competitive advantage for offering superior products and services to attain reputation within the consumers. Particularly, family businesses may have an advantage due to their personalistic and parsimonious approaches for governing the business compared to bigger organizations that have more formalized governance procedures (Carney 2005).

Usually, radical innovations come from committing larger R&D expenditures that seek the commercialization of patents and inventions. Some of the current products that are considered today as radical innovations were adapted from its original purpose after years of development. In the 1920s, Leon Theremin was famous for playing a musical instrument that emitted sounds without being touched. He kept working on developing devices for transmitting radio waves back and forth with very little energy. The commercial application of his idea is being exploited today as radio frequency identification (RFID) tags are placed in different items like credit cards, passports, or clothes to facilitate transactions (Harford 2019). Also, other radical innovations emerged from accidents in research laboratories. For example, researchers were following Nobel laurate Ignarro et al.'s (1987) results for using nitric oxide to control blood pressure and ended up with a totally different patented drug, Viagra, which Pfizer made a hit in the market for targeting males.

Table 4.3 Examples of radical innovations

Pre-1900	From 1900 to present
• Printing press—1440	• First flight on airplane—1903
• The steamboat—1787	• Penicillin—discovered 1928
• The telephone—patent 1876	• The Osborne 1—first laptop 1981
• The light bulb—patent 1879	• Robotic surgery—first use 1985

Source: Authors

In similar terms, the adoptions and implementations of radical innovations may also cause a different configuration in other managerial areas. Thus, the processes for serving the new markets are modified drastically, and the company implementing a radical innovation will need to rely on building new managerial competencies; otherwise, the product or service may not meet the desired expectations.

Benner and Tushman (2003) reported that companies who started selling digital cameras needed to modify their logistics, marketing, and distribution approaches as they were not going to offer the chemicals for film processing as it used to be the prior norm in the industry. Lei and Slocum, Jr. (2005) also state that radical innovations can create conditions of creative destruction as there will be new standards for meeting customers' expectations. They describe the emergence of digital audio formats (e.g., MP3) that has drastically reduced today the physical distribution of recorded music as record labels and independent artists do not require retail stores to carry their latest musical productions. Building from these market opportunities, Apple ended up with a blue ocean strategy to enter into the music industry as the iPod and iTunes created a totally different market that took the company away from its "red ocean" full of computer competitors using Microsoft software and Intel microprocessors (e.g., Kim and Mauborgne 2005).

Table 4.3 provides some examples of radical innovations. However, it is important to notice that not all the pioneers, the originators or inventors, will be capable of becoming the market leaders (Schumpeter 1934) as sometimes companies may lack the necessary resources or creativity to capture new users. Instead, the innovation is so "new" (Johannessen et al. 2001) for the customer to understand that it may take some years for the general marketplace to recognize and adopt the radical innovation. That is one of the reasons for reviewing the industry ecosystems that emerge from the rates of technological changes (Lei and Slocum Jr. 2005). Especially, not being able to sell the radical innovation at an affordable price or the appearance of second and late movers made the pioneer to lose momentum and capture commercial success. Timing was also critical as sometimes the consumer market is not ready or may require additional motivations to buy new products or services.

Some family businesses have started from major radical innovations. From Table 4.3, two were unable to remain as family owned over time. First, the invention of the telephone enabled inventor Alexander Graham Bell and his father-in-law to become the earlier investors of Bell Telephone Company, the company that is currently known AT&T (Galambos 1992). Second, Adam Osborne, creator of the

Osborne 1, was unable to keep the company alive given the entry of bigger competitors like IBM, and his company ended up failing (Osborne and Dvorak 1984). Even more, his entrepreneurial legacy is currently named the “Osborne effect” as consumers started canceling orders from the prior versions of his computers as they were waiting for the newer and improved version to hit the market.

For existing family businesses, coming up with radical innovations may imply a bigger commitment to find the next major change that can place the business at the top of the market. The main observation is that lacking a whole set of managerial capabilities or willingness for a long-term payout may bring more losses than expected gains. Therefore, the longer vision and aspirations from the family members can enable the commitment and especially wait years to make the radical entry a success.

4.4 The Product Life Cycle

A formalized approach for using the product life cycle to manage the innovation efforts of family businesses can be traced back to a very old article by Levitt in 1965 where he explained the basic aspects of the different stages that even resemble the biological processes of human beings. Management and marketing scholars have used the product life cycle as the basis for an ongoing discussion about the different strategies to adopt, the functional priorities, and the emphasis to engage in product and process innovations (e.g., Anderson and Zeithaml 1984; Day 1981; Hofer 1975; Lei and Slocum Jr. 2005).

Table 4.4 summarizes the main characteristics of the product life cycle stages: introduction, growth, maturity, and decline. It is important to note that each product may have extended timeframes because industry or incremental innovations can extend the lifetime of a product. However, radical innovations can make a product obsolete very quickly as consumers will adopt them to disfavor the existing offerings.

Figure 4.4 maps the life cycle stages against the potential level of sales and profits. Obviously, the higher chances for achieving growth and recognition occur in the early introductory stages because the firm is seen as a pioneer willing to capture value from new customers and, especially, the level of competition may not be as

Table 4.4 Main characteristics of product life cycle stages

Introduction	• Primary demand for product starts to grow; however, potential users do not recognize the products or services
Growth	• Demand is growing at annual rates above 10%; competition starts as technology is changing
Maturity	• Majority of potential users buy and recognize the products or services; competition and technology stabilize
Decline	• Products perceived as commodities; exits and consolidation

Source: Adapted from Anderson and Zeithaml (1984)

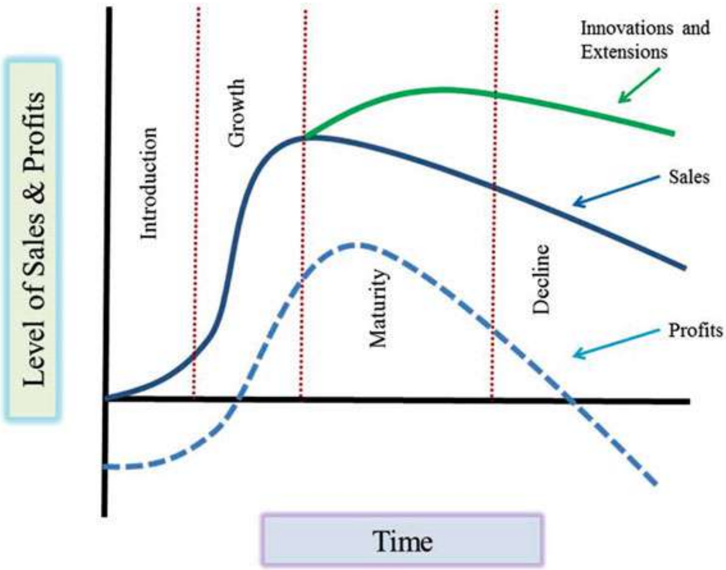


Fig. 4.4 Product life cycle stages and innovation. Source: Adapted from Levitt (1965)

complex as very few competitors will want to access (Lei and Slocum Jr. 2005). The levels of profitability may start to appear in the growth stage as the volume of sales can help to recoup the initial R&D and operational expenditures. The main problem in the growth stage, according to Lei and Slocum, Jr. (2005), is that companies can start seeing competitors entering the market with imitations or product innovations (mostly incremental) that may erode the pioneer's performance; thus, the level of competition may resemble a "wild, wild west" type of industrial ecosystem where only a few competitors may remain.

The critical aspect for family businesses is to question when they will need the deployment of innovating activities that can lead to either product or process innovations. These activities must be analyzed under the rate of technological change in the industry as some products can remain in the market for years while others may disappear very quickly.

On one side, Levitt (1965) argues that it is hard to determine when a product reached its decline level because markets for certain products or services can remain mature while companies can keep exploiting the current users. For example, Day (1981) offered the observations from Procter & Gamble executives about denying the life cycle because they have been able to keep alive very old detergent brands (e.g., Tide introduced in 1947 and still a market leader) due to the fact that basic consumer products rarely become obsolete. Instead of letting the branded product to decline, the company continues to invest and introduces newer versions to match technological changes (e.g., better washing machines).

In addition, very old and established family firms have been capable of operating for several centuries as they compete in stable industries such as lodging, construction, food, and beverages where growing prospects are mostly related to demographical changes and the density of competitors (e.g., Chang et al. 2008). In that manner, family businesses can remain competitive by operating in very stable and mature industries because the low degree of technological changes will require very few chances for creating differentiators (Ley and Slocum Jr. 2005). The potential extensions to keep the family business operating will lie in process innovations for improving the cost structure or getting an umbrella of product extensions. Moreover, the long-term orientation of the family business can also enable a conservative approach to determine when, how much, and what to invest for the future (e.g., Chrisman and Patel 2012; Duran et al. 2015) as they can be more prepared than non-family businesses to remain within an industry with stable and very limited growth expectations.

On the other side, product innovations can help to extend the life cycle to seek new avenues for growth and avoid stagnation. Levitt (1965) offered the example of the DuPont family finding new commercial uses to nylon. Originally, nylon was used in the military as a raw material for parachutes and cords. At the end of World War II, the sales to the military forces were in decay so nylon became a raw material for women hosiery. Under higher levels of technological changes, competing in mature markets can develop companies to become concept learners that may survive in a creative destruction type of industrial ecosystem (Lei and Slocum Jr. 2005). These concept learners may be capable of providing more product innovations that can take out market share from inefficient competitors who may be unable to catch up or simply exit the industry. A particular situation occurs in the newspaper industry as companies are using online ads placed in Google or Facebook to reach out audiences who used to read the news in the morning. WEHCO media, the publisher of the Arkansas Democrat-Gazette, opted to give away iPads to their subscribers located in rural areas (Talley 2019). For Walter Hussman, Jr, the family leader behind WEHCO, their $12 million investment in iPad purchases helped reduce transportation and printing costs while attempting to reach out the same size of target audience for the newspaper advertisers.

As it has been described above, family businesses can really extend the life cycle throughout different avenues to both exploit and explore their decision processes toward adding new products or services. The quest for innovating across products and processes can even enable them to find potential arenas to make competition irrelevant if potential blue oceans can be found in the different segments of the market.

4.5 Family Involvement

After assessing the challenges to innovate and seek for paths, it is also important to get the support and collaboration inside the family. The family business future resides in the subsequent generations who are expected to replace the current leaders over time. Recent findings in the Ernst and Young (2018) global survey of family businesses found that 45% of respondents are including younger family members to

Table 4.5 Involving the next generation

Know your market	• Brainstorm for ideas on how to serve existing or new customers
Overcome fear of failure	• Keeping the current status quo is riskier than innovation
Learn from others	• Get experience by working in other companies
Get family buy-in	• Earn success and track record to be considered as a value resource for the family business
Build a team	• Explain your ideas with other employees to get support
Challenge with passion	• Be committed and passionate

Source: Adapted from Schupak (2019)

identify trends that might reshape the marketplace. In that regard, members of the current generation need to start involving other family members, even from the earlier ages, so the entire family can set the actions that are later implemented by the family business managers (family and non-family). Although the general idea for getting involved is that subsequent generations can foster innovation, this aspect does not always hold to keep the business within its current market settings as new technologies can modify the future direction of the family to explore new markets.

Table 4.5 provides a set of different strategies for engaging the next generation of family members. Schupak (2019) collected these strategies from several conversations with new generations of family leaders who succeeded their parents at the helm of the business. The most recurrent topic from the incoming leaders was the fight for resisting changes and meeting innovation challenges, not only from their parents but also from employees and managers. Solving these conflicts can facilitate a good transition from one generation to another, especially if the next generation of family members becomes aware at a very young age that they can have a place in the family business.

Aside from the desires of the next generation to be involved in the family business, there may be other family members who may differ on what can be the future of the business. *The New York Times* reported a story about the upward mobility of immigrants as newer generations are not following their parents former businesses (Nierenberg and Bui 2019). Particularly, fewer Chinese restaurants, mostly family-owned, are operating in the bigger metropolitan areas in the United States. Rather than being concerned, these Chinese restaurant owners are happy to see how their children are moving to other fields like computer science, dentistry, or arts. Thus, the future of the family does not rest in the original source of family wealth but in other areas where the entrepreneurial spirit of the family can be exploited.

The Ritter family in Arkansas has followed a similar path over five generations (Schaaf et al. 2019). The family started operating a general store in 1906, and the subsequent generations started to add more businesses. The family currently operates Ritter Communications (https://www.rittercommunications.com/about), an Internet service provider to residents and companies, as well as other companies in agriculture and real estate. Right now, the current generation is looking to see

Table 4.6 Lessons from the Ritter family

Creating a next-generation committee	• Needed to educate and inform family members about history and challenges
Sending the packages	• Mailing family member questionnaires to generate ideas and involvement
Telling the family history	• Using recollections on what was done in past history for keeping the tradition to the newer generations
Making it fun across ages	• Expose children with stories from the past and older members with functional aspects of the ongoing business
Involving the parents	• Place the parents in charge of stimulating children to be innovative
Including in-laws	• Make sure the in-laws know the family history and offer them chances to be involved in the family business
Thinking creatively about engagement	• Gathering ideas across all family members to be engaged

Source: Adapted from Schaaf et al. (2019)

what can be the next business areas where the family can operate in the future. For the Ritter's descendants, their family history enables them to create a very simple and affordable plan to foster innovation and involvement in their sixth generation of family members. Their main lessons are shown in Table 4.6

The involvement of family members can also help when radical innovations may affect the business to continue operating as creating destruction can cause the disappearance of a lot of established businesses (Lei and Slocum Jr. 2005). Spector (2018) covered the different technological changes that the Betts family has endured over 150 years when the business used to make springs for streetcars, wagons, and horse-drawn carriages. The family was capable to remain in the industry despite the appearance of new means of transportation. They relied on innovation to launch newer generations of products and services. By patenting products, the company is still manufacturing springs but for trucks and other industrial applications. It also entered into selling parts and services to trucks and trailers. Their diversification by innovation kept the family operating under the company vision of "Improving the Way Things Move Since 1868." Given the continuing innovation capabilities by the family members, members of the current generation started to branch out to other industry segments where they have used their experience and lessons from the family history.

The level of family involvement can also be seen when there is a need to interact with non-family managers and employees to instill the continuity of the business under new market demands. As explained earlier, one way for overcoming resistance is to rely on the family history and challenge the status quo. A big limitation for keeping the family operating a business in the next generation is the lack of interactions with the non-family managers and staff. Although the family leaders will display a higher level of favoritism to their next generation, they need to pay close attention to the creativity minds that may exist outside of the family. Otherwise, the emergence of conflicts and resistance can permeate as the family can push

Table 4.7 Five traits of the innovator's DNA

Associating	• The ability to connect unrelated questions, problems, or ideas from multiple angles to see opportunities that others cannot recognize
Questioning	• Innovators tend to challenge assumptions that limit potential actions a company take for granted
Observing	• Ongoing observation of customers and individual behaviors to find solutions
Experimenting	• Learning and adapting from failed ideas can ultimately produce the best one to implement
Networking	• Interactions from friends and family to test, share, and improve ideas

Source: Adapted from Dyer et al. (2019)

for implementing or developing a new product, but the non-family member, the one who will have to convince users, may not be totally "in" the innovation (e.g., Chrisman et al. 2011).

An innovative family business requires members who may possess particular traits that can set them apart from the regular business persons. Otherwise, when the family lacks such members, the need to incorporate talented staff can make the business to function and become more innovated. Table 4.7 summarizes the five traits that must be part of an innovator's DNA (Dyer et al. 2019). The expectation is for families to find family members who can be able to innovate and instill changes or hire outsiders who can plan and implement the future of the business.

4.6 Implementation and Goals

The final part from the model aims to match the potential family goals with the business goals during the innovation process. Despite the creative efforts by managers and family members, transforming ideas into new sources of revenues requires good efforts to overcome dilemmas that result from inefficiencies or bureaucratic processes (Chrisman et al. 2011; Sharma 1999). Otherwise, the process may not be productive, and the family may waste time and resources to bring a new or improved offering of products and services to the market. In that manner, Table 4.8 summarizes the five potential dilemmas that are central for companies when pursuing innovation (Sharma 1999). These can be adopted by families within the businesses as developing concrete answers facilitates an easier implementation and maximization of the company's resources.

First, selecting promising ideas and discarding others follow a continuous process of experimenting and exploring where creative individuals, family and non-family, can determine a better allocation of the company's resources. However, the potential risk for discarding ideas can create tensions and conflicts inside the organization as it really depends on who is the idea originator. Chrisman et al. (2011) argued that top managers may be less inclined to accept initiatives coming from lower managerial levels and that can cause individuals to leave the firm and

Table 4.8 The innovation dilemmas

Seeds versus weeds	• Select ideas that will be productive (seeds) and discard the less promising ones (weeds)
Experience versus initiative	• Select who will lead the innovation project: the top family managers with experience or the innovator who brought the idea
Internal versus external Staffing	• Choose between hiring new staff or allowing existing managers to implement the innovation project
Building versus collaboration	• Decide if the company can make the innovation by itself or it requires allies outside the organization
Small versus large launch	• Allocate a budget for attempting a calculated launch or devote more resources for a full implementation

Source: Adapted from Sharma (1999)

become future rivals. Thus, the process selection needs to be inclusive and participative from all levels of the business and the family.

Second, picking the leader who will be executing the innovation can help reduce potential conflicts in the subsequent developments. For example, the idea originator may just want to remain searching for the next innovation, and the business can stagnate for lacking someone who will execute it. Thus, the family has to decide the best path to maximize the leadership roles and avoid disruptions in the implementation stage.

Third, this dilemma becomes central as the leader must require a team of supporting staff and sometimes not all the businesses are capable of allocating experts in such supporting role. That may open the door for bringing family members from the next generation to join the business or hire external collaborators to fill out the positions.

Fourth, Sharma (1999) explains that companies encounter problems for alternating between building capacities to develop the innovative products and keeping the existing offering to satisfy the current demand. This dilemma can produce tensions between what is currently available and what a new offering requires in the production level. Thus, the potential for finding allies to help out can reduce the tensions. For example, outsourcing production reduces investments in machinery and equipment.

Fifth, the budgeting of the launch may enable families to really quantify how the market can react to the innovation. On one side, a smaller budget helps more to assess the demand before committing to larger investments in a product that is too new or totally unknown by the user (Sharma 1999). For example, when Walter Hussman, Jr. came up with the iPad distribution idea, they did first a pilot test with 250 devices in a town 3 hours away from the company's main city. WEHCO also organized workshops to teach subscribers how to use the devices before the iPads started to be distributed in other areas in the state. On the other side, larger budgets can only be viable when the market is really waiting for the company's next product to become available.

Contribution Margin per unit	
Selling Price per unit:	$25
Variable Cost per unit:	$15
Contribution per unit:	$10

Fixed Investments	
R&D Expenditures:	$150,000
Administrative Expenses:	$75,000
Production Expenses:	$50,000
Market Launch:	$50,000
Total Investment:	$325,000

Breakeven in Units

$$\frac{\text{Fixed Investment}}{\text{Contribution Margin}} = \frac{\$325{,}000}{\$10} = 32{,}500 \text{ units}$$

Fig. 4.5 Breakeven point estimation for new product BQ20. Source: Authors

Once these dilemmas provide definite answers to the family, the quest for attaining a good fit between the family and business goals represents the final steps. On the family side, innovation can realize existing goals to keep the family's vision on improving and honoring the founder. Other goals can be related to making the business more aligned to the existing market conditions and repel threats from new and current competitors.

Also, innovation can generate a desire to achieve new goals inside the family. For example, engaging in processes of innovation can set the grounds to incorporate members of the next generation as an initial step toward a generational change. Another goal at the family level may also be directly related to the desires for keeping the business within the family control. Furthermore, the innovation capabilities can offer new avenues to expand the business into market segments that are generating more growth opportunities.

At the business side, the last and most important expectation is determining the sales needed first to cover the variable costs and later to recoup the investments made in R&D, production, and the overall administrative expenses related directly with the innovation process. One simple method is to quantify the volume required to attain breakeven point. Figure 4.5 provides a simple example for estimating the need to sell 32,500 units of New Product BQ20 given an investment of $325,000.

Once the breakeven is estimated, the final aspect to evaluate is how long it will take the family to sell these units and how accurate are the costs and investment estimates. Such estimations will determine the impact and value that the new product will create for the business. Consequently, the quest for innovating in family businesses is key for survival in the long run and, especially, for renewing the involvement and commitment throughout the next generation of family leaders.

4.7 Summary

This chapter provides a good insight for existing and potential entrepreneurial family businesses to consider the challenge to innovate. Although business practices that could have worked since starting the company; emerging market trends and competitive reactions can create problems for family businesses that avoid innovation. Researchers have found that family businesses invest fewer resources in innovation than non-family ones; however, their investments are more fruitful to create an impact in the market. Innovation can take several routes to extend the life cycle of a product or service where even replicating existing products can be seen as a good source for keeping a family competing in the market. On one side, products or processes can have incremental levels where minor adjustments are made to satisfy the existing users. On the other side, products can come from radical innovations that may even destroy existing markets and require a total adaptation of the family to remain in the business.

The involvement from the family members is really needed in every step of the innovation process to properly fit the family goals with the business ones. Especially, when members of the next generation are considered and become actively involved in the innovation process, the propensity for the family to remain operating the business in the subsequent generation increases. The best practices for implementing innovation resides on selecting the most promising ideas on a participative and inclusive environment, picking the innovation leader, empowering the staff in charge of deploying the innovation, deciding the most effective production scheme, and opting for an efficient launch. Finally, innovation can realize existing family goals or create new ones to commit the family for keeping the business in full operations and ready for the next generation.

Case Study: Marfrig and the Revolution Burger

The year 2020 can be the year of the plant-based burger after Impossible Foods started offering the Impossible Whopper at different Burger King restaurants in the United States. The newest entry, the Revolution Burger, a plant-based meatless patty with special sauces, will be available in Outback Steakhouses in Brazil. A generic version made from the same ingredients will be offered in different retailers and food service chains in China. For these restaurants, Burger King, Outback, and others like McDonald's or KFC, these offerings represent an interesting departure for what they have traditionally served: large amounts of proteins, meat in particular, offered to a target population that perhaps is not growing at the same levels as those shown in the past years.

Potentially, an innovative product offering like the Revolution Burger will try to target flexitarians, those who prefer healthy meatless eating. For Outback Steakhouse, the product can expand the customer base to even include a regular vegetarian consumer that is less likely to visit a steakhouse. Although plant-based products tend to come for start-ups like Impossible Foods, the

(continued)

company behind the Revolution Burger is one of the largest food companies in Brazil, one of the leading global producers of beef, and the world's largest beef patty producer for burgers!

Marfrig Global Foods started in 1986 by Marcos Antonio Molina dos Santos. At the beginning, Marfrig was selling special cuts of beef to restaurants in Brazil. For Molina dos Santos, starting the company was his real commitment to be part of an industry where he worked and became an expert in the beef market since he was a teenager.

From 2000 to 2010, the company expanded operations throughout South America, Europe, and Asia. The expansion made the company to operate processing plants, distribution centers, feedlots, and offices. The company received attention on a global scale in different events. First, it became the first Brazilian company to export pork products to China. Second, Molina dos Santos became a member of the 2013 *Forbes* list of billionaires. Currently, Family Capital ranks the company as number 355 among the 750 largest family businesses in the world as Molina dos Santos still owns 41.84%, while the rest of stock is publicly traded in the Sao Paulo stock exchange.

Given the market trends and supplying beef to around 100 countries, the Revolution Burger will imply a change of direction in the short term for the company with at least two challenges: first, the use of innovation processes to expanding the offering of other plant-based products, as it possesses production and packaging facilities in the company's operating unit in Mato Grosso, Brazil, and, second, the message that consumers and customers will get once news spread that the meat and meatless patty producer is the same!

Assignments

- Please go to YouTube and review the institutional company video that is given in this link: https://youtu.be/lXh37X-QjC4. Please discuss how the company will need to make changes, and develop a new one to reflect the entry into the plant-based products
- Do an online search for Flexitarian, and discuss the benefits of using plant-based products in the so-called Flexitarian diet.
- Visit a local grocery store to compare regular beef and plant-based products. Analyze how much consumers are willing to pay a premium for the alternatives.

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Questions for Discussion

- What can be the conditions for family businesses to become innovative?
- Why similar offerings can be used by families to develop new products or services?
- How can the product life cycle be used to engage in product innovations?
- What risks can a family business have for focusing only on radical innovations?
- Which factors may affect family businesses if no innovation or changes are pursued?
- What is the importance of having the family involved in the innovation process?

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Suggested Activities

- Review the current offering of products and services from one family business operating in your area, and discuss how the business can develop incremental innovations to remain competitive in the market.
- Discuss the advantages and disadvantages that a family business may have engaging in continuous research toward the development of a radical innovation.
- Assess the potential market opportunities for family businesses to compete with generic and standardized products that require very minimal adaptations.
- Establish the potential set of guidelines to give existing family leaders if the next generation decided to leave the company to start a new business where higher levels of innovation and creativity are required.

Keywords

- Blue ocean strategy
- Creative destruction
- Disruptive innovation
- Incremental innovation
- Product life cycle

- Process innovation
- Product innovation
- Similar offering
- Radical innovation
- Technological trajectory

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5 Succession and Family Businesses Longevity

Learning Objectives
After reading this chapter, you should be able to:

- Define family business succession
- Understand the main family business succession challenges
- Explain the succession process models
- Know the main benefits of succession planning and implementation in family business

Profile: Ingvar Kamprad—IKEA

Ingvar Kamprad was born in March 30, 1926, in Älmhult, Sweden, and passed away in January 27, 2018, in Småland, Sweden. Ingvar showed to possess features of an entrepreneur at a very early age. When he was just 5 years old, he started to sell matches, where he usually ordered large quantities to get possibly the lowest price and then selling them with a higher one. Later, he continued to sell fish he caught by himself, berries he found in the forest, and pencils in his village. Ingvar's "philosophy" of doing businesses was to buy with the lowest price and sell with a higher price.

At age 17, spring 1943, just before starting the business school, he started his own business, IKEA, which name was based on his initials (Ingvar Kamprad) and first letters of the farm (Elmtaryd) and his village (Agunnaryd) where he grew up. At the beginning, Ingvar sells replicas of his uncle kitchen table, and in 1948, he continued with the furniture business. The customers could see products' pictures in a brochure and then can order them directly to their home. But Ingvar wanted to do something different, to stand out from the other mail order companies, so in March 1953, he arranged a furniture exhibition that became very successful. The customers could walk around

(continued)

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the building, see all the furniture, touch them, and try them out. As they were walking and looking the furniture, they got free coffee and a cinnamon bun.

Ingvar's concept of exhibition and mail order was the first one within Sweden. Many people traveled from faraway to come and see the furniture in the little village Älmhult. Some of them had seen them in Stockholm or in Gothenburg at some exhibition, and some had just got or seen them in the free catalog. The coffee and bun were seen as very important as Ingvar will conclude that nobody will buy goods on an empty stomach. Ingvar had a lot of difficulties to remember the products' different numbers, so instead of numbers, he gave names to the products. Now, all IKEA's products have different Swedish names which make them unique.

IKEA has more than 430 stores all over the world, and all of them have a similar structure. The buildings are big and colored with the Sweden yellow and blue. They are designed with a "one-way" layout which means that there is a "main road" for the customers to walk through the whole store and go to all different sections. In this way, the customers will walk by the whole product assortment, including those for which they didn't come intentionally in the store but can find an interest when seen them. There are of course some shortcuts in this "road," but they are not so well marked. The stores have their showrooms, which are designed with all IKEA's products to show the customers how to use and combine the products. IKEA stores are famous as well about their restaurants. During the shopping, customers can sit down and have a meal or a Swedish "fika"—a coffee and some cake. In the restaurants, customers can find the famous cinnamon bun as well, which Ingvar firstly has used in 1953. So many Swedish go to IKEA just for a cheap lunch.

Ingvar's idea was to create an ownership structure that will provide independence and a long-term sustainability. So, the IKEA Group, since 1982, was owned by a foundation in the Netherlands—*Stichting INGKA Foundation*. Its purpose is to hold shares and reinvest in the IKEA Group. *INGKA Holding B. V.* is the parent company of IKEA Group companies. Its purpose is to support and manage the IKEA Group. *IKEA Industry* is a group of companies manufacturing furniture and wood-based boards and panels which includes development of production capacities and new strategic businesses to support IKEA's growth. The IKEA Group also has franchises. *Inter IKEA Systems B. V.* is the owner of the IKEA brand and intellectual property and the worldwide IKEA franchisor (since the 1980s).

Kamprad stepped down as chief executive officer (CEO) in 1986 and in June 2013 resigned from all his formal duties within the company, leaving his furniture empire without its founder in a board position for the first time since 1943, when he launched it. He shortly said that "I see this as a good time for me to leave the board of Inter IKEA Group. By that we are also taking another step in the generation shift that has been ongoing for some years." When he

(continued)

resigned, no official successor has been appointed, but all of his three sons have positions in the company—Mathias (45), the youngest son, is chairman of Inter IKEA; Jonas (48), the second son, is on the IKEA Group Board; and Peter (50), his eldest son, is chairman of IKANO, a subsidiary which offers customer reward scheme services to retailers. Peter Agnefjall, a non-family CEO, currently leads the IKEA Group, but business experts claim that the company's ownership is so fragmented now and the lack of an overall leader may create succession problems in the future.

Today, IKEA is continuously increasing its revenues, and according to *Forbes*, it is the largest furniture retailer in the world. The constant growth and long-term profitability allow the company to invest more and more. For instance, in 2015, IKEA invested 3.2 billion € in new stores, shopping center, and renewable energy. Only in 2018, a total of 19 new stores were opened in nine different countries. IKEA employs more than 200,000 people. Today, the Ingvar's sons, Mathias, Jonas, and Peter, work on the overall IKEA's vision and long-term strategy.

Source: Based on De La Mare (2014); Hisrich and Ramadani (2017) and Warren (2019)

5.1 Introduction

This chapter treats issues related to the succession and longevity of entrepreneurial family businesses. It discusses the succession challenges that face every family business owner. Several succession process models are provided as guidelines for the founders to deal in a better manner with the succession issues. Succession and longevity are very important for entrepreneurial family businesses. Succession is one of the most difficult decisions for entrepreneurial family businesses. If the business leadership transition is not well structured, it may cause serious difficulties that may lead to the sale or eventual loss of the business.

5.2 Succession Puzzle Challenges

Succession of an entrepreneurial family business represents one of the most complex and important issues. It consists of three elements: *processes* (management and ownership succession), *activities* (intended to integrate family members into the management and ownership succession processes and to feel comfortable with both succession processes and outcomes), and *desired outcomes* (integrated family members, informed decision-making, etc.). These elements are shown in Fig. 5.1.

Generally, family business succession involves the transfer of the business management and ownership to the next generations. Ownership succession focuses

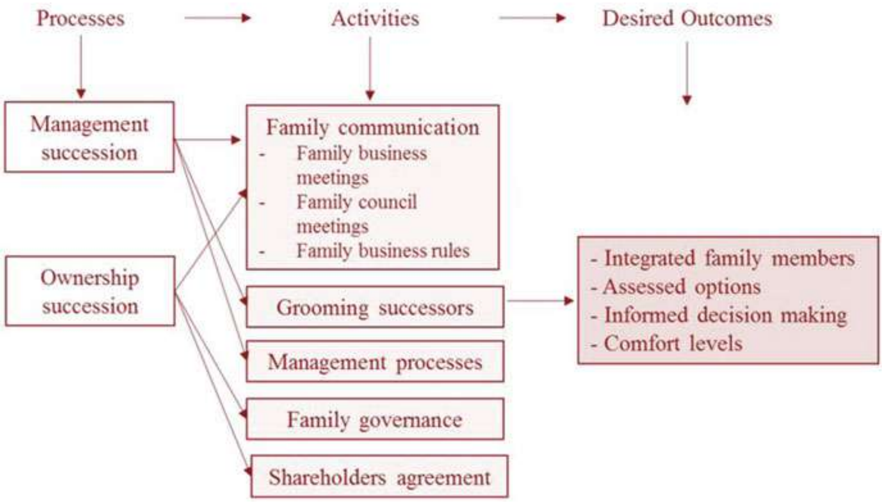

Fig. 5.1 Elements of family business succession. Source: Based on Walsh (2011, p. 15)

on who will own the business and when and how this process will occur. Management succession focuses on who will lead the business, what changes will occur, when they will be accountable for the results, and when these results will be achieved (Ramadani et al. 2017). Succession involves changes at a managerial level (CEO and top management) and ownership level (Giudice et al. 2011).

Effective integration and management of the family component is crucial for the success of the succession process (Walsh 2011). Handler (1990) defines succession as a joint arrangement of the role between members of two generations. A successful succession requires a fully engagement of the successor during the whole process. Succession in entrepreneurial family businesses should ensure a capable leadership in all generations.

Succession includes replacement of the founder and management tasks by his successor. Succession issues raise several questions for both sides: the founder (old generation) and the successor (young generation). For the owner/older generation, the following questions are very important (Bennedsen and Fan 2014):

- Do any of the children want to take over the business?
- How to choose between equally able children?
- Will they become good leaders, or the company will suffer due to their weak leadership skills?
- Will the successors collaborate in the future, or their behavior will raise into sibling rivalry?
- How do we nurture the needed competencies to take the business forward?
- How will you support those who want to pursue a career outside the family business?

In other sider, successors/younger generation should deal with questions like:

- Do I really like to join the family business at all?
- Shall I join the family business right now, or should I wait and get experience outside the family business first?
- What do my parents think about the timing of succession and their retirement?

An unfortunate fact is that only few family businesses achieve to successfully transfer the business to the next generations. Sylvia Wildfire, a retired firefighter, founded her company "OnCallMedic" in 1999. She supplies emergency medical technicians to weddings and other events. She likes, as many founders, to pass on the business to her son, Michael, who is only 19-year-old college student and doesn't show any interest for it. "I am trying to set up a 5-year plan where he would take over. This is a very successful business and I think that he could do anything with this under his belt. But, for now, he seems to want his own life," says Sylvia (Dahl 2011). A PriceWaterhouseCoopers study, with a sample of 1600 family businesses, showed that only 36% of the surveyed businesses survived passage into the second generation, 19% into the third, and a mere 7% into the fourth generation. Family Firm Institute, beside the owners' desire to see their businesses transferred to the next generation, estimated similar results: respectively, 70% will not survive into the second generation, and 90% will not make it to the third generation (Muriithi et al. 2016, p. 562). Kamei and Dana (2012) found that every year in Japan, around 70,000 small businesses terminate their operations because the owners are not able to find a successor.

Crosbie (2000) found similarities between family business succession and flying a plane: "There is not much danger to anybody when the plane is in the third hour of a transatlantic journey, but at take-off and landing the craft is much more vulnerable to an accident. The point of succession is very much like landing and taking off again. It presents a radically greater threat of danger, than is posed by any of the other periods in the history of the company" (p. 105). Cadieux and Lorrain (2002) noted what primarily differentiates a family business from a non-family business is the succession issue, including capital and management know-how.

The transfer of the leader position does not automatically mean stabilization of the successor power. Preparing the successor for leadership requires socialization and development. The socialization period should help the successor to perform the leader's duties successfully. A learning period is also included in this part (Boyatzis and Soler 2012). Succession is a function of the following independent variables: ownership, management, leadership, successors, business age, business complexity, financial performance, and succession proximity. Succession success is measured by these variables: keeping ownership within the family, keeping control by the family, election of successor, conflict resolution between the family members, rewarding the family members, and finding appropriate jobs for the incompetent family members (Table 5.1).

Succession as a process imposes several important changes in family businesses. Family relationships must be rebuilt, traditional patterns of impact should be

Table 5.1 Independent variables and indicators

Independent variable	Indicator type	Indicator
Ownership	Formative	Percentage of ownership by family
Management	Reflective	Number of family members involved in business and relations between non-family managers toward family members
Successors	Reflective	Number of potential successors, male or female
Leadership	Formative	Percentage of outside members in the board of directors
Business age	Reflective	Age of business and leadership of business through generations
Business complexity	Reflective	Gross income, regional distribution of sales, number of commercial locations, and number of full-time employees
Financial performance	Formative	Percentage of "active" return?
Succession proximity	Formative	Whether the current CEO will retire in the next 10 years

Source: Based on Chua et al. (1999, p. 31)

redistributed, while management and ownership structures that have been set for a long period of time should become flexible and open the way for new structures (Ramadani and Hoy 2015). The succession process requires a good management in five areas (Aronoff et al. 2011):

- *Preparing the CEO*. Succession means that business leader should waive a part of his meaningful and rewarding life. Succession will not be considered completed until the predecessor leave the business and continue further with his new life. An appropriate plan and execution of the retirement might be a wonderful and creative adventure for the predecessor.
- *Preparing the business*. The business in due course needs to continue without its founder, who should work and see that it can do it. Achieving to leave behind a self-sustaining company is the epitome of stewardship. Once the founder has done it, he can think about a well-deserved vacation.
- *Developing the successor(s)*. As any parent, the business founder has taken care of their successors since their birth, teaching them the necessary values, skills, and attitudes and preparing them for life. Now, the founder should be more focused and prepare them for the new roles in the family business, including the "crown" position.
- *Preparing the family*. If the founder wants the succession go smoothly, he needs family support. If the family members can discuss openly on succession and how it will affect them and all together come to agreement on such issues, the entire process will go easier.
- *Preparing the ownership team*. In family business, it's normal to expect the senior generation to pass management and ownership of a business to a group of siblings and/or cousins. In order to protect the business, siblings and cousins should attend proper training and education programs on effective management, governance, and teamwork.

Succession process is influenced by several factors (Dakoumi and Mnasser 2013; Dana and Ramadani 2015; Lansberg 1988; Leach 2011):

(a) *Founder*—even though founders are aware about the benefits succession brings, they often face some psychological obstacles related to their exit from the business. A difficult obstacle is the founder's reluctance to cope with his/her death, because many of them assume that when they will start to think on the succession and retirement, the death is very close. The founders also resist to work on succession because it means giving up directing the daily business operations and they may lose the position and respect in the family and a significant part of their identity. Some of them think that the successors are not ready yet to take over the company. Ingvar Kamprad, the opening profile of this chapter, when asked about the succession and his sons (where at that time, Peter was 46 years old, Jonas 43, and Matthias 41 who all worked at IKEA), simply answered: "I am proud of all my three sons. They are very smart. However, I don't think that anyone of them is ready to lead the company, at least for now" (Shuklev and Ramadani 2012).

(b) *Family*—in order to understand the reactions of family succession planning and the reasons why family members may be against planning, it is important to consider the stage of the life cycle in which succession will occur in the family business. Another reason is that the retirement and change of status that come with it can worsen things. There can be a lack of desire for open discussion about the succession. The younger generation sometimes avoids succession discussion in the family because it brings about fear of father/mother's death, separation, or abandonment. But if there is no decision regarding this issue, a lot of problems could appear in the future, as Shi and Dana (2013) noted in their research in Japan, where Yu says: "Succession process planning? Of course, it would be useful. It would be better to do it. My father and me, we didn't have such a thing. We could have done better, if we had had someone, consultant or specialist to whom my father and I, we could give our confidence. For us the succession process did not work as we hoped. My grandfather died. And after that, my uncle, Tadashi arranged the things in the family. Just at the moment when we really needed him, he died too. And after that the conflict continued and then my father died. Then, the incidents happened again and again. This was a painful test for me. But I have the impression that it is this kind of test that trains me" (p. 69).

(c) *Managers*—difficulties related to succession are not only experienced by the founder and the family. Many senior managers are not willing to change personal relationships which they have with the founders for formal relations with the successors. They wouldn't like to limit their autonomy and impact on the budget, information management systems, and personnel. Successors may bring their managers into the company and replace those who have worked with the founder.

(d) *Owners*—in order to increase the motivation of the family (and non-family) members to get involved in the family businesses and reward them for the loyalty, the founders give them shares as a sign of appreciation. Those who receive shares become owners of the family business, and these owners do not want to talk on the succession in the family and company, because they consider that in this way, they will betray the founder. The fear that the selected successor would not be the right choice to take over the business is another reason why the owners would like to avoid debates on the succession.

(e) *Environment* affects family business succession as well. For instance, suppliers and clients who have grown their businesses thank the close relationships they have with the founder of a particular family business. They are not sure that the successor will continue working with them and may terminate these relationships shaped by the founder, resulting in losing their businesses. Other environmental factors that may affect succession are successor's weakness and lack of creativity and skills to cope with new challenges, consequently leading the founder to evade the succession issue in the family business.

That succession is a crucial issue for entrepreneurial family businesses is confirmed by John Ward, who provided a tremendous contribution to the family business studies. He defined family businesses based on their potential for succession only. He defines the family business "as one that will be passed on for the family's next generation to manage and control" (Ward 1987, p. 252). The purpose of succession is to make the business successful in the future, and at the same time remained independent from the outgoing leader. The family business should be left to the successor in the best possible condition in order for him or her to easily be integrated into the business and continue further successfully. The business should be left to the successor in the same condition, as if it is presented to someone for sale—with the highest possible value (Gashi and Ramadani 2013; Ramadani et al. 2015).

5.3 Role and Importance of Succession Planning

It is generally accepted that succession is one of the most challenging issues in entrepreneurial family businesses in a long term. The quality of the family business succession plan about ownership and management often determines the survival or failure of the business (IFC 2008). According to Ramadani et al. (2017), succession is not "a single event that occurs when the old leader retires and passes the torch to the new leader, but is a process driven by development that begins very early in the life of some families and continues through maturation and aging generations" (p. 297). It includes preparation and planning. It helps to react appropriately with regard to management, regulation, and business modifications in case of the founder's illness or sudden death. Succession represents a unique opportunity for the business strategic reorientation, based on the shared values of the family (Gersick et al. 1997; Laakkonen et al. 2011).

Succession planning involves the process of identification and development of the successor, who has or shows a potential to fill the founder/owner position in the company. Succession planning helps the company to select a more experienced and capable successor to take over the leader's position as it becomes available. Changes in leadership should be planned carefully and should avoid making hasty decisions based on events that may occur as diseases, marriages, separations, or deaths (Gashi and Ramadani 2013).

According to Karim (2014), "replacement planning" for the main roles in the company is the heart of succession planning. Further, he noted several benefits from succession planning, as following:

- *None can plan for disasters.* A company maybe can be good in revenue projections and other economic predictions, but none can truly plan for disaster. Whether it is a natural disaster, an unforeseen illness or death, or a sudden decision for retirement, the benefits of having a written succession plan in place before it is needed are endless. Since the company cannot plan for disaster, it can put into place a series of contingencies which can help the company stay afloat if a disaster happens.
- *Succession planning benefits are immediate.* Having in mind that business practices have evolved over the years, succession planning has grown and changed as well. Succession plan is not anymore just a plan that can only be opened when leadership is going to change, but it can be used before its "real" intent is necessary. Succession plan helps the company to build a strong leadership, to survive the daily changes in the environment, and to force managers to review and examine the current goals of the family business.
- *Succession planning gives the family a voice.* Succession planning usually gives the family members an opportunity to communicate their needs and concerns. This will help them to create a responsibility sense throughout the company, which is vital for an effective succession planning.
- *Succession planning can help sustain income and support expenses.* Succession plan will help the company to see what is needed to do for future income and what kind of expenses may incur once the leader step out of his position and role. This list usually includes the annual income and other benefits including health and dental insurance, life insurance premiums, car, professional memberships, and other business-related expenses.
- *Succession planning creates the big picture.* Many family businesses mistakenly focus only on replacing the leader/founder. An effective succession plan should be more comprehensive and include all management levels and positions. Ignoring to include the lower positions and roles to the succession planning mix may have dreadful consequences for the family business. So it is preferable for a succession plan to be incorporated in all management layers and their direct reports.
- *Succession planning strengthens departmental relationships.* Regular communication between the family business departments increases the synergy, which breeds a culture of strength. It is very important to connect the succession planning activities with human resources (HR). HR department involvement in succession planning helps to incorporate elements like the employee evaluation

Table 5.2 Contents of succession plan

Contents
A statement of the ownership distribution
The identity of the new leader(s)
Training programs for the new leader(s) for their roles
A definition of the other key member roles during the transition
Mechanics for the purchase or sale of stakes in the business
Taxation and legal considerations
Financial considerations
Retirement considerations
A procedure for monitoring the process and dealing with disputes and problems
A timetable

Source: Federation of European Accountants (2016, p. 15)

process, which is very helpful when needed to decide whether to fill vacancies with internal candidates.

- *Succession planning keeps the mood buoyant.* The succession plan itself means "changes," which, if done correctly, can bring to the family business unforeseen rewards, but in other hand, they can be a source of tremendous stress, especially when people's livelihoods are at stake. Despite this, the leader and family business should consider the positive effects that bring succession planning to the business. It is an exciting process and can inspire the company staff to stay involved and maintain company loyalty. Above all, succession planning is essential for the survival of the business.

Succession planning in entrepreneurial family business represents an essential part of the overall business strategy and should be considered as a priority. Eventual failure to plan the succession of the business may create a situation the business faces unprepared and/or uninterested successor, and all this may result in unnecessary business failure (Federation of European Accountants 2016). Researchers agree that the future of the family business highly depends on the succession plan, but they also found that many family businesses do not implement it and some of them do not have a succession plan at all (Zgheib 2017). Poutziouris (2001) noted that around 30% of all European companies now face business transfer and estimates suggest that "30% of such business transfers will not materialize because failure to plan can be tantamount to planning to fail" (p. 278). A comprehensive succession plan should contain several elements, as presented in Table 5.2.

5.4 Succession Process Models

There are several succession process models provided in the literature. A succession model is a frame of interconnected and complemented stages, which describes the transition path of ownership and management from the predecessor/founder to the

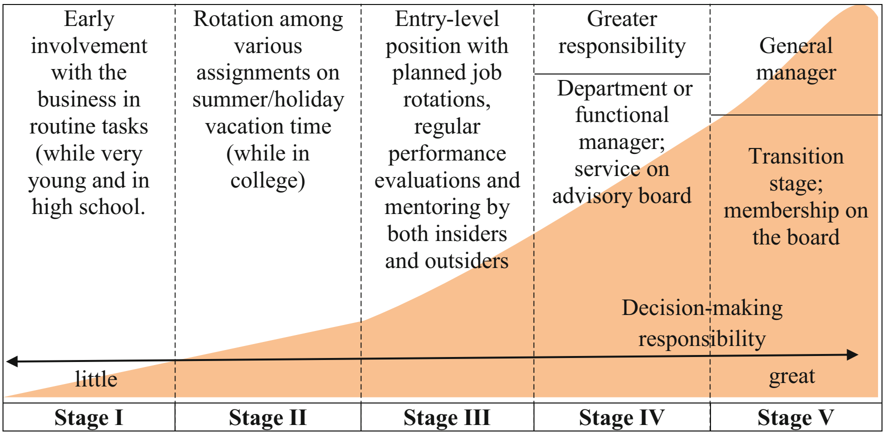

Fig. 5.2 The succession process in family businesses. Source: According to Scarborough and Cornwall (2015)

successor of the family business (usually includes the period from the early age of the founder's children to the point of final transition).

The succession model presented by Scarborough and Cornwall (2015) consists of five stages (Fig. 5.2). If we want the family business succession to be successful, it is necessary this process begins early in the children's life (*stage I*). Typically, founders involve their children in the businesses when they are very young and still in junior high or high school. In this stage, the successors are involved in very routine tasks, where they learn the basics of the business operations and understand the importance of the business for the family life. In *stage II*, successors are in college and rotate among various assignments during summer/holiday vacation time in order both to broaden their base of business understanding and to permit the parents to evaluate their skills. *Stage III* stars upon successors' graduation from college. Here, the successors may become full-time employees, or in some cases, they may work for a time outside of the family business to gain additional and different experience. In this stage, the parents are focused on the continuous development of their successors, often through a designed program from family and non-family managers as mentors. In *stage IV*, the parent increases the successors' responsibilities and makes a final assessment of their competences and abilities to take full and complete control over the company. In this stage, successors are usually appointed as department or functional managers or service on advisory board. In *stage V*, successors may become family business CEOs, while the parents may retain the position of the chairman of the board. It is preferable for the founder to leave the business completely and give a chance to the successors to create their own identity within the family business.

The *contingency model of initial succession* was designed by Rubenson and Gupta (1996). This model explains the situation when the predecessor takes the

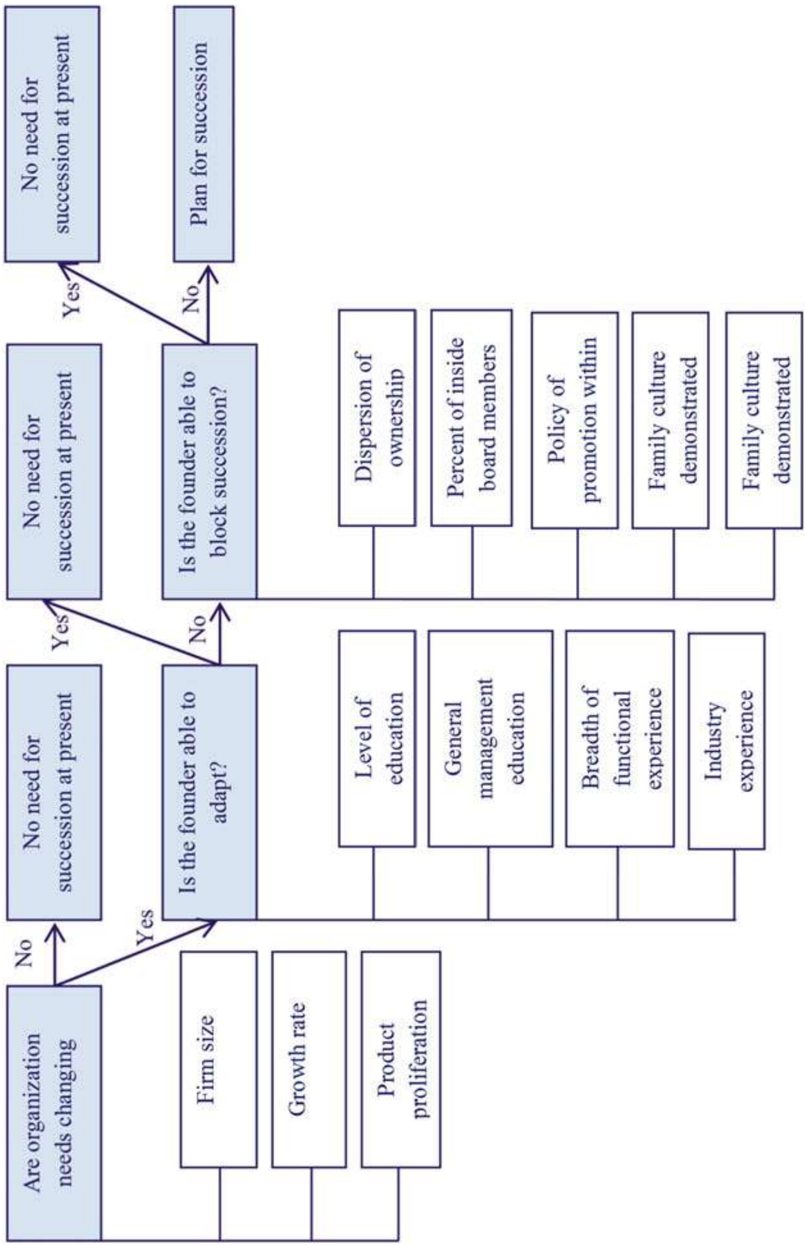

Fig. 5.3 Contingency model of initial succession. Source: Based on Rubenson and Gupta (1996, pp. 21–35)

decision to leave the business (Fig. 5.3). In this model, the succession process involves three perspectives, as follows:

(a) *Succession as an inconsequential event*: This perspective is related to larger companies, which possess a more bureaucratic structure, and the founder's departure will have a little impact on the company.
(b) *Succession as a disruptive event*: This perspective is related to small entrepreneurial companies, and the founder's departure will affect significantly the company's performance.
(c) *Succession as a rational organizational adaptation*: The eventual founder's departure is considered as a catalyst that causes a proactive concentration of the company on the ways for an adaptive succession.

Lambrecht (2005) designed the "six-stepping stone" model for transferring the family business from the founder to the successor (Fig. 5.4). This model comprises of six stages:

(a) *Entrepreneurship*—Transferring the professional knowledge, values, management, leadership characteristics, and the organization spirit to the next generation.
(b) S*tudies*—Successors are encouraged before entering fully into family business to take an advanced degree, preferably something related to family business.
(c) *Formal internal education*—Work and experience within the family business, where the potential successor skills are assessed by the parent.
(d) *External experience*—The successor gains experience in other companies, outside of family business.
(e) Official start in the family business—The successor becomes a full-time worker, but before he takes a management position, he usually passes through various departments of the company.

Fig. 5.4 Six-stepping stone model. Source: Based on Lambrecht (2005)

(f) *Written plan and agreement*—The successor should think about the bad days of business that may occur due to family member death or resignation and should write good plans for the company and make valuable agreements for the family and for the business.

Longenecker and Schoen proposed a seven-stage succession model, which includes (Longenecker et al. 2000) the following:

1. *Pre-business stage*—The prospective successor accompanied by his parent visits the company's offices and warehouses or plays with the business equipment, with no formal plan for his preparation to enter into the business.
2. *Introductory stage*—The prospective successor is introduced by the parent to certain people, such as bankers, suppliers, etc.
3. *Introductory-functional stage*—The prospective successor becomes a part-time worker, employed during vacations and/or after school; he is involved in formal education and working in other companies and develops an acquaintance with the people in the company,
4. *Functional stage*—The successor completed the formal education and now gets a full-time employment in the company. Before moving to managerial positions, the successor will be engaged as an accountant and/or a salesperson in order to gain different experiences.
5. *Advanced functional stage*—The successor takes over a managerial position that involve managing other works, but not the entire company.
6. *Early succession stage*—The successor is de jure appointed as a general manager/ president but leads the company together with the parent, who is reluctant to give up all decision-making
7. *Mature succession stage*—This stage completes the succession process, where the successor becomes de facto leader of the company.

Cadieux and Lorrain (2002) based on a synthesis of different researches related to the process of succession proposed the model as indicated in Fig. 5.5. It includes four stages: initiation, integration, joint management, and disengagement stage. In *the initiation stage*, the family business predecessor is a master and commander of the business—he is a sole manager of the company. The predecessor has the intention one day to pass on the business to the successor(s), but almost with no chances to involve him in the business now. The successor has no role in this stage. In *the integration stage*, the successor will be integrated in the business, where initially he will undergo an apprenticeship period, in order to gain the needed technical knowledge and managerial skills that are necessary for the further continuity and development of the family business. *Joint management stage* includes the officialization of the successor's title in the family business. In this stage starts the progressive transfer of responsibilities, know-how, and authority from the predecessor to the successor. Some tensions between the predecessor and the successor may occur. They can be avoided if tasks, duties, and competences will be shared between them.

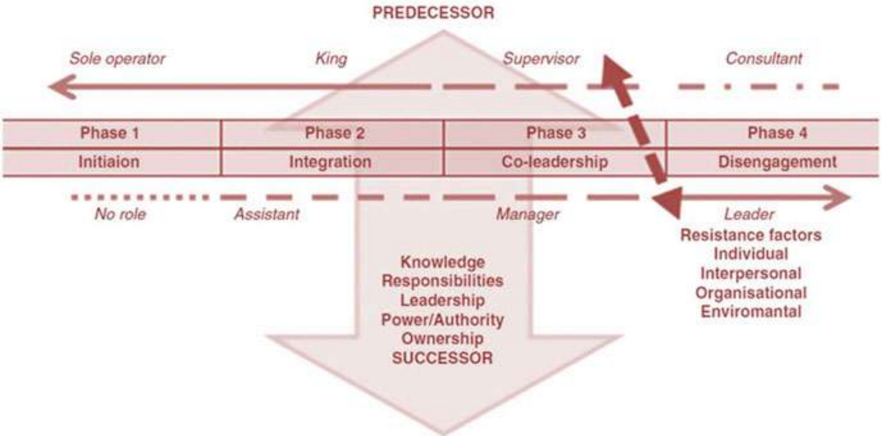

Fig. 5.5 The process of succession. Source: Based on Cadieux and Lorrain (2002, p. 6)

Disengagement is the last stage of the succession process. It is only completed if the predecessor has effectively retired and transferred responsibilities, leadership, authority, and ownership to the successor.

5.5 Summary

Succession of entrepreneurial family businesses involves the transfer of assets, capital, contacts, power, skills, and authority from one to the next generation. Even though succession is a very important process for the continuity and longevity of the business, its successful implementation is followed by problematic situations, such as whom to choose as a successor, does he/she wants it, how the family and business will react on this, how partners will accept the new situation, etc. Senior generation must accept the fact that one day they should leave the business and step out, while the succeeding generation must show a desire to be involved in the business. Further, succession planning is a very relevant part of the overall succession process, and it requires personal aspirations and family goals to be harmonized. The family business owners should design an appropriate succession plan. Typically, it is consisted of the following components: a statement of the ownership distribution, the identity of the new leader(s), training programs for the new leader (s) about their roles, a definition of the other key members' roles during the transition, mechanisms for the purchase or sale of stakes in the business, taxation and legal considerations, financial considerations, retirement considerations, procedures for monitoring the process and dealing with disputes and problems, and a timetable. Literature also provides useful succession models for the family business owners. A succession model is a frame of interconnected and complemented stages, which describes the transition path of ownership and management from the predecessor/founder to the successor of an entrepreneurial family business.

Case Study: Figaro and the Succession Issues

The beginnings of "Figaro" dates back to the 1980s of the last century, when brothers Muhammad and Yousuf had just finished the electro-technique high school and thought how to channel the flow of their life in the future. They saw themselves in business, not in state-offered jobs, perhaps among the rallies for that time. At that time, it was difficult to deal with private work in Macedonia because the political system had squandered the free initiative. In the 1990s, with the change of this system and coming of democracy, Muhammad and Yousuf began to think more about business. Initially, they were engaged in white (electrical) goods, where the two brothers had pooled their capacity: Muhammad was well acquainted with the local market, while Yousuf brought the Swedish experience and trends into business. Today in the company, Muhammad deals with finance and logistics issues, while Yousuf is engaged in sales and promotion issues.

Following the business with white goods, in 2009, they founded "Figaro," through which they offered consumers a vast range of products, around 12,000 types of products, including domestic home decoration products, kitchen products, bathroom accessories, school supplies, cosmetics, jewelry, textiles, auto cosmetics, fine work tools, and gardening equipment and tools. Usually, these products are imported from Turkey and China, while in the past they were also imported from Dubai. Some of the products are Macedonian products.

"Figaro" conducts business activity through four stores, three of which are managed by Muhammad and Yousuf and one by a franchise operator. It is one of the first companies in North Macedonia to sign a franchise agreement, as a franchisor, considering that other businesspeople in the country operating in the franchise system all are buying a world-known franchise. The intention of Muhammad and Yousuf is to expand the "Figaro" brand, initially within the country and then in the region and beyond. In addition to the stores in Skopje, in mid-2012, "Figaro" opened its online store in Sweden, enabling Swedish consumer products and quality services at very affordable prices. Also, in 2014, "Figaro" became present in Austria through the franchise system. Muhammad and Yousuf have decided to make "Figaro" an internationally known and required brand.

Figaro is known as a successful family business in North Macedonia, thanks to the so-called 3P (based on Albanian language), as Yousuf calls it, "*përvojë* (experience), *punë* (work), and *përkushtim* (devotion)." Muhammad says that "the customer is above all, to whom we always offer quality products and services at affordable prices."

(continued)

Muhammad and Yousuf have begun to slowly transfer their knowledge and experiences to the younger generations. Muhammad has three children, two sons and one daughter, while Yousuf has four children, two sons and two daughters. Almost all of the children are somehow engaged in business, from selling in the stores to the distribution of promotional material to existing and potential customers.

Muhammad and Yousuf enjoy the fact that children are very keen to be part of this family business in the future and keep up the successful track. Three of the children are studying, where one, Isa, is attending master studies in the Faculty of Business and Economics, while Esra and Kadir are undergraduate students in the Faculty of Law, both at South East European University. As they say, they intentionally chose these directions because they considered that they are in compliance with their family and business plans. Muhammad and Yousuf have not opened up the succession issues of the family business so far, but as they say, “the children are growing, and we must think too fast about these issues.” Succession in family business has proven to be a very difficult and challenging step.

Assignment

– If you would choose a successor for this company, which sibling would you recommend? Please explain, why?
– Please help Muhammad and Yousuf to write a successful succession plan!

Note: This case is written by authors based on the interview conducted with owners on January 10, 2019. Names are changed as per owners’ request.

Questions for Discussion

- How do you define family business succession?
- Explain the five areas in which the succession process requires a good management!
- Which factors affect the succession process?
- What is the importance of the succession plan for entrepreneurial family businesses?
- What includes the contents of the succession plan?
- Explain the succession process model stages! Select one of provided models in this chapter!

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Suggested Activities

- Select 2–3 family businesses in your neighborhood, and discuss the succession issues with the owner and perspective successor(s). Do they have any succession plan? Are successors willing to take over the family business, or do they plan their career outside the family business? Can you prepare a succession plan for one of the visited businesses?
- Discuss in the group what are the advantages and disadvantages of choosing a family and non-family member successor!

Keywords

- Predecessor
- Succession management
- Succession model
- Succession plan
- Succession planning
- Successor

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6 Socioemotional Wealth in Family Businesses

Learning Objectives
After reading this chapter, you should be able:

- To define socioemotional wealth
- To know types of socioemotional wealth
- To know the role of socioemotional wealth
- To know the importance of socioemotional wealth in family business
- To understand the tools and mechanisms of socioemotional wealth

Profile: Mills Property Management, Inc.
Family-owned business of Mary Jo Minor started when she purchased "management contracts" from her father in the early 1990s. The properties had belonged to Harvey, her father, who let the properties being managed by the H.E. Mills Construction, which was started by Harvey in 1949, which represents the milestone for the Mills Property Management, Inc.

Mary Jo has started the business expansion successfully; since then, it has over "1900 homes, apartments, and commercial properties, and specializes in several areas of housing, such as government financed properties, student housing, luxury housing, and association management for home owner's associations."

As expansion was successful, the sales volumes increased too. Another important thing is that transition of the family business was also successful, from the first generation to second one. Now, there is a plan to make transition to the third generation. Currently, the business is run by two generations simultaneously: second generation Mary Jo Minor and Wendy Peterson and third generation Mallory Minor and Jessica Hardt.

To help with the whole transition, the family has enlisted programs at the Prairie Family Business Association (PFBA) to help further their education

(continued)

V. Ramadani et al., *Entrepreneurial Family Businesses*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-030-47778-3_6

and give them the support they need. “Being involved in the Prairie Family Business Association is a continuing reminder that we are on a journey that is worth the effort and the sacrifice. We have access to so many resources and other fam-ily businesses that have traveled similar paths and are willing to share their story and offer support,” Mary Jo stated.

Few family members attend the seminars and training to make sure that post-transition will work well. The family is aware that the family business is a continuous journey; however, they are more cautious to make sure that all goes smoothly.

The family business’s core values are *faith-based foundation*, *integrity and honesty*, *responsible stewardship*, *honor individual*, *team and family*, and *to empower people*.

“Now over 25 years later, Mills Property Management has grown to a regional portfolio with many locations and over 2900 units.”

Sources: Ramo Palalić, based on: Mills Property Management Inc.: http://millsproperty.com/about-3/, Accessed on 27.02.2020; https://fambus.org/mills-property-management/ Accessed on 27.02.2020

6.1 Introduction

Socioemotional wealth in private companies is a very important asset. As the family business grows and develops further, it gives an impression to the public of its current status. However, perceptions about this issue are different among family members and employees, and thus, a different attitude in family firms, toward the socioemotional wealth, exists. This chapter portrays the nature and important role of socioemotional wealth and how it is being created and maintained over time. Moreover, it compares family with non-family businesses concerning the socioemotional wealth. Also, the chapter elaborates on tools and mechanisms to create the socioemotional wealth. Other issues and positive practices are explored and narrated.

6.2 Defining Socioemotional Wealth

Family business is a very specific enterprise, which differs from non-family business in many ways. For instance, one of the differences lies in firms’ *emotions* that non-family businesses do not have or less have it. It means that nonfamily business can be sold out without any or little of emotions. On the other hand, a family business is flooded with emotional binds in which owners, as well as family members, are emotionally fastened to their business (Berrone et al. 2012). For this, there are variety of reasons. Some of them are mostly highlighted by experts, like the long-term business values (Handler 1990) established, family’s tradition (Casson

1999), and maintenance of family social capital (Arregle et al. 2007; Berrone et al. 2012). Another aspect that makes owners and family members emotionally bounded to their business is the established organizational culture (Astrachan et al. 2002; Berrone et al. 2012; see Chap. 7 for more details) that truly impacts strategic decisions in family enterprises. Such intrinsic value of the family business in the literature is known as the *socioemotional wealth (SEW).* It is defined as "the non-financial aspects of the firm that meet the family's affective needs such as identity, the ability to exercise family influence, and perpetuation of family dynasty" (Gómez-Mejía et al. 2007, p. 106). This inherent value of the SEW in family businesses is accumulated perpetually through the time (Astrachan and Jaskiewicz 2008; Gómez-Mejía et al. 2007). Preservation of SEW is performed through a *traditional control of ownership* and by the same *intention of successors* of the family business (Astrachan and Jaskiewicz 2008; Gómez-Mejía et al. 2007; Zellweger and Astrachan 2008; Barros et al. 2017). That is why family businesses have a quite different behavior compared to non-family ones (Berrone et al. 2012). The following sections elaborate more on SEW's features.

6.3 Socioemotional Wealth (SEW) Dimensions

SEW is built upon main pillars widely accepted by experts. These pillars distinct a family from non-family business. As interpretation of the definition of SEW, Berrone et al. (2012, p. 259) brought five main dimensions or pillars of the SEW. The dimensions are the so-called *FIBER*:

- *F*amily control and influence
- *I*dentification of family members with the firm
- *B*inding social ties
- *E*motional attachment of family members
- *R*enewal of family bonds to the firm through dynastic succession

Family control and influence is the crucial element in a family business. All other family members, along with the *big father*,[1] wield control on important strategic moves (Berrone et al. 2012; Chua et al. 1999; Schulze et al. 2003). This control is exerted through the CEO's position or the president of the family enterprise. Many times, business owners take both positions: CEO/president and owner (Berrone et al. 2012; Palalic 2017; Palalic and Durakovic 2018; Palalic et al. 2017). Being the figurehead (big father) of the family, the business owner is often a charismatic person who easily takes control of the strategic decisions. Family control and influence is one of the ways to preserve the SEW (Zellweger et al. 2010), which makes a business a family business (Pearson et al. 2008), Also, this element of SEW gives the firm its identity, the familiness (Zellweger et al. 2010).

[1]The owner of the family enterprise. Many times, it is the *figurehead* of the whole family.

Identification of family members with the firm is another dimension, which is associated with the family name with firm's identification. This identification is very strong that the family firm's owner attached his/her name to the family business name (Berrone et al. 2012), as well as other family members. Also, both internal and external observers (various stakeholders) in this case see the business as the wing of the family. This makes an important factor (family name as the family business), whereas internal affairs (operations) will be very sensitive. In this context, it will make an influence on workers, making them committed in providing delighted services and highly quality products. On the other hand, external environment is more sensitive toward the family name. In this case, a good image should be positively maintained, because the success will partially depend on it (Micelotta and Raynard 2011). The point is that publicly established positive image of the family and the family business must be preserved; otherwise, it will be disastrous for the whole family (Westhead et al. 2001).

Binding social ties implies a perfect relationship with the society. This represents the basis for positive networks, social responsibility, two-way vendor street, etc. *Networking* is implying social touch with the current and prospective partners (clients) that will nurture the family business success. Networking is a kind of "symbiotic life" (Dana et al. 2000; Palalic et al. 2016, 2019) that small and medium enterprises (SMEs) are doing and accepting networking, as well as individuals. The main purpose of this is their mutual benefit. Being *socially responsible* gives the family a positive public image, which will yield in fruitful family business's future perspective. Positive relationships with *vendors* and traders in the society make stronger network for the family business. Even if there is no business gain to the family at the moment, however, in the long term, social welfare that the family firm provides will pay off, soon or later (Brickson 2005, 2007). It is expected that the society expects to receive something from the family, because it is the life made of "symbiosis."

Emotional attachment of family members is the fourth SEW dimension. It denotes impersonation of emotions within the family enterprise. Also, it is a psychological provision provided by the family to the firm, whereas the positive intrinsic values, attained through the long tradition, will be maintained (Berrone et al. 2012). The emotional attachment is an asset that a family has embodied into the business's name. Values, beliefs, and attitudes, being built into the firm, passed through all family's time of ups and downs, which ensured a strong emotional bond between the family and the family's enterprise. All those memories, current and future (strategic) thinking (who I was, who am I now, who will I be in the future), are building a strong reason to family business continuation (Berrone et al. 2012; Kleine et al. 1995). This dimension can be also considered as social capital of family enterprise.

Renewal of family bonds to the firm through dynastic succession is the last (fifth) dimension of SEW. It refers to succession of the family business. This is one of the most important dimensions (dynasty), because if there will be no generations who will take over the business passionately and emotionally, the business will

Table 6.1 Summary of SEW dimensions

FIBERs	Description	Example(s)
Family control and influence (*F*)	Control of overall strategic decisions and operations in the firm	CEO/business owner imposes all strategic decisions that will be implemented through the firm operations
Identification of family members with the firm (*I*)	Association of family members to family business (one identity)	A business in neighborhood is known as a famous family name
Binding social ties (*B*)	Building a constant "symbiotic life" with the society for the mutual benefits	A family firm gives support to the society's welfare (sponsors for variety of activities)
Emotional attachment (*E*)	Psychological impersonation of family members to the firm, which implies family bonds based on the long-term tradition and heritage	. . ."I cannot leave the business, because it was my whole life, the current as well as future one, and this the life of my family". . .
Renewal of family bonds to the firm through dynastic succession (*R*)	Continuation of the family business through family dynasty	Children continue to run the family business after the retirement of the *business father* or his death

Source: Based on Berrone et al. (2012)

eventually fade. So the renewal of the family bonds is extremely important, and it is reborn with new generations. Also, dynasty reflects the firm stability and signifies that the family business is not just an asset subject to sales; rather, it has an unquantified value, so much worthy. The unquantified value contains its heredity of a long family tradition (Berrone et al. 2012; Casson 1999), which supposed to be transmitted to new generations. Besides, it means the best wish of a business owner to the family business (Table 6.1).

These five dimensions make a valuable endowment of SEW in family businesses. These are worthwhile (unquantified in terms of money) benefits and advantages for the family firms compared to non-family ones. Yet, as Berrone and his associates argued "the main point of SEW is that when there is a high family involvement, firms are more likely to bear the cost and uncertainty involved in pursuing certain actions, driven by a belief that the risks that such actions entail are counterbalanced by noneconomic benefits rather than potential financial gains" (2012, p. 261).

6.4 Importance of Family's Business Reputation, Social Status and Image

Heredity of family businesses is very important. Establishing a successful family business name is hard and is a long way process. It takes sacrifice, dedication, persistence, charisma, and positive motives, which are considered challenging for a family business to face with. Also, these challenges make either positive or negative turning points in its history. The history of the family firm has absorbed

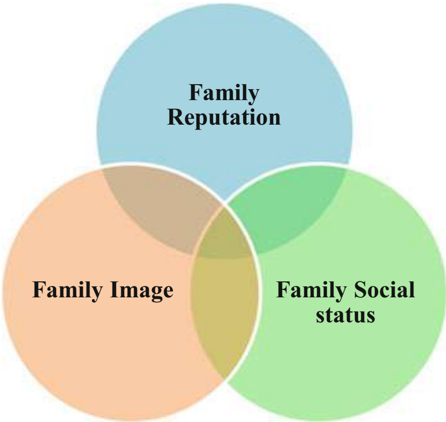


Fig. 6.1 Interconnectedness of reputation, image, and social status of a family business. Source: Based on Sageder et al. (2018) (p. 336)

all these facts and has established a family brand name. Actually, it has built a *reputation* to the family. If the family name is known in its neighborhood, the firm can extend it and make it more reputable. Figure 6.1 explains interrelatedness of reputation, image, and social status of the family business. All of them mutually influence each other, and each of them can bear the same consequences which might be positive or otherwise.

Family reputation can be defined as a precious commodity, which ensures competitive advantages and impacts overall financial performance of a family firm (Rindova et al. 2005; Sageder et al. 2018). This is one of the reasons why business owners always control the business' management (Deephouse and Jaskiewicz 2013), because reputation is the true commodity valuable for the long term of the family business. Additionally, reputation represents an extension of the family itself (Sageder et al. 2018; Deephouse and Jaskiewicz 2013; Dyer and Whetten 2006).

Family social status and image are actually a reputation of the firm in the external environment, because firm's external status and image are based on the reputation of the business itself. There are reasons why reputation is interconnected with social status (reputation) of a family business. These reasons are *strategic value*, *potential customers*, *job openings*, *access to finance*, *networking*, and *success* (Sageder et al. 2018). *Strategic value* is based on a solid image and reputation in the society. This increase the value of the family business in the public's eyes, which the society can count on. Solid image and reputation give security to current and potential *customers*. More purchases are expected from a good family business image (Sageder et al. 2015). Potential *job seekers* (Fombrun and Shanley 1990) will be happier to work for a reputable family enterprise than for the bad one. Additionally, it will be more attractive to new (quality) hires who are seeking a good company to work for. A decent reputation, along with its image and social status, will have priority in *financing* its investments. A great social reputation gives credibility to eventual new investors or borrowers. *Network* is always established upon reputable entities, because it strengthens its network' relationships. Also, current and potential suppliers will be more attached to a reputable family business than to the less

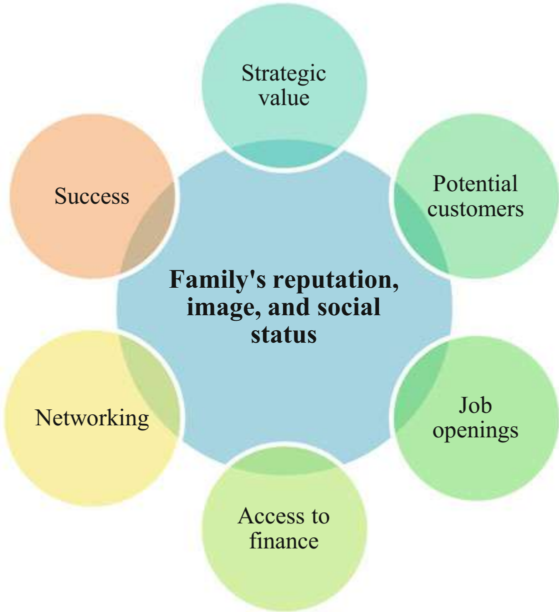


Fig. 6.2 Impact of family reputation, image, and social status. Source: Based on Sageder et al. (2018, p. 336)

reputable. Lastly, all these will contribute to overall *success* of the family firm, because external stakeholders prefer good image and reputation in the environment (Zellweger et al. 2012). These represent the long chain of the family business's sustainability (Fig. 6.2).

6.5 Family vs. Non-family Socioemotional Wealth

Family businesses are different in several ways from non-family businesses, but there is no difference from non-family business in terms of job creation (Ramadani and Hoy 2015). One the of differences is the firms' culture. For instance, regarding changes in family firms, their corporate culture influences the smoothness of adoption in dramatic periods (Hall et al. 2001). This makes easy to adapt rapid changes in the market if deemed necessary, while non-family firms are less mobile in terms of a quick adaptation to new market changes. Market dynamics can make or break the business.

Familiness in family enterprises overrides profit orientation, which does not happen in non-family firms. Entrepreneurial dynamics is at the highest voltage due to such corporate culture that is very adaptive to environmental changes (Zahra et al. 2004). It shows that the big father has advantage compared to a CEO in non-family firm, because he does not need approval to divert strategic operations required by the market needs. This family bond, and charisma by the figurehead (fig father), represents the *power of familiness* in family firms.

Some argue that family firms have better reputation than non-family ones (Deephouse and Jaskiewicz 2013). Others (Sageder et al. 2015; Blodgett et al. 2011) argue that US family firms are more into honesty and integrity, while social responsibility, eco-environment, and globalization are more related to international firms. On the other hand, Russian family firms are depicted as selfish, dishonest, and deceiving (Keplinger and Feldbauer-Durstmüller 2012). In Southeast Asia, particularly in Malaysia, family firms are observed as silent, though (Othman et al. 2011).

From another point of view, *non-family firms* are *more attractive to employment* due to a better opportunity for promotion and career. Unlikely, in family firm, career opportunities, especially for non-family members, are scarce. In terms of employee engagement, no differences between family and non-family firms are observed by Knezovic et al. (2018).

Both firms, family and non-family, have their commonalities, which are perceived in their *integrity*, *social responsibility*, *customer focus*, *social network*, and the like.

6.6 Socioemotional Wealth Mechanisms and Tools

In order to maintain the family's true values throughout the socioemotional wealth, family businesses are using certain mechanisms and tools to preserve it. This makes one of the main distinctions between family and non-family firms. The following sections explore more on this matter.

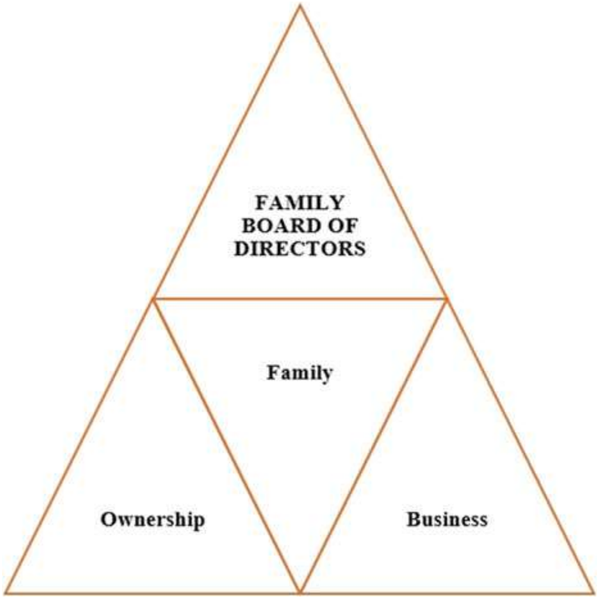
6.6.1 Family's Board of Directors

Family board of directors is one of the tools that keeps running family business smoothly based on family's SEW components. As described in Fig. 6.3, it is a kind of council (Aronoff et al. 2011) that brings together owners, top managers, and the family to jointly bring decisions on very important strategic issues. Aronoff et al. (2011) say that "in larger family businesses, a standing committee of the family council may meet once a year or more often to review policies and to arrange for redrafting as necessary" (p. 33). It controls external and internal strategic moves of the family enterprise. The board is usually a very mobile and can be gathered very quickly if some urgent situations pop up. Such mobility is due to importance to react to market needs (if not being proactive), which require a fast response of the board.

6.6.2 Family's Social and Corporate Responsibilities

Another tool to enhance the family's values is corporate and social responsibility (CSR). According to family's informal policy, the family name in the society must play a very significant role. The role is different due to the variety of situations where the family and the family business can play as one body, which will be of a great

Fig. 6.3 Family board of directors' role. Source*:* Based on Aronoff et al. (2011) and Rhodes and Lansky (2013)



value to the society. For example, society's welfare is an important item in family businesses so that it will be reflected in the long-term benefit for the family and its enterprise. Helping the society in its socioeconomic development is the greatest help that family business can do. These socioeconomic development activities can be seen in providing support for people financially, providing the firm's service, and other means. By this, the family along with its business, make a strong social tie with external stakeholder.

6.6.3 Family's Unity

The notion *unity* is defined by Distelberg and Blow (2010) as "unity as the level of agreement of individuals within a family business around a value orientation" (p. 433). Like every organization and firm, family business' components are various (The Family Firm Institute 2014). Having this, a family firm may face the challenge on how to overcome different opinions that will positively prevail and how to keep family members united, which are quite complex; and an easy answer does not exist.

If the family is big, then there is more chance that within the firm there will be different groups with different views (Nordqvist and Melin 2010). However, the milestone of the family's firm is the family tradition, heritage, and beliefs on which the firm is built. These intangible values should prevail over the dispersion of the family's unity. All members should act as one body, and only if united, the family and its business will overcome all challenges. The key factor in this situation is

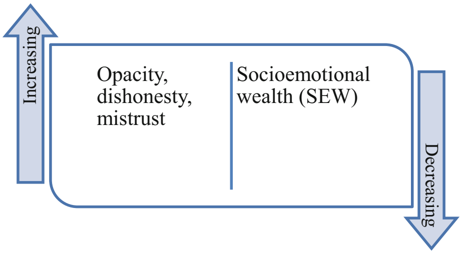


Fig. 6.4 Effects of opacity, dishonesty, and distrust on SEW. Source: Authors

associated with how strong (his influence) the big father is, who finally bring decisions.

6.6.4 Family's Transparency, Honesty, and Trust

Transparency in family business is a usual issue. According to the Family Business Consulting Group[2], being publicly available in terms of profit, sales, and revenues is not really a fashionable thing in family businesses. They truly believe that if such data are publicly available, it will jeopardize their family business' competitive advantage. That might work. However, many of them are so secretive, but the competitive advantage they have is not enough to be successful. Conversely, many companies disclosed their financial reports and still successful. To disclose or not, it really depends on firms' values they have.

According to Ball (2009), "transparency is value laden as the opposite of secrecy; that is, if transparency occurs, it conveys honesty and integrity" (p. 297). Honesty and trust are coming up together. These two conceive transparency. For example, if a family firm is not transparent, i.e., the transparency is not being encouraged in the firm, it will create doubt on the employees' attachment to the firm in the long term. If opacity, dishonesty, and mistrust will increase, the SEW will be threaten, soon or later. Having jeopardized family's SEW (see Fig. 6.4), which was due to reduced transparency, trust, and honesty, consequently reduced SEW might negatively affect the business, firm, firm's image, and reputation internally and externally.

The point is to have a transparent communication with internal and external stakeholders. As Rhodes and Lansky (2013) say: "A well-managed family business has a clear family vision and a clear business vision that includes a certain transparency about its financial matters, so that each family member knows (generally) what the others are doing. That's not to say every detail needs to be shared, but *greater transparency* and sharing of information will help *decrease tension and conflict* in the present while setting a healthy precedent for future generations" (p. 48). Transparency should be even more emphasized among siblings and other family members to avoid disastrous conflicts and family split. The following transparent steps provide a guidance that family businesses should take into consideration: Poza

[2]Available at https://www.thefbcg.com/Secrecy%2D%2DA-Family-Business-Vice/ .

(2010, pp. 10–11; 42). It should be also noted that "trust comes from information, reliability and predictability, accessibility, shared goals, emotional bonds, a sense of fairness, and transparency" (Poza 2010, p. 58). If those are absent, then mistrust will arise. Unlikely, if in family firms there will be frequent (when necessary, positive as well as negative events) update on company's turnover, this enhances trust.

To increase transparency in the firm, the firm governance should pay attention to internal and external transparency policies. The *internal transparency* is about *employment*, *promotion*, and *appraisal policy* (Poza 2010). *External policy* is transparency toward the public or external stakeholders.

Employment should be very clear for all who are dealing with recruitment. Nepotism should be avoided, because in the long term it might lead to mistrust and emotional animosity about the firm.

Promotion policy should be fair and understood by all employees, family, as well as non-family members. This will ensure that all employees will feel they are equally treated and all have equal opportunity to be promoted on their merits. Otherwise, emotional bond of firm's employees will be highly neutral, if not negative.

Appraisal policy shall satisfy all employees' expectation in the sense that all of them are familiar with the policy. The policy should strive to be just, fair, and achievable. This brings motivational aspect at higher level among employees, because they feel again equality among themselves.

External transparency: availability of financial and other data to public growth trajectory (Poza 2010). It should be one of the good practices of family businesses to ensure trust and honesty toward the public. This will bring a transparent communication with the society. If enterprise is transparent, it will increase chance for external stakeholders (suppliers, customers, shareholders) to have respectfully good image and reputation toward the enterprise. Additionally, in case of sales of company's shares, transparent financial reports are crucial. Of course, publicly available financial reports are those proscribed by the law in each country.

Growth trajectory will be beneficial to family firms when certain (necessary) decisions are taken toward it. For instance, it will be truly great to understand the position of the firm in the market, in the particular industry, and what are the steps that the family business will deploy to achieve strategic goals and objectives. This will make the family business open while its opportunity horizons expand.

Both these two segments increase reputation and improve image and trust of the family business, which positively affect family businesses' SEW (Fig. 6.5).

6.7 Best Practices of Socioemotional Wealth in Family Business

Family business is quite different from non-family business. Inception of family enterprise is based on values dominated by the family itself. Interchangeably, people identify and associate family with the firm and the firm with family. It functions as one body, and if any pains are identified on any part of the body, the whole body feels the pain. Having strong milestones in nonfinancial, intangible values, family

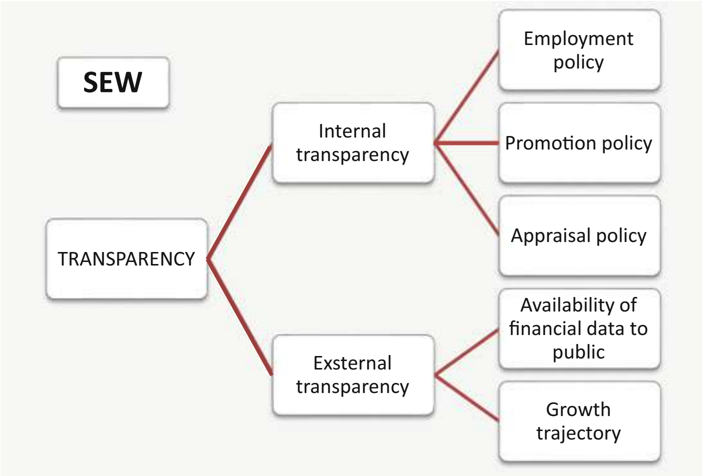


Fig. 6.5 Constituent parts of transparency within the context of SEW. Source: Based on Poza (2010, pp. 57–58)

businesses value, besides the profit, other things like trust, loyalty, passion, commitment, and dedication which all should be embodied by all employees for the sake of the family business. These inner values, which could not be many times seen, but felt only, bring treasure to the family and the firm. These values are known as SEW, mostly characterized for family enterprises. The SEW, as previously described, constitutes five components (Berrone et al. 2012), which increase business performance (Hernández-Linares et al. 2019) and inherently keep the family united. Preserving SEW in the family enterprise is one of the most important tasks the family enterprise should perform. This can be achieved through the following (Fig. 6.6):

Family board of directors should internalize the emotional attachment among family members, through policies that will be satisfactory with family and non-family members (Kalm and Gomez Mejia 2016). This means creating subtle policies from top to bottom that will be in favor of all employees. This will increase trust and loyalty, which in the long term will create emotional attachment of many employees (if not all) to the family enterprise. Everyone should feel a real family place.

Family's objective is to create a great image of the enterprise internally and externally. Internal stakeholders are managers and employees made of family and non-family members. Sometimes, preservation of SEW is illogical to the ones who do not know how the family business works, because the preservation might affect business performance of the firm. However, it should be noted that for family business, the extra financial performance is not always in its objectives. Family name, image, and reputation to all stakeholders is the most important for the family.

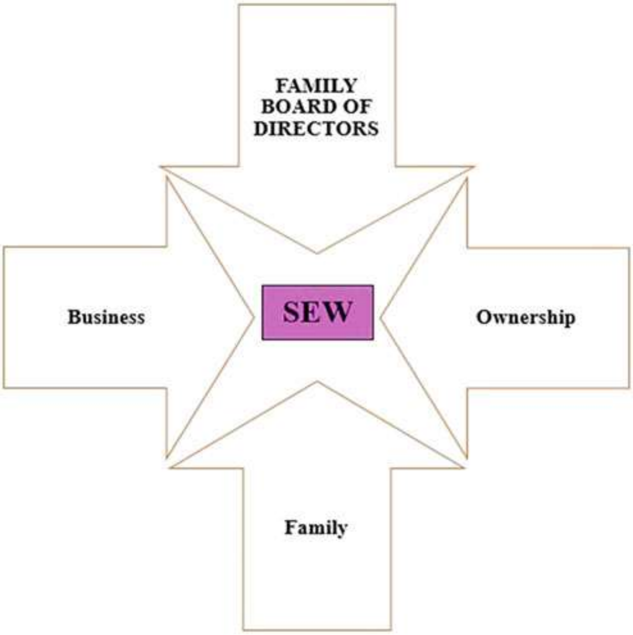


Fig. 6.6 Tools for SEW perseverance. Source: Based on Aronoff et al. (2011); Berrone et al. (2012); Rhodes and Lansky (2013)

Ownership's role in preserving SEW is to make sure that, along with the board of directors and the business, all inherited values of the family are kept and disseminated passionately among employees, family and non-family members. There are two sources for business owners to preserve SEW. They are the family's name and emotional attachment. Even if the higher price will be paid for it, *big fathers* will do it (Kalm and Gomez Mejia 2016), because owners of the business see this as priority number one.

Consequently, *business* should do all to preserve the owner's socioemotional wealth. Even if the family enterprise pays higher price, big fathers will accept it (Kalm and Gomez Mejia 2016), because owners of the business see this as priority number one. Since owners are kin to maintain the family's treasure and emotional attachment of the firm, it is the priority at the first place.

Socioemotional wealth is so important that the whole family's system, on which the firm is the based, should be guided excitedly but carefully to not make disbalance (see Chap. 7) in the family and its enterprise. Family business owners know that a family business with strong SEW, its financial performance will not an issue.

6.8 Summary

This chapter overviews the socioemotional wealth (SEW) in family enterprises. Family businesses, by its nature, tend to have stronger SEW than non-family business. SEW constitutes five important dimensions (FIBER), which family members emotionally and passionately build, improve, and advance over time. The chapter also emphasized the importance of family's reputation, image, and social status. It is explained that such triangle can build or break family enterprise. If the triangle is positive, then it brings sustainable success to the enterprise, because the external stakeholders are in favor of such family's social status. Various stakeholders elaborated who bring overall success to the family business. Moreover, the chapter has tackled the difference of SEW in family and non-family firms, which prevails in family businesses. Furthermore, it explored the SEW's mechanism as a very important pillar in building family's long-term business sustainability. These mechanism tools help the family enterprise to genuinely overcome all challenges in the internal and external environment. In fact, SEW is the key of success in the family enterprises.

Case Study: ATT LLC: Family Relationships in Family Business

The main contributors to economy of Bosnia and Herzegovina are small and medium enterprises (SMEs), which are mostly family businesses with 90% of market share. These are the ones who create the welfare of the majority of population. When someone works in such family businesses, and in most cases it looks like the ideal and happy career, it can be then reflected in ideal relationship among family members, smoothness, and lovely atmosphere. However, experience of Nedzla Greda is a different experience as one of the family members in family business who works for.

She is working in a small family business, Auto Truck Trade (ATT) LLC. It is a representative of commercial vehicles, engines, and components of the German manufacturer MAN Truck & Bus AG from Munich. It is the authorized representative of M-U-T Austria, MAN service, and WABCO Vehicle Control System (NYSE: WBC). The partners of this small business are prominent in the world. For example, WABCO is in the market more than 140 years. It is a pioneer in the latest developments of electronics, mechanics, and mechatronic technology for brake systems, stability, and transmission automation systems that are supplied to the world's leading manufacturers of trucks, buses, and other commercial vehicles.

Apart from this, the company exists for 20 years and employs 16 workers. Its first employees, aside from Nedzla Greda, are his mother (firm's CEO) and her father. Her father is working for the ATT LLC for 18 years, while her mother came recently a few years back as the CEO.

(continued)

At the beginning, all of them were thinking a family working together in the same firm, sharing space and a friendly atmosphere, comfortably working with each other, and so on, will be awesome. Apparently, it is not what the family finally has got. For example, her parents used to have a walk day after working time, which was great to relax, and at the same time to summarize the day's activities. It was when their employment was different (not in family enterprise) than now. However, such a fantastic habit is lost due to the overwhelming feeling they have every day from their job, leading them to not have time to walk and talk about the past hours any more. The reason is why would they if they already spent the whole day at the same place working on the same things

One day, her mother (CEO) admitted and told her that decision to work together with her father was the worst decision in her life. As his superior, she supposed to emphasize some things that should be done in a different way. But it is not easy. Such position brings uncomfortable situations where her mother cannot tell the mistakes of her father (employee) in front of others, because her father will lose his dignity and reputation. If she does, there is a possibility for family conflict, which may lead to family split. She (CEO) kept silent for a while and did not want to take any action or conversation at the workplace. Very soon, hidden things that should be discussed at the work have been brought to home. Her mother says that issues have accumulated over the time. Even though they enjoyed going to the job together as well as coming back from the work together, now, joint activities, such as walking, cannot be implemented. It is because if they do it jointly, they cannot release the stress. Each of them should be alone and do it separately to get rid of the stress.

Their mutual (personal) relationship had an impact on overall organizational spirit. What makes it worse is that her mother is in doubt whether she is fair to everyone or unfair to others because her husband is somehow family protected. "Is it ok?" She asked herself many times.

Having in mind that she is favoring her husband, which is reflected on an unjust treatment of the rest of the employees (although it was not the case), her mother then started to treat her husband more badly, to prove the opposite.

As time passed, she is thinking to quit this for the sake of the family. However, the dilemma is obvious which makes her confused: "Why did I come here?" She believes that she will achieve set goals very soon and then she will be able to change her job position in order to bring serenity and peace to both of them.

From this situation, Nedzla said that she has learned the life lesson to "not mix private life with business life, no matter how promising it looks like." It is very hard to be consistent and fair when working directly with family members. It is hard to keep positive emotions at the same time for the company and for the private life. Close family members (like wife and husband) is not

(continued)

promising, and it is not good, nor sustainable for the family business, in the long term.

Questions

1. What kind of problems will likely appear in the future in this family business? How should they be solved?
2. What will you recommend to Ms. Nedzla Greda to improve the family's strength?
3. Do you think that something dramatically should be done?
4. How do you see the family's SEW in this case?
5. What should be done to get back strong SEW in this family business?

Sources: Based on the story of Nedzla Greda, who purposely wrote her experience for this book (June 2019)

Questions for Discussion

- Define socioemotional wealth (SEW) in family business.
- Discuss differences of SEW in family and non-family business.
- Explain and give appropriate examples of SEW's FIBER.
- Discuss SEW's mechanisms. Give appropriate examples.
- Explain the family name in the context of the society and social responsibility.
- How family enterprise's emotional bond differs from non-family one? Please discuss it with appropriate examples.

Additional Readings

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- Ramadani, V., Bexheti, A., Rexhepi, G., Ratten, V. & Ibraimi, S. (2017) Succession Issues in Albanian Family Businesses: Exploratory Research, Journal of Balkan and Near Eastern Studies, 19(3), 294–312.
- Ramadani, V. & Hoy, F. (2015), Context and uniqueness of family businesses. In Dana, L-P. & Ramadani, V. (Eds.), Family Businesses in Transition Economies: Management, Succession and Internationalization (pp 9–37), Cham: Springer.

Suggested Activities

- Select two family and two non-family enterprises. Make an interview with business owners of each and try to identify SEW among those. In your comparison, which one has the strongest SEW compared to others? Identify reasons.
- Select a family business and arrange an interview with the business owner. Try to get insights about dynasty in the firm.
- Select two to three family firms in your neighborhoods. Investigate each firm's image status in the society. What prevails for good and bad image of the firms?
- Based on the above assignments, compare four non-family firms and see differences.

Keywords
- Socioemotional wealth
- FIBER
- Family's unity
- Control and influence
- Family's identity
- Binding social ties
- Family's image
- Family's reputation
- Family dynasty
- Emotional attachment
- Family's CSR
- Family's transparency
- Family's mechanisms

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Human Resource Management in Family Businesses 7

Learning Objectives
After reading this chapter, you should be able to:

- Define human resource management (HRM) in family business
- Understand the importance of HRM in family business
- Understand the roles of HRM in family business
- Identify the key elements of employees' status in family business
- Know how to recruit talents in family business
- Understand the meaning of recruitment, training, appraisals, compensation of employees in family business
- Identify best practices of HRM in family business

Profile: MIBRAL, LLC
The current CEO of MIBRAL LLC (limited liability company), Ms. MBS, runs the family business, which is in Bosnia and Herzegovina for over 40 years. She is an expert in HRM, whereas she has completed bachelor studies in Austria, and MA in Australia, with a specialization in Human Resources (HR). Apart from this, she was working in mining, and in construction industries, with 10 years of relevant work experience. This valuable experience paved the way for her succession of the family business in 2011. From the year 2011 onwards, she is the CEO of the firm MIBRAL LLC. The company has 40-years long history, and it is a family company started by Ms. MBS's father, Mr. MB. The company changed many forms of corporate structures, where in socialism it was first registered as a crafts shop, then as a private company, following to sole proprietorship, and finally, in the year 2001, they changed its form of organization to existing one—MIBRAL LLC. It is exclusively a project-oriented firm, where the number of employees depends on some obtained projects. Company MIBRAL LLC is the leader in the Canton Sarajevo in this area of construction works, but the problem with

(continued)

V. Ramadani et al., *Entrepreneurial Family Businesses*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-030-47778-3_7

the nature of the work is that they are invisible (underground works), yet very important for everything. On the other hand, the company's other works such as regulation of river flows, sanitation of landslips, and construction works of high-rise buildings are evident. The company's core business is low construction, water supply, and sewerage, reconstruction of landslips, and regulation of water flows. Much time is devoted to internal organization starting as from administration, technical preparation for projects, finance, and information technologies. The work of the company is combined with office and fieldwork, performed by a team of around 20 employees, who collaborate jointly in drafting, preparing, and implementing these projects that are complementing each other. In fieldwork, MIBRAL LLC employs construction technicians, leading masters, drivers, and assisting workers. All these workers are very important, and if they present themselves through their performance as efficient and hardworking that is very crucial for the company, and they are to be kept in the company's team, even during the winter season, when they do not perform a lot of work. In that part of operations, the company had around 90 employees in 2018 and in 2019, 120 workers, among which some are loyal and have been working with the company for 20 years so far. The CEO of the family business says that the human capital is highly important and valued in this company, and by all means, they try to keep them as part of their team, by investing in their education/training skills.

According to the CEO, they have restructured HR to follow strategic human resource management (SHRM). It means that the family firm tries to introduce strategic planning for the new employees regarding their recruitment and professional development. This applies to the current employees as well. One of the company's aims is to direct the capacities from internal existing structures, training of deficit craftsmen to keep the company running, as well as to be able to expand the company's activity and to expand overall in the business. For this aim, the strategic aim is necessary that will enhance the healthy growth of the company. The company's success is measured in various ways besides profit.

The ISO standards that the company has introduced and implemented help this business a lot; it is essential to certify and recertify, it is a must that the company operates and complies with it. By them, it means, specifically, the Balanced Score Card is the right way to measure a company's success. These parameters come from the company's processes, type of machines, the success of bids, public procurements in the field of public procurements in percentages are monitored, how many offers, how many jobs, finished jobs without any complaints, and everything is concerning the parameters. All these are a substantial part of the HRM activities. The key goal of MIBRAL LLC is to maintain a leading position at Sarajevo Canton and the special accent is given on the water supply and sewage system works, to maintain a leading position

(continued)

in this area of business activity. However, one of the keys to success is a new HR policy that will promote talents and skillful employees in the future.

Source: Based on Palalić and Bičo (2018, pp. 29–32).

7.1 Introduction

This chapter overviews the human resource management (HRM) role in private firms, providing the best guide to the whole organizations. As a powerful tool, HRM mediates between the top management and employees, providing both sides their satisfaction. Thus, the content of this chapter stresses the general practices in HRM while providing the best ways regarding employees' welfare, rights, and obligations. Additionally, it describes how private firms try to get the best talents necessary to contribute to firms' growth and development. Moreover, other motivational means like appraisals, compensation, professional training, and development of employees in private firms are depicted.

7.2 HRM in Family Businesses

Human resources are important in every organization. It should be noted that it is good to have the *strategic human resource management* over *administrative human resource management*. The main difference between them is that *strategic* one pays more attention to have a great human capital that will contribute to the firm growth and development. The *administrative* one is human resource that deals mainly with, let us say, Law regulations and procedures, and does not stress the importance of human capital, its skills (Knezović 2018). The following text represents the strategic human resource because it is important in family businesses, who will work for the family.

7.2.1 Defining HRM in Family Business

HRM is an enigma, which is solved from different tringles, depending which business is the one the HRM works for. If that is a nonfamily firm, then the HRM gets its function well, becoming very strategic. Moreover, large corporations rely on HRM to get talented employees (fully strategic) who will add values to the corporation in the long term. However, if it is about a family business, then the HRM role, sometimes, is not played well (administrative mainly). Diminishing HRM's role in family businesses will be negatively reflected in business performance. Since HRM deals with human capital, which is valuable and precious firm's asset (Knezović et al. 2020), it is good for a family firm to have an HR department that will act strategically, beneficial for the company.

Human resource management deals with employees' issues mainly. Different definitions might be derived depending on what perspective is taken when this notion is defined. One of the simplest definitions of HRM is given by Ivanovic and Collin (2006) as "responsibility for an organization's productive use of and constructive dealings with its employees (p. 128)." It is in line with another conventional definition of HRM, where the Boxall and Purcell's (2010) definition described HRM as "an inevitable process that accompanies the growth of organizations (p. 29)." The conventional HRM covers the following activities (Armstrong 2009), but not limited to:

- Human capital management
- Knowledge management
- Organization design and development
- Resourcing (workforce planning, recruitment and selection, and talent management), performance management
- Learning and development
- Reward management
- Employee relations
- Employee well-being (p. 6)

However, regarding the HRM in family businesses, Ransburg et al. (2016) define the HRM as the "*human resource cycle*," which includes *recruiting, selection, onboarding, development, and exit* (p. 19). The model (Ransburg et al. 2016) explains the role of HRM, which is based on a family's values and vision translated into culture, which is implemented through the "HR cycle." Figure 7.1 represents the model proposed.

As per the proposed model, it is seen that HRM is actually mediating roles between employees and the employer in family businesses. It promotes family values and vision throughout the business while the business culture becomes family/corporate culture of the firm. Recruiting, selection, welcoming to the board (onboarding), and development are purposely adjusted to the family's values and vision. Exit happens usually when bounding family values are no longer attached to employees. In other words, when there is no emotional attachment any more from employees.

7.3 Why Is HRM Important in Family Businesses?

Micro and small businesses do not see HRM as a very important instance for smoothly running a family business. it might be due to its size. Now, the question is how big HR team should be in a family business so that it will continuously bring a good firm's system in which all employees, as well as owners of the family business, will be satisfied at least. Well, this depends on different situations. However,

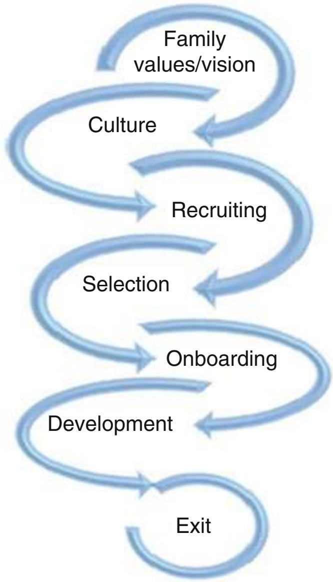

Fig. 7.1 HRM model in family business. Source: Adapted from Ransburg et al. (2016, p.19)

foremost, it will depend on how big a business is. Figure 7.2 explains how the HR is supposing to grow as the number of employee growths. Generally speaking, the number of employees is being taken as one of the company's business performances (Palalić 2017; Palalić et al. 2017, 2018).

Figure 7.2 implies how family businesses should grow their HR office as they grow. It means that every company is supposed to recognize their need for HR's size. As family business grows, the HR size grows too. So there should be a natural evolution of the HR in family businesses. In the beginning of the family startup, the HR represents the founder. Once it grows bigger (more than 10 employees), there should be an HR administrator who will take the simple tasks of HR and other transactional activities within the business. After sometimes, when the business is much bigger than before, HR should be a small group in family business, which will be responsible for the transactional as well as for basic organizational development activities. Lastly, when the family business is perspectively higher and becomes a large organization, the HR evolves into strategic partner, which will be involved in creating a strong HR infrastructure. Moreover, such a strategic partner will have HR department whose focus will be on the organizational development of the family business.

On another side of the coin, business owners very often do and perform all roles necessary once the business is still small. They play as CEO/leader, marketing manager, finance manager, HR manager, etc. Being a versatile leader/manager brings sometimes a doubt into employees' smoothness on their daily tasks. It is because he or she as the leader is interfering in all activities of every employee, which leads to dissatisfaction of employees and a decrease in their job performance. Moreover, their commitment will not be delightfully high because they feel that they

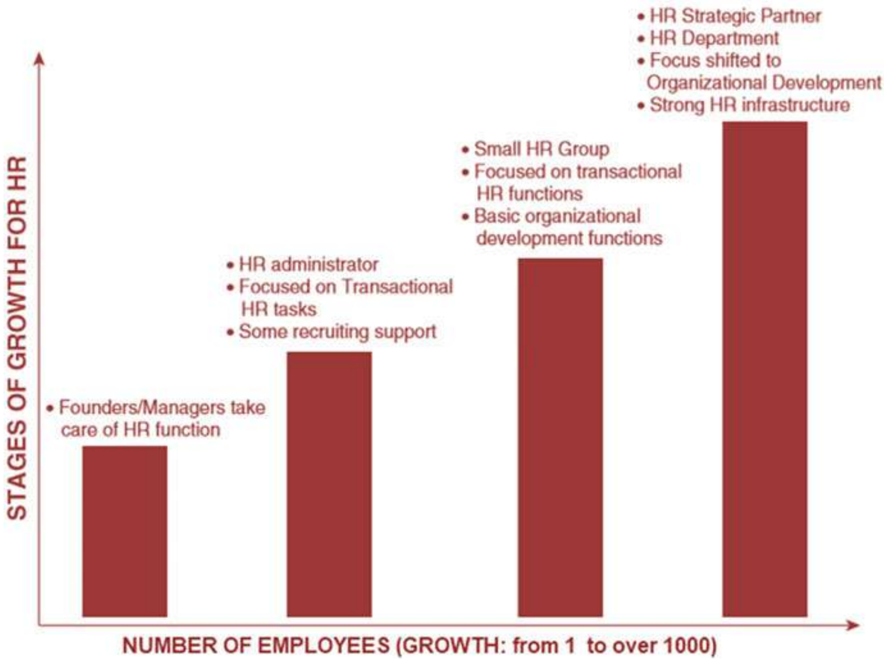

Fig. 7.2 Evolution of HR through a growth of employee's number. Source: Adapted from Ransburg et al. (2016)

are being discredited by the leader in every single step they do. Of course, not all micro and small businesses have this business philosophy. And, this philosophy is not always intentionally implemented.

Having said that employees are being controlled and monitored for every task they do, the HRM's role is to resolve such issues and bring consistency in family businesses. From family business perspective, HRM is to convince owners that they can put trust on their employees because the HRM will recruit the *right people to the right bus*. It means that recruitment will be done in the best of HRM knowledge to select *right people* that the family business needs. More details are given under Sect. 7.4.

7.4 Recruitment of Talents in Family Businesses

Recalling Fig. 7.1, the HRM in a family business is based on the family's values, its vision, and the aim that they exist. As family business leaders plan the future of the business, they also plan to make sure that newcomers will follow the firm's vision, values, and the family's future horizons. Unlike the conventional way of recruiting, where candidates are pulled out from a big pool of candidates, family business recruitment does this quite differently. Having in mind its purpose, its values, and vision, they are always supposed to think of those *talents* that can fit these three milestones of the family firm. It happens in many family businesses (many times calls as a private firm) that potential employees are recruited by business network recommendations, which have more influence on business owners in trusting new workers. However, before the *selection* of a new team member, the founders ask questions about whether the employee will fit their values, purpose, and vision of the family business. If so, selection can be done. This selection is usually done in a spontaneous, relaxed, and unofficial way. As Ransburg et al. (2016) has suggested, the recruitment and selection of talents should be done in a very official, systematic way. This systematic way includes (p. 20):

- Description/terms
- A range of means to assess candidate fit
- A clear process for making hiring decisions and negotiating terms of hire
- A planned process for introducing new hires—especially family employees—to the firm

Descriptions and terms imply job descriptions with its terms and conditions. According to these, the family will recruit and select the best one that will suit the firm and family too.

A range of means to assess candidate fit represents different tools to evaluate candidates whether they will fit the family's business or not. There might be involved different questions that they will unveil candidates' both technical and (inter) personal skills, which many times for family firms is very important, if not the most important value.

A clear process for making hiring decisions and negotiating terms of hire means that a family business should have a clear process in recruiting and selection as well as negotiating terms and conditions, so that the process shows its professional outfit of the firm. It gives a transparent outlook for the company regarding the whole process of recruiting and selection. In the eyes of candidates from one side, and also it will ensure that everybody is treated fairly, from another side.

A planned process for introducing new hires—especially family employees—to the firm. This means welcoming the new employees to a *family*. It is also called *onboarding* or *induction* program for new hires. All new employees (family as well as nonfamily members) should be introduced to the firm. This *induction* actually is a *two-way street*, where employees try to fit the family business and, the family tries to get to know new family members. Thus, there is a probation period for new hires to make sure that all parties, the firm (family members) as well as new ones, are satisfied with each other.

After a successful adjustment to a new firm, HR office should, as it grows (Fig. 7.2), propose development and training (see Fig. 7.1), and continue with other HR policies. Section 1.5 treats these important components of HRM's activities.

7.5 Compensation, Welfare, Rights and Obligations, Appraisals, Training and Development in Family Businesses

Compensation refers to employees' *benefits* they receive from an employer. Benefits can be financial and nonfinancial. *Financial* benefits are compensations paid to employees like salaries, overtime, kind of appreciations, etc. Studies showed that family businesses pay approximately 20% lower salary than nonfamily businesses (Bassanini et al. 2013) due to the firm's ownership structure, a high proportion rate of low-wage workers, as well as decrease in salaries during crisis time (Hoon et al. 2019). Moreover, Michiels et al. (2012) revealed that compensation depends on who owns and manages the family business at the same time. If it is owned and managed by family members, then compensation tends to be lower. Similarly, Yu et al. (2019) argued that nonfamily managers in family firms are less compensated than nonfamily managers in nonfamily firms. *Nonfinancial* items that count values of compensation are usually the ones given along with salaries. These include, but they are not limited to, medical insurance, commuting, vacation, free parking, company's car and phone, free meals, etc. All these financial and nonfinancial compensations are to improve and enhance the working performance of employees. Compensation retains the current firm's staff, and attracts potential ones.

Employees welfare is related to different perks that a firm provides to its employees. As attractive salary represents one part of compensation, welfare is also an additional bunch of benefits for employees such as providing additional education, paid parental leave, child care on firm's premises, attractive annual leave, sick leave, off days, etc. All these make employees better and more loyal to firms. Regarding family firms, owners/managers/CEOs should have in mind to design and provide an appealing policy to its employees through the HR department that will formally and justly implement it. Many family-owned firms do opposite (especially in transition economies) and employees are treated like slaves, because they do not work regular hours, but over time and on a monthly basis it goes beyond 250 hours/month. Such practice will be diminished if they will do as Fig. 7.3 suggests.

To conclude, employee welfare is a tool that brings a win-win situation for both, family businesses and employees. Family firms will have and attract new talents that the firm needs to perform well in the market, while employees need to be treated fairly, which could be reflected in employees' loyalty to the firm.

Rights and obligations of employees in family firms should not differ from rights and obligations in nonfamily firms. This protects both, the family and employees from unexpected acts that can lead to unwished ends. Rights and obligations should be proscribed by a Contract that both parties, the family business and an employee, have signed. Both parties try to implement duties and rights.

Appraisals or ***performance appraisal*** is "a formal management system that provides for the evaluation of the quality of an individual's performance in an organization"(Grote 2002, p. 1). It is an HRM system by which performance of human capital (employees) is evaluated, and with such performance feedback, the system tries to improve the performance of employees to help a (family) firm to

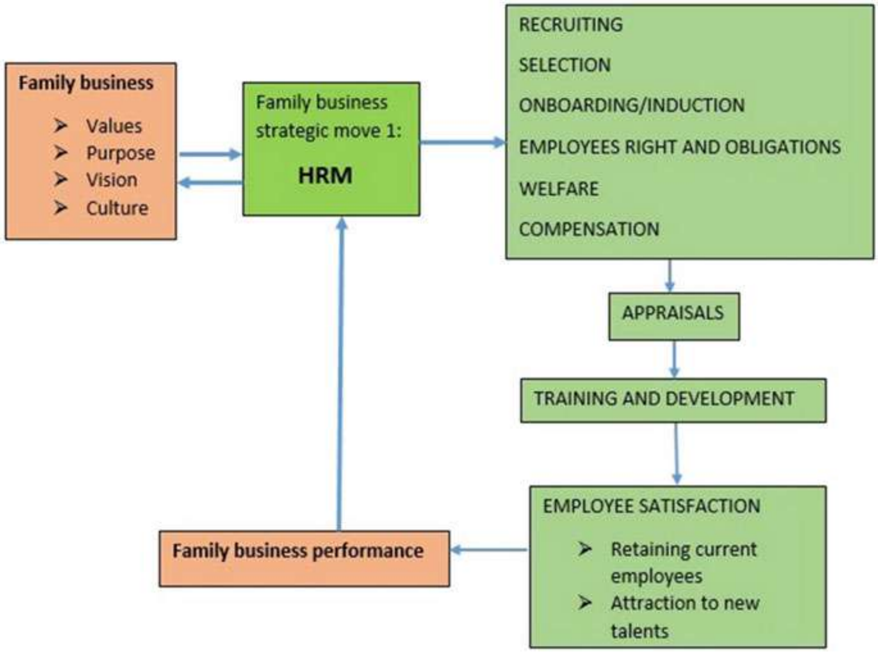

Fig. 7.3 Positive practice that family firms should implement. *Source:* Authors (based on the whole theme)

develop and grow. Regarding performance appraisals in family firms, it is not clear how the process is done. Due to family business complexity, ownership structure, family values and vision, and culture that is established, family business is still an open area to investigate and to propose adequate guidance on how it should be done. Many times, it is done informally and in the way that suits the family's values. In this context, the loyalty to the firm is asked at the first place, and the rest can be done informally.

Training and development for family firms can be seen as an expense, and thus family-owned firms tend to use informal training practices, on-site job trainings (Kotey and Folker 2007). But this depends on the size and organizational structure of the family firm. As the family business grows financially and in the workforce, more formal training and development occur. According to Loan-Clarke et al. (1999), it is more likely that investment in managerial training and development will be less if more family members are in the management team. However, if there is a systematic approach to training and development, motivation of employees, as well as their satisfaction, will increase (Sánchez-Marín et al. 2017). Anecdotally speaking, employees like, especially in family firms, an atmosphere of fairness and profession, which will bring eventual welfare to them. However, family firms prefer to be more informal (Urtilla and Torraleja 2013) concerning the implementation of formal human resource development practices showing their *familiness* (view of some business owners: no need to be formal because we are the family), but this may lead to dissatisfaction of employees in the long term. Neckebrouck et al. (2018) argue a lower investment in training in family business compared to nonfamily. Yet, it has a higher voluntary turnover in comparison to nonfamily businesses.

7.6 Positive Practices in Family Businesses: What Should Be Done?

Human resource development (HRD) practices should be used much better in family firms than it is currently used. Family businesses should work on every aspect of HRM especially on "structured training opportunities, job-related development programmes" (Hoon et al. 2019, p. 154) while informalities should be avoided. The following positive things could be implemented so that a family business will have positive, long-term performance and credibility, and being attracted by new hires. If so, on the other hand, it would retain the current employees as proposed in Fig. 7.3. The figure is explained in the following steps:

Pre-step The inception of a firm. Setting up **family vision, values**, and **purpose** which will be later on reflected in family business **culture**. The firm starts to think about why they exist, and it sets up its milestones to move on.

Step 1 **Establishment of HRM**. One of the first things that a family firm should do is to establish human resource management department. The inception of the firm, if started with low number of employees, is not mandatory to have the HRM department. However, it should be there in its business planning, and as the business expands, the HRM department should be established. Many times, family businesses consider introducing new departments as additional costs, but it should not be so. It is because the HRM department will establish an objective system that the family business will help in its long-lasting and attractive business from its partners as well as from employees.

Step 2 **Written procedures** *regarding recruiting, selection, onboarding (induction/probation periods), employee rights and obligations, welfare and compensation*. These procedures are so important that protect the family firms from being biased, unfair, and unjust. *Recruiting* new talents is very challenging to HR task and written policies should help to overcome eventual issues and attract talents that will fit the family business's values and vision. *Selection* criteria should be very transparent, objective, and formal. It gives, for instance, new talents credible picture about the firm. Otherwise, even if a candidate is selected, he or she will lose motivation to be hired because of informalities that the firm implement. Regarding *onboarding/induction/probation* HR is crucial to test the new talents whether they can fit the firms' vision, and vice-versa, whether the firm fits the candidate expectations. During the probation period, new employees should be familiarized with their *rights and obligations, welfare* that the firm provides to them, and *compensations* (although financial compensations like salary and wages are negotiated during the selection period).

Step 3 For existing employees, family firms should have an ***appraisal system*** that will be objective and formal. At the induction period, new hires should be introduced with this policy. Appraisal performance diligently tells the best what is the status of employees' performance in the firm. After the appraisal is complete, firms should undertake the next step to improve employees' performance, training, and development.

Step 4 **Training and development.** When employees are shown below acceptable level of working performance, the HR department examines the causes of such low performance. After discovering the cause of the problem, the HR proposes certain training or professional development for them. The training can be done in house or outside the firm, but it is good to be done outside of the firm, because sharing experience with colleagues will improve the working performance, and it will be more motivated and feel appreciated in general. This will lead to **employee satisfaction**. Current employees will feel valued, and new talents will be attracted when hearing that the firm takes care of its employees in terms of professional training and development, and provides them the chance to improve themselves.

Step 5 When employees are satisfied, rarely their performance will be in question. So overall, they will be satisfied, committed, and improve **firm performance** from their perspective. Firm performance is an overall performance of the firm in terms of sales, revenue, and profit. Sometimes firm performance could also be nonfinancial, which is related to employees–customers relationship (customers/clients are entertained very efficiently and in a very effective way).

Steps 6 and 7 The HR department will get **feedback** on the firm performance and it will **discuss** with the family firm management. Joint discussion will lead to new strategies regarding the HR department. Either family business owners/managers propose, or HR department does so.

7.7 Summary

This chapter treated human resource management role in family business. As the family business expands, the need for HRM is more. Its expansion requires new talents that should be attracted and retained. With proper policies and practice of the HRM department, family businesses can expect that the company will be more able to retain and attract new hires. The chapter overviewed basic models and parts of the HRM that every family business should have.

The chapter ended with the positive practice that family business should do. The proposed steps are good guidance for family businesses to be more formal, which will bring more positive things. Moreover, the firm's performance of family business is dependent on human capital as nonfamily businesses are. Somehow, employees should be reeducated, retrained, and professionally more developed to perform better. This can only happen if the *family* accepts the role of HRM as a very important strategic partner in developing and growing the family business.

Case Study: Importance of Strategic HR in Family Businesses

"Privatna Muzicka i Baltska Škola Amadeus" (Amadeus, Private School for Music and Ballet) is in the market for more than 10 years. This is a family-owned music school. It has its branches across the whole of Bosnia and Herzegovina. This company operates on principles whereas the firm's management belongs to the company's family, while teachers are mostly nonfamily members.

The *rights and obligations* are different for family members than others. Relatives that worked within the Amadeus School in 2010 were engaged in many projects. Mr. Faris Nuhanović's position at that time was as a Project Assistant. This was the first year in his career that he worked in this sector. At that time was involved his father, Maestro Emir Nuhanović, the founder and supervisor for the whole company (school). His brother was a Director at the time, and his cousin was a Project Manager, and one lady was a Marketing expert.

Usually, obligations of projects are huge and challenging, because one small mistake can ruin the project. Once the school has organized concerts the following roles were distributed. For the artistic part, the responsibility was assigned to his father, Maestro Emir Nuhanović, who did not have any issues in delivering his part, and always it was with outstanding results. Yet, his father is a workaholic with his daily hours load between 10–11 per day. Duties regarding the support for organizing the scores, printing themes, designing the scene that will attract the audience, managing sponsors, and external partners are prerequisite for a good artistic part. These duties were assigned to his cousin and the Marketing expert. However, his cousin never worked for more than 6 h. He always used long breaks, and he was not really hardworking and dedicated. The informal policy in the firm was that if something goes wrong in the process, they gather and discuss. However, his cousin and the Marketing expert were always absent for such issues, while Faris and his brother went home after the discussion on those issues with their father, not earlier than that.

The implication is that he and his brother, along with their father, had to work overtime due to laggardness of his cousin and the Marketing expert. They did it to avoid any conflicts in the family at first place, and the business too.

Even further, the situation did not really change. Another big project in the history of their company has been organized as the concert, which was one of the biggest in the history of concerts in Bosnia and Herzegovina. The biggest

(continued)

conductor of the modern time, Ricardo Mutti, had come. It was a special event because it was organized and performed with the biggest orchestra, choir, and with Mr. Mutti. For such a project it all had to be organized well. This included many things, among which sponsors, hotel transfers for the orchestra choir, and other participants are most important. As the project manager, his cousin had to organize all this on time and without big issues. He needed to call all of the hotels and get attractive offers; drivers for soloists and the like. Based on their previous experience, his cousin failed again. Faris and his brother took over all responsibilities during that event because if the responsibilities left to his cousin, collectively they would fail. Fortunately, they succeeded.

The outcome of the story is that the Law in Bosnia grants certain rights and responsibilities. Obviously, in this case, the rights granted are used efficiently, but not responsibilities. However, the family business had mistrust from one of the family members. On the other hand, the family business management did not want to split family, but to keep it united. Apparently, there were different views and attitudes toward responsibility that each family member takes. This led to underperformance even though employee welfare was pretty good. There is a hard time in family business, but issues must not be set aside.

Some businesses suffer from this syndrome, and in order to hide this problem, they work harder. Therefore, another option is to recruit the right people for the right job. This story reveals shortcomings regarding the absence of strategic HR.

Note: Faris Nuhanović has written this case for this book purposes (June, 2019).

Questions for Discussion

- How would you define HRM in a family business?
- What is the key difference between conventional HRM and HRM in family business as model(s) propose(s)?
- Explain the importance of HRM in a family business, with appropriate examples.
- Discuss terms employee compensation, welfare, recruitment and development within the scope of a family business.
- Discuss recruiting talents for a family business when you take into consideration the definition of HRM in family business.
- What are the best practices regarding compensation and development and training in a family business?

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Suggested Activities

- Find one family business and one nonfamily business. Try to find a difference in terms of HRM. If you find a difference, explain it?
- Select three family businesses from your area that operate in different sectors. Try to identify HR growth (from Fig. 7.2) from their inception until now. Make implication of that comparison!
- Examine nonfamily and family businesses from three different sectors regarding compensation. Make a report in which you will see which sector and which firm (nonfamily or family) has higher employee turnover.

Keywords

- Human Resource Management (HRM)
- HRM model
- Compensation
- Training and development
- Onboarding/induction
- Employee satisfaction
- Business performance
- Appraisals
- Welfare
- Rights and obligations
- Selection
- Recruiting

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Conflict Management in Family Businesses 8

Learning Objectives
After reading this chapter, you should be able to:

- Define conflicts in a business
- Understand the importance of conflict management in family business
- Know different types of conflicts and sources of conflicts in family business
- Understand the culture as the mediating role in conflicts
- Apply positive practices of conflict management in your future career

Profile: Family Unity in Muhic Trans LLC

A family company Muhic Trans deals with different types of businesses. In the first place, it provides transportation services for Bosnia and Herzegovina as well as for other countries in Europe. Secondly, the firm deals with exporting of the furniture produced by Standard Furniture Factory to Europe. Thirdly, it imports paper, aluminum, and shoes to Bosnia and Herzegovina. Muhic Trans was established in 2003, and had only 20 workers, out of which 10 of them were family members. Today, this company has 69 employees, and it is considered as one of the best companies for transportation in Bosnia and Herzegovina.

This story is based on the real experiences of one of the family members, Elida Muhic. Elida is employed in the HR department for 2 years. Her job is to act as the liaison between HR and employees in the company. Moreover, she deals with HR processes like recruitment, selection, *Source:* ©Elida Muhic termination, and retention. Elida considers her duty as very stressful because she is responsible for the candidates' applications. She has the authority to hire and terminate employees, which makes this position very responsible and stressful. However, she is satisfied with this job position because she gained skills and knowledge in the field of HR.

(continued)

V. Ramadani et al., *Entrepreneurial Family Businesses*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-030-47778-3_8

According to Elida, the company's primary aim in the beginning was to make a business that would be operated by family members and relatives only.

This plan had to be changed when the CEO of the company, Suad Muhic, realized that only a few of his workers are actually professional truck drivers. In fact, he employed nonfamily professional truck drivers who are supposed to obtain the majority of transportation services. Moreover, experienced drivers had the task to train those less experienced employees. After a few years, the company achieved a high success. Since the demand for transportation services became higher, the company had to expand and employ more workers. The CEO then reinvented other departments to distribute the work among his relatives. This shift was very smooth without any serious conflicts. All responsibilities were assigned without any hard *negotiations*. The CEO has stressed the importance of the unity of the firm by spelling out the firm's unity, by which all of them will gain.

Today, the company has 55 trucks at its disposal and 69 employees, out of which 50 of them work as truck drivers, and 19 of them work in different departments. Although Muhic Trans became a big company that deals with international transport, it is still considered as a family business where the biggest part is operated by relatives. *The family unity is the key to their success*. In this context, Elida said that even after 16 years of operating, the business achieved a huge success. It is mainly because of the family unity and great family interrelations.

Source: This case is written by Azra Bunjo, in June 2019, for this book purposes.

8.1 Introduction

Like every other business, a family firm is not safe from conflicts, whether they are created intentionally or unintentionally. Sometimes, the organizational design and/or organizational culture can cause conflicts that might result in a bad image of the whole organization. This chapter overviews the most critical elements in conflict management that can happen in family businesses as it happens in other organizations. The best practice and examples of how such conflicts are solved are provided in this content. The role of organizational culture, as well as the best approaches in resolving these issues, are elaborated. Other important issues related to conflict management that can be applied to family businesses are explored.

8.2 Why Is Conflict Management Important in Family Businesses?

All family businesses had or have conflict issues in one or another way. Working together as family members is not necessarily a bad thing, but also it means different ideas and views on certain issues. Differences in individual perceptions bring valuable brainstorming and a rich pool of creative stuff. However, when different opinions are followed by emotions, feelings, criticism, this becomes a turning point from which conflicts become alive. Many times family members keep these feelings hidden and their emotions which are not on the surface, but, there will be time at which members will argue with sensitive feelings and emotions. If such emotions exist, they should be spoken out, regardless they are bad or good ones. Otherwise, conflicts will not be solved.

> Everyone carries a shadow, and the less it is embodied in the individual's conscious life, the blacker and denser it is. If [a problem] is conscious, one always has a chance to correct it... But if it is repressed and isolated from consciousness, it never gets corrected and is liable to burst forth suddenly in a moment of unawareness... At all counts, it forms an unconscious snag, thwarting our most well-meant intentions. (Jung 1938, p. 131)

These disagreements and conflicts are aroused, to some extent, due to informalities that many times family businesses have. Thus, it is of great importance to solve all issues and manage conflicts efficiently in the best possible and effective way. There should be a mean that can avoid and solve eventual issues in the family business. Hence, *conflict management* plays an important role in avoiding conflicts in family firms, because if it would take long, it might lead to business failure as well as family split. Managing conflicts is not easy, rather it represents one of the challenges in family firms that might lead to polarization and eventual split of successors. More about conflicts, its type, and conflict management role will be elaborated in the following sections.

8.3 Nature of Conflict Management in Family Businesses

Family business system (Fig. 8.4) is truly a gray area in which conflicts can arise. It is because family members might have different perceptions. Different perceptions create discussions, which lead to agreements and disagreements. If disagreements prevail, emotions fuse and the atmosphere is being boiled. Mixed emotions many times conceive something that counterparts will perceive as an offense or something that opposes the party's opinion. Such offensive debates lead to nothing but *conflicts*. Now, the question is how to diffuse emotional debates (avoid the conflict) and turn them into cooperation and collaboration (which is the best option) among family members.

This depends on many factors that happen at the moment of conflict. Also, it depends on which type of conflict it is about and, who are parties involved in the

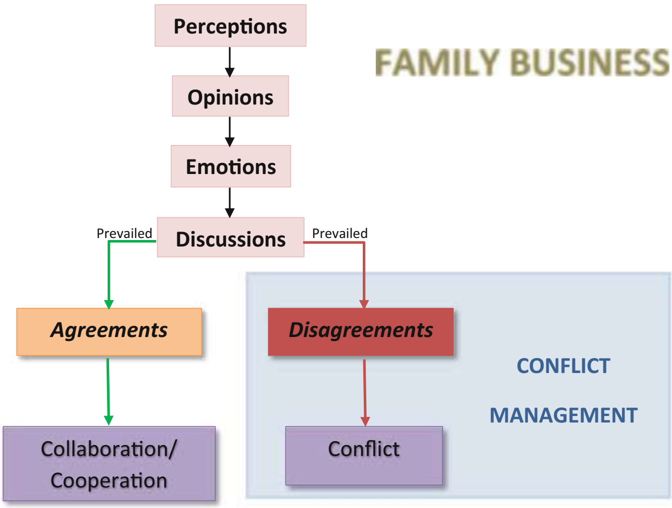

Fig. 8.1 Process of conflict and conflict management in family business. Source: Authors

conflict. If all mentioned things are taken into consideration, the conflict management process might deviate. The basic process of emerging of conflicts and their resolution are presented in Fig. 8.1.

8.3.1 Definition of Conflict Management

Conflict management resolves issues when family members have disagreement, and it protects the family and its business from failure. **Conflict management** generally belongs to *group processes,* and that is how a "certain group in an organization manages conflict" (Robbins and Coulter 2012). It could be also defined as "the use of resolution and stimulation techniques to achieve the desired level of conflict" (Robbins and Judge 2017, p. 505).

The above processes can be observed in nonfamily as well in family businesses. Its nature is the same, and the only difference is whether the group is formed of family or nonfamily members. The ***purpose of conflict management*** is to avoid or prevent and to resolve any conflicts in family business. As presented in Fig. 8.2, when agreements prevail, conflict management takes a part to resolve issues. The aim of conflict management in this case is to turn disagreements into *cooperation* if not *collaboration.*

In case conflicts continue, the family's integrity, image (see more details in Chap. 6), and publicity can be destroyed instantly. It is very important to emphasize here that not only family business will be destroyed if there is no conflict management to resolve issues, but the family itself will be in limbo. If no succession, then there will be no successor too.

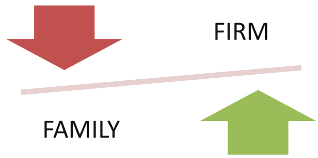

Fig. 8.2 (Dis)balance in a family business. Source: Authors

8.3.2 Types of Conflicts

Conflicts in a nonfamily business are easier to resolve than in a family business. Deep feelings and emotions are not that huge as in the family businesses because family members feel themselves as the part of the business, which belongs or will belong to them. Also, they think that they are the ones that should fight for the business and the family. Likewise, all who care about the family business feel responsible and that is why there are times when family members have very hard and huge disagreements among themselves.

It should be noted that all disagreements or conflicts are not necessarily bad issues in family businesses. On some occasions, it brings new positive horizons to the business and the family itself. It is necessary sometimes to put the things on the table because if not, it will create the *gray area* from which many bad things can evolve. In this context, Robbins and Coulter (2012, p. 354) argue that there are different views regarding conflicts. These are "*traditional view, human relations view, and interactionist view*" (Table 8.1).

Traditional view of conflict says that it is a group problem and must be avoided anyhow. They do not leave or allow any space for disagreements to raise because it might be too late that something could be done. Again, it is about the family and family's business. Precautions are the key.

Human relations view of conflict perceives that we are human beings, and naturally a group of people will have different opinions. However, those opinions should not be necessarily negative, but to bring new positive insights in the business.

Interactionist view considers that conflicts which are happening among groups must happen and it is good, because the group will be turned from a low performance group into the effective one. The protagonists of this view argue that there are two sides of conflicts, "functional" and "dysfunctional." *Functional conflict* is achieved

Table 8.1 Views on conflicts

Views on conflicts	Descriptions/ attributes	Causes	Perceived consequences
Traditional	Unwanted	Anything in the firm	Disastrous
Human relations	Natural	Human beings working together	Destructive, constructive
Interactionist	Natural/enforced	Groups with different opinions	Functional, dysfunctional Positive, negative results

Source: Based on Robbins and Coulter (2012, p. 354) when the conflict is at its minimum and produces positive results and being very constructive. When functional conflict becomes very toxic, destructive, damaging, and hampers group's goals to be achieved, then it emerges as a *dysfunctional conflict.*

8.4 Conflict Sources in Family Business

Informalities in businesses, in general, leverage disagreements as well as conflicts. These non-procedural things are related to internal picture of a business, and they provide rooms for possible differences in opinions and views regarding certain issues. Let us look now at how conflicts slowly arise. Figure 8.3 represents the establishment of the *balance* in family business, by which it *differs* from nonfamily businesses.

In Figure 8.3 is represented a challenge that family business owners might have. If the balance is breached, then the business will be disbalanced. Such disbalance could be seen in managing, for example, family members and nonfamily members unfairly. Or, rights and obligations are not the same for family members and nonfamily members, etc. All these inequalities based on any kind of discrimination lead to many disagreements, problems, and eventually to conflicts. Figure 8.3 hides something that is the milestone for the family business, and thus, it is somehow obscured to see what really causes disbalance. Figure 8.4 reveals the complexity regarding managing the conflict in family firms.

The **family business scheme** is a complex system (Fig. 8.4) that shows a structure in which all three components are interconnected and interrelated. Now, which one has priority? *No priorities in these circumstances and everything is a priority*. Having such a system (complex) means that the *balance* in family business (Fig. 8.3) is very difficult to retain and maintain. Yet, if a firm is running business very well while internally is more informal than formal, then it is just a matter of time that the informalities will destroy smoothness of the firm. To avoid such disasters, as discussed in Chap. 7, it is necessary to have formalized all procedures so that *family* will not come to conflicts because the "cake" made of *ownership* and *firm* itself is very tempting for the rest of family members.

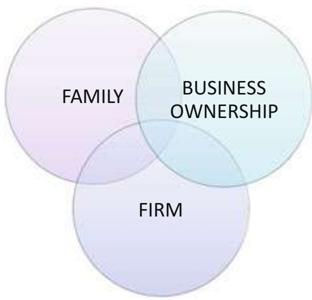

Fig. 8.3 Complexity of family business scheme. Source: Adapted from Ransburg et al. (2016, p. 22), The family firm institute (2014)

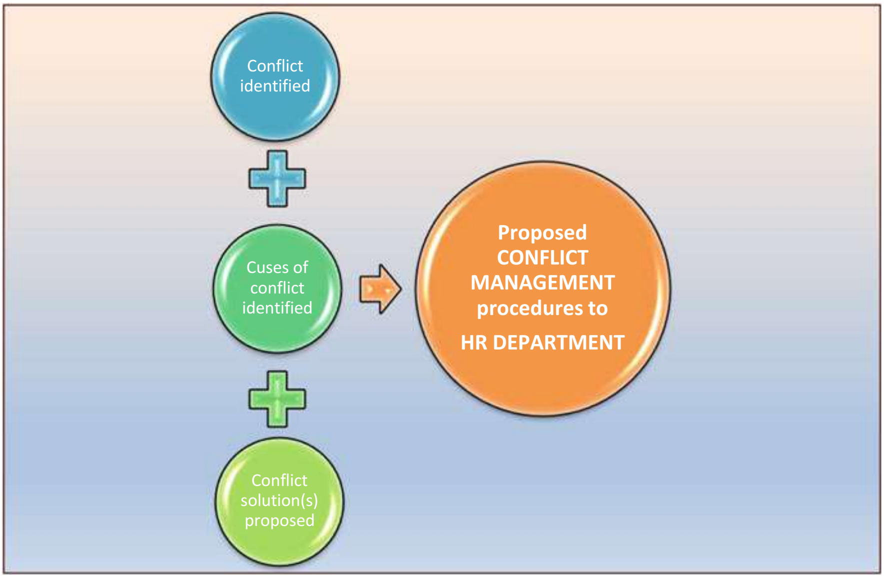

Fig. 8.4 Post-conflict report in family firms. Source: Authors

To manage conflicts, there should be a deep understanding of why someone fights for some things in family enterprises. Then disagreements or debates will be meaningful with positive outcomes. Accordingly, Rhodes and Lansky (2013) argue: "Part of managing conflict well lies in the commitment to accept change, to understand that it will have an impact, and to explore how change in family or business affects key stakeholders" (p. 28).

Let us look at more details of the whole system that represents the key milestone of the family enterprises.

Family is another system, which is also strongly interrelated to the other two, the firm ownership and the firm (Fig. 8.4). This part of the system is a special triangle that might be based on family blood, marriage, espousal, etc. All of them are possible future successors with possibly different views of the family business in the future. This system we can call it a privately owned space, exclusively built for family members.

Business ownership is made of those who have shares in the ownership of the family business. Usually those individuals are the ones who belong to the family. However, frequently they are a business founder's friends or other individuals who are not related in anyhow to the family.

Firm is conversely different system from the above ones, and it is established to make revenue that the whole family can benefit from it. Usually, if a firm is still small, most of them are family members, but could be nonfamily members too. If the company grows, most of them may be nonfamily members because family members try to get higher positions in the firm.

8.5 Role of Organizational Culture in Mediation, Negotiation, and Group Problem-Solving

An active player in family firms is the organizational culture. It can bring solutions for certain issues aroused from disagreements or conflicts. **Organizational culture** can be defined as: "the coherent pattern of beliefs and values that represent acceptable solutions to major organizational problems" (Zahra et al. 2004, p. 365). It assumes values and beliefs on which certain behaviors are understood or proscribed within an organization (Detert et al. 2000). As sometimes it is represented as an unwritten rule, and sometimes it is written in detail. It should be noted that, besides the role in situations when conflicts illuminate, organizational culture also nurtures other processes in the family firm that gain its sustainability in the market.

Family culture differs regarding the pattern per se. The reasons are the firms' history, ownership origins, type of business, and the like (Gersick et al. 1997; Zahra et al. 2004). Thus, it is very difficult for competitors to replicate the same organizational culture (Zahra et al. 2004; Dierickx and Cool 1989). At the same time, many family firms want to be genuine in business they run, as well as in managing the firm's employees. Thinking of organizational culture in family firms, this alludes to something inner, deep and ambiguous, and it is understood only when someone works for the firm. However, for family enterprises the organizational culture, besides absorption of conflicts, "is an important strategic resource that family firms can use to achieve a competitive advantage by promoting entrepreneurship and enhance the distinctiveness of these firms' products, goods, and services (Zahra et al. 2004, p. 373)".

Organizational culture must be applied in a way that all employees are accepting, by their heart, this proscribed behavior, and if implemented justly, the satisfaction will be increased, for both family and nonfamily members (Mustafa et al. 2018).

Negotiation in family firms is a very important aspect. Supposedly there are two parties and both of them try to get what they wish to. In other words, negotiation should conceive the best outcome in common, the win-win solution. This is an art and skill to achieve commonly accepted solutions. In this context, **negotiation** is "a process in which two or more parties exchange goods or services and attempt to agree on the exchange rate for them" (Robbins and Judge 2017, p. 508). The bottom line is that most of the negotiations that happen in nonfamily firms, the similar ones are happening in family businesses. The intensity, dynamics, and styles of negotiations differ because of different history, origin, and other factors that make the family firms genuine.

The nature of *negotiation* is that it can happen in any situation (within a firm), at any managerial level (between managers at different levels), at different levels (managers vs. employees), and at a personal (between employees—individuals) level. For instance, regarding *employee versus employee*, negotiation is happening when one of them needs to replace each for some time, or some tasks, whereas the one who accepts this replacement will have the same or similar in the future. *Managers versus managers* do negotiations regarding priorities to successfully achieve group tasks (overlapping duties or similar). *Lower manager versus higher*

Table 8.2 Negotiations within family firms

Negotiation level	Parties involved	Examples
Low level	Employee vs. employee	• Replacing each other for some duties or tasks for future opportunities.
Low to middle level	Employee vs. manager	• An employee asking a higher salary for a constantly great performance. • An employee tries to get additional education from his/her supervisor.
Middle	Manager vs. manager	• Managers try to negotiate regarding the overlapping duties of their subordinates. • Managers trying to create cross-unit teams.
Middle to high level	Middle manager vs. higher rank manager	• Middle manager is trying to get more empowerment from the higher ranking manager that will enhance group productivity. • Middle manager negotiates with the higher rank manager for new hires.
Top management	Top managers	• Negotiations regarding strategic planning. • Negotiations on operational departments.
Family business owners	Owners of the family firm	• Negotiations on family business vision. • Negotiations on family business succession. • Negotiations related to financial and human capital planning.

Source: Authors

rank manager happens when it is necessary that the group needs some extra means to achieve set goals or asking for new hires. *Top managers negotiate at their level*: strategic planning, operations among departments, while business owners in family firms have negotiations about the main pillars that constitute the family business (Table 8.2).

The family business counts on that from all employees. It is supposed that all employees should contribute equally without big demands. However, no negotiations can be guaranteed, but they can happen in any situation. *Family owners* have debates on strategic, financial, human capital, and succession planning.

Similarly, to internal negotiations in family firms, family firms do negotiations in external environment. These negotiations can happen between two or more family firms, between clients and suppliers and so on.

8.6 Positive Practices in Conflict Management

Conflicts in family firms happen at all levels of interactions. Every situations and place where people interact paves the way for potential conflicts. Conflict constitutes of differences in terms of opinions/views, disagreements, perceptions, and the like. When conflicts impede organizational, team, or group productivity, it alerts that issues aroused at organizational, departmental, divisional or unit, even at individual level, must be addressed appropriately. Addressing issues of emerged conflicts or preparing for future conflicts (Table 8.3), that could be at different levels, as proposed below, are crucial in conflict management.

Organizational level: as a manager/supervisor/team leader As the leader always encourage the following:

- *Promote conflict management practices in your working environment.* When practicing conflict management there should be no negative reflection on employees' productivity or achieving organizational, departmental, or unit's goals. Be the exemplary person who will always rely on communication because where communication is over, conflicts emerge.
- *Be aware of human beings as different individuals*. When practicing conflict management, bear in mind that people (family and nonfamily members) are created in such a way that they are different so are their opinions. Respect it.
- *Be aware of consequences during the conflict management process*. Some people, being different individuals, tend to make a vengeance so this could have negative consequences. Always be alerted and cautious of such possible cases.
- *Prepare yourself for conflict management process*. Prepare materials for conflict management cases in which you will exactly know what should be asked, how, and whom. Simply, always be ready.
- *Be just when bringing the final decision*. All parties in conflict should be treated fairly. Never take any sides. In the final decision, always think of the firm and

Table 8.3 Positive practice to prevent/overcome conflicts in family business

Conflict management level	Steps
Organizational: manager/leader/ supervisor/team group leader	• Promote conflict management practices in your working environment. • Be aware of human beings as different individuals. • Be aware of consequences during the conflict management process. • Prepare yourself for conflict management process. • Be just when bringing the final decision.
Teammate/workmate	• Inspire your workmates to talk to each other. • Be direct. • Witness fairly. • Never take any sides and respect all parties.
Individual/personal	• Be aware of problematic issues. • Respect your colleagues and co-workers. • Try to be helpful. • Listen carefully to your family members (workmates). • Suppress your bad feelings toward other family members.

Source: Authors

your people, your family, and the final goal is to have a successful family firm with satisfied and happy people.

As a teammate/workmate: as a co-worker in conflicts, you are encouraged to do the following:

- *Inspire your workmates to talk to each other.* Try to persuade them by telling that constructive and positive conversations will avoid any doubts in each other and it will bring positive results. Remember, you are the "family." Cooperate and collaborate with nonfamily members to feel that they can contribute to the family values. Embody emotional bonds in them.
- *Be direct.* Be always direct in your conversation and never hide something that may provoke later negative feelings to your co-workers.
- *Witness fairly.* If you will be called for a witness duty, never lie or tell something which is not true or correct. Neither tell additional things which are not necessary for this particular case because it can complicate the current situation. Do not exaggerate.
- *Never take any sides and respect all parties.* Being positively neutral, you will be able to facilitate a positive conflict resolution. Your neutrality is a must because you are not a part of the conflict. If you take any of the conflict sides, then you will only boost conflict and make it worse. Always show respect to any party in conflict because this will give your personality credibility to resolve the conflict positively.

You are an individual as others. Sometimes it happens that you may cause issues that will lead to conflict. Or, you will be able to avoid it. As an individual, you should always:

- *Be aware of problematic issues.* Try not to create any issues that may lead to conflict. Recorrect yourself always.
- *Respect your colleagues and co-workers.* Show respect to your colleagues in every situation. By this, you might create a positive attitude toward you, and the whole atmosphere in the firm. It is natural that you like to work with someone who gives respect to you and he or she is helpful. Nonfamily members should learn from you about being a great, fair, and honest person.
- *Try to be helpful.* Help means a lot if you give a hand to your workmates. Even when someone is angry and has some issues, help him or her to overcome when they are annoyed or offended. Your job is to disseminate positive vibes and help all parties to overbridge emerged issues.
- *Listen carefully to your family members (workmates).* Be his or her ear when your workmate talks to you. With focused listening you will gain respect and credibility, which you can use in resolving issues among your workmates (family or nonfamily members). Be a good listener.
- *Suppress your bad feelings toward other family members (co-workers*—family or nonfamily members*).* Never allow yourself to be easily outraged or furious with

certain issues caused by your co-workers. Always be direct, and honestly advise them to do great things that will be good for them, the firm, and the family.

When conflict is settled and collaboration or cooperation is started, then it will be fruitful to make a *report (post-conflict report)* on that conflict, by highlighting the main *causes*, *outcomes*, and *solutions* given for a particular case. The whole report should be a part of HR policies so that the whole process (policy) could be improved and advanced (Fig. 8.4).

Last, but not least, the following should be noted:

> Learning to manage conflict effectively is important for anyone involved with a business family—whether you are the founder and want to turn your business over to your children, or a member of the second generation working with (and trying to get along with) parents, siblings, and brothers and sisters-in-law, or a member of the third or later generation trying to maintain the legacy of previous generations while looking to the future and working within a large and ever-growing network of family relationships (Rhodes and Lansky 2013, p. 20).

Case Study: ALAFDAL: Conflict on Succession

In September 2012, I was having a cup of coffee with a friend of mine, Muhsin Ali, who was a production manager at the ALAFDAL steel company. The ALAFDAL is a family-owned metal manufacturing company specialized in fabricating metal doors and fences. The ALAFDAL factory was located in Sahab, Jordan. The company was founded by Muhsin's father Mr. Ahmad in 2006 and has been operated by members of the family including Mohsin, who graduated in 2009 from the University of Jordan, as an industrial engineer.

In Jordan, family businesses are being considered as a sign of family's unity and coherence. For example, starting and maintaining a successful family business that carries the family name in Jordan, it means that the family is consistent and that the family members are close and loyal to each other. Also, establishing a family business in Jordan is a mean to build a good reputation for the family's name in the society, which gives significant importance and reputation to such family names.

While we were sitting, Mr. Mohsin discussed with me what was the reason for closing ALAFDAL Company in 2011. He started by stating "Family businesses most of the time represent a highly attractive environment for conflicts and problems, which is caused by personal greed, jealousy and anger." Mohsin said that he was constantly asking his father to construct a future plan for running the company and allocating the duties in case of losing the CEO of the company. The CEO is the one who represents the main pillar in the family businesses. It means that everyone else in the business is attached to the CEO. "My father always avoided this topic as it will never happen, ignoring the significance of such plan," Mohsin said.

(continued)

In 2011, Mohsin's father and CEO of ALAFDAL Mr. Ahmad died, leaving behind the company for the family members who were running the business. However, there was no plan of action for what to do in this case. Unfortunately, this case led to massive conflicts about who should be the CEO now, and who will run the company and take decisions. Suddenly, Mohsin's oldest uncle decided that he should be the new CEO. He justified this view as the only reason being that he is the oldest in the family after the death of Mr. Ahmad. However, he had less than 2 years of working for the company compared to other families who had more experience, and they joined and dedicated themselves since the company's inception (2004).

That is why Mr. Mohsin was insisted and has said that the loss of the CEO will be disastrous without a smart future plan on the firm's succession. Instead, the plan will determine how to take control in this situation, who will be responsible, how duties should be allocated, and how eventual damaging unsolvable conflicts will be settled. However, conflicts aroused and they could not be settled within the family members. Moreover, disputes led to interpersonal problems and conflicts among family members, which damaged families' relationships and public credibility of the family and its business. Unfortunately, the conflicts were never solved and eventually they led to shutting down the company.

Based on the story, the following recommendations are provided.

Firstly, the case shows the importance of future planning (succession plan) in family businesses to avoid such circumstances.

Secondly, therefore, the family business needs to construct a clear-detailed plan of how to run the business.

Thirdly, this plan should be designed in the presence and participation of all family members who are operating the business. However, in Mohsin's case, if the unfortunate loss happened without the plan preconstructed, it might be good that Mohsin hires an outside management company specialized in managing businesses. It could run the business for a certain period of time, until conflicts are resolved, and decisions are made to avoid the complete loss of the company.

Assignment:

- If you disagree with the above suggestions, how would you choose a successor for this company, what would you do? Please explain, why, why not?
- Suppose that the business is still running, and you want to help Mohsin to write a contingency plan that would avoid any serious future conflicts in the family business, how would you do it? Any priorities?

Note: This case is written by Ahmed Meqbel, in June 2019, for the purpose of this book. Names are changed as per family member's request.

Questions for Discussion

- How do you define conflict management in family business, and does it differ from nonfamily business?
- Discuss sources of conflicts in family business!
- How would you explain family business system?
- Discuss types of conflicts?
- Explain the role of culture in family business regarding its mediation in conflicts, negotiation, and problem-solving?
- What would you consider as best practices regarding conflict management in family business?

Additional Readings

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Suggested Activities

- Select four firms of which will be two nonfamily firms and two of them family business. Make an interview with CEOs/owners and report on conflicts and how did they solve them.
- Simulate a family business firm with all possible members. Make an organizational chart of family members as well as on nonfamily ones. Try to replicate conflict in the firm and make mediation by conflict management as it was in the Fig. 8.4.

Keywords

- Conflict
- Conflict management
- Negotiation
- Post-conflict report
- Family business system
- Organizational culture
- Problem-solving

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Internationalization of Family Businesses 9

Learning Objectives
After reading this chapter, you should be able to:

- Understand the motivations and challenges of family businesses when moving abroad.
- Know the different entry modes for competing in new foreign markets.
- Identify the international strategies needed to meet the expectations of new markets to serve.
- Assess the role of the family and outsiders to successfully operate in foreign markets.

Profile: Pollo Campero: "Please Don't Put the Fried Chicken in the Overhead Bin"

If you are in a plane leaving Guatemala, this is a common message that you will hear while boarding. This is a dedicated message for the migrants and tourists leaving this Central American country with their Pollo Campero orders. Even though Pollo Campero ("Country Chicken") has 80 restaurants in the United States as well as other ones in Ecuador, Spain, and Italy, those who reside in the United States still get in line at the airport kiosk to buy their "original" fried chicken: tender, crunchy, and juicy.

In 1971, the first Pollo Campero restaurant opened in Guatemala City after descendants of the Gutierrez family saw the chance for offering fried chicken to add value after receiving chicken farms as repayment for loans. Francisco Perez de Anton, a Spaniard cousin-in-law, bought a patent in the United States to make the chicken juicier and the formula was a success. Dionisio Gutierrez G. was the first family leader to run the business until his sudden death in an air crash in 1974. The next generation led by Dionisio's sons and nephews took over the business while still in college to expand and professionalize the operations.

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V. Ramadani et al., *Entrepreneurial Family Businesses*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-030-47778-3_9

Initially, the restaurants followed the traditional fried chicken meal that you can get in US restaurants with French fries, a bun, and coleslaw. The restaurant started to open new outlets throughout Guatemala City and open its first stores in El Salvador in the middle of the 1980s. Also, the family opened a small kiosk store in Miami, Florida that closed after its first year of operations. Leaving the US market caused the company to enter a battle with another individual who stole the brand to start a copycat Pollo Campero in Southern California. Because of the branding battle, the company opened the airport kiosks with the warning that the family did not sell the original Pollo Campero chicken in the United States.

In 2002, the company won the legal battle for the brand and reentered the American market. Once Pollo Campero USA opened its doors, the long lines of customers waiting to buy their chicken resembled those made in Moscow when the first McDonald's opened in Russia. Multiple news stories ran from New York City, Los Angeles, Chicago, and Washington, D.C. about how people waited for hours to buy the Latin fried chicken.

Pollo Campero USA adapted its traditional menu to meet the Latino consumer market in the United States and introduced rice, beans, tortillas, and different sauces. A big milestone involved the opening of the only fast food restaurant in Orlando's Downtown Disney. It also signed agreements with Walmart to install small kiosks and restaurants in Walmart stores where the Hispanic community was more prevalent. However, the company was unable to replicate its Guatemalan success in the expansion. Currently, Pollo Campero uses franchises and company-owned stores to reach 207 restaurants with a goal of operating 500 by 2025.

A company restructuring made Pollo Campero refocus its Asian expansion. Initially, the Walmart alliance also included to operate in China. However, the company changed plans after the fried chicken did not get the same level of support in both China and Indonesia. The family also faced direct competition from Kentucky Fried Chicken and other low-cost competitors in the Guatemalan market. The family answered with adding Pizza, home delivery, and launched Pollo Granjero ("Farmer Chicken"), a low-cost chain of kiosks that replicates former Pollo Campero self-service stores. Pollo Granjero has 627 outlets operating in Mexico, Guatemala, El Salvador, and Costa Rica.

Currently, Pollo Campero is investing close to $14 MM to renovate its Guatemalan locations. Meanwhile, the Gutierrez family has diversified into a conglomerate of companies that compete in areas such as finance, real estate, coffee shops, and food to become one of the richest families in the Central American region. Perez de Anton retired from Pollo Campero by the 1980s to become a prized novelist.

(continued)

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9.1 Introduction

The opening profile sets the tone for the importance of seeking options to keep a business competitive. Even though, the Gutierrez family was successful to replicate the success of Pollo Campero in El Salvador, the fried chicken chain has had its setbacks when trying to operate in other countries. Moreover, leaving the Guatemalan market to explore opportunities abroad made Pollo Campero to lose market share and face new competitors. Similar stories have created the myth in families to stay at home, enjoy the success of the domestic market, and prepare the next generation of family leaders before moving abroad (e.g., Hennart et al. 2019).

This chapter covers the challenges that entrepreneurial family businesses will encounter after the discovery of opportunities outside its domestic market. The global markets offer an array of business and trade opportunities regardless of the family business type. After reading the chapter, students will learn about the motivations and challenges for family firms willing to expand to the international area; the needs of family businesses to understand how to expand and to which foreign markets; the different entry modes for international expansion; the strategies to adopt; and the involvement of the family to support the expansion.

9.2 The 750 Largest Family Businesses in the World

Before exploring the potential internationalization options that small- and medium-sized family firms can have, it is useful to acknowledge that at a global scale, one can find larger and established businesses that are also family owned and controlled. These companies have been capable of attaining success in their home markets and expanded their offerings of products and services to other parts of the world. Family business researchers have been noticing that the first action that manufacturing family firms take abroad is the exporting of its main products (e.g., Arregle et al. 2017). Then, those firms operating in retail or services (like the Gutierrez family and the Pollo Campero restaurant chain) opt for establishing family-owned stores and later go for franchising and/or licensing agreements. Once these companies have attained growth in domestic and foreign markets, they will pursue the opening of

Table 9.1 The 10 largest family businesses in the world

Rank	Company	Family	Founded	Country	Family owns	2017 Revenue (in US$ BB)
1	Walmart Inc.	Walton	1945	USA	51%	$495
2	Volkswagen AG	Porsche and Piech	1937	Germany	52%	$277
3	Berkshire Hathaway	Buffett	1955	USA	38%	$239
4	Exor NV	Agnelli	1899	Netherlands	53%	$171
5	Ford Motor Co.	Ford	1903	USA	40%	$157
6	Schwarz Gruppe	Schwarz	1930	Germany	100%	$128
7	BMW AG	Quandt and Klatten	1916	Germany	73%	$118
8	Cargill, Inc.	Cargill and MacMillan	1865	USA	88%	$110
9	Tata Sons Ltd	Tata	1868	India	73%	$100
10	Koch Industries	Koch	1940	USA	84%	$95

Source: Family Capital, https://www.famcap.com/the-worlds-750-biggest-family-businesses/ (Accessed: March 1, 2020)

equity to outside investors and engage in alliances or establish subsidiaries abroad. In the end, their practices will resemble those of nonfamily firms.

Family Capital has been collecting data for ranking the 750 largest family businesses in the world in terms of revenues. Table 9.1 places the ten largest with Walmart at the top of the list. Some interesting facts are the following:

- 380 are publicly-traded firms.
- 129 were founded before 1899.
- 228 operate in the retail sector.
- 347 are based in Europe.
- The 750 have average sales of $11.8 billion and 42 thousand employees.

More details and information for these and other family businesses can be found in Appendices 1 and 2, provided in Chap. 1.

9.3 A Model for International Expansion

An international expansion can be seen as an entrepreneurial event for the family because past (or current) success in the home market does not immediately transfer abroad. The family can perceive this process as the business is starting again under

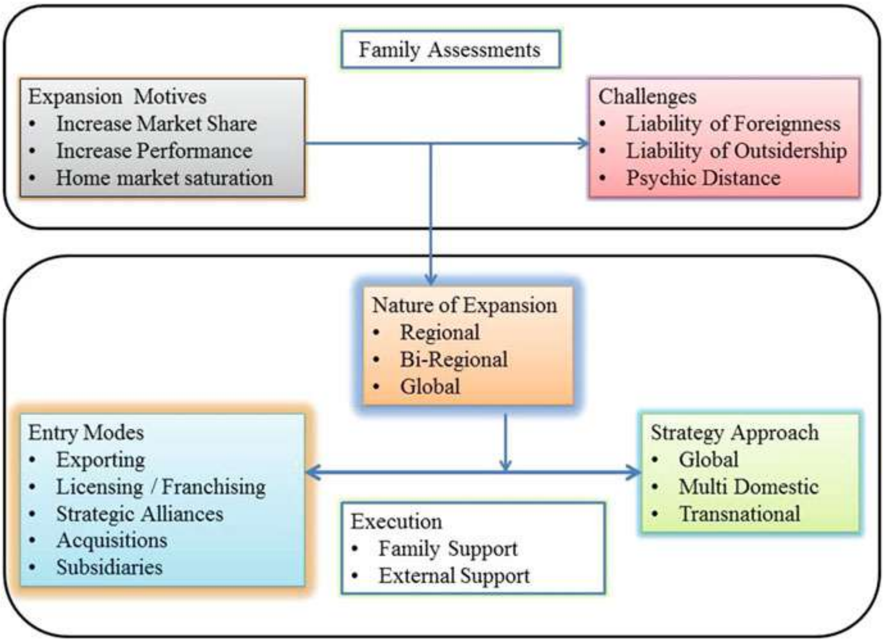

Fig. 9.1 A model for internationalizing the family firm. Source: Adapted from Hennart et al. (2019), Johanson and Vahlne (1977), Rugman and Verbeke (2004)

new market conditions. Even the largest family business in the world, Walmart, was unable to replicate its low-cost strategy in Germany as it faced tough competition from German retailer Aldi, another family business, and it was also forced to leave South Korea (Hunt et al. 2018). Thus, a family business with fewer resources and no prior international experience is most likely to endure failures and performance delays during the initial expansion stages as it has no history or lack particular elements of being recognized by the consumers in the new region(s) of operations.

Figure 9.1 provides a model that family businesses can implement for exploring options to expand operations outside their home markets. This model is developed from conceptualizations, empirical findings, guidelines, and implications given by family business researchers (e.g., Arregle et al. 2017; Hennart et al. 2019; Zahra 2003) and international business researchers (e.g., Bartlett and Ghoshal 2002; Dow and Karunaratna 2006; Johanson and Vahlne 1977, 2009; Rugman and Verbeke 2004; Vernon 1966; Zaheer 1995). A caveat to consider in the model is that some family businesses may have started with a global focus since inception (Oviatt and McDougall 1994). For example, there are agri-businesses that focus on exporting commodities overseas or manufacturing and service-oriented businesses that get outsourcing contracts with foreign firms.

Each component of the model serves as a general path for answering generic questions that the family and the business stakeholders can ask. First, the initial family assessment concerning motivations and challenges can answer questions about: “Why do we want to go overseas?” and “What will be our constraints and costs for moving abroad?” Second, the family will start to find answers about: “Where do we want to expand?” to analyze the nature of the expansion by regions. Third, finding answers to questions about “How can we enter a foreign market?”, “How can we compete?”, “Who will help us?”, “What do we need to do?”, and “Which steps do we need to follow?” will guide the family to attain a successful execution. The following chapter sections will address and explain the model components.

9.4 Family Assessments for Internationalization

9.4.1 The Motivations for Expanding Abroad

For answering the question of: “why do we want to go overseas?” family owners need to assess their particular motivations for approving and seeking internationalization. A general goal for expanding the business abroad implies to analyze what the family is currently lacking in the home market and what foreign markets can bring. It is important to notice that this assessment implies selling or opening new sources of revenue in foreign markets. In that regard, the motivations are not related to finding sources of products, machinery, or raw materials abroad or engaging in businesses with other foreign companies or entrepreneurs to expand the business in the home market.

Specifically, older and established family businesses may resist going abroad as long as their domestic market is secured and sustainable (Arregle et al. 2017). However, as family businesses are very dissimilar and organized under different structures in every country (Todd 1985), the family motivations for moving abroad can be synthesized into three main aspects: (a) increasing market share; (b) increasing the performance expectations, particularly the noneconomic performance as these may prevail more than the economic performance; and (c) the growth limitations in the home country due to market saturation. These aspects come from models of international diversification that relate the product life cycle with the establishment of production centers abroad (e.g., Johanson and Vahlne 1977, Vernon 1966).

(a) *Increasing market share*: Moving abroad has the expectation for securing additional revenues for the business to increase the business participation in its industry group on a global scale. Particularly, the family business may have introduced an innovative product that is getting acceptance and foreign markets may not be offering it. This creates a first-mover advantage before competitors abroad can either offer similar products or even low-quality imitations and replicas that can affect the family reputation and legacy (Kano and Verbeke 2018). Going back to the Pollo Campero profile, the Gutierrez family saw the opportunity to establish Pollo Campero USA as the waves of immigrants from El Salvador and Guatemala were taking the fried chicken to cities that were not catering or appealing to the Latino market. Their 1980s withdrawal from the American market was due to opening in Miami where very few Guatemalans or Salvadorians reside. Thus, identifying the proper target market made the family to be successful in its reentry to the United States as they noticed how their airport kiosks, designed to cater travelers while boarding their flight, received large take-out orders. Similar stories have been reported from other family firms based in developing countries and Europe who expanded overseas to capture the benefits of competing on a global scale (Zahra 2003). Furthermore, family businesses based in developed countries may enjoy country-level advantages as their offerings may attract foreign investors to export their products or extend their business models to other locations. This has been the behavior of larger firms that seek internationalization as an option for selling their extra capacity and take advantage of their economies of scale to go after new markets.

(b) *Increase performance expectations*: For family firms, performance does not only refers to attaining economic and/or monetary incentives as you have read in the prior chapters that noneconomic goals tend to prevail and even become more important for certain families. Under this consideration, the second motivation deals with evaluating the aspirations of the family running the business toward the next generation. For the family, moving into the international arena can be seen as an important dimension when assessing the future. Even though the economic investments for moving abroad require a long term perspective, the existence of noneconomic incentives by the family can make internationalization as an attractive prospect. For example, Zahra (2003) sent questionnaires to a group of American manufacturers who assessed the motivation for expansion as a benefit for extending the reputation of the firm, getting family members employed or more involved in the business, and taking advantage of exploiting international contacts. His results showed a significant relationship with these nonfinancial motivations and the increasing levels of international sales and the number of country operations. Also, the future of the family may also belong in a foreign market as political crises or the lack of a solid institutional framework in the home country diminishes the prospects of continuing operating effectively (Arregle et al. 2017). For example, despite starting the company in 1868, the Bacardi family was forced to relocate operations to Puerto Rico and Bermuda as the Cuban revolution in 1959 confiscated all the company's assets (https://www.bacardi.com/us/en/heritage/). Now, in terms of attaining financial benefits, moving into the international arena can facilitate the exploitation of the existing offering of products and services to capture and reach new buyers.

(c) *Home country market saturation*: Earlier international trade models (e.g., Vernon 1966) explained that a constant growth in the domestic market may be limited to the product life cycle. Once the home market is satisfied with a new product offering, attempting to grab additional market share becomes a costly task as other competitors may be offering a wide array of similar products or even improved versions. Thus, the domestic market becomes less attractive to attain higher levels of revenues and companies need to pursue new customers in alternative markets like those available overseas. Also, not every company has the level of financial, equipment, and human resources to engage in new product or service developments that can replace the existing offering in the short term. This market saturation represents a big motivation for existing family businesses to expand abroad. Especially, family firms that are publicly traded will explore foreign markets to meet their financial goals and satisfy the nonfamily stakeholders (Arregle et al. 2017). Then, family firms operating in less-populated countries may also have excess capacity that cannot be consumed in the home market so the expansion to the foreign market becomes their only expansion option.

Given these motivations, the family can evaluate the different options and get the answers about the "why going abroad or staying at home?"

9.4.2 The Challenges to Overcome

The second set of evaluations is referred to finding an answer about: "What will be our constraints and costs for moving abroad?" Despite benefits and motivations, additional costs, and challenges can sometimes diminish the aspirations for families to operate in foreign markets. The critical aspect to consider is the ability that any firm needs to possess for overcoming the difficulties as it can take time, learning, and lots of adaptations to realize benefits. The most common challenges researchers have found are: (a) the liabilities of *foreignness* and *outsidership* and (b) the psychic distance between home and host countries that can lead to operational complexity (e.g., Arregle et al. 2017; Dow and Karunaratna 2006; Hennart et al. 2019; Johanson and Vahlne 1977, 2009; Kano and Verbeke 2018; Marano et al. 2020; Zaheer 1995).

The "*liability of foreignness*" is defined as the additional costs and investments a family business operating in international markets may have that local and domestic businesses are not incurring (Zaheer 1995). This is a real challenge for a family firm to expand in multiple and diverse foreign markets (Hutzschenreuter et al. 2011). Especially, just the nature of being a foreigner can create costly implications that require specific advantages to overcome (Marano et al. 2020). Table 9.2 provides costs and actions a family business may require when expanding into markets outside the home market.

(a) *Spatial Distance Costs:* Once a family establishes a new location in another country, the business will incur costs and expenses that involve traveling to

Table 9.2 Potential costs and actions associated with the liability of foreignness

Cost	Description
Spatial Distance	Expenses related to travel, transportation, and coordination across countries
Firm-specific	Investments needed to understand the culture and practices in the new country
Host country	Investments required to attain legitimacy and recognition in the new country due to nationalism
Home country	Particular restrictions for moving or selling to other countries

Source: Adapted from Zaheer (1995)

overseas locations, supervising the ongoing operations, and even relocating family and nonfamily members from the home country.

(b) *Firm-Specific Costs:* These are the specific investments required to make international entries viable for the family. The size of the investment is contingent to the particular entry mode to use. Some additional costs are associated with adapting the firm's offering to match the culture and consumer's needs. Other costs are related to hiring locals and experts to help the family on the initial transition, research, and overall business development.

(c) *Host Country Costs:* These costs are required for entering into a particular country that even may enact entry barriers to foreign competition. Costs are related to meet the ongoing country legislation; taxation and labor agreements; or even restrictions to import resources. Also, domestic competitors can retaliate toward nationalistic pride that foreign businesses cannot replicate despite complying with the customs and norms of the country.

(d) *Home Country Costs:* These costs can depend on what home countries impose on businesses expanding overseas. For example, companies based in the United States may be limited to transferring technology to other countries. Also, once the Brexit is finalized in 2021, companies based in the United Kingdom will incur additional costs when engaging in business operations with the member states of the European Union.

Although these are the most relevant costs to operate overseas, a family firm requires specific advantages to overcome them (e.g., Hennart et al. 2019; Johanson and Vahlne 1977; Zaheer 1995). These also imply to calculate the investment size or enter foreign markets that are closer to home in term of size, customs, and culture.

The "*liability of outsidership*" was introduced by Johanson and Vahlne (2009) after realizing the new realities of engaging in international expansion. In their view, firms need to become established in networks and engage in close relationships with other businesses to increase their levels of success. In that manner, families will be unable to start operations in a foreign market if it lacks access to a relevant network of relations. Thus, a firm is viewed as an "outsider" to operate in a host country so overcoming this challenge implies to gain "insidership" by engaging in agreements with potential partners who are already inside and/or connected with other entities in the desired country to operate (Johanson and Vahlne 2009).

Recent findings that followed Chinese managers opening new businesses in Europe showed the time needed to overcome "outsidership" (Chen 2016). For these managers, their prior Guanxi (e.g., the Chinese approach for socializing and developing networks to establishing potential business transactions) was not helpful at the beginning so they needed to adapt and build a different type of Guanxi with the new business partners. Similar findings occurred when New Zealand small business owners and managers sought business partners in China (Fiedler et al. 2017). For these individuals, building Guanxi was not only a matter of devoting time but also building trust; even, they engaged in nonbusiness affairs like going to a Karaoke bar or taking several group meals. In that manner, gaining "insidership" implies a commitment from family members to be connected or even seek collaborations with other partners before entering foreign markets (Xu et al. 2019).

Finally, *psychic distance* is a combination of factors that can make a foreign market easy or hard to understand; thus, the higher psychic distance, the higher liabilities of foreignness and outsidership (Johanson and Vahlne 2009). Also, a larger psychic distance can create a set of operational complexities when these differences are embedded in institutional frameworks (Marano et al. 2020). These can force companies to replicate practices and procedures that are the opposite of what is done at home.

There are different approaches to measure psychic distance. Earlier developments combined the geographical distance between countries with dimensions of national culture (e.g., power distance; uncertainty avoidance; individualism/collectivism; masculinity/femininity; long-term/short-term orientation; and indulgence/restrain) (Hofstede 1984). However, Dow and Karunaratna (2006) found that national cultural similarities or differences are not enough for determining which foreign markets are easier or hard to access. They identified five dimensions to compare psychic distance between home and host countries in terms of: Political systems; religion; language; education; and industrial development.

By assessing these three challenges, family owners can find answers about the constraints and costs for moving abroad. Also, they have to evaluate what they currently possess and what may be required to pursue an international expansion. These assessments can include the evaluation of which members of the company (family and nonfamily) are available to help or if the family needs outside investments or hire international experienced nonfamily managers. Particularly, managers can object the idea about going abroad as they perceive it as a high-risk and low short-term return (Arregle et al. 2017; Alessandri et al. 2018). As a result, the family members favoring international expansion can propose a path of actions for risk minimizations. The actions can be related to expanding first to nearby countries, deciding about what to offer abroad, and how to compete so the family's expectations are balanced (e.g., Alessandri et al. 2018).

9.5 The Nature for the Expansion

Once the family concludes with a favorable assessment toward internationalization, the quest for defining the "where" will imply how far the business can go and which offerings, in terms of products and/or services, can be taken abroad. Trying to arrive at a unique entry sequence depends on the family's expectations. Companies can operate first at a global scale or follow a sequence that departs from becoming a regional player first and then expand to other regions. Fig. 9.2 and Table 9.3 explain the major differences.

The Global First Approach offers a viable and optimistic view where families can move from their home countries to desirable locations that fit with the family business characteristics (Patel et al. 2012). From these authors' views, family businesses are capable of becoming global actors to navigate in different regions

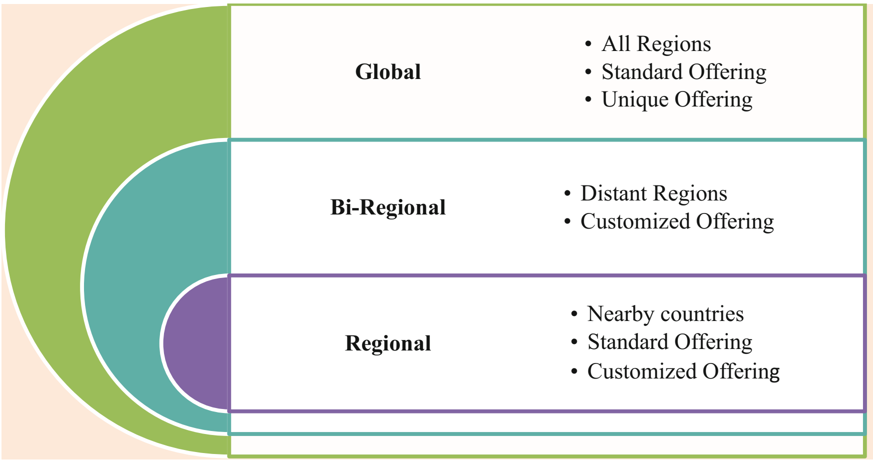

Fig. 9.2 The scope differences in international expansion. Sources: Adapted from Patel et al. (2012) and Rugman and Verbeke (2004)

Table 9.3 Expansion approaches and offering types

Expansion	Offering types
Global: Family can go after the global markets to explore	*Standard and Similar:* No major changes as the family firm can offer products and services in all markets
Conservative: Start to nearby countries, then expand by regions until global markets are reached	*Customized:* Adaptation is required due to levels of psychic distance between home and foreign markets
	Unique: Family has a very unique and specialized offering due to location, history, or level of innovation

Sources: Adapted from Patel et al. (2012) and Rugman and Verbeke (2004)

that are even distant to their home locations as the emergence of e-commerce, the Internet, and speedy logistics can facilitate the trade. For example, family businesses located in smaller and less developed countries may favor an expansion to wealthier and larger regions and countries as it has been the actions done by companies located in emerging markets accessing the European Union or the North American markets. In similar conditions, family businesses from European or North American may be willing to access markets like the BRICS (Brazil, Russia, India, China, South Africa) or emerging (e.g., Mexico, South Korea, Turkey, and Indonesia) that are experiencing higher rates of economic growth (Patel et al. 2012).

The Conservative Approach is the opposite of the Global First as family firms need first to learn how to operate in foreign markets and the cumulative experience can help to increase the scope of expansion to additional regions. This is a sequential approach where the firm must expand first to similar countries in their host region;

then, they can expand to a second region and seek the global expansion as the last step (e.g., Johanson and Vahlne 2009).

Particularly, family managers can understand a regional expansion first because they possess better knowledge and expertise to countries near the home country (Banalieva and Eddleston 2011). Also, it may help those families seeking to build and preserve socio-emotional wealth (Pukall and Calabrò 2014). The conservative approach is less optimistic about the immediate global expansion. On one side, the majority of larger multinational entities focus more on becoming regional players and very few of these large entities are capable of performing and even dominating at a global scale (Rugman and Verbeke 2004). On the other side, families will encounter more benefits as they are building from their experience that will minimize managerial conflicts or goal divergences between family and nonfamily stakeholders (e.g., Kano and Verbeke 2018).

Now, in terms of the potential offering for products or services in foreign markets, the family can use its current portfolio of products and services or it may need to customize them to meet the specific needs of particular markets. First, it is possible to expand on a global basis with a *standard and similar offering* to what is currently available in the home market. The emergence of the born-global firms (Oviatt and McDougall 1994) was the possibility of relying on standard products or services that can target a broad range of customer segments. As family businesses tend to prevail in industries with lower and/or specialized levels of technology (e.g., Chang et al. 2008), there are potential options for moving abroad with the existing offering of products and services.

Furthermore, the higher levels of social media platforms like YouTube, Facebook, Instagram, or the standardized operating systems in smartphones (e.g., Android and iOs) reduce the need for developing bigger budgets to attract dissimilar audiences spread throughout a wide spectrum of countries in Europe, Asia, Africa, and the Americas. In addition, a regional expansion to nearby countries may also facilitate the standard and similar offering as long as there are very low levels of psychic distance. For example, family businesses in Latin America do not need to modify their Spanish brands and major commercial aspects (e.g., promotional ads, merchandising, and processes) as they can even use Latin American cable networks (e.g., ESPN, TNT, or Fox Sports) to display their messages during sporting events.

In similar terms, US-based companies have also enjoyed minimum adaptations and have been capable of entering foreign markets with standard and similar offerings to what is available at home. For example, Walmart has moved to create store formats with the uniformity of colors and logos from Mexico to Costa Rica. Even more, mass-consumer products (e.g., Colgate toothpaste) and services such as fast-fashion retailing (e.g., Zara) or hospitality services (e.g., Marriott hotels) are highly standard at the global scale with just the minimum language and cultural adaptations as consumers are expecting to get the same product everywhere (Levitt 1983).

Second, *Customized Offerings* will be required when there are higher levels of psychic distance between the home country and the foreign markets. It is also needed when the family offers specialized services or products that cannot fit in all regions.

Offering adaptations of products and services represents a daunting task for family businesses as investments in product and service development will require an acculturation process to fit with the foreign market demands. The adaptation may also generate some drawbacks because family firm managers may lack knowledge and results will not be favorable in the short term. Hennart et al. (2019) found some validity to this assertion as they found how family management actions actually decrease the levels of the foreign sales of mass-market products. Their findings came from about 10,000 small manufacturing firms based in Germany, Spain, Italy, and France with operations in several countries and regions. Their recommendation was to focus on selling higher quality goods and services to compensate the lower volumes at premium prices. Such levels of differentiation bring implicit regional or even country-level customization.

Third, a *Unique Offering* is viable for regional and global expansions when family businesses can take advantage of the unique characteristics of their offering. This may be the result of combining the family legacy, its home location, and hard to replicate resources that create a unique and highly differentiated set of products or services (e.g., Kano and Verbeke 2018; Pukall and Calabrò 2014). First, older and established family firms can find new customers in global markets given the increasing migration of citizens from developing to developed countries who used to buy the family's offering in their home countries. This unique offering is possible as migrants have a sense of missing in the new country what used to be a regular part of their daily consumption.

For example, Polar, owned by the Mendoza family in Venezuela, has reported increasing sales of its product: Harina P.A.N, precooked flour, in different markets as the Venezuelan community who fled the country uses it as the main ingredient to make Arepas, a typical food that resembles the Mexican tacos or the hot dogs and hamburgers (Schipani 2017). Also, Arepas has become a new type of fast-food for non-Venezuelans as small kiosks and restaurants selling Arepas are generating a new hype in different cities worldwide. For the family, as Schipani (2017) reports, exporting Harina P.A.N became a political battle with the Venezuelan government where even a migrant living overseas can buy the product cheaper than what is offered at home and even send it back to Venezuela. Also, the family is exploring to move production to other countries.

Second, family businesses from places such as Champagne, France; Murano, Italy; or Tequila, Mexico are endowed with this unique location advantage to export their offerings to the global markets. These historical roots are imprinted in the customer mindset and help to reduce the investment costs on brand and image. There is an identity that the family can offer at the global market at a potential premium price. Finally, a unique offering can also be associated with a highly innovative product or a design exclusively made by the family. Although the product requires a strong effort by the family to protect the brand and product via patents and international trademark, the product cannot be easily replicated by competitors so it has the potential for attaining higher levels of acceptance and revenues.

As a summary, finding answers about "where to expand?" implies multiple layers of decisions that can fit with the family's goals and expectations for moving abroad.

9.6 Entry Modes

Choosing an appropriate entry mode eases the internationalization of family firms and clarifies the question about "how to enter the foreign markets?" Family business researchers have found that the majority of family firms start operating abroad with exporting to nearby countries with very low psychic distance and then expand to distant markets later (Arregle et al. 2017; Pukall and Calabrò 2014). From different studies conducted in several countries, these authors report exporting as the most frequent entry mode while others (strategic alliances or joint ventures) are less frequent because of the potential loss of control. Table 9.4 explains the major differences among entry modes and their associated risks and control.

9.6.1 Exporting

As stated early, the majority of small- and medium-sized family businesses choose exporting to nearby countries as the first step to reach foreign markets (e.g., Alessandri et al. 2018; Arregle et al. 2017; Banalieva and Eddleston 2011; Hennart et al. 2019). The levels of risk are contingent to comply with the import regulations (e.g., permits, duties, and logistics) exerted by the foreign market. Particularly, some countries may exert trade barriers to protect their domestic firms so family firms may be restricted to limit exports to countries where fewer trade barriers are erected. Following Vernon (1966), exporting was a viable option for manufacturers to send the capacity that the home market cannot hold and the basic idea for engaging in the international trade was seeking potential agents and traders to buy and distribute the product to the end-consumer.

Although the investment level for this entry mode is low by the family, there are limits to what the family can control once the product is shipped out to the importing agents. In that manner, the business is more about production with very low chances for capturing additional value for the product (e.g., Ketchen and Short 2018). For example, the distributor in the foreign market may not offer complete information or service to potential retailers or end-users. Also, the family may not have enough resources to properly supervise what occurs at the points of sales. These limitations

Table 9.4 Entry modes

Type	Main characteristics	Risks and control
Exporting	Domestic production is sent to foreign markets	Low
Licensing	Granting rights to produce overseas	Low
Franchising	Selling the know-how recipe to others	Low
Strategic Alliance	Collaboration and partnerships	Medium
Joint Venture	Two or more partners create a new entity	Medium
Acquisition	Buying an existing entity overseas	High
Subsidiary	An operation the firm fully owns overseas	High

Source: Adapted from Collis (2014) and Ketchen and Short (2018) can increase more the chances of unmet expectations when the family is opting for customized or unique offerings that are sent to distant centers where constant monitoring will be harder (Banalieva and Eddleston 2011).

As a potential remedy to this limitation involves the allocation of staff and resources to oversee and control the export operations. On one side, the family can open small offices in distant locations that will be in charge of interacting with the importing agents and performing marketing activities like point of sales promotions and advertising. Once sales increase, the chances for establishing additional operations like warehousing and direct distribution to either retailers or end-users can capture additional value. These foreign market operations can be used as a potential option for training the incoming generation of family leaders. On the other side, the family can outsource these marketing activities at a regional level and engage in supervision tours to the different purchasing countries. In that manner, the main competences of the business remain in the research and development of new products and the exploration of adding more countries to export.

9.6.2 Licensing and Franchising

These two entry modes are very similar as the family is still negotiating with other companies abroad with also low levels of risk and control. The main distinction is the agreements that are signed between the family and the partnering company.

Licensing takes out the production in the home country and gives a right, license, to another company for exclusive manufacturing and distribution in a particular region. The main advantage of licensing is the level of investment and new market adaptation. The family is only providing the main components, formulas, and processes and receives a benefit without involving the fixed costs installing a plant with machinery, tools, labor, and distribution (Collis 2014; Ketchen and Short 2018). Usually, licensing occurs on exploiting patents, brands, and unique formulas that the family will receive a royalty payment; however, as it occurs with exporting, the family cannot capture additional value.

The biggest risk for licensing is the potential for nurturing a future rival as the agreement can cease. The classic example happened in the ongoing rivalry between Pepsi Cola and Coca Cola in Venezuela as reported in different outlets as “Operation Swan” (e.g., Sellers 1996). Pepsi was the dominant brand in Venezuela as the Cisneros family had the exclusive license to manufacture and distribute Pepsi Cola. Once the contract was in renegotiation talks, the Cisneros (Swans in Spanish) were approached by Roberto Goizueta, then Coca Cola’s CEO, to switch brands. After Coca Cola bought 50% of the bottling company for $400 million, Pepsi’s market share went down to 0% the day after the contract expiration. Several planes were flown from Atlanta to Venezuela full of Coca Cola products while the Cisneros plants were capable of bottling the new products. Pepsi needed to find in Polar, the Harina P.A.N. producer, as its new partner in Venezuela given the Mendoza family experience in manufacturing and distributing the Polar beer brand in the country.

Franchising is mostly used as the expansion and growth strategy for retailers, restaurants, hotels, and service-related companies not only in domestic but also in foreign markets (Shane 1996). Franchising follows the same procedures as licensing in terms of providing individuals or companies (the franchisees) the right to use the family brand, products, or services in foreign markets in exchange of an initial fee and a royalty payment (e.g., Collis 2014; Ketchen and Short 2018; Shane 1996). Even though the risk and the control of the main operations are on the franchisees, the family can influence on instilling in the franchising contract the family values and also the different demands for keeping the same quality standards, recruitment, materials, and expectations from the other outlets.

Even though franchising can be a highly organic and successful entry mode to operate in multiple countries, the entry mode also shares the "rivalry" risk for nurturing future rivals. In India, an ongoing crisis is occurring with another family business (Bhusnan 2018). RJ Corp operates the Indian Pepsi bottling operations and also several fast-food and outlets like Costa Coffee, a coffee shop franchise with roots in the United Kingdom, as well as others. The Coca Cola Company bought Costa Coffee back in 2018 as one way to enter the coffee market. One can see the problems RJ Corp will encounter as it got mixed in the battle between these two soft drink rivals. Another risk is the lack of success in the foreign market that can close the internationalization efforts very quickly. This was the experience suffered by the Cathy family, owners of the Chik-fil-A franchise in the United States. The company announced the closing of its first UK outlet after the first month of operations because it was not capable of overcoming the backlash from protests against the Cathy's values and religiosity orientation (Sherwood 2019).

Given the low levels of investments and potential risks associated, these two entry modes can enable family businesses to expand abroad on a trial basis as both modes provide lower barriers of entry and equity is not placed at risk. They can also serve as attaining recognition in the new markets and the critical component is to find the correct partner to secure a steady and long-term relationship. Moreover, the family can develop additional layers of supervision similar to those described above in the exporting mode, especially in more distant countries.

9.6.3 Strategic Alliances and Joint Ventures

Using strategic alliances and joint ventures for international expansion eases the process for family businesses lacking experience and knowledge of distant countries. Both entry modes provide medium levels of risks and control for the family as potential partners, either located in the home market or abroad, will enable the family to transition overseas.

The main advantage of partnering with local firms is to reduce the liabilities of foreignness and outsidership. Inkpen (2001) suggests that family businesses can develop four particular goals to enter into a strategic alliance. First, the family business can set a goal to ally with a local firm to gain support and, legitimacy from the partner's reputation and become more integrated into the local consumers.

Second, the alliance can reduce the risks for particular projects that require a long-term perspective. For example, a family operating in the retail industry can enter into an alliance with a shopping mall developer so in every new mall the developer establishes, the family will be opening an outlet. Third, partners can share resources to develop activities such as joint promotions, co-branding, logistics, or testing new products or technologies. Fourth, the family will be capable of attaining from the partner what is lacking in experience and knowledge about particular operations.

Furthermore, Inkpen (2001) details three key aspects for family firms to assess about engaging in a strategic alliance. First, partners will operate independently after the alliance formation as there is no exchange of equity in the partnerships, only exchanges of services and collaborations. This aspect serves as an incentive to reduce any potential family concerns about losing control inside the business. Even more, family businesses' long-term orientation can enable the stability that foreign partners may look when making agreements with firms lacking international experience (e.g., Patel et al. 2012). Second, there is an ongoing mutual interdependence as the alliance may be served to achieve particular business goals and there is implicit trust in the allies to confront the competitive challenges. It may be possible that this initial partnership can lead to further agreements such as starting joint ventures or accessing future markets. Third, there will be a level of uncertainty as once the alliance is agreed; one partner may not entirely know how far the other partner can remain or how committed will be to fulfill its role in the alliance. This final characteristic can help families to reconsider the alliance term as it may provide a lower exit barrier because no equity was placed or exposed with the partners. Then, families may be capable of finding new partners that can fit with their particular goals of remaining in a given region.

In the practice, some of the problems associated with strategic alliances are the potential of unmet expectations, lack of commitment for full cooperation, and trust among partners (e.g., Collis 2014; Sanchez-Famoso et al. 2019). As a suggested reading placed at the end of the chapter, you can read about the struggles and successes of two Brazilian firms that engaged in strategic alliances with foreign partners (dos Santos Werneck and da Rocha 2019). For one firm, foreign partners get them access to unique contacts and resources in a successful European entry; however, the second firm ended up at a competitive disadvantage when its partner acquired a similar firm in the Brazilian market.

Joint ventures are a more formal type of strategic alliance because two or more companies start a new business in a particular region (e.g., Collis 2014; Inkpen 2001; Ketchen and Short 2018). The main advantage for the partners is the limited commitment of capital and overall resources to the venture. For competing and expanding operations in distant regions, a joint venture can reduce production and distribution costs for families involved in manufacturing processes. It can be seen as increasing commitment from the family to attain more control and capture additional value than exporting or licensing agreements. Moreover, getting a partner abroad who can also commit financial resources may reduce the need for hiring and training local staff or reduce the levels of cultural adaptations. Although researchers have not been addressing this particular entry mode to be applicable in family businesses (e.g., Arregle et al. 2017; Pukall and Calabrò 2014), the possibilities for adding new clients and gaining market share at the regional level can move the family in a higher direction than what a family can attain if engaging in a strategic alliance that does not require an equity commitment or an acquisition that involves the commitment to place a larger equity investment (Inkpen 2001).

9.6.4 Acquisitions and Wholly Owned Subsidiaries

Entering into acquisitions or setting a wholly owned subsidiary represents not only the highest levels of family control and potential rewards but also higher levels of equity investments and risks. As it happens in home markets where families may seek acquisitions to grow the scope of the business or establish new production or distribution facilities at a larger distance from the family headquarters, there are potential advantages and also disadvantages that can also be transferred when these operations occur abroad. According to Harzing (2002), opening subsidiaries help more when the family is using standards and similar offerings across markets while acquisitions occur more when the family is looking to adapt the offering to particular markets.

By doing acquisitions, a family can access a foreign market quicker and get the existing market share of the acquired firm. This will reduce the difficulties for entering a market where local firms may exert higher competitive risks and no substitute options exist for the family to operate. Acquisitions reduce psychic distance and the adaptation of knowledge in the new market (Harzing 2002). For example, Walmart learned from prior foreign mistakes and opted to acquire existing retailers to immediately access new markets (Hunt et al. 2018). Obviously, the major concern for acquiring companies is the price to pay as once a premium is paid to the former owner; the family is starting with a time frame that requires close monitoring to recoup the investment.

The subsidiary mode represents the full family commitment when exporting, or the other entry modes, cannot guarantee the preservation of the legacy and values of the family. Usually, this entry mode has been used for accessing emerging markets with poor institutional frameworks so the family keeps control of trade secrets (Rienda et al. 2019). The big disadvantage is the size of investment and time needed to recoup it. The only advantage can exist when the family entered earlier with an alliance or decides to buy out their joint venture partners.

In summary, families can see all the multiple entry modes as the answers on how they can access foreign markets. Although exporting may be the preferable form given its lower levels of risk, capturing value, and getting more control on the offering sets the scenario to adopt different entry modes that will vary on the distance and regional levels of expansion.

9.7 The Strategy Approach

Parallel to the entry mode, answering the question about "how to compete abroad?" provides two contrasting orientations: the global and the multi-domestic strategies that even larger multinational entities can combine them into a transnational solution (e.g., Bartlett and Ghoshal 2002; Ghoshal 1987; Harzing 2002; Levitt 1983). Table 9.5 summarizes their characteristics as they are highly associated with the expansion approach shown in Fig. 9.2.

The global strategy assumes that markets are homogeneous in terms of customers willing to buy the same products and services at affordable prices (Levitt 1983). Ideally, families need to attain economies of scale by developing standardized offerings without engaging in making particular adaptations to meet specific markets. It will be a matter of managers to understand the national differences, be highly innovative, and learn from what is occurring in different markets to make the strategy operational (Ghoshal 1987).

There is a trend for companies to enter into global alliances that follow the same technological procedures and can offer minimal market barriers because the product or service is already known in the market so families may be capable of becoming direct rivals to what the host-country competitors are offering. The key component is the focus on attaining a high level of integration and rely on proprietary technology to attain good levels of coordination from the family headquarter in the home country to the other operations abroad (Harzing 2002). Reuber (2016) explains that families selling generic products (e.g., medical devices, food, and drinks) may require higher levels of research and development to attain some levels of quality and differentiation; however, families can follow this global orientation as the markets are becoming more interconnected and consumers are willing to find alternative versions offered by global providers at competitive prices. Thus, the opportunity for family businesses to adopt a global strategy lies in entering specific market niches (Hennart et al. 2019) with entry modes that reduce equity investments to minimize the family risks (Banalieva and Eddleston 2011; Patel et al. 2012).

The multi-domestic strategy is the opposite approach where the offering requires meeting expectations to various local markets, there are lower levels of global competition because the intense competition is placed more in a market to market basis (Harzing 2002). Furthermore, implementation of specific product or services to tailor and meet what the local culture requires. At the structural level, direct

Table 9.5 Choosing an international strategy

Strategy	Main characteristics
Global	• Standard offerings in all markets entered. • Targets coordination and efficient controls.
Multi Domestic	• Customized offerings per each market entered. • Seeks to respond at regional expectations.
Transnational	• Standard offering with a regional emphasis. • Seeks global integration and coordination efforts.

Source: Adapted from Bartlett and Ghoshal (2002), Ghoshal (1987), Levitt (1983) supervision and good coordination efforts from the family to the other units tend to guide a successful implementation. Particularly, the key to success implies how the family can accommodate the offering to reflect what the specific market demands in terms of taste and preference (Reuber 2016). Otherwise, the potential drawbacks of being responsive to the specific local market may bring more losses than expected gains. Because of these situations, as explained in the expansion approach, the family needs to be highly conservative on expanding to regions that may have higher levels of psychic distance from the home market.

The transnational strategy emerged as a potential solution for multinationals due to findings from Bartlett and Ghoshal (2002) about the international operations of ASEA, Brown, & Bovery (ABB). The main characteristic of this strategy is the potential combination of the global and multi-domestic approaches for offering global products and services with a country-by-country adaptation. Theoretically, larger entities can enjoy economies of scope and scale by entering multiple regions where the managerial practices can be accommodated to fit local demands but the offering may only engage minimum adaptations such as language or cultural tastes. However, Harzing (2002) reported that very few entities are capable of meeting these requirements. Also, older and highly diversified firms have been using the term "transnational" but their scope of operations and offering are not a direct match to replicate the practices and expectations given by Bartlett and Ghoshal (2002) as it requires higher levels of coordination with professional levels of managers that are placed in a very complex structure where the family may not be the primary owner of the business.

In contrast to entry modes where families can choose several to access different markets, the challenge is to choose the particular competitive approach. Although the global strategy has been seen as the main one to face the challenges of globalization, it has not been producing the best results when the largest multinationals have been acting more at a regional level. Levitt's assumptions about market homogeneity to sell the same product everywhere (Ghoshal 1987) have not held since Rugman and Verbeke (2004) collected the level of foreign sales by the largest multinationals in the triad (North America, Asia, and European Union). They found only eight companies (e.g., Coca Cola and Flextronics) with at least 20% of sales in each of the triad regions. Instead, the majority of multinationals (for example, Walmart and Ford in North America) concentrated its foreign sales in their home regions as they were unable to face direct competition when moving to other regions where direct competitors are also big players (e.g., Carrefour in Europe and Toyota in Asia).

Perhaps, the future entries of larger multinationals in the BRICS economies may offer a different perspective about choosing the global strategy. However, the main challenge for the family is on how the offering can meet the expectations in the foreign markets. In that manner, the major decision lies in matching the expansion approach to use and making adjustments between the global and the multi-domestic strategies for proper execution and implementation of the international expansion efforts.

9.8 The Family Support

The model shown in Fig. 9.1 provided answers to the "why," "what," "where," "how," or even "who" for developing a successful international expansion. Obviously, arriving at a final decision concerning the level of family involvement and support will carry a lot of weight in a proper execution. This aspect also depends on the willingness to include nonfamily stakeholders (e.g., managers and investors) or choosing to send family members abroad to gain experience or even branch them out to enhance the family outreach.

The biggest resistance of a good execution lies in comparing benefits against the potential costs. On one side, some smaller family businesses were structured to compete in the home markets and even they can suffer direct competition from new foreign companies or become targets from being acquired by a larger company. Thus, the potential response will be to seek options to grow and expand in the home market until it reaches saturation.

On the other side, the family may resist due to the potential for losing control over the business if not enough resources (human and capital) cannot be developed within the owning family. Relying on outside partnerships, domestic and foreign, can alter the vision that the family wants to set for the business (Sanchez-Bueno and Usero 2014). For example, when family leaders were asked about the different sources to use to finance growth: 76% was the choice to fund growth with own capital; 63% with bank loans; 35% with outside equity; and 31% with outside debt and capital from private investors (Spector 2016). Thus, overcoming the resistance to bring outsiders will always be a challenge that every family will have to assess as international opportunities can be lost if the family does not act on time.

Finally, Xu et al. (2019) found that the type of family structure can help to determine how far the expansion abroad can be managed. Businesses, where dominant families are the primary owners, tend to engage first with partners for developing entry modes like joint ventures while those where the family is joined by nonfamily owners are more aggressive in seeking acquisitions or establishing subsidiaries. The partial ownership option used by the dominant families was highly related to preserve socio-emotional wealth and minimize the investment risks. Their results replicate similar findings from Alessandri et al. (2018) where the overall level of internationalization is highly contingent to keep the control of the business within the family.

As a result, a good execution will be contingent on the behavior and characteristics for protecting the family and its future. This vision can determine how far a concrete expansion abroad is implemented. The main goal to always set in the minds of the family leaders is on how to preserve the legacy, remain competitive in every market entered, and guarantee continuity across generations.

9.9 Summary

This chapter provides a model for existing and potential entrepreneurial family businesses to consider international operations. Although the business practices that have worked in a domestic market are hard to replicate abroad, the challenge lies in finding similarities and opportunities to grow. Family businesses can reduce their investment risks by expanding into countries with lower geographic and psychic distance.

In addition, getting outside support to form joint ventures, franchising agreements, or acquiring smaller competitors can increase their success rate. Once the entry modes set the expansion path, the family can decide to compete by following the precepts of a global strategy, the adaptation to a multi-domestic strategy, or even combined them into the transnational strategy. These competition forms are contingent on the size of the investment to devote and the family's long-term expectations of the internationalization efforts. Finally, there is need for involving members of the family to see the value for moving the business abroad. Especially, family members can view the opportunity of working overseas and branching out to continue the founders' legacy.

Case Study: Grupo Salinas and the Azteca Brand

From the main roots of the Aztec culture in Mexico, Grupo Salinas has been able to export the Azteca name into a group of individual entities that specializes on targeting the low-income segments of particular Latin American countries. Currently, Grupo Salinas places its efforts on selling electronics, furniture, motorcycles, and household items in more than 7000 Elektra stores located in Mexico, the United States, Guatemala, El Salvador, Honduras, Peru, and Panama. In the United States, the company operates Advance America, a cash-advance type of nontraditional financial services offering daily loans and wire transfers. In the other countries, the family operates Banco Azteca with the majority of the branches located inside the Elektra stores. This bank and retail integration allow capturing customers throughout the entire year. Furthermore, their synergic operations also include the operations of TV Azteca, a series of independent TV stations that continuously shows ads from the bank, Elektra, and other subsidiaries. In Mexico, Grupo Salinas has also used Azteca as an umbrella brand for marketing different services such as cellular, Internet, insurance, and retirement funds.

The family started selling beds in Mexico under the Salinas and Rocha brand back in 1906. Then, in 1950, the company switched to manufacture radios and TV sets that were later sold in Elektra, its flagship stores. The main target of the stores was to sell the majority of products on credit to capture consumers who were unable to buy them on cash.

In 1993, the group bought Imevision, the formerly state-owned television system and rebranded as TV Azteca. Having TV Azteca to promote Elektra,

(continued)

the company was able to add new stores in Mexico and entered in the Central America region by 1997. Consumers from these countries already recognized the Elektra brand and offerings as TV Azteca signal has been available via cable systems from years before. Thus, the expansion into opening several stores per country was a project that established Elektra as the main retailer in its expansion countries. After getting licenses to operate the banks in their operating countries, Grupo Salinas was able to add new services with the same focus on serving the needs of the bottom of the pyramid. This strategy fits to go after a target of a market close to 73.8 million individuals who are earning $5.50 or less per day. The table below distributes the target market by the countries where the family has operations:

	Country Population Earning $5.50 a day (in %)	*Potential Population Market (in millions)*
USA	2.0%	6.60
Mexico	34.6%	43.67
Guatemala	48.8%	8.39
El Salvador	29.0%	1.86
Honduras	52.6%	5.05
Panama	14.0%	0.59
Peru	23.9%	7.65

For its flagship business, Elektra, the main selling operation implies a consumer-lending practice that offers weekly payments over one to four years. Even though, this scheme results in customers almost paying twice the face value of the product, there are minimum credit requirements and higher default rates. This consumer credit practice has helped consumers that lack access to other sources of financing. In addition, operating Banco Azteca inside the stores generates customer traffic. The bank focuses more on savings and short-term certificates of deposits with minimum deposit amounts. Such a strategy captures customers that traditional commercial banks do not cover. Furthermore, the convenience of being open throughout the year attracts the working population and even those customers living in rural areas who come to the cities over the weekends.

Assignment:

- Discuss the cultural similarities and differences between Mexico and the other countries where Grupo Salinas operate.
- Given the case information, discuss how the family has been capable of combining similar and standard with customized offerings in its foreign markets.

(continued)

– Discuss the ethical implications for companies that offer credit to lower-income segments of the population as these consumers are perceived as high-risk subjects of credit.

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https://www.gruposalinas.com/en/banco-azteca
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Questions for Discussion

- What can be the conditions for family businesses to pursue internationalization?
- Which factors may affect replicating prior practices used in domestic markets when a business expands into new markets?
- Explain how family businesses can offer standard products on a global scale.
- Explain the entry modes that family businesses can use for accessing new markets.
- Explain the differences between implementing a multi-domestic versus a global strategy.
- What is the importance of having the family involved in the international expansion?
- What can be major risks for relying too much on outside investors and nonfamily managers during the expansion efforts?

Additional Readings

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Suggested Activities

- Select 2–3 businesses that you consider foreign in your community. Analyze and compare their business approaches versus its local competitors that are family owned.
- Discuss in the group about the advantages and disadvantages that a family business may have for going abroad versus staying locally.
- Analyze one family business viable to expand abroad. Prepare a proposal in terms of offering, nature, entry mode, and strategy to compete. What can happen if the family approves the proposal and asks you to be in charge of the implementation?

Keywords

- Entry modes
- Globalization
- Global strategy
- Liability of foreignness
- Liability of outsidership
- Multi-domestic strategy
- Psychic distance
- Regionalization

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Case Study 1: The New York Times Company—The Evolution of a Publicly Traded Family Firm Via Changes in Corporate Governance and Strategies

10

Learning Outcomes

- Explore the family involvement in the corporate context.
- Understand the challenges and opportunities that are faced in a publicly traded family business.
- Learn about the changes in family business strategies (e.g., acquisitions and sales) to adapt to the changes in the internal and external environment.

10.1 The Beginnings

In 1896, Adolph Ochs acquired the New York Times Company when it was in financial difficulty. The Ochs-Sulzberger family has been involved in *The New York Times* since then. The first few years after the acquisition were challenging. When Ochs reduced the sales price of the newspaper, the circulation increased. This increase was also followed by more advertising and profitability. Aside from the reduced price, Ochs also improved financial coverage within the paper, added new features such as a Sunday magazine supplement, and a weekly book review. Then, the paper successfully survived the Great Depression.

When Ochs passed away in 1935, Ochs's son-in-law Arthur Hays Sulzberger was elected as president and publisher. Sulzberger led the *Times* to grow through news coverage, financial prosperity, and technical development. In 1944, the company acquired New York City radio stations WQXR and WQXR-FM. The stock was split into classes A and B. The class B shares were mostly held by the Ochs trust with voting power over the company. Sulzberger retired in 1961 due to health issues. His successor as president and publisher was his son-in-law, Orvil E. Dryfoos. As Dryfoos passed away in 1963, he was succeeded as president and publisher by

Sources: https://www.encyclopedia.com/social-sciences-and-law/economics-business-and-labor/businesses-and-occupations/new-york-times

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Arthur Hays Sulzberger's son, Arthur Ochs Sulzberger who continued to lead the NYTC as Chair of the Board and CEO.

10.2 Challenging Times and Diversification

Financial challenges in 1960s and 1970s such as relatively lower profit margins resulted in diversification. In 1967, the company's book and the educational division were enlarged, and in 1968 the *Times* purchased a 51% interest in Arno Press. In 1971, the company purchased newspaper, magazine, television, and book properties and other magazines, a Florida newspaper chain, a Memphis, Tennessee, TV station, and a textbook publisher. In 1980, the company acquired New Jersey cable televi sion and in 1984, the book publishing operation was sold.

10.3 Back to Good Times

In the mid-1980s, the New York Times Company had record profits and invested in the acquisition of regional newspapers and TV stations. Late 1980s and early 1990s continued to be profitable. In the late 1980s, the company sold all of its cable TV properties and acquired *McCall*'s *magazine,* Golf World, *and* Sailing World *by expanding its magazine group. The large new automated printing and distribution facility in Edison, NJ became active in late 1990.*

10.4 Online Services

In order to adapt to the technological changes and developments, the company entered in online news services via New Century Network, and by creating The New York Times Electronic Media Company as a subsidiary to develop new electronic products and distribution channels for the *Times* in 1995. With increasing revenues, the company invested in TheStreet.com, an Internet provider of financial information and investment news and commentary in 1999. To facilitate more focus on online services, Magazine Group was sold in 2000.

10.5 Reoccurring Challenges in 2000s

The recession in 2000s resulted in borrowing from Carlos Slim, an investor. The New York Times Company eventually paid back the loan ahead of schedule. Slim also bought large quantities of the company's Class A shares, which are available for purchase by the public and offer less control over the company than Class B shares, which are privately held mostly by the family. By 2015, Slim became the largest shareholder. As of 2016, Slim owned 17.4% of the company's Class A shares. Although Slim is the largest shareholder in the company, his investment only allows him to vote only for Class A directors, a third of the company's board. To date, Ochs-Sulzberger family still owns the majority of Class B shares and the family is represented in the top management team and the Board with the majority of nonfamily members. To date, the company continues with both acquisitions and sales to further focus on core areas.

Questions for Discussion

1. How does Ochs-Sulzberger family maintain control in corporate governance at the publicly traded family firm The New York Times Company?
2. What are the advantages and disadvantages of family involvement in the publicly traded family firm The New York Times Company?
3. At present, do you recommend any changes in corporate governance and strategies at The New York Times Company?

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Case Study 2: Merdeka College International Communication Bridge (ICB)—Founder's Succession Concerns

11

Learning Outcomes

- Explore the impact of the founder's distrust to surrender his business to future generations on the sustainability of the family business.
- Understand the principles that underlie the founding of the business and the hopes of the founder toward the successor from the perspective of morality, knowledge, and business governance.
- Take lessons from the efforts of the successors in demonstrating their ability to continue the family business.

11.1 Merdeka College ICB

The young Adang Kurnia (AK) is a proficient in English and was believed to be a guide for foreign tourists visiting Garut. Starting from this, in 1986 he took the initiative to establish an English language course called Youth Tourism. Then, Youth Tourism was transformed into ICB in 1978. ICB initially only rented rooms in several places, but the growing number of students encouraged AK to build a building located at Jalan Merdeka 139, Garut Regency, which was devoted to ICB teaching and learning activities, and since then its name changed to Merdeka College ICB. Starting from 16 students until finally reaching the peak of glory in 1993 with the number of students registering in that year reached 2007. Table 11.1 shows the number of students who had registered at Merdeka College ICB in 1986–2019.

The educational institution not only provides English language education services, but also provides various other courses such as accounting, typing, electrical, automotive, tourism, and others. In addition, AK also opened several formal educational institutions such as the tourism academy with a D1 degree in the period 2000–2013, and the Indonesian shipping academy in collaboration with one of the

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Table 11.1 The number of English students at Merdeka College ICB (1986–2019)

Period year	Number of students
1986–1990	5098
1991–2000	13,391
2001–2010	1946
2010–2019	1000
Total	21,335

Source: Authors

Table 11.2 The number of employees at Merdeka College ICB (1986–2019)

Period year	Number of employees	Employee status
1986–2000	32	Merdeka College ICB: 2 administrators, 20 permanent teachers, 10 freelancers
2000–2008	15	Merdeka College ICB: 1 administrator, 9 permanent teachers, 5 freelancers
2008–2017	3	Merdeka College ICB: 1 administrator, 1 permanent teachers, 1 freelancer
	16	Akademi Pariwisata D1: 1 administrator, 15 freelancers including 1 head of department
2017–2018		• Merdeka College ICB is leased to competing companies but still uses the name of Merdeka College ICB with a profit-sharing system. • Merdeka College ICB cooperates with a shipping academy, the name ICB is embedded with a company with a profit-sharing system, but it did not last long because the academy had a problem.
2018–now	3	ICB Kids: 1 teacher concurrently as an administrator, 2 helpers

Source: Authors

private companies in Indonesia in the 2017–2018 period. Table 11.2 shows the number of employees who had worked at Merdeka College ICB in 1986–2019.

AK is a successful entrepreneur and won an award from the Government of Garut Regency in 1994 as an entrepreneur of the year for his contribution to improving the English language of the Garut community. AK had also expanded its business to other fields such as hotels and tourist attractions.

AK married DS in 1980; they were blessed with five children, four daughters and one son. AK is married at a fairly mature age, so it has a fairly long age gap when his first child is born. As parents, they provide the provision of higher education for their five children. Figure 11.1 shows the composition of AK and DS' children. However, problems arise when AK does not believe in the ability of their children to manage a business. The difference in perspective and mindset causes internal conflict in the Merdeka College ICB family business (Fig. 11.1).

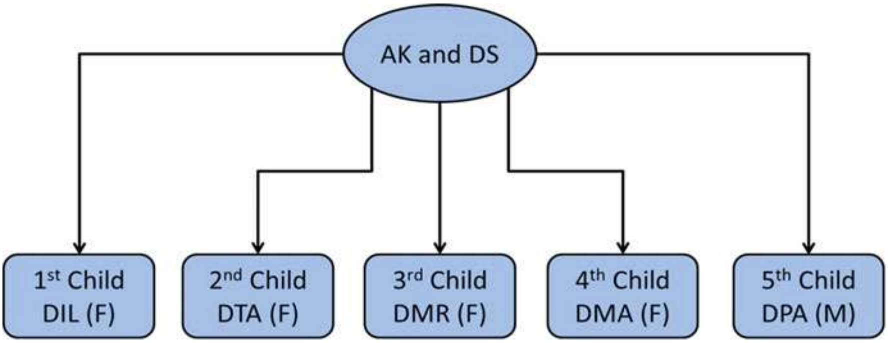

Fig. 11.1 Family Tree. Source: Authors

11.2 Business Model

All businesspeople usually establish a business model for their business as description and guidance on how an organization creates, delivers, and captures existing values. Business models are blueprints for strategies that will be implemented throughout the organization, processes, and systems. The business model has two sides, opportunity and barriers, because the company always tries to commercialize new ideas and technology through its business model (Chesbrough 2010). Neither Merdeka College ICB, the founder of designing business models with concepts that are simple, relevant, and easy to understand.

Merdeka College ICB offers new value in providing English language course facilities in the Garut community and is a pioneer of English language education institutions in the area. This caused enthusiasm from the Garut people because the use of English at that time was still considered something very difficult. Problems arise when not all Garut people can enjoy the learning process at Merdeka College ICB because of limited access and transportation. However, the founder took the initiative to send several teachers to the regions to provide English language teaching facilities. Activities offered by Merdeka College ICB are the process of learning English in class; students are required to practice it by interacting directly with foreigners who are specially invited to help the teaching process, which on average these foreigners live in Garut for 3 months.

Support came from various parties including government agencies that partnered directly with Merdeka College ICB to develop English in Garut, such as the Office of Education, Office of Labor, and Office of Tourism. These institutions also helped the development of Merdeka College by providing funds in the form of projects and government grants. Merdeka College ICB is growing by introducing it widely to the Garut community. They promote it by means of brochures, radio advertisements, and school visits. At present, the promotion method is considered no longer effective, but the founder still insists on maintaining the method.

11.3 Family Business Value

The prevailing family business values are usually the foundation that reflects the identity and culture of the company, including in the Merdeka College ICB family business. Merdeka College ICB stands with the belief of its founder that English education is important for the younger generation. Merdeka College ICB received a positive response from various groups, both the government and the community because it aims to instill the values of language education for the communities around which the Merdeka College ICB was founded.

AK is a religious figure of Muslim entrepreneurship; he makes religion as the foundation in running his business. When establishing Merdeka College ICB, it was not without obstacles, especially in capital, because he was principled that the business that originated from debt would not have a good impact on future business processes. Finally, he founded the business from a personal savings fund. Starting from renting a small place until finally developing and constructing his own magnificent building at Jalan Merdeka No. 139 Garut. In addition, another value that is instilled is not taking the rights of others, so he is also very concerned about all his employees, especially in the right of employees to receive salaries and other benefits. Despite all obstacles, AK is not only an entrepreneur who develops for his own interests, but develops strong ties with employees, the English teaching community, and all his students.

Merdeka College ICB is a family business based on Indonesian culture where a strong kinship system is a prominent feature in the business (Ramadani et al. 2017). The founder set the vision of Merdeka College ICB as “Anyone can speak English.” Meanwhile, the mission is to improve the English language skills of the Garut community through teaching in English language educational institutions with the core value to be developed is “If there is a will there is a way.” AK identifies himself as an activist in English education and considers all his colleagues as members of extended families. He held fast to these principles and values and insisted that the next generation must always remember this identity.

When his hotel business and tourist attractions have grown, it becomes challenging to absorb the values that are implanted by AK into the daily behavior of employees. He started to release some businesses because of the principles he held. He released his hotel and tourist business because he felt he was in a lousy business circle with the growth of corruption, thuggery, and consumer behavior that were beyond his control. At that time, social norms have not been able to define the business values of AK, and halal tourism was still not as accessible as it is today. Likewise, with the business of Merdeka College ICB, it began to decline when AK held fast to his views to maintain the ICB business process traditionally. The traditional marketing pattern of distributing brochures and advertisements on the radio is still considered the most effective method for introducing Merdeka College ICB. In fact, the development of technology requires that the business be transformed by introducing a new digital platform for business promotion methods. His professional teachers decide to resign and open a home-based course with the method they want to apply.

This problem became a dilemma because he cannot accept various inputs from his children who included in the millennial generation. He considers that the current millennial generation did not appreciate the process, and everything is instantaneous.

11.4 Family Conflict: Distrust of Founder

The business problems of Merdeka College ICB family business are unique compared to family business cases in general, conflicts that occur not only in the succession planning process but also in the founder's beliefs that do not trust the ability of their children in managing the business. The age gap with his children causes different mindset in looking at a business. His children belong to the millennial generation born in 1981–1994 (Perubahan 2017). This generation has a pattern of life that is different from previous generations, such as the behavior and fading of cultural values due to outside influences. Concerns about the fading of business values instilled when managed by his successors became the reason for him to continue to manage the business in his old age. However, since 2008, the disease began to undermine him and required him not to do much activity in the office. At its peak in 2018, he gave up, giving Merdeka College ICB family business management to his successors.

Other problems also arise when he had to decide which child should continue his business. Succession planning is one of the problems in the family business because it affects business sustainability, including inappropriate decisions identifying the next generation of leaders (Ramadani et al. 2017). Previous studies have identified problems with succession planning in the family business. The succession process plays an important role and provides a significant influence in determining the desired future of the family business (Ramadani and Hoy 2015). The provision of higher education provided to his children is not enough for him to decide which child to choose. The particular context influences succession planning in the family business and succession planning requires a very long investigation time compared to nonfamily business (Schell et al. 2019). The difference in character and mindset of each child becomes a big task for AK to determine the criteria for the successor of its business.

AK also holds family gatherings repeatedly to gather children to discuss the sustainability of the family business. As a preliminary assessment, he allowed his children to conceptualize the development of the Merdeka College ICB going forward. His children proposed several new concepts, but again AK still cannot entrust his business to his children by continuing to interfere in determining which concepts will develop. Meanwhile, his children did not want AK to interfere with the concepts they developed. It is not easy for his children to gain the trust of AK; it makes his children one by one give up and decide to pursue other professions. Unlike the concept proposed by the Dineu Maulani (DMA), although AK still tries to interfere, the DMA still adheres to the principle that transformation must be done to Merdeka College ICB by not changing the values held by AK. AK identified a DMA character that was very similar to him, and in the end, DMA was chosen as his successor even though the other children met other specified criteria. AK provides the provision of character education that is firmly planted to its children so that it does not cause conflict with other children when AK decides to surrender its business continuity to the DMA. Even more, other children are very supportive and provide an injection of funds for the development of the family business. There are several parameters of succession planning that should be seen by AK in addition to educational background, namely the involvement of children in the family business from when they were small. AK can also see how his children neglect prospective children's personal growth so that they focus on the family business. Other succession planning criteria such as personality traits, commitment, acceptance as employees, a high level of innovation, and similarity to the character of AK are also as succession criteria that cannot be falsified by AK's children. Some negative characters such as unwillingness, inability, and only supporting other candidates are taken into account to determine which children do not need to be candidates. In addition to other positive things such as trying to become a successor, having a long-term orientation, and always seeking advice can be used as a reason for the selection of a successor to the family business (Schell et al. 2019).

11.5 Road to the Future

11.5.1 New Images

Merdeka College ICB transformed after being held by its successor, the DMA. DMA realizes that the business processes that have been carried out by his father cannot be sustained anymore. She has made use of technological advancements as a promotional medium for businesses such as Instagram and Facebook. Besides, the declining Merdeka College ICB finally slowly crawled back with a new image and new segment by changing its name to ICB Kids. Competition among English language education institutions is currently very tight, some big players who already have big brands in Indonesia such as English First (EF), LIA, and local English language education institutions that are well-known in Garut such as Beverly, Primary English, Universe Language English Garut Course, Travelia English Course, and others. ICB Kids is a pioneer of English language education institutions specifically for children in Garut, aged 7–12 years. Moreover, the learning media used also experienced changes that were only one direction, becoming interactive media and games. This new face succeeded in making the name ICB Kids get a position as one of the famous English language educational institutions in Garut.

11.5.2 New Values

The current millennial generation does not only think about profits when running a business but puts forward the value that can be obtained by its customers. Millennials tend to be easy to improve their finances and create creative works that help the sustainability of their business. A study conducted by John Howkins (2001) found that exports of US copyright works had a sales value of US $ 60.18 billion, far exceeding exports in other sectors such as automotive, agriculture, and aircraft. Besides, this generation cannot separate from the use of technology, one of which is a gadget, so that this generation is more interactive in communication, more comfortable to find friendship and learning. These values are utilized by DMA to change the face of ICB Kids to be more present and friendly to children's education. The use of technology is also a priority in the teaching process, introducing children that gadgets are not only used for playing games or social media, but also for knowing and learning English.

Questions for Discussion

1. How does corporate governance play a role in this family business case? Why AK finally decided to give up the hotel and tourism business?
2. How does the founder's distrust affect the sustainability of the family business? What are the reasons underlying why AK always to wants to interfere in the business development of his children?
3. AK always sticks to his principles. Will this have an impact on business development, especially in the process of business expansion?
4. At present, handing over the business management to DMA has not caused a significant conflict with other children. Will a conflict arise when the business with its new image transformation? Do you think all AK's children should have the same right in terms of sharing his wealth? Furthermore, what solutions can you provide to overcome these problems?
5. What can AK do to avoid family conflicts that might occur?

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Case Study 3: Ugarak Product—Preserving Socioemotional Wealth in the Family Business

12

Learning Outcomes

- Understand how the socioemotional wealth (SEW) of a family business is established.
- Understand the principles of SEW in a family business for young generation who should preserve and advance it.
- What lessons from the story to take and how to continue the same path of the family business antedescendents whose efforts were enormous to maintain the unity among family members, as well as loyalty and trust from nonfamily employees.

12.1 "Ugarak Product": An Inception

In early afternoon, the CEO of Ugarak Product, Mr. Nihad Ugarak narrated a story about the family business and how it has evolved into a very successful and prominent family business locally and internationally.

The idea was born in early 1996 when his father had a visit from his friends from Germany. The visitors were Bosnians and Germans. They were due to some other reasons in Bosnia, but they visited his father. While driving through the Bosnia they observed, and asked his father, a very unusual question: "is there any factory producing windows?" His father was astonished, and he surprisingly asked them, "why?" One of them replied: "it is because we are going around Bosnia for three days, especially in big cities in Bosnia, and we observed that many houses and buildings still have broken windows! and, we are wondering is there anybody that will fix it?!" That was the time, immediately after the war in Bosnia was over. "Yes, you are right," his father replied, "all is damaged around the country, and still no one is fixing it."

Note: This case study is written by *Ramo Palalić,* for purposes of this book.

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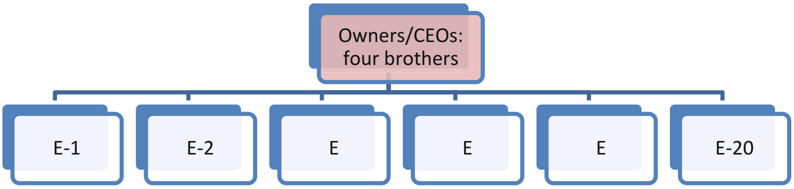

Fig. 12.1 Organizational chart of Ugarak Product LLC, in the very beginning. Source: Authors, based on the interview with the CEO of Ugarak Product LLC

After the conversation they had, his father was astonishingly speechless. In fact, that was the gap in the market, and yet, it was the real market need, which no firm was available to satisfy this need. Also, at that time there was no company in Bosnia and Herzegovina,[1] which produces such specific products, like the PVC (polyvinyl chloride) joinery. Since the Germans were in this field of business, they suggested him to think of this idea to start this kind of business, which will be fully supported by them. They will provide the necessary investment and know-how for the future company.

In a very short period of time, 5–6 months, an agreement has been signed with the Germans. The first factory for PVC joinery products has been established and opened in Visoko, a small town close to the capital city of Bosnia, Sarajevo. The place the company was run were rented premises. The renting period lasted for 5 years. Interestingly, the Agreement that was signed between his father and the Germans was valid only for 1 year. They wanted to exit after 1 year. Actually their aim was to start the business, to train the firm's employees, and transfer the know-how for production, so that the firm can run further the business itself.

As experienced in their business, the Germans suggested us to deal with quality raw materials only. Otherwise the final products will not be of good quality. At that moment, his father did not know that the Germans were the leader in the market for this type of products in Germany. After their exit, Ugarak Product continued to make business with them, as partners, in terms of supply of raw materials, as well as penetration in the German market. In the beginning, the company had around 20 employees in total (Fig. 12.1), which represented at that time a very simple organizational chart. The figurehead of the Ugarak Product was Mr. Dzamail Ugarak, one of the founders of the company. His engagement, with support of his brothers, as the leader lasted until 2016, in which year his oldest son (Nihad Ugarak) took over the position as the CEO of Ugarak Product LLC.

[1]Bosnia and Herzegovina is often called Bosnia only. It is because rarely people of Bosnia and Herzegovina call it by its full name. So in further text Bosnia will be used.

12.2 Composition of the Family Business

The founders and owners of the current company are Nihad's father and his three brothers. Two of them already passed away, and his father and his uncle are only alive founders. However, children of his two uncles, after their death, inherited the ownership. Children of one of the uncles are still shareholders of the ownership, while kids from another, they sold to the rest of founders their shares of the ownership. Now, they have another successful business. Today, the main owners of the Ugarak Product LLC are his father, his uncle, and kids of one of the founders who passed away.

12.3 Ugarak Product's Socioemotional Wealth (SEW)

Socioemotional wealth (SEW) is defined as "the non-financial aspects of the firm that meet the family's affective needs such as identity, the ability to exercise family influence, and perpetuation of family dynasty" (Gómez-Mejía et al. 2007). It is a perpetual heritage of the family's tradition, beliefs, and values accumulated through the time (Astrachan and Jaskiewicz 2008; Gómez-Mejía et al. 2007). It cannot be quantified and converted into money, rather it is a hidden treasure of every family business. Compared to no-family business, it is a very unique firm establishment (Ramadani and Hoy 2015). The case of Ugarak Product LLC confirms the long tradition in building family's values transmitted to the rest of family members, as well as to all other employees. The CEO of Ugarak Product, Mr. Nihad Ugarak, elaborated on the family business' SEW.

After his father's retirement, in 2016, he took over the business as the CEO of the Ugarak Product LLC.

Mr. Ugarak, the CEO of Ugarak Product LLC narrates:

> My first bond with this firm was since its inception. I was growing up with the firm. For instance, during the summer break, as the high school pupil, I was involved in some of business operations in the company. It was the same for the other family members (my uncles' kids). We are tight to the firm 24 hours. Life without the firm would be empty, because our childhood was fulfilled with the firm's spirit.

According to Berrone and his associates (2012), the family firm's SEW is composed of five essential dimensions (FIBER), and these are *f*amily control and influence, *i*dentification of family members with the firm, *b*inding social ties, *e*motional attachment of family members, and *r*enewal of family bonds to the firm through dynastic succession (p.259). The case of Ugarak Product LLC is elaborated in the following thoughts of the firm's CEO.

Regarding the socioemotional wealth of the Ugarak Product, the CEO argues that it is truly healthy. First of all, due to *family control and influence*. His father (Dzemail Ugarak) is in fact the *Big Father* of the business. Although he is retired, he has influence on key strategic and operational decisions. One of the things that was questionable is who is going to be his successor. To reveal his wise strategic moves, his son Nihad said that his father, Mr. Dzemail, during the period of his work in the company, he was engaged in operations of all departments. He realized that his father was really tired. He was eager to get someone like him to take over the business and all responsibilities that one CEO should have. Later on, after Nihad's promotion to the CEO position, Nihad realized why he was sending him to all departments to work, even to a fieldwork. According to Nihad, the fieldwork in this business is extremely important, because the service they do on the spot is a reflection of the firm's reputation, image. Apart from this, it was good to know how employees should be treated as valuable social capital. Nihad confirms that his father is still here in the firm, although retired. However, *his presence means a lot to him and the whole business* as the biggest support. Although Mr. Dzamail is a wise man, he never opposed to Nihad's strategic decisions he made. Of course, for many of those decisions Nihad brought, there was a prior consultation with his *Big Father*. Regarding the important strategic decisions, he decides himself, but, when he feels that he should be advised before that, he seeks advice from his father. Although his uncle is another owner of the firm, he also gets advice from Nihad's father, because his uncle is still present in the ownership, and at the same time he performs some important technical operations in the firm, but without any managerial position. Simply, the Big Father is a valuable source of wisdom and his influence is smooth and always emotionally accepted among other shareholders and family members.

Regarding the *identification of family members to the firm*, the CEO confirms its importance. This issue was brought since the firm's inception, where a name of the future firm was discussed. In the end, his father decided to name the firm with the family's name, Ugarak. He explained that it is one of the most important things that the family business *must* have. This thought or wisdom was transmitted from his grandfather who was a sole entrepreneur, very known and respected in his surroundings. He always kept promises in entrepreneurial activities and simultaneously he has built the reputation of the family's name. Another reason for having the family name in the firm's name, Nihad rationally explained it:

> It will show to our clients that we are behind our products. We do take all responsibilities, errors, products' lacks, and other shortcomings! The point is not to disadvantage our customers in any case! That is why we gave the name of the business as our family name. We, family members, are proud to be Ugarak family! Wherever we go, we can feel and hear that we are truly respected! Such reputation of the family name indeed opens many other doors in the society, in this area and the region. The firm had problems in this context, but such problems always settled in favor of our customers. Sometimes, we were worse off, but we did not want to deceptively benefit from our customers. Our motto is "our customer is at the first place, always"! At this moment, for example, there were some problems and claims from customers, but we were always positive towards our customers to gain our reputation and privilege. This is because of the family's name! We are profoundly attached to the family's firm name, all of us!

Ugarak Product LLC has its tradition to help the firm to *bind socially*. Since the company has been established immediately after the war, the policy of the company was to employ neighbors who were war veterans, to take care of them. For instance, the first employees were those who defended the country and neighbors. All of them are now the best engineers the firm has. Even now, regarding the recruitment of new hires, the company feels responsible to employ its first neighbor, and then the rest in the society. While recruiting, if the firm cannot find a neighboring employee, it looks to the next neighborhood, and so on. This is the family firm's tradition. Due to such an employment policy, for instance, they built their reputation in the society. Additionally, they supported many projects in terms of building roads and houses/flats for poor people, sport activities, education, and similar. The society recognized all these. *What goes around, it comes around*! The whole society the firm operates in and its owners live in has recognized the family firm's integrity and dignity.

For Ugarak Product, the best wealth are its employees. They are trying to understand their needs to establish one family *so that we can feel the same.* It means, the firm has empathy toward its employees and based on that, the firm is trying to establish an *emotional momentum*, where everyone will feel like a family member. To keep this momentum and to implement this kind of familiness, the firm organizes joint gatherings and events in sport and other social activities. Additionally, the firm's policy is to apply the *open-door policy*. All employees are welcomed to have a talk about all topics, regardless of whether it is a business or private things they might have. So all of them act as the big family business. No discrimination is detected ever. One interesting policy that was introduced since its establishment is a difference in seniority (working experience) and the age of each employee. The policy is welcomed and fully respected from the whole collective. The main *emotional attachment* of this firm is *loyalty*. No one ever got fired from this company. The owners of the company, as well as the CEO, never look after employees as the ones who are sabotaging their business. They trust each other and the actual keys of the perseverance of emotional attachment in this family firm are loyalty, trust, and keeping promises. They claim that they differ from nonfamily firms in terms of the objective, which is profit. The CEO says: "*Non-family firms, most of them look after money, unfortunately! We don't, and we are proud of it and putting our employees at first place!*"

Regarding the *new successor* of the Ugarak Product, it is inevitable and at the same time necessary. The CEO feels uncomfortable that he took over the business from his father and uncle. But he also feels that it is his responsibility. The firm invested in him through his education, even during the hardest time for the firm. It was the same for other members of the family. Now, we are back, to proudly pay back the investment to the family. It has been so much invested in his and other family members' education, which was with full effort and dedication. In the end, this is his family name, and he has to justify the family's name under his leadership, along with his family members and close relatives, who are energetic, young, and educated. They (CEO and his peers) have support. Their shadows are the *Big Father* (CEO's father) and his uncle, which will last until their death. As the new successor, he got a very meaningful advice from his father that he must not forget: "*Nihad, please, take care of your dignity, because your dignity is the dignity of the firm. Take responsibility, fullfil promises, and do not be the one who is opposing to resolve*

Table 12.1 Current composition of workforce in Ugarak Product LLC

Profile of Ugarak product LLC	Managerial position for family members	Employees	Total number of employees
Family members	3	15	15
Nonfamily members	0	82	82
			97

Source: Ramo Palalić, based on an interview with the firm's CEO

problems!" Nihad, the CEO of the Ugarak product said: "*My bonds towards this firm are much more than before!"*

12.4 Family's Conflict: Outcomes

As in every firm, there is a conflict. However, Ugarak Product LLC has values from its old family tradition, transmitted from the CEO's grandfather, who was always strictly attached to the family's unity. He never allowed to have a conflict between family members (siblings). He was the family leader who paved the way to avoid conflicts during his time. Now, the firm is also promoting the family's unity and avoids conflicts. It does not mean that they do not have disagreements; rather they communicate different opinions and come to positive discussion's outcomes. At this moment, the family is basically run by the third generation of the family with full respect among each other. They have different opinions, but they communicate and resolve disagreements very easily. The key is communication. The firm has HR, but it is at the infancy stage. They are trying to incorporate all good practices that will suit the needs of the family and its business.

12.5 Toward the Future

12.5.1 New Dynasty

New generations in Ugarak Product are coming and probably new challenges will come. As technology and environment (internal and external) change, the people's views, attitudes, and opinions will be diverse. Hence, there might be issues in the future, but the CEO hopes that the firm will last for the long time, due to the firm's SEW. He argues for now that it seems there are no difficult issues that will damage the firm's image and reputation.

The current composition of the workforce in Ugarak Product is in Table 12.1.

Figure 12.2 shows the organizational chart of the Ugarak Product LLC.

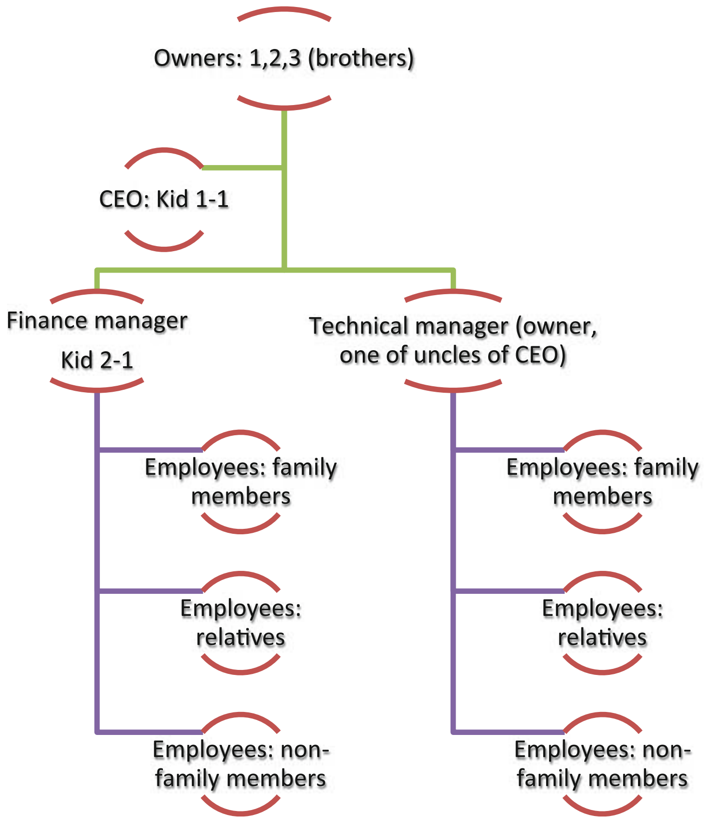

Fig. 12.2 The current organizational chart of Ugarak Product LLC. Source: Ramo Palalić, based on an interview with the firm's CEO

Questions for Discussion

1. How do you interpret the firm's SEW, according to the facts in the case?
2. Does this family firm have a healthy milestone to be successful in the future? What would be the reason(s)?
3. Do you think that conflict could be perceived in the future, since only one of the kids is the authority? If yes, what would cause the conflict? If no, what will be the reason?
4. Do you agree with the tradition of the firm? Why? Why not?
5. If you would be the Big Father, will you do differently in terms of promotion to a CEO's position? Why? Why not?

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Case Study 4: QCamel—A Journey Full of Ethical Farming

13

Learning Outcomes
- Learn the challenges for families to operate in emergent industries.
- Assess the multiple uses and product development from camel milk.
- Understand the desires for a family business to achieve noneconomic goals over economic ones.

13.1 Starting QCamel

The business idea started back in 2006 after Lauren Brisbane engaged in a 2-year research study about the potential for developing the camel industry in the state of Queensland. Lauren saw the opportunity for entering in the business despite no prior farming experience. She is joined by her husband Peter and children: Yasmin, MacKinley, and Harry in the daily activities. By 2014, the Australian government certified the company to become the first farm capable of selling pasteurized camel milk. From the certification, QCamel has expanded its line of products to yogurts, chocolates, soaps, and a new line of skin care products that was launched in February, 2020.

QCamel customers can not only buy these offerings in the company online store but also in several healthy and food shops across Australia, New Zealand, and Singapore. Another source of revenue for the company is tourism. The farm is open for visitors the first Saturday of the month to cuddle the camels and observe the entire dairy process.

The family vision toward running the operations is summarized in these core business values: (1) their absolute love of camels; (2) their passion for ethical farming; and (3) their focus on providing premium health products in the

Note: This case study is written by *Erick Chang* for purposes of this book.

V. Ramadani et al., *Entrepreneurial Family Businesses*, Springer Texts in Business and Economics, https://doi.org/10.1007/978-3-030-47778-3_13

Australian and International market.[1] As a result, the Brisbane family follows a passion for running the business with a focus on sustainability, environmentally friendly, and with a farming practice that nurtures and treats the camels as part of the family.

According to a 2016 report commissioned by the Rural Industries R&D Corporation, QCamel had a capacity to annually produce close to 4000 gallons of milk from a herd of 60 camels (Clark 2017). Other domestic competitors are projecting annual productions that range from 925 to 26,000 gallons per year to arrive at a potential annual volume of close to 70,000 gallons. However, this annual production volume is not comparable to the 2.4 billion gallons of cow milk coming from about 10,000 Australian farmers.[2]

13.2 The Health Benefits of Camel Milk

Camel milk has been primarily used for several centuries in regions of the Middle East and Africa since camels were the means of transportation for caravans crossing the desert. Due to the long distances and lack of water sources, camels were milked to provide a source of water and food to the travelers. In contrast, for the traditional consumer market that believes in milk as a nutritious drink, camel milk is just a novelty as camels are not seen as a traditional source of milk. For example, the annual global consumption of milk is more than 58.3 billions of gallons and the major sources come from cows, buffaloes, goats, or sheep.[3] From this perspective, the sources of milk will vary with the prevalence of the animals in particular regions. In that manner, the largest producers of camel milk are located in the original regions where the camel was domesticated. Table 13.1 summarizes the top 5 producers where the combined production of Somalia and Kenya covers more than 67% of the global market.[4]

In addition, the Food and Agriculture Organization of the United Nations (FAO) only reports camel milk production from developing and least developed countries.

Table 13.1 Top 5 producers of camel milk (in millions of gallons)

	2015	2016	2017
Somalia	250.87	251.65	251.63
Kenya	214.32	224.17	231.19
Mali	70.26	71.67	79.16
Ethiopia	67.04	47.40	45.31
Saudi Arabia	34.81	35.12	35.43

Source: Based on http://www.fao.org/faostat/en/#data/QL

[1]https://qcamel.com.au/our-ethics/—images and use of Website information courtesy of Lauren Brisbane.

[2]https://www.nff.org.au/commodities-dairy.html

[3]https://www.statista.com/statistics/263955/consumption-of-milk-worldwide-since-2001/

[4]http://www.fao.org/faostat/en/#data/QL

Table 13.2 Production outcomes over the last years

	Landlocked developing countries			Least developed countries		
Year	Production (millions of gallons)	Camels	Yield (hg/An)	Production (millions of gallons)	Camels	Yield (hg/An)
2010	181.69	968,448	7110	494.65	3,816,971	4912
2011	159.15	928,948	6493	473.44	3,912,444	4586
2012	189.33	1,033,392	6944	506.29	5,485,402	3498
2013	140.25	941,793	5644	460.03	5,402,290	3227
2014	149.09	997,051	5667	428.06	5,337,351	3040
2015	184.22	1,457,833	4789	464.67	5,819,408	3026
2016	167.02	1,409,388	4491	448.29	5,756,567	2951
2017	173.49	1,485,641	4426	454.60	5,838,372	2951

Source: Singh et al. (2015)

Table 13.3 The differences between camel and cow milk

Components	Camel	Cow	Components	Camel	Cow
Water (%)	90	87	Calcium (Mg/100 g)	132	120
Fat (%)	3	4	Potassium Mg/100 g)	152	140
Sodium (mEq/l)	11.4	22	Vitamin C (mg/ml)	35	10
Protein (%)	2.8–3.6	3.4	Omega-7 (%)	11.6	2.3
Lactose (%)	2.8–4.2	4.8	Insulin (uu/ml)	40.5	16.3

Source: Yadav et al. (2015)

Production from emerging producers like Australia or the United States are not reported while production from China is still below the 1% of what is produced in the least developed countries.

Table 13.2 presents the summary from the most recent data reported by FAO. It is important to notice that camel milk production varies with the number of calves and the lactating periods with an average of 5 l (1.2 gallons) per day.[5] Even more, the camel cannot be milked without the calf so the process is different from milking other animals.[6] The numbers also report the quantity at the raw level (no pasteurization) and this cannot entirely measure the quantity that is commercially processed into fresh milk, dried milk, derivatives (e.g., cheese or yogurt), or used as an ingredient for other products. FAO also reports the number of camels slaughtered by region and year as farmers can sell the meat and skin.

As the camel milk industry has moved to industrial processes and pasteurization, researchers have been able to analyze its nutrient components. Some particular differences from cow milk are lower levels of fat, higher levels of vitamin C and calcium, and lower levels of sodium. These are summarized in Table 13.3. However, cow milk is becoming a less nutritional option for consumers as they start to prefer

[5]http://www.fao.org/dairy-production-products/production/dairy-animals/camels/en/

[6]https://qcamel.com.au/faqs/

Table 13.4 Autism (cases per 10,000 children) in 10 selected countries [https://www.focusforhealth.org/autism-rates-across-the-developed-world/]

China	23	Switzerland	145
Germany	38	Japan	181
Denmark	69	United States	222
Singapore	67	South Korea	263
Canada	106	Hong Kong	372

Source: Based on https://www.focusforhealth.org/autism-rates-across-the-developed-world/

other options such as juices, tea, or carbonated drinks. Also, some consumers are allergic to lactose and have switched to substitutes like soy or almond milk, or even consumption can vary at the country level or by age group. Researchers have found a higher level of correlation between personal income and milk consumption; thus, individuals in least developed countries consumer less milk than those from developed countries (Singh et al. 2015).

In Table 13.3, one can see the higher levels of insulin present in camel milk. Researchers have conducted trials for exploring the benefits of drinking camel milk to reduce glucose in patients with diabetes (Mullaicharam 2014). This research has found that a daily drinking of one pint of camel milk reduces the need for insulin. This aspect creates a huge opportunity for looking alternatives to treat patients as the global prevalence of diabetes among adults over 18 years of age has risen from 4.7% in 1980 to 8.5% in 2014.[7] Camel farmers are using these research findings to attract new customers.

In addition, camel milk has been shown to offer fewer allergies to children when compared to drinking milk from cows or goats. This is very important as an alternative for treating autism spectrum disorder (ASD) that is currently rising in developed economies.[8] Table 13.4 provides the levels of autism cases in children from 10 selected countries where camel milk is not produced at the mass scale.

Finally, camel milk has alpha-hydroxide acids that provide benefits for the skin, so the beauty industry has found a new ingredient for cosmetics or soaps.[9] In that manner, it is possible to measure the potential for using camel milk in a variety of natural-based products.

13.3 The Australian Camel Milk Market

Camels were introduced in Australia in the 1840s for transportation purposes as the internal areas of the country resembles the conditions found in the Saharan desert.[10] The commercialization of camel milk just became a novelty in recent years to find

[7]https://www.who.int/news-room/fact-sheets/detail/diabetes
[8]https://www.who.int/news-room/fact-sheets/detail/autism-spectrum-disorders
[9]https://www.focusforhealth.org/autism-rates-across-the-developed-world/
[10]http://australia.gov.au/about-australia/australian-story/afghan-cameleers/

Table 13.5 Camel milk farms in Australia

Camel milk farms	Suburb	State	Annual production (in liters)
Calamunnda Camel Dairy Farm	Paulls Valley	Western Australia	6000
Camel Milk NSW	Denman	New South Wales	3500
Camels Australia	Hugh	Northern Territory	7000
Camilk Camel Dairy	Rochester	Victoria	15,000
Good Earth Camel Dairy	Yathroo	Western Australia	20,000
QCamel	Bells Creek	Queensland	15,000
Summer Land Camel Dairy	Harrisville	Queensland	60,000
The Camel Milk Co	Kyabram	Victoria	60,000

Source: Based on Clark (2017) and Meehan (2019)

Table 13.6 Fresh milk prices and substitutes

Fresh camel milk		Substitute products (64 oz)	
QCamel 33.81 oz	$14.30	Cow milk	$1.61
Camel milk Co 33.81 oz	$10.89	Soy milk	$2.37
Desert farms 16 oz	$18.00	Almond milk	$1.82
Camel Milk Cooperative 19.2 oz	$14.17		
Average price per 1 oz	*$0.65*	*Average price per 1 oz*	*$0.03*

Source: Author, based on prices for substitute products found in Walmart.com and all prices were converted into US dollars at an exchange rate of US$1 = AUS $1.47

new uses for the existing population of more than 1.2 million camels. The type of camel to use for the farms is the dromedary or Arabian camel (the one with one hump) and one camel can cost US$17,000.

Currently, there are 8 camel milk farms with a production estimate of more than 180,000 liters per year. These are shown in Table 13.5 where Calamunnda was the first camel milk to operate in the country, QCamel the first certified as an organic producer, and The Camel Milk Co. expanding its capacity to a herd of 60 camels to milk daily (Clark 2017; Meehan 2019).

The biggest constrain for these farms to be competitive in the market is the high price when camel milk is compared against other types of milk. Although fresh camel milk may be a healthier alternative, the industry has not attained enough economies of scale to lower the prices. Table 13.6 provides the prices of fresh camel milk that are offered in online shops of QCamel and Camel Milk Co. in Australia and two other sellers in the United States (Desert Farms and Camel Milk Cooperative). On average, 1 fluid ounce of camel milk is sold at $0.65 while its substitutes are sold at $0.03. In similar terms, Table 13.7 presents the prices of dried (powder) camel milk offered by different companies in Australia and the United States. On average,

Table 13.7 Dried milk prices and substitutes

Dried camel milk		Substitute products	
QCamel (8 oz)	$40.85	Cashew milk 16 oz	$18.00
Camelicius (16.92 oz)	$99.95	Cow milk 16 oz	$11.99
Aadvik Powder (17.62 oz)	$60.00	Soy milk 20 oz	$15.00
Camel Milk Cooperative Powder (7.05 oz)	$79.99		
As Fresh (3.5 oz)	$18.50		
Average price per 1 oz	*$6.21*	*Average price per 1 oz*	*$0.93*

Source: Author, based on prices for substitute products found in Walmart.com and all prices were converted into US dollars at an exchange rate of US$1 = AUS $1.47

1 ounce of powder is sold at $6.21 while the substitute products are sold at $0.93 per ounce on average.[11]

As camel milk can be perceived by the customers as a premium product, the industry in Australia and other countries like the United States are seeking to capture new adopters among those suffering from diabetes or even innovating to compete in the cosmetics market.

13.4 The QCamel Family

In a 2019 story published by the BBC (Meehan 2019), Lauren Brisbane was able to detail how her family sees their camels: "We see them as our family members and fellow members of staff, rather than just stock or machinery." In addition, she also spoke her daily involvement and interaction: "They're like people, they've all got a different personality. They're gentle souls, kind and loving, and just so intelligent. You can sit and talk to them about what's going on, and they completely understand. . .".

These interactions are displayed in the company website and its different social media platforms (e.g., Facebook and Instagram) as the vision for "happy farming, ethical treatment, and respect" makes the operation to focus more on building stocks of socio-emotional wealth that is critical for a successful family-owned business. The efforts for competing in this emerging industry makes the Brisbanes to fully function more on allocating passion and love rather than solely concentrating on the achievement of economic and financial results.

The family business competitive strategy is focus-differentiation where premium prices are reflected in the line of products given the costs, processes, and commitments. The operating costs are higher than those in the industry as the family relies on organic farming practices (Meehan 2019). For example, camels are fed with pasture and organic hay produced at the farm, no use of hormones or antibiotics, or even the use of recycled or biodegradable materials. Furthermore, their production

[11]Prices for substitute products were found in Walmart.com and all prices were converted into US dollars at an exchange rate of US$1 = AUS $1.47.

process involves that the calves remain with their camel mothers in the milking facilities. The milk is shared with the calf and the company uses a small fraction of the milk collected. Thus, the yield of milk to attain for pasteurization and the other products is lower than what a full scale of an industrial operation can get.

It is important to notice that once fresh camel milk is pasteurized, it can be frozen to extend the lifespan to about 6 weeks. This condition allows the company to distribute fresh milk throughout retail outlets (mostly specialty health food stores) in Australia and also handle international shipping orders to New Zealand or Singapore.

Another characteristic for committing to the ethical farming practice is the family privacy to secure the heard of camels. Visitors can only come during the monthly farm visits or on special guided tours; however, the address and location of the farm is not publicly disclosed. This can be one particular way for respecting the camels' natural habitat.

In sum, the Brisbane family has really reached out to become a highly supportive and strong family that strives to be competitive in this emerging industry.

13.5 QCamel Products

As camel milk has a wide variety of health benefits, QCamel was able to expand beyond fresh milk, dried milk, or derivatives like milk or yogurt (*see* Fig. 13.1) In 2020, a line of skincare products was added to the offering.[12] These products include a combination of camel milk with oils and scents from Native Australian plants with a life span of 1 year. Such product innovation made QCamel to be recognized as one of the 50 top innovative agribusinesses in 2018 by the Australian government. For the skincare products, QCamel provides the milk to an outsourcer in Queensland that is in charge of the production. Then, the company was able to register the trademarks under the Madrid protocol to protect the company in multiple countries.

The following pictures show a selection of products that QCamel sell in its online store. Customers may also need to incur in additional shipping costs for smaller orders, not only in Australia but also in international orders.[13]

13.6 The Challenges

QCamel can be confronted by multiple challenges in the short and long term. The first one is the increasing competition from the other Australian farmers that are increasing the number of camels to milk on a daily basis to pressure for lowering prices and go after the particular segments of the market that may be altering their

[12] https://qcamel.com.au/camel-skin-care-camel-milk-skin-care-products-australia/

[13] https://qcamel.com.au/shop/—images and use of website information courtesy of Lauren Brisbane.

Fig. 13.1 QCamel's selected products: Source: qcamel.com.au (used with kind permission by the company)

consumer preferences toward milk. Even though QCamel fresh milk is organic and sold as a premium product, other farmers can seek to attain the certification and replicate their practices.

Second, expanding the distribution outlets throughout Australia will be also contingent to the potential demand for fresh milk. The 6-week shelf period reduces the risks for the logistics procedures as the company can distribute without incurring in additional costs for on-demand delivery to longer distances. Furthermore, air freight transportation can take the products from the Brisbane International airport to several countries in a range of 3 h (Auckland, New Zealand), 8 h (Singapore), 9 h (Hong Kong and Tokyo, Japan), 10 h (South Korea), or 13 h (Bangkok).[14] Also, QCamel can benefit to compete in the international fresh camel milk market as their camels are considered "free from the Middle East Respiratory Syndrome virus" that can spread to humans by their contact with camels or by drinking raw milk.[15]

Finally, QCamel can expand its research and development activities for enhancing the line of skin care products or extending into other beauty care products like shampoos. The products can be exported to the global markets and become available in different specialty retail outlets.

Questions for Discussion

1. Please use the case information to discuss the advantages and disadvantages for QCamel to remain as a focus-differentiator in the emerging market of Australian camel milk.
2. Is camel milk a potential and sustainable business to explore in other developed economies?
3. Which particular practices from QCamel can aspiring entrepreneurs implement for running their businesses with high levels of family involvement?
4. What can you recommend the Brisbane family to expand their "happy" farming operations?
5. How sustainable is the QCamel business to remain under family control for the next generations?

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[14]Flight times come from one-stop commercial flights listed in Google flights.

[15]Ibid.

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