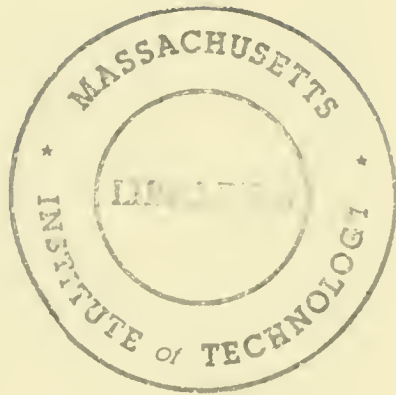


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CHALLENGES AND ISSUES IN MANAGING FAMILY FIRMS

by

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A significant and clear majority of all private enterprises in the free world are controlled and usually owned by a single family or two families. In the United States, according to a 1971 survey of the approximately 1,000,000 registered corporations 980,000 were in the family owned/controlled category (Industry Week, 1971). About 150 of the Fortune 500 companies are similarly identified (Sheehan, 1967).

In the developing countries, particularly in Latin America, the resolution of the issue of private or state controlled wealth production rests in no small way on the behavior of the families that now control wealth production. Failure to accept major social responsibility, errors in handling industry-government interfaces, inept industrial relations policies and practices -- all of these are time bombs for the wealth producers.

Too little social science research has focused on either the unique or comparative characteristics of family vs. non-family enterprises. For example, are there differences in the reward and control systems of family versus non-family firms? Do training and career planning systems apply similarly to family and non-family firms; and how do the methods of selecting high potential candidates for general management positions differ in these firms?

A review of available literature, in-depth interviews with members of family firms, plus almost twenty years of consulting with founders, chief executives, family owners and professional managers leads to the

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following presentation of key issues and areas for further study.

- I. Issues For Founders
- II. Succession Planning
- III. The Training And Development Of Family Members
- IV. Family Dynamics
- V. Growth And Development Of Family Firms
- VI. Some Implications For Owners And Managers In Family Firms

I. ISSUES FOR FOUNDERS*

There are a number of major issues which confront most founders at one time or another. Founders are usually concerned about the kind of legacy they leave their family, their business, and society at large. The founder may feel that all he is leaving are the tangible assets of the firm that he built. On the other hand he is also likely to feel that he is leaving many other assets, e.g., goodwill, values, social standing. Dealing with the question "what do I leave" is an important issue for the founder.

In conjunction with this issue, the founder faces the dilemma of whether or not he wants those in his firm to replicate his managerial and leadership style. Similarly he must struggle to determine if he should attempt to perpetuate the values, e.g., free enterprise, social responsibility, he has espoused during his lifetime. An example of this issue can be seen in the following situation. An entrepreneur in Latin America started an insurance business because he saw the need for many of the poor people in his country to have adequate life and health insurance. The entrepreneur charged very low rates to the people who enrolled in the insurance program and the program gradually began to improve the lifestyle of a large segment of the country's population. Thus the founder built his business not only to make money but to serve the people of his country. He gains a great

*Although masculine pronouns have been used for convenience, we recognize that women can also be founders.

deal of satisfaction and money providing this valuable service. If, however, the founder's heirs feel that the insurance business is not as profitable as some other ventures, should they be allowed to neglect or sell the insurance business, or should the founder make every attempt to insure that his heirs will perpetuate this business? On the one hand the founder can see the importance of having such an insurance program for his countrymen; on the other hand he must determine whether it is ethical or even possible to force his own value system upon his heirs.

Who Goes Into The Business

During the lifetime of the founder problems usually arise as a result of the inability of family members to deal with two issues. The first issue concerns who in the family goes into the firm and in what position. If the founder wants his children to be a part of the business he might give a number of cues to his children to encourage them to join. However if the children do not want to be a part of the business -- and there may be any number of reasons for this -- conflict between the founder and the children is likely. For example, the son of one founder reported that his father encouraged him to go into the family firm, but he had other interests. He is an outdoorsman and enjoys working with his hands. He dislikes taking responsibility for and managing other people. Furthermore, he feels his friends and others in the community have stereotyped him as the "spoiled rich kid," therefore he has done his utmost to avoid that label. He deliberately avoided taking business courses in high school and college and nurtured his interest in the outdoors and in jobs that required manual labor in order to avoid that stereotype. He feels his father put pressure on him to fit that image and strongly resents it. But the father feels that he put almost no pressure on his son to join the firm and it has been difficult for him to understand his son's attitude and behavior. This difference in perception has been a constant source of friction.

In some cases, the founder may bend over backwards not to influence his children. One founder said that because his father put pressure on him to join the business, he made every attempt not to influence his son. The son, however, wished that his father had given him more guidance and advice about his career and exposed him to some of the advantages of working in the family business. The son is now working for his father and is doing well but a number of years earlier in his career he felt the need for more direction from his father. How the founder manages the process of who goes into the business may determine the kind of relationship he has with his children and other family members.

Sharing of Assets

The second issue concerns how the assets of the business will be shared within the family. Most family members want their "fair share" of the assets. If the family perceives some inequity in the distribution of the assets conflict will often result. How the founder goes about dividing assets is generally more important than the final outcome if the family is to avoid conflict. The founder must decide if he should make the decisions regarding the division of the assets alone, or should he consult his family and others. The correct decisions and the process for deciding the distribution of assets cannot be identified easily. It depends on such factors as family tradition, the number of family members involved, and the nature of the family relationships.

The founder must also deal with many other sensitive questions such as:

1. Can in-laws become chief executives or board chairpersons?
2. Can females (daughters and daughters in-law) be considered for top jobs?
3. If a daughter marries does her share go to her husband?
4. Do I leave money or stock to my grandchildren through trusts, etc. or do I leave that up to my children to decide?

The problems which families encounter are to a large extent a function of

the founder's ability to deal with these issues. Furthermore, how the founder answers these questions influences much of what goes on in the family and the firm.

Advising the Founder

In relation to the preceding issues is the question "who advises the founder?" Typically founders rely heavily on family lawyers and accountants for advice. Although these advisors have expertise in the legal and technical aspects of resolving these dilemmas, they may be quite unable to give sound advice concerning other family issues. For example, it may be difficult for these advisors to counsel a founder about his relationship with his son. Some founders are recognizing this and are turning more and more to family counselors and other consultants in the behavioral sciences for help in dealing with some of their dilemmas.

Some questions for further study on this topic are:

1. What criteria should be used in getting advice?
2. Should one use a group of separate specialists or a team?
3. How do you weigh the different economic and social advice?
4. How important are the family consequences of various decisions?

Management-Ownership Dilemmas

Family firms are faced with the problem of deciding to what extent the family will be involved in the management of the business and to what extent the family will exercise its ownership rights. Again, the founder usually takes the lead in answering these questions. As owners, the family frequently determines the composition of the board of directors, executive committees, and the board of trustees. Furthermore the family decides to what degree they are responsible for selecting individuals for various positions, e.g., chairman of the board, CEO, etc., and determine the roles of these individuals and boards. The family decides what rights are to be given to those who occupy these management and governing positions and what powers

are reserved for the family. Who is to have control over information and decision making is a critical question for the family. In some cases the family may want complete control over all ownership and management responsibilities. In others, the family may not be interested in managing the firm and turn over all management responsibility to professional managers.

II. SUCCESSION PLANNING

Who Plans for Succession?

Developing a plan for succession is an integral part of the dynamics of family firms. Deciding who should be part of succession planning is the first step in this process. There are a number of alternatives. The founder could develop the plan alone, or he might include members of the board of directors along with other non-family advisors. He might also include his wife and/or children in resolving this issue. In some cases he might even remove himself from the process and leave the succession question up to the board of directors or some other governing body. The major point is that the founder must decide to do something about the succession issue because he is central to that process.

Importance of Planning

Many founders, however, feel that planning for succession is not important (Christensen, 1953; Hershon, 1975). Having founded, nurtured, and watched his company grow the founder is very reluctant to relinquish control of the enterprise that is his own creation (Levinson, 1971; Barnes and Hershon, 1976). Furthermore the founder may feel that selecting and training someone to replace him is "comparable to building his own casket" (Calder, 1961). "Letting go" of his company can be extremely painful and therefore the founder frequently procrastinates in developing succession plans.

The significance of this procrastination is often not understood. Several studies have shown a direct correlation between a succession planning process that is known to be operable while the founder is in charge, and what

happens after succession both to profits and people. Where no planning system has been known to exist before the founder leaves, profits tend to drop after the replacement takes over (Trow, 1961), and a significant number of good managers -- both family and non-family -- may leave because of conflicts resulting from the lack of planning (Tilles, 1970; Barnes and Hershon, 1976). In most cases the founder has important ties with the firm's suppliers, customers, government agencies and other interest groups. If the founder fails to prepare someone to manage these relationships after he is no longer present, then these assets can be easily lost. Many business fail because they are not prepared for succession (Steinmetz, 1969; McGivern, 1978), in fact only 30% of all family firms survive into the second generation (Poe, 1980).

Time Span

The founder needs to determine the time span of the succession plan, i.e., is it for the next five or the next twenty years, and what executive positions are to be a part of that plan, e.g., should the plan include the chief operating officer and other top executives as well as the board chairman and the CEO? Finally, succession planning can be viewed as a continuous process or merely a single plan developed at some point in time. Thus the founder and his family's perceptions of succession planning play a key role in this process.

Criteria

Another issue concerns the development of criteria for the various positions which members of the family as well as non-family members may hold. Some common criteria used by family firms for the position of chairman of the board are:

1. Family member -- which may or may not mean blood relation.
2. Experience with the firm.
3. Experience in the business field.
4. Technical competence.
5. Public image.
6. Energy and enthusiasm.

Defining criteria for each position involved in the succession plan is necessary because the criteria prescribe the type of training that will be needed for those who will eventually occupy those positions. The firm or family may be damaged if criteria are not developed for these positions or inappropriate criteria are used. For example, if the "oldest son" is the only criterion for the position of CEO, the firm will suffer if the oldest son is not competent to run the business. Also, if the oldest son doesn't want to be the CEO, the relationship between he and his father may deteriorate unless they can resolve this issue. Finding someone who meets the necessary criteria, or telling a family member that he/she doesn't meet the criteria for a position that he/she has aspired to, can be two of the most trying experiences associated with succession planning.

Problems also may arise when changes are made in the criteria used for advancement. In one firm, the head of the family is trying to change the family tradition of only allowing family members to occupy top management positions, but members of his family have expectations that they will continue to be promoted over non-family members. The family head has had great difficulty in trying to change those expectations to accommodate the advancement of non-family members.

III. THE TRAINING AND DEVELOPMENT OF FAMILY MEMBERS

Entry into the firm

Family firms usually have some entry conditions or requirements imposed upon family members who enter the family business. In some firms it's standard procedure for a family member to obtain a degree at a business school before entering the firm. Other families might require family members to gain some experience outside the firm before they work in the family business. The daughter of the founder of a family enterprise advised her children to look elsewhere for their first job because she didn't want people in the community to think that her children couldn't

get a job anywhere else. Other requirements such as age, sex, and relationship to the founder may also be used to determine if a family member is allowed to work in the family business. These conditions and requirements are generally a function of family tradition and are implicit rather than explicit. In other words, the family may not openly talk about these requirements but everyone knows what they are.

Early Orientation and Socialization

Family members are highly visible to the members of the organization throughout their careers. They may feel a great deal of pressure to perform because they are seen as being groomed for top management positions. Peers may be reluctant to help the "boss' son" early in his career. A family member's peers may be afraid that helping a family member will be perceived as "brown nosing" by other members of the organization and therefore will avoid any action that will be labelled as such. Also non-family members may feel somewhat resentful of the preferred treatment given to family members in regard to career advancement. As one executive put it: "he may be born with a silver spoon in his mouth but we don't have to feed him." Thus being able to relate well with non-family members and solicit their help may be a major issue for family members who are starting their careers in the family firm. It becomes even more critical as the family member advances in the firm. The ability to muster the support of family and non-family members may well decide whether or not the family member is successful in his/her career.

Development of Training Plans

The training plans for family members may or may not be shared with the person for whom the plan was developed. Usually family members who enter the family business have some idea about what their career path should look like and what the timetable should be. One founder's son revealed that when he first entered his father's company he had a definite career path in mind and

he was determined to become president by age 40. He said that he planned to leave the firm if he failed to reach the presidency by that age and would consider his experience with the firm a failure. However, his father had developed the plan for his son's career with little information about his son's aspirations and expectations. The father and son are currently in the process of clarifying their expectations about the training plan.

Those who develop the training plan and those who are the subject of such a plan may have very different expectations about what type of training and experience is needed as well as how long the training period should last. If there is great disparity in expectations surrounding training, conflict will often result.

Career Paths and Training Strategies

A number of career paths and strategies have been used to train family members. First, one of the most widely used training strategies is to train the family members in a number of different functions within the business. For example, family members would spend some time in the factory, the sales office, the financial office, etc. The objective of such a career path is to allow the family member to gain a perspective of all the company's operations. It also gives them an opportunity to demonstrate their competence in different functions and interface with those people whose support and help they will need when they become a top executive. There usually is an informal "faculty" of top managers in each of the functional areas who are responsible for training the family member in all facets of their portion of the business. Second, the family member might be made an assistant to a top manager in the firm. This manager (who may or may not be family) serves as the mentor for the family member and is responsible for teaching the neophyte all of the nuances associated with managing the business. The mentor gives the family members valuable training experiences to assist in their development. A third option is to give family members responsibility

for running different parts of the firm, e.g., divisions, product lines, etc., or to allow them to manage a separate enterprise under the corporate umbrella. Of course there are innumerable variations to the three strategies mentioned above. Many times these strategies are used in tandem to train family members.

Family members not only need management training but may also need to have "ownership training." Family members need to understand their role as owners in order to make intelligent decisions concerning the use of the firm's assets. Without proper guidance, the heirs are likely to make unnecessary mistakes and may even have to relinquish decision making responsibility to others who have an understanding of the relevant ownership issues. To combat this problem, the founder of a large conglomerate is having his children attend regular training sessions to learn about their role as owners. At these sessions a board composed of the firm's top managers teaches the children about the operations of the various businesses and acquaints them with the issues related to ownership.

Review Processes

Family members are reviewed in both formal and informal ways. Since family members are highly visible in the organization their successes and their failures are widely publicized through informal communication channels. They are watched carefully to see if they have the necessary management and leadership ability to run the company. In one family firm the son of the CEO is seen as the heir apparent to his father's position. He is still in his early thirties and needs some additional training and experience before assuming the top job. Both he and his father recognize this. However, the father will be retiring in the next few years so members of the firm frequently discuss whether or not the son will be ready to take over the firm when the father retires. When the son does make a mistake people are often heard saying: "that sure was a dumb thing that he did. I sure hope that he'll be ready in time."

The review processes employed by the firm affect the relationships between family and non-family members. In general, non-family members need to see that the advancement of family members is being reasonable and based on competence. Non-family members in one family firm accept family preference as "the way the game is played," but they have accepted the appointments of family members because they perceive them as being competent. Family members may feel a sense of insecurity around the issue of competence if they are unable to determine the reasons they are being rewarded. "Was I rewarded because I did a good job or because I'm a member of the family" is a question that sometimes plagues a founder's children. Hence, explicit reward and evaluation criteria can serve to allay those fears. Input from senior managers and others who are associated with the family members, e.g., subordinates and peers, may be necessary to get a clear picture of a family member's performance.

Inside/outside Training

Up to this point we have discussed the training of family members within the confines of the family business. However, many families, particularly those in Latin America, send their sons and daughters away to leading business schools to receive their training. Although the formal training that the family members receive is generally excellent, it can pose some problems (Davis, 1968).

The founder may have had little training in sophisticated management techniques and use what seems to be "seat of the pants" management. The college trained children may have a need to implement the new ideas they learned while away at school. They may want to make the company more efficient by eliminating what appears to them to be archaic business practices. Furthermore they may see some of the values of their father as being outdated and contributing to the inefficiency in the firm. But the founder may be hesitant to change his management practices and his values

because he believes that "they've always worked in the past. I'm successful. Why should I change?"

This situation presents the founder with a major dilemma. If he refuses to allow his children to implement some of their ideas, they are likely to become dissatisfied and feel that they have little to contribute to the business. Conflict between the founder and the children is likely and they may decide to leave the firm. But if the founder allows family members to implement some of their modern management techniques he may have to sacrifice some of the values and management practices which he holds dear.

Mentors

The mentors of family members play a significant role in developing family members into competent managers. Initially the founder and other senior family members must decide to what extent they should be involved in the mentoring of family members. However in many cases non-family members are responsible for mentoring the family. These mentors are highly respected by the family and are rewarded for their mentoring efforts by being given large bonuses, stock options, and access to information. Having worked closely with the family, they are able to exert a great deal of influence over decisions made in the firm. Thus the family mentors become an integral part of the career development of family members as well as play a major role in influencing decisions.

IV. FAMILY DYNAMICS

Family and Business Systems

The dynamics of family firms develop out of the interactions between two separate but interlocking systems -- the "family system" and the "business system." The family system consists of the family norms, traditions, and relationships, and has special needs which must be met for it to function well. The "business system" also has a set of norms, traditions and relationships

and the business must meet certain requirements, i.e., generate revenues, if it is to survive. These two systems are connected inasmuch as the family owns the assets of the business. The family dynamics revolve around what to do with these assets and how to meet the different, and sometimes opposing needs of these two systems. The fact that there are these two systems operating at the same time must be kept in mind to understand the dynamics of family firms.

While the Founder is Active

While the founder is alive, he is the dominant source of power in the family firm. Familial relationships are kept more or less in equilibrium by the founder's power to intervene and quell disturbances. As the founder's heirs grow older however, they may want more power and begin to challenge the authority of the founder (Levinson, 1971). For example, the founder's son may feel that his father won't "let him grow up" and that he treats him "like a kid." The son may resort to any number of tactics, e.g., threaten to leave the firm, in order to get his father to relinquish some of his power. In some cases, the power struggle between father and son results in the son and other family members leaving the firm; in others, the son is able to oust the father from his position. Regardless of the outcome, relationships between the founder and his heirs can be severely damaged by these power struggles. These family conflicts take a great deal of time and energy away from the essential duties involved in operating the business. Hence the business also suffers.

When succession finally occurs, i.e., the founder dies or steps down, family and sometimes even non-family members rush to fill the void left by the founder's departure. The founder's children as well as in-laws begin to jockey for position and consolidate their power in an attempt to improve their standing in the firm. Old sibling rivalries

and coalitions begin to reemerge as the heirs fight for control of the firm's assets. Again, the functioning of the firm and the family systems can be impaired if the heirs are unable to resolve these conflicts.

Roles and Role Conflicts

Role conflicts generally emerge for the founder and his children in two areas. First, as members of the family firm, the founder's children are not only his children, but are his subordinates. The founder must not only be their father but their supervisor as well. Likewise, the children see the founder in his role as their boss as well as their father. Determining when he should be acting as a father or acting as the CEO may be difficult for the founder. Similarly the children may have a hard time understanding when their father is acting as their boss or acting as their father. Consequently conflicts may arise when these roles and relationships become unclear and confused, and these role conflicts extend beyond the founder's immediate family to the extended family. Furthermore if the status position of a family member is significantly different in the business system than in the family system problems may develop. For example, the oldest son may have difficulty accepting a younger brother or sister as his supervisor at work.

Second, the founder's children and other family members who have their own families are interested in protecting the business' assets in order to benefit their families. Because of their role in their own family unit, they may want to have the assets used in quite different ways than their siblings or the founder and his wife. The founder's children, particularly those not involved in the business, are faced with the dilemma of whether to use the firm's assets to benefit their own family or whether to use the assets in ways that would benefit their parents and siblings. Thus they are torn by these opposing interests.

In-laws

The role of in-laws may change during the succession process. Competition between the founder's children and the in-laws may occur. The founder's wife may want her children to retain ownership and management of the firm so she may attempt to promote her children at the expense of her son/daughters in-law. Although the in-laws may begin to compete with family members during a succession period, they may have other objectives. Protecting their spouses's investment may be their most important goal. They may attempt to become part owners themselves to insure that they will have some influence of the use of the family assets.

Founder's Wife

Frequently the person who gets power in terms of ownership upon the death of the founder is his wife -- who often plays an overlooked role. A common pattern is for the founder to leave 50% of the assets to his wife and 50% of the assets to be divided between the siblings and the mother. For example, if the founder had three children then 50% of the assets are divided by four. Thus the mother gets 12.5% in addition to her 50%. Therefore she ends up with 62.5% of the assets and effective ownership of the firm. When the founder dies, the children typically say to their mother: "why don't you take a long vacation to recover from your grief. Don't worry. We will take care of everything and your assets will be protected." However, frequently the mother will resist being "sent away" and want to continue to carry on what her husband started. She wants to be a part of the major decisions and play a major role in determining the future of the firm. If the mother asserts her influence, her official control becomes actual -- much to the amazement of those who didn't plan on the mother playing a significant role.

"Stepmother"

If the founder has remarried, the role of the stepmother produces issues. In some cases the stepmother may play an active role in the ownership of the firm. Rarely will she play a role in the management of the company. Generally the stepmother will be interested in the firm to the extent that it provides her an income but will divorce herself from any intimate dealings with the family once her husband is gone. The attitudes of the founder's children towards the stepmother in many ways determines the role of the stepmother in the business and the nature of their relationship to her.

Family Cohesion

The desire of the family to stay together is a key variable in understanding the family dynamics and this desire governs many of the decisions made by the family. For example, if the mother and children want the family to continue functioning as a unit, they will make every attempt to resolve their differences peacefully. If, however, the preservation of the family is of secondary importance, different dynamics and outcomes are likely.

Family firms that have developed successful conflict resolution mechanisms are generally able to move through the succession period more easily than those that have not. Conflicts may be avoided by separating the warring parties. This separation might be by functional area, product line, or geography (Hershon, 1975; Davis and Stern, 1979). However, this approach may only delay inevitable conflicts and hampers rather than enhances communication. Mediation through third parties is the dominant means of resolving family conflicts. The founder's wife, the family lawyer, or a trusted manager, may find themselves in the role of mediator. These mediators are highly respected by the various parties and are seen as being impartial. Some family firms have installed an interregnum president (usually non-family) to watch over the firm's operations until the family conflicts have been

resolved and a new leader chosen. The interregnum president, who many times performs the role of mediator, can wield great power to resolve conflicts and choose a successor.

V. GROWTH AND DEVELOPMENT OF FAMILY FIRMS

Family firms have unique management and developmental patterns. We will briefly examine some of these patterns and describe how they are related to the issues that concern the founder's descendents.

Management Patterns -- Relationships between Family and Non-family Members

There are three general patterns of family firms which illustrate the relationships between family and non-family members. These are:

1. Royalist

The "royalist" family firm describes the condition where only family members can attain top management positions. Non-family members can reach one level below the top. They are the experts who are responsible for managing the technical aspects of the business and for training younger family members. The non-family professionals are "taken care of" by the family in the form of large financial rewards. There is also a tendency to have professional trustees in the royalist firm.

2. Family Owned -- Mixed Management

Although family members are given preference, non-family members can reach top management positions and become the CEO in this type of firm. However, the family retains the position of board chairman. Competition for top spots is keen. Political fights for the attention of the founder may occur between family and non-family members. Under this type of arrangement there is a strong need for a career and management development system which has explicit criteria for judging performance and evaluating family and non-family members' potential.

Any system which promotes on the basis of family affiliation needs to

be seen as legitimate by non-family members (Davis and Stern, 1979). If family domination of the firm restricts the career advancement of non-family members, motivating and recruiting non-family members may be difficult (Calder, 1961; Ewing, 1974).

3. Family Owned -- Professionally Managed

This model represents a condition where the family has ownership of the firm but management is left to professionals. Such a firm is almost identical to any public company. There are few family issues which confront the professional managers. Generally, the family is only interested in the business in regards to the return they are receiving from the business, however there are times when the family might become more involved if their interests are threatened.

Family firms may change from one pattern to another -- usually in the direction of giving more management responsibility to professional managers. Hence, the "royalist" firm could become a "family owned-mixed management" firm and eventually evolve into a "family-owned-professionally managed" company.

Developmental Stages

Organizations go through developmental stages commonly referred to as the "life cycle" of organizations (Greiner, 1972). Our colleague at MIT, Edgar H. Schein, in an unpublished paper, outlines the various stages in the evolution of a family enterprise. These stages are closely related to the management patterns just described and are intended to highlight the fact that "succession" is a complex multi-stage process.

(1) Birth and Early Development

- (2) Growth -- the period where the entrepreneur realizes that he or she has a going concern and begins to hire a substantial number of people to help the organization to develop: the entrepreneur is still totally in control and functions as everyone's boss with only one or at most two additional layers of management present and probably no more than one hundred or so employees.

- (3) Early Adulthood -- the growth phase where the company moves from having only a few hundred people to many thousands of people and many layers of management; the entrepreneur is still in total control but he or she now has a management team with whom responsibilities must be shared. During this period the critical variable is the kind of immediate subordinates that the entrepreneur hires and the manner in which he or she develops them (in particular around the issue of delegation and letting that next generation of management develop their own strength). At this stage it is also crucial to determine which family members share in the ownership and/or management picture and what plans are made for eventual roles on the part of family members.
- (4) Succession Crises -- the period which may last anywhere from a few months to a decade or more where the entrepreneur consciously and deliberately begins to groom one or more successors and institutes procedures for passing on power and possibly ownership to a next generation of management. The role of siblings, children, and spouses of children are crucial here in terms of the succession plan.
- (5) Second Generation Management, I -- where the entrepreneur and/or family owners are still active.
- (6) Second Generation, II -- the period where at least the entrepreneur has departed from the scene through either death, retirement, or being forced out but where family members still play an active role as owners and/or managers.
- (7) Second Generation, III -- the period where family members no longer play an active role in management though they may still function in varying degrees of ownership.
- (8) Second Generation, IV -- the period in which family members play no visible role in either managing or ownership roles.
- (9) Third Generation Management -- where all senior management has grown up under professional managers rather than under the direct tutelage of founders and/or family member managers, though they may have had contact with the members of the family and therefore carry on some of the crucial values based on direct acquaintance.
- (10) Fourth Generation Management -- the period where all key management has grown up entirely in a professionally managed environment and has had no direct contact with founders and/or family members.

Any given family might look at these stages to see where they are in the succession cycle and understand what changes they might expect in the future. Of course not all family firms develop into large, growing concerns. There are numerous reasons for this, but one of the primary reasons is that the founder lacks the ability to delegate authority and develop the necessary

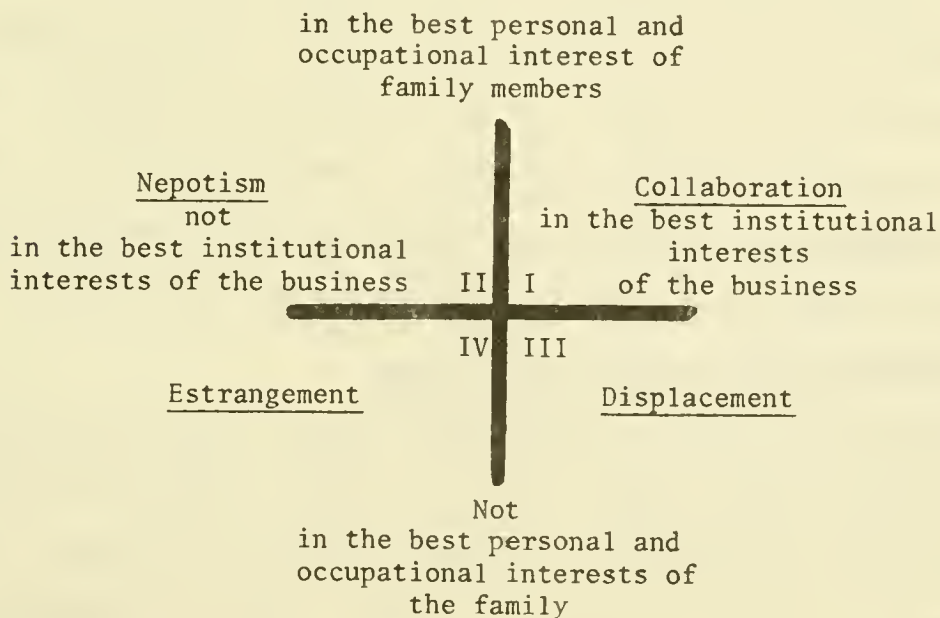
management expertise in himself and others to manage a large enterprise (Barnes and Hershon, 1976; Clifford, 1975). For example, one senior executive in a family firm revealed that the founder deliberately kept the work force at about seventy employees so that he could supervise each employee and keep track of all the firm's transactions. For years the firm grew only marginally. It finally began to generate larger profits after the founder stepped down and his son began to delegate authority and implement modern management techniques.

Issues for Second Generation Firms

Hershon (1975) describes some of the management issues that confront second generation family firms. These issues need to be examined in the context of:

1. Strategies which reflect the best personal interests of the family,
2. Strategies which are in the best occupational interest of family members, and
3. Strategies which are in the best institutional interests of the business.

The relationship between these three strategies can be seen in the following diagram:



The condition of the family firm in each of the four quadrants can be defined as follows:

Quadrant I -- Collaboration: The heirs are competent managers and the relationships between family members are harmonious. A spirit of collaboration exists in such a climate.

Quadrant II -- Nepotism: Heirs are not competent and succession is based on family relationship only.

Quadrant III -- Displacement: Family members become replaced by outsiders who take over management of the firm.

Quadrant IV -- Estrangement: Extreme conflict within the family causes family members to leave the business and the firm loses its sense of cohesion and continuity.

Thus if possible the most desirable position to be in for a second generation firm is the situation where collaboration takes place.

There are also some options for second generation firms concerning the ownership of the enterprise. The firm can remain private which usually means that growth will be limited or it can go public, thus increasing prospects for growth but diluting the ownership by the family. Another option is to sell out, which effectively ends the family relationship with the firm's ownership although family members might continue to work there. The family might wish to merge with another corporation in order to enhance its operations. This strategy may or may not result in the family losing control over the ownership and management of the firm. These options must be evaluated in light of their ability to meet the needs of both the family and the business.

Cultural Differences Which Affect Family Firms

Up to this point we have examined family firms outside of the context of the culture in which these families reside. There are some clear differences for example between the familial relationships and issues for family firms in South America and those in the United States. While it is impossible in

this paper to discuss all of these cultural differences in detail, some of the cultural factors which account for some of the differences in family firms will be briefly mentioned. The family firms in less stable societies have some different issues to deal with than those in more stable countries. In some areas of the world the family may control much of the wealth in their country. Hence they can become targets of revolutionary elements which see the distribution of wealth as being unequal. The family may have to cope with threats of assassination and kidnapping. The stability of the government plays a role in determining appropriate strategies. Founders who are involved in politics are particularly visible and susceptible to terrorists. In an unstable society the family may wish to keep a low profile to avoid being a target for terrorists or conversely they may want to be active in trying to improve conditions in their country. This could improve the family's image throughout the country but it also increases their exposure. Either strategy is risky.

Relationships between family members are quite different depending on the culture. For example, Latin fathers tend to be more authoritarian in dealing with their children than are their American counterparts. Women's roles are also seen differently. Some Japanese families legally adopt sons-in-law. This system helps to resolve a number of conflicts in Japanese family firms. Thus there are different types of familial relationships depending on the culture and this affects the family in dealing with the issues of succession, ownership and management of the firm.

VI. SOME IMPLICATIONS FOR OWNERS AND MANAGERS IN FAMILY FIRMS

The preceding discussion suggests a number of implications for those who own or manage family firms. We have summarized these as follows:

1. The founder's perceptions and his handling of the issues surrounding family involvement in the firm to a large extent define the kinds of problems the family and the

firm will encounter. Hence, the founder must have a clear understanding of the issues involved.

2. The family must resolve ownership-management dilemmas. Lines of authority and responsibility need to be defined.
3. In addition to legal and technical advisors, the founder may need some counseling from experts in family counseling and the behavioral sciences in order to sort out family problems.
4. Succession needs to be planned more explicitly. Planning reduces the uncertainty that accompanies succession. Planning helps to insure continuity in the firm and minimizes conflicts which could damage the firm and the family.
5. Developing family members for management and ownership roles is crucial.
6. Explicit reward criteria should be used to monitor the progress of family members who are seeking top management positions.
7. The family firm needs to develop mechanisms to mediate and resolve conflicts.
8. Above all, communication is important. Expectations and roles constantly require clarification, therefore communication between family as well as non-family members is necessary.

In summary, owning and managing a family enterprise is not an easy task. There are many pitfalls to be avoided if the family is going to operate the firm successfully. More research and study is needed in order to help family firms cope with the unique problems they face.

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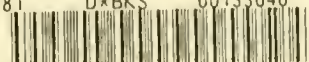
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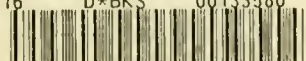
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