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Start-Up Family Businesses: Lesson From Large Successful Family Businesses

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***Abstract:** Family businesses are the backbone of the world economic systems where they are associated with economic and social transformation. While majority of large family businesses perform better than corporate or public organisations, there are millions of such businesses that do not survive beyond their first generation of operation. The inability to succeed is associated to several challenges among them trying to accommodate all family members in the businesses, over-specialising and under-specialising in certain functional areas and creating expertise gaps, diverting funds away from businesses and inability to manage family conflict especially relating to generation succession. However, with good strategies to manage family members' role in businesses, acquiring appropriate expertise, effective management of success across generations, promoting cohesions and talent management, such family businesses can survive across generations and decades. This paper is based on empirical evidences from existing researches and studies aimed at generating lessons that upcoming or start-up family businesses can learn from experienced and well established successful family businesses. The paper is based on over 6000 family businesses studied by leading world scholarly and research bodies. This makes the lessons therein not only credible but very valuable for upcoming family businesses, policy makers and government bodies, all interested in family businesses.*

***Keywords:** businesses crisis, management, succession, challenges, solution*

I. INTRODUCTION AND BACKGROUND

In a world of business dominated by uncertainty and financial turbulent, the business world must gear itself for tough times in the future. Various businesses crisis have hit major world economics from Americas, European, Australian and Asia, all denting the gains arising from corporate hard work and performance. And as if the crises are not enough, the recent Brexit from European Union (EU) has sounded a death blow to the popularised and most admired economic block. Although it is not sure what will happen next, one thing is certain, the business world's stability will be shaken, indicating unpredictable earning and poor performance, even for the most promising multinationals.

In the midst of such crisis and uncertain business world are the family businesses. These businesses are termed as the backbone of world economic systems and accounts for 65% to 90% of all businesses (Gersick & Davis, 1997; Zimmerer & Scarborough, 2002). In Europe and the Americas, family businesses account for 60% and 50% respectively while in Africa and Asia, they account for more than 70% of total businesses (Muriithi et al., 2016). In terms of expansion, a survey by PwC (2013) identified Africa as having the greatest opportunities for growth with family businesses being central to such growth. A survey by PwC (2012) stated clearly that family businesses have major lessons for the wider-corporate sectors. However, while the large family businesses have seen significant impacts and in some cases outperforming public organisations, there are millions of family businesses that have failed to see the light or transit from one generation to the next. According to PwC (2012), family businesses sector has a lot to learn in order to take control of its own destiny. This paper aims at exploring factors and characteristics associated with large successful family businesses and lessons for upcoming family businesses. The study is based on research and studies spanning over 6000 family businesses across generations and centuries.

II. LITERATURE REVIEW

The discussion about family businesses cannot be complete without first defining what they are. For decades, defining family businesses has remained controversial with many scholars and researchers giving definitions that are suitable to their needs or circumstances (Sharma, 2004). To date, there is no universally accepted definition of family businesses (Bird, Welsh, Astrachan & Pistrui, 2002) although a stream of advocated definitions indicates that most definitions have some major common elements (Venter & Farrington, 2009). For instance, comment terms in most family definitions include business ownership and management, family members' involvement, interdependent systems, generation transitions and succession (Astrachan, Klein & Smyrnios, 2002). To avoid being too narrowly minded or too broad, Venter and Farrington (2009:134) have argued "it is important that each research clarifies his/her choice of a family business definition, because the definition chosen influences the interpretation of results." And since this study focuses of large and small family businesses from a range of industries and sectors, then, Davis (2009) definition fits very well. To him, a family business is where its ownership is controlled by single family with two or more families' impact strong influence business direction through their role in management, governance and ownership. This definition is also supported by Flören (2002) who added that at least 51% of business equity is under one family and one or two families are active at senior management. Venter and Farrington (2009: 148) summarise family businesses as those following under the following criteria:

…at least 51% of the equity of the business must be owned by a single family; A single family must be able to exercise considerable influence; and at least two family members must be involved in the senior management of the business.

III. THE IMPORTANCE OF FAMILY BUSINESSES

The family businesses are key drivers and contributors to the prosperity and stability of world economy and societies through jobs creation, create wealth, investments and responding to community needs and support, for instance, philanthropy and sustainability activities besides being rooted and connected to their communities (Muriithi, Waithira & Wachira, 2016; Neubaer & Lank, 2003; Schwass, 2013). However, though very important and critical, family businesses worldwide have received very little recognition as they are classified in the same category as small medium enterprises (IFERA, 20030. Yet, from the prevailing discussion, family businesses go beyond small businesses with some being so big they dominate and control chuck of some countries' or regional economies. This calls for the need to pay specific attention to these businesses, their management and their specific contribution to the global economic and social stability.

In terms of specific contributions, family businesses accounts for and contribute between 50% and 80% employment (Family Firm Institute, 2015). Family businesses contribute between 40% to 70% of Gross National Product (GDP) in all continents (Venter & Farrington, 2009). For instance, in the United States, family businesses account for 95% of all businesses although contributing between 40 to 50 % of the GDP (Shanker & Astrachan, 1996; IFERA, 2003). Similarly, family businesses contribute the following GDP for various economies: 50% (Austrian), 55% (Belgium), 54% (Netherlands), 60% (South Africa), 65% for Latin and Central America although in Brazil family businesses accounts for 90% of businesses (Astrachan & Shanker, 1996; Bernhoeft Consulting Group, 2002; Crijns, 2001; CMIE, 2000; Floren, 1998; IFERA, 2003; Piliso, 2006; Shanker & Astrachan, 2003; Scarborough & Zimmerer, 2003; Smyrnios, Romano, & Tanewski, 1997). It is notable that there is very little statistics from Asia countries to signify how much family businesses contribute to GDP. However, it is observable that countries like India and Indonesia have similar pattern to other world countries. This is demonstrated by the fact that some family businesses dominate the top 500 performers in their respective countries, for instance, Beauty, Cargill, Suntory and Channel from Japan (IFERA, 2003).

IV. WHY LARGE FAMILY BUSINESSES HAVE SUCCEED

Majority of family businesses are small or medium sized businesses (Bjuggren & Sund, 2000). However there also many family businesses that are very large and commanding much influence in their countries and international ranking (Gersick, Davis, McCollon-Hampton & Lansberg, 2006). Some family businesses are now ranked among the 500 top performers, for instance, in France and Germany 250 listed companies are family businesses while in US, a total of 177 companies occupying 35% of 500 top performers are family businesses (IFERA, 2003; Lee, 2006).

From the prevailing discussion is it noticeable that large family businesses contribute significantly to world economies. Some of these businesses are Walmart Ford (USA), Samsung (Korea), Mittelstand businesses (Germany), Agha Khan Businesses (Middle East and East Africa), Cargill, Suntory, Toyota (Japan), Chandaria and Sameer businesses (East Africa or EA), Pick and Pay, Pepkor, Rembrandt, Sage Life (South Africa), to large network of conglomerates (Chaebols) that have seen the meteoric rise of South Korean to giant economy. Other leading family businesses include: Henokiens Association (Italian – group of companies operating for over 200 years); Bidco (Kenyan--edible and detergent manufacturers, EA); Riso Gallo (Italian rice producer); Riemann (Danish second-generation sunblock and perspirant manufacturer); Fiege Logistics (Germany -fifth –generation company); Wates Group (a British construction firm in its fifth generation); MANE (French flavour and fragrance manufacturers, founded in 1971), The Houshi Onsen (Japan—

world oldest family business in its 46th generation (Ernst & Young, 2012; Family Firm Institute (FFI).

Besides public companies dominating national economic performances and thereby associated with gigantic growth of national economies, the frequent world crises are making the analysts to rethink their focus on these mega businesses and their inability to withstand strong negative financial currents to paying particular attention to family businesses that have not only survived and weathered despite turmoil but have their focus not on seasons, financial years, or shareholders gains, but on generations based on their strong cultural foundation and value systems (Ernst & Young, 2012). In fact, Bertrand and Scholar (2006) have emphasised that family values play a very critical role in shaping the businesses and their efficiency leading to better performance. There are numerous research and literature that have demonstrated that family businesses do in fact outperform non-family businesses during recession periods (Ernst & Young, 2012). This paper aims to examine various strategies adopted by family businesses in different continents, similarities, difference and essence for success.

A survey by Ernst and Young participating 280 family businesses distributed in 33 countries found that in Europe and America during the height of economic crisis revealed that besides the economic hardships, family businesses were able to report between 5% to 15% growth (Ernst & Young, 2012). The survey concluded that family businesses succeeded because of their management styles focused on long-term vision and investment which differed from non-family short-term and result-oriented approach. The survey further observed that since most of the businesses studied were mature and in their third generation, their success was also associated to their being well entrenched in the family cultures and values, giving them a hard skin to withstand any form of pressure (Ernst & Young, 2012). In its studies, PwC (2012; 2013) associated family businesses success to robust, ambitious, vigorous and entrepreneurial mind-set resulting to solidified profits even during economic upheavals. This argument is further supported by Schwass (2013) who states that family businesses are able to succeed in the long term due to their culture of reliance and unwavering commitment. Other factors associated with family businesses success during turmoil periods and any other times include their sensitivity and reinventing selves to change, funding management, innovativeness, entrepreneurial power, established brand recognition, customer loyalty, focusing on core business, focusing on quality products and succession intentions. These characteristics were also singled-out as instrumental to success of the global 50 fastest-growing family businesses between 2009 and 2011 (Ernst & Young, 2012). Another factor that has made family businesses to succeed in the midst of corporate collapse is their ability to attract the right talents and effectively managing them (Ernst & Young, 2012; EY, 2014). However, the fact that the attained talents may not be part of succession generation may pose a challenge to non-family members and who prefer to pursue their individual careers. Ernst & Young (2012) study found that family businesses in their first and second generations found it difficult to attract non-family executives compared to businesses in their third generations or beyond. Businesses in third generations were said to have firmly engrained cultures and structures and the founders' influence less felt compared to those in the first and second generations. These make non-family executives and employees comfortable and rarely see threats to their working careers.

The issue of family business succession is at the heart of business success and continual survival over the years. It the family businesses intensions and commitment that gives room for desired succession trend. However, though critical to businesses survival, there is observable change in the number of businesses successfully going through generation changes. In a study by Ward (1987) indicated that 30% of family businesses survived in the second generation with 13% surviving third generation while only 3% survived beyond third generation. There is also a change of mind among family owned businesses siblings and their commitment to such businesses. A more recent study among students with family businesses indicated that only 22.7% intended to succeed their family businesses (Zellweger, Sieger & Englisch, 2012).

Family business succession is one of most critical and difficult decision to be made given the emotional engagement and attachment to the businesses. Inability to manage the issues has made many businesses not to go beyond first or second generation. A study by EY (2014:2) participating 2,400 world largest family businesses from the top global markets from Europe, Asia, Middle East and Americas emphasised that, "Family businesses and their leaders are the ultimate entrepreneurs. They must continually innovate to grow and pass on a thriving business from one generation to the next." This observation emphasises the importance of family-businesses continued scrutiny in order to have a strong generational succession not deterred by external forces or pressure as could be the case of students (Zellweger et al., 2012). From EY study, 87% of family businesses had clearly identified successors, indicating a clear path to their future. To such businesses, succession preparation must be based on three factors, namely in terms of long term process, define who has responsibility for succession and finally empower the next generational for leadership (EY, 2014).

To realise the desired level of succession and potential growth, successful family businesses have also given attention to their cohesiveness. This is further enhanced by the fact that family cohesiveness is a key ingredient to business stability and financial success (Pieper & Astrachan, 2008). When cohesiveness is combined with strong focus on growth, ambition and sustainability, then the return on equity rise by 35% (Ernst & Young LLP, 2014).

The importance of governance among family businesses has taken a central stage among leading family businesses with as many as 90% of the world's largest family businesses having properly and dully constituted functional board of directors (EY, 2014). To ensure the businesses serve the interest of the family, nearly 50% of board members are family members. For emerging markets like Malaysia and Singapore, the composition of family members in such boards is as high as 95% compared to 78% among family businesses in developed countries (EY, 2014). The basis of family members being part of board of governance is trust of those responsible for advisory. Trust in family businesses is paramount and without it no transactions can take place. For most businesses, the parents are the most trusted advisors

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followed by spouses. Outside the family circles, accountants are the most preferred and trusted.

A study by PwC (2012) indicates that they have long term perspective and are rarely driven by short-term goals such as responding to competitors' demands and expectations. From the study, 72% of respondents agreed that family businesses were attributed to economic stability especially those that in existence for over three generations or more. This was especially true in mature markets like Europe and North America (PwC, 2012). It is also notable that many family businesses took long term approach to decision making, a process that gave them time to think through their activities and operations.

A strong board of director ensures proper management of resources, ownership and succession. Such a board if fairly put in place provide a check for inefficiencies that may arise from nepotism, tribalism, mismanagement, internal conflict and succession squabbles (EY, 2014). The board is also legally put in place under the guidance of the business bylaws and articles of associations. All board members must agree to the explicitly put missions which forms the basis of family business branding and reputation.

Another important factor contributing for world leading family business success is care and commitment to members. An EY (2014) study found that 81% of family owners of largest family businesses value care for each other as an important ingredient for their success. Such family members spend a substantial amount of time building cohesiveness and strong relationship between and among members. With the bond developed during cohesion building, the businesses are able to generate trust and commitment that leads to better financial gains (Pieper & Astrachan, 2008). Proper communications also ensure that conflict is kept at minimal while at the same time not bottled or avoided. Such cohesion is further strengthened with clearly and regular communications through meetings for family members and shareholders. Clear communication may take different forms including face-to-face, group meetings, internet, social media and other digital platforms that work to the betterment of family businesses.

Family businesses are characterised with a greater commitment to jobs and the community. In a survey by PwC (2012) found that 77% of participants believed that family businesses had a stronger sense of responsibility to job creation. Such favourable attitude creates loyalty and commitment among its employees. Such family businesses have a positive image towards community social responsibilities.

In relationship to their winning strategy, many family businesses associate their continued competitive edge to strong value based cultures. Through continued effort to improve their performance, the businesses pay specific attention customer relations and satisfaction. The businesses also remain very close to their customers while at the same time maintaining personal relationships (PwC, 2012). The firms are also flexible and more agile than pubic or corporate organisations enabling them to respond effectively to rising demands and market needs and identify business opportunities (PwC, 2013).

V. FAMILY BUSINESSES LIFE-CYCLE

In an effort to pave way for family businesses succession path especially those still in their first generation, Schwass (2013) has identified three fundamental phases that family businesses must understand and management accordingly due to their varied characteristics, cultures and needs.

The first phase involves the founders who build their businesses alone, assume power and authority. The phase is characterised by "I" culture where everything stems from the founders as a source of ideas, creativity, and personality. The phase is also termed as revolutionary as the founders make significance contributions based on their dreams. However, the founders find it difficult to allow others into their world especially when they seem to take away the control and power that the founders have built for decades (Muriithi & Wachira, 2016).

The second family businesses' phase include the founders and their children and characterised by "us" culture as all members claims ownership of the businesses. The children are often more highly educated than their parents and bring in new ideas and competencies leading to efficiencies of businesses (Schwass, 2013). To succeed, businesses at this phase must adopt teamwork environment, often a difficult requirement for founders who are used to operate and exercise power alone or with a few if any. Most family businesses failure at this stage as the founders resist sharing power, something they passive as a major threats to their egocentric personality and power control. The resistance leads to a tag of war and conflict as the children (younger generation) try to get a share of the businesses believing they have the visions and competencies to grow the businesses while the founders (older generations) are hold on to what they believe is their "live" creation. The uneasiness created make the businesses to lack transition strategy make the children to be unprepared or experienced to take over the businesses, creating a recipe for failure (Schwass, 2013).

The third phase of family businesses involves cousins. This means that apart from the founders (I), their children (Us), the family trees has enlarged and now includes cousins (Us and Them) who must also benefit from the businesses created in the first two phases. The phase is characterised with diverse interests, personalities, skills, and needs. While some members have interest in the businesses operations and good performances, others are concerned with gains derived from good operations such as dividends as desire the practice to continue without their involvements. Often failure to manage the "Us and Them" syndrome can easily leads to businesses failures thereby terminating succession generational trend (Schwass, 2013).

The family businesses phases are helpful in preparing families operating such businesses what to expect and how to prepare counter measures and deal with eventualities.

VI. THE CHALLENGE AND SOLUTIONS TO FAMILY BUSINESSES

It is not all family businesses share the success stories describe by businesses like Chandaria Industries, Riso Gallo, Riemann, Fiege Logistics, Wates Group and The Houshi Onsen. Some family businesses have not been lacky and have not migration from a single generation to the next. According to Stalk and Foley (2012), about 70% of family businesses fail or are sold during their first generation. The authors argue that family businesses failure could be related to their leaders some who remain in power for up to 25 years and fail to flex their businesses to embrace necessary changes like technology, consumer behaviour and business models. American summarises family businesses failures in the phrase “Shirtsleeves to shirtsleeves in three generations”. This phase emphasises that the wealth of the first generation never gets to the third generation. The same saying is found in many other cultures where family businesses failure remains a reality.

Brazil: Rich father, noble son, poor grandson (*Pai rico, filho nobre, neto pobre*);

China: Wealth never survives three generations (*Fu bu guo san dai*);

Mexico: Father merchant, son gentleman, grandson beggar (*Padre bodeguera, hijo caballero, nieto*);

Italy: From the stables to the stars and back to the stables (*Dalle stalle alle stele alle stalle*)

(Stalk & Foley, 2012:2).

To understand why family businesses fail, a number of scholars and researchers have highlighted key the challenges and associated solutions (Davis & Harveston, 1999; Goodie, 2003; Kuratko & Hodgetts, 2007; Murithi et a., 2016; PwC, 2013; Ryan, 2003; Schwass, 2013; Stalks & Foley, 2012; Venter and Farrington, 2003) among them:

- ✓ A fall-back career: In some cases children may lack interests to prosper the businesses or use it as a fall-back if their other careers fail. Upon joining the businesses, such family members may take leadership positions which they lack expertise and interest thereby increasing chances of business failure. Family business members should be well recruited with proper assessment mechanism in place to ensure on those with interest, experience, talent and desire to make the business successful join. It should not in an away a dumping ground for failures who have failed elsewhere, lack interest or those who cannot recognise much effort and commitment put in business to position them. Recruitment or succession based on sympathy will lead to ultimate regret to those involved.
- ✓ Creating room for everyone in the family to join the businesses. It is not possible for a family business to accommodate all family members including parents, siblings, their wives and husbands and even grandchildren. Unless the business is very vibrant and doing very well, it just can’t cope and will eventually fail. As mention in point 1, only interested and qualified persons should join the businesses. Similarly, strategies for growth must be put in place and workforce should on the basis of adding value and matching needs of the businesses. The need to manage varying diversity arising from business growth, interests, skills and needs become essential if the businesses to be successful in their operations and attain their strategic goals.
- ✓ Over specialisation: This happen when parents and children concentrate in similar business function, for instance, operation or marketing making the business to lack dynamic approach to its different functions. When this happens, the businesses automatically suffer from lack of specialists in other vital areas, creating vacuum and leadership challenge. It is also difficult for persons specialising in specific areas to provide dynamic leadership or prepare the next generation. There is need to balance skills and expertise in the businesses even if it means inviting non-family members to managerial and leadership positions.
- ✓ Diverting funds: As family businesses become big, the founders may be required to share their earning with family members who believe it is payback period for the hard earnings. What the entrepreneurs, founders or other members forget is that just like they build the businesses withdrawing funds sometime without regard for business future can only lead to failure. And without proper mechanism of funds withdraw and reasons for such withdraws, a business mostly will not survive for long. Proper and well-balanced control measures must be put in place to ensure only value adding activities are carried out in the businesses. As indicated earlier, proper governance mechanism including board of directors to guide and monitor operations must be put in place.
- ✓ High failure rates: The rate start-up failure among family businesses is between 70% and 80% percent, the same rate for small business failures in most economies. These failures are associated with numerous factors among them limited resources, incompetence, inexperience and lack of management skills and knowledge, poor capital base, legal and regulatory constraints. To succeed, good management systems, adequate capital, trained personnel and leadership must be put in place.
- ✓ Family conflict: The fundamental principle behind starting family businesses is to provide moral and financial support to the owners and their families. The problem arises when successful generations from the founders demand their rightful share of the businesses. If the issue is not handled effectively, it has the potential to destroy the same business their founders spent many years to build. The solution for most businesses has been invite non-family professionals to run the business and control how much funds to get out of the businesses. However, locking family members of the businesses has its own repercussions. Firstly members may interpret this as an aggression to take over businesses from the family resulting to revolt against the management. Secondly, feeling dissatisfied, family members may call for sales of their shares and eventually all businesses.
- ✓ Succession management: It has been noted that the most successful family businesses are those able to manage generation transitions. Over the years, generational transition remains the highest risk confronting many family businesses creating an avenue for their failure. Statistics from different parts of the world indicate that 30% to 33% businesses survive the first generation, 10% to 16% survive the third generation with less than 3% moving to fourth generation. Generational transition should be a long term activity not a short term or emergency. Proper long term strategy is the ultimate

solution for transitional or succession crisis. By carefully determining future successors and preparing them in advance enables family businesses to adjust accordingly and avoid untimely crisis arising from short-term decisions to appoint successors. This involves careful and thoughtful preparations and mentorship of those identified for future leadership of steering the businesses.

- ✓ Government support: While the role of family businesses is indisputably important and critical, the governments' support for such businesses is mixed. A study of South African family businesses revealed that government support to family businesses was very minimal (PwC, 2013). The same findings can be replicated across many different countries where family businesses get little support. It is important that governments world-wide develop support policies to help empower families businesses.

VII. CONCLUSION

Family businesses remain the foundational basis of most world businesses. With their strong structural, cultural and value systems that have seen their growth for centuries, family businesses still continue to outperform other sectors due to their rooted synergies and resource management (Schwass, 2013). Unlike public organisations that must recruit from external environment and hope to get qualified, competent and committed persons, successful large family businesses have well established succession mechanisms that have seen them reign their supremacy for decades. Young upcoming family businesses should learn from lessons derived from big family businesses that continue to dominated and have significant impact in their sectors' of operation. It is important that those involved in small family businesses adopt competitive and managerial strategies of large businesses in order to over their growth challenges. It is only then will family businesses will be able to play its vibrant and vital role of economically and socially empowering the global society. The importance of recognising family businesses as important arm of the economy that cut across small, medium to giant corporations in an economy is critical. This would help in identifying specific cultural values, disciplines and strategies that make them survive and prosper in the long run while majority of their counterparts public corporations thrive for a shorter period before experiencing management, financial and structural difficulties which often lead to their failure. Family businesses remain stable and progress in the midst of even severe economic, social and political upheavals. This is associated to their strong internal structures, values, cultures and management styles and family member strong relationship bonds and trust compared to public enterprises where workforce harmony is difficult to realise.

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