

# Analyzing Family Business Cases: Tools and Techniques



*Pramodita Sharma,\* University of Vermont and Babson College, USA*

*Robert Blunden, Dalhousie University, Canada*

*Rania Labaki, University of Montesquieu–Bordeaux IV and INSEEC Business School, France*

*Nava Michael-Tsabari, Technion–Israel Institute of Technology, Israel*

*Juan O. Rivera Algarin, Inter-American University, Puerto Rico*

*This article identifies and explores thirteen analytical tools and techniques to understand the unique dilemmas and paradoxes faced by family firms. They are presented here as tools to better analyse family business cases and develop effective responses to family business situations. However, they are equally useful for families in business and advisors to family businesses as they seek to deal with the complex issues created by the conflict of family and business systems in family enterprises. Tools focused on understanding the family business system as a whole are separated from family-focused and business-focused ones. The six dual systems-focused techniques aid understanding of the key stakeholders, current status, past history, and desired future of the firm. The three family-focused techniques in the tool kit aim to better understand the relationships between and the perspectives of the key stakeholders, and the overall health of the family system. The four business system-focused conceptual techniques enable understanding of the nature and extent of the family's involvement in the business, its key directions, performance, and continuity. Careful application of appropriate tools will deepen understanding of the core issues being faced by a decision maker and assist in the development of effective and actionable recommendations.*

## ANALYZING FAMILY BUSINESS CASES: TOOLS AND TECHNIQUES

Family business case studies can help students learn about real family business situations, match concepts and theories to problems and test their own reactions to case situations. Perhaps the most important benefit of using cases is that they help people to learn how to ask the right questions about the situations they face. These skills can be enormously valuable to those who live and work in the complicated arena of family business systems.

Family business cases are challenging to analyze because they typically cover not only business issues, but ownership, and family topics as well. Case solutions generally require actions in the business, ownership and family areas of the family business systems. MBA and executive students often grasp the business issues in a case quickly, but struggle more in deciding what actions to propose about the ownership of the business and about relationships in the family (Davis 1999).

---

Copyright © 2013 by the *Case Research Journal* and by Pramodita Sharma, Robert Blunden, Rania Labaki, Nava Michael-Tsabari, and Juan O. Rivera Algarin. We are grateful for the thoughtful comments on the earlier versions of this article by Guido Corbetta, John Davis, Debbie Ettington, Carlo Salvato, and John Ward.

\*Corresponding author

These were the opening lines of a short, pragmatic article that has guided family business case analyses in classrooms around the world for about fifteen years. The guidance in this brief note, including the overlapping three-circle model shared later in this article, continues to ring true to date. In addition however, there are a number of new insights and analytical tools now available to analyze the family and business dimensions of family firms. In this article we present this expanded tool kit with hopes that it will help to generate deeper insight into the issues and dilemmas of concern to the protagonists in family business cases, aid in effective situation analysis, broaden the possible range of solutions considered, and add a touch of creativity and realism to the recommendations and implementation plans of those using family business cases.

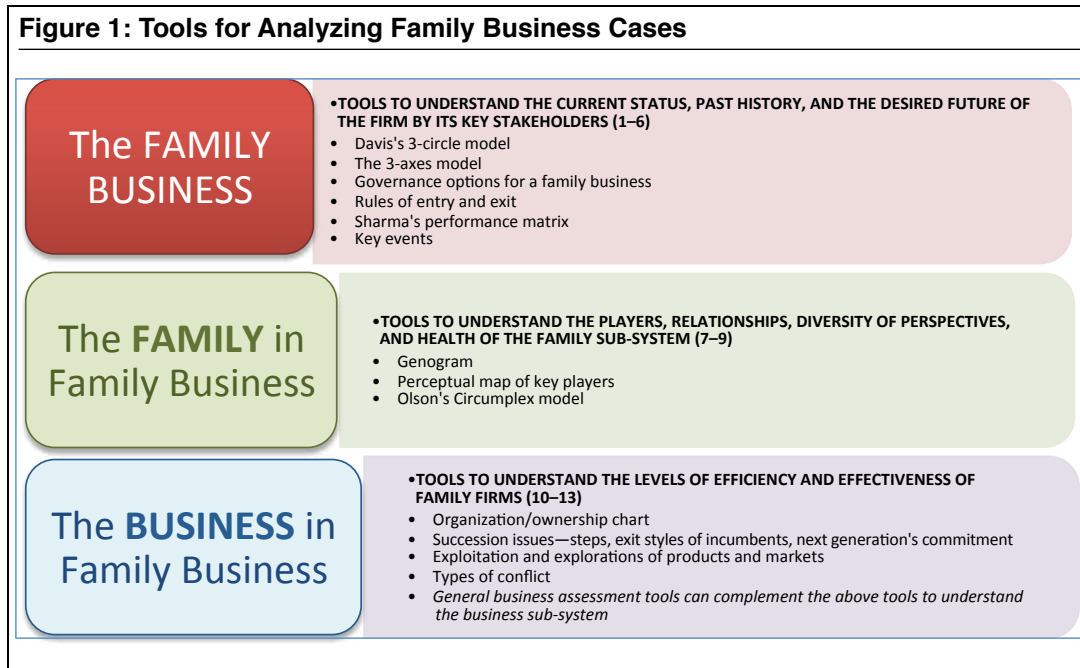
Family firms dominate the global economy (e.g., LaPorta, Lopez-de-Silanes, and Shleifer 1999). These enterprises are distinguished from other organizational forms by the overlap of family and work systems as members of the controlling family significantly influence the goals and strategic direction, and in turn, performance and survival of their enterprises. Family business cases shed light on the paradoxes and dilemmas caused by these systems overlaps. They are usually more complex than similar non-family businesses. For longevity and prosperity, like all other businesses, a family firm must achieve efficiency and effectiveness focused business goals. In addition, however, family oriented goals such as harmony, generational transition, and ownership issues must also be managed.

The tools we discuss below can be used for case analysis when a reader is provided a case in written, live, or audio-visual formats. In addition, many of the tools are likely to be helpful, perhaps even more helpful, when developing consulting cases wherein students are asked to understand the current situation of a family firm, identify problems and/or areas of improvement, and provide actionable recommendations. Such “consulting cases” are often used as term ending assignments in family business courses at graduate or undergraduate levels. Similarly, the tools we identify and discuss may be particularly useful to families in business and consultants working with family businesses as they explore the issues and dilemmas of the effective management and governance of the family and its enterprise.

In this article, we discuss thirteen analytical tools and techniques that can be helpful to understand the current dilemmas of a firm, and distinguish the more evident surface symptoms from deep-rooted causes. While some of these techniques focus on situation analysis at the family business level, others are directed to better understand the family or the business systems. **Figure 1** summarizes the tools identified and explored in this article and clarifies their levels of analysis. When used appropriately, these techniques should enable the identification of alternate future directions and help analyze the costs and the pros and cons of each, while keeping in mind the core values of the controlling family. In turn, such an analysis should help students or practitioners to develop actionable recommendations and a clear plan of action for effective implementation. While we list a number of conceptual tools and indicate when each is likely to be useful, the decisions about which of these tools are most suitable for the case at hand rest with the user.

The remainder of this article is divided into four sections. The next section discusses six techniques (1–6) to better understand the family business as a whole. The following two sections are devoted to analytical methods directed toward the family (7–9) and the business (10–13) sub-systems. A few concluding thoughts are shared in the last section.

**Figure 1: Tools for Analyzing Family Business Cases**



## THE FAMILY BUSINESS

The six tools discussed in this section help to capture the current and future role of key stakeholders in a family firm; portray the evolution of a firm over time; identify its rules to enter and exit from each circle; and describe governance, performance, and key events in the family and business dimensions. Used in concert, these techniques shed light on the current status and past history of the firm as well as the future desired by its key stakeholders.

### 1. Davis's 3-Circle Model

It was in his doctoral dissertation that Davis (1982) first depicted a family firm as three overlapping circles of family members, employees, and owners (**Figure 2**). This simple, elegant and versatile model has proven extremely valuable to understand the current position and perspectives of key internal stakeholders in a family firm. As noted by Davis (1999), the first step when analyzing a family business case is to place the protagonist and other key players in one of the seven regions of the three-circle model. All internal stakeholders of a firm—family and non-family members—who are owners and employees, have a unique place in this model.

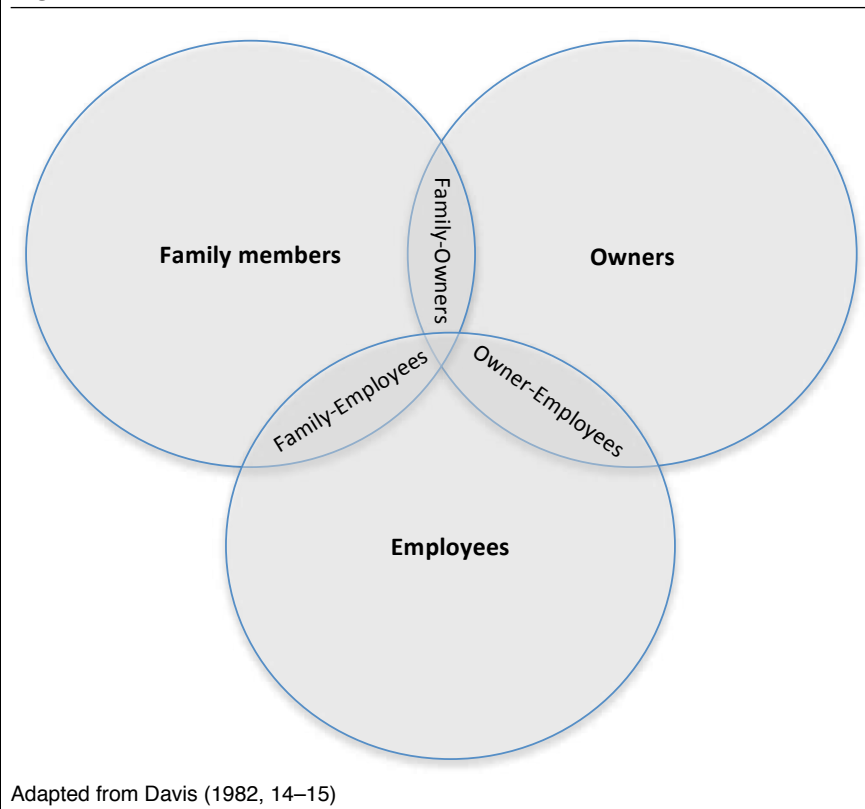
While this model distinguishes broadly between family members, owners, and employees, in cases involving different categories of family members such as blood relatives and in-laws, senior and junior generation members, it is helpful to add legends to distinguish them (Santiago 2011) as the governing rules for family members of different categories may vary. Similarly, while the model distinguishes owners from owner-managers, and family owners from non-family owners, it is helpful to differentiate between the minority and majority owners as their influence on the decisions and

strategic direction of the firm may vary significantly. And, employees may be separated into three categories—junior, mid-management, and upper echelons.

Clarity on their current positions makes it easier to understand their perspectives on key issues. Moreover, it helps to understand how these perspectives are likely to change based on recommendations made. The more thoughtful implementation plans are based on a careful understanding of how the positions of key stakeholders will change based on a recommended action plan, and suggest processes that will enable the transitions in positions/roles of key stakeholders over time.

When developing consulting cases, the student/researcher starts by asking each key stakeholder in the family firm to: (i) identify current players in each of the seven regions of the three-circle model, and (ii) depict how s/he feels the “stakeholder map” will/should change in five to ten years time (Hoy and Sharma 2010). Interesting insights about the desired future of the firm and points of agreement and disagreement therein, become evident by comparing the input received from different individuals. Recommendations will vary significantly depending on the extent of alignment of the desired future for the firm by the key stakeholders.

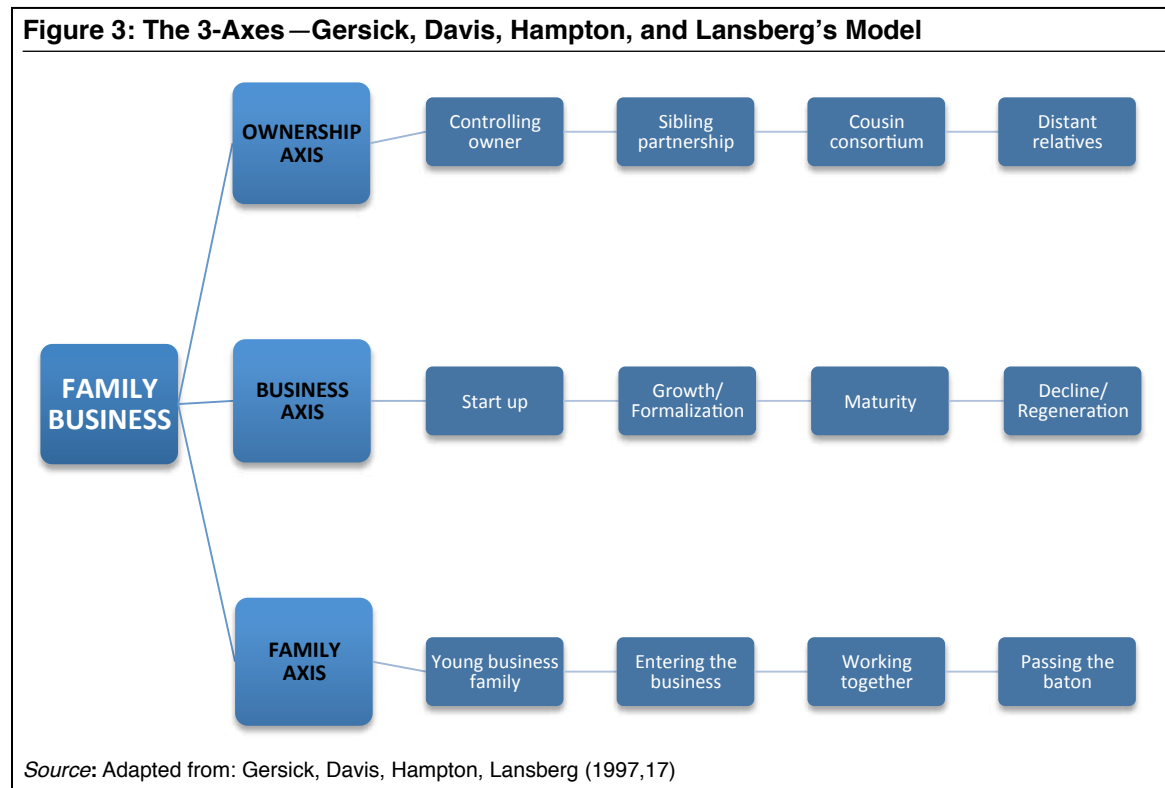
**Figure 2: Davis’s 3-Circles Model**



## 2. Evolution of the 3-Circle Model into 3-Axes

Elaborations to capture the evolution along each dimension of the 3-circle model have appeared in the literature. For the purpose of case analyses, perhaps the most notable one is the 3-axes model developed by Gersick, Davis, Hampton, and Lansberg (1997).

These authors convert each circle into an axis to capture changes along that dimension over time. A modified version of this model is shared in **Figure 3**. The ownership axis goes through the four stages of controlling owner, sibling partnership, cousin consortium, and distant relatives as family involvement in business evolves from the founder through the second and subsequent generations. The management or business axis goes through the four stages of start-up, growth/formalization, maturity, and decline/regeneration as the business evolves over time. And, the family axis goes through the four stages of young business family, entering the business, working together, and passing the baton. Students of family business would benefit from identifying the current position and desired future position of the protagonist and key stakeholders along each axis in Figure 3.



### 3. Governance of Family Firms

Governance of family firms is more complex than the ownership centered governance in their non-family counterparts. In family firms, “governance is the means of stewarding the multigenerational family organization . . . [It] establishes the processes whereby: strategic goals are set, key relationships are maintained, the health of the family is safeguarded, accountability is maintained, and achievement and performance are recognized” (Goldbart and DiFuria 2009, 7; quoted in Gersick and Feliu 2014).

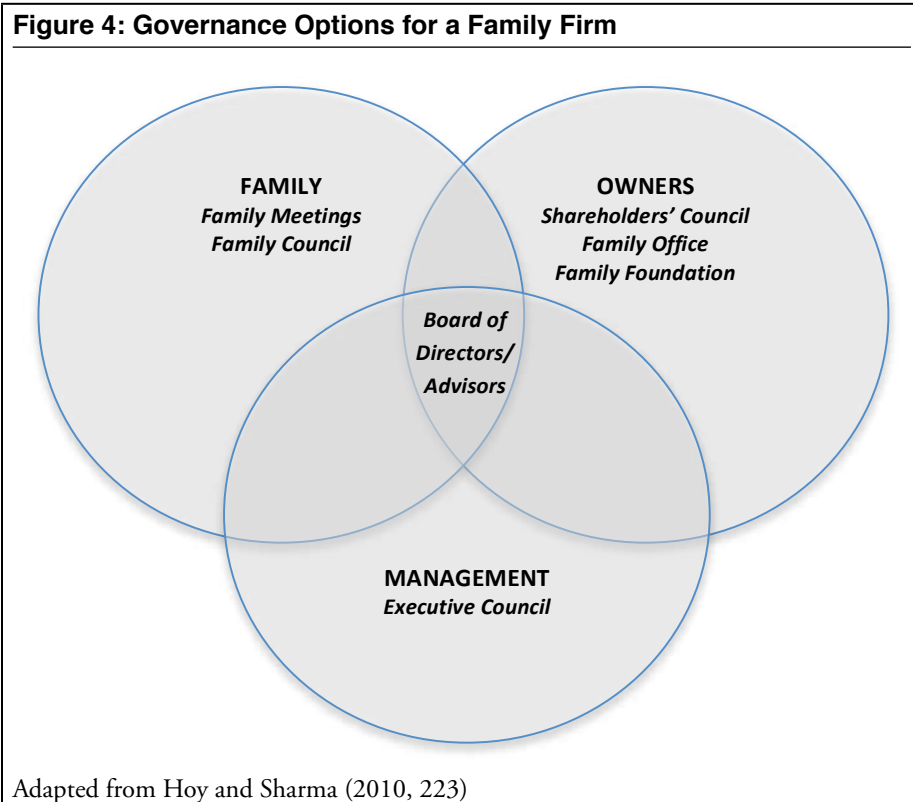
Progressive family firms often use a combination of governance structures or bodies that meet at regular intervals, and legal or social agreements, to ensure the preferences and views of owners, employees, and family in the three-circle model can be heard and

managed. Hoy and Sharma (2010) compiled the currently used governance options by family firms (**Figure 4**). In their words:

The preferences and views of owners can be expressed through a family office, family foundation, and/or shareholders' assembly. An executive or management council is often used to ensure that the viewpoints of the top management team are shared. Family meetings and councils are governance structures that ensure that the family's vision for the firm and the family's involvement in the firm across generations are clearly articulated, communicated, and developed over time. Boards of advisors or directors are the governance structures that ensure that the perspectives of the three subsystems of family, owners, and management are brought together for value creation and the longevity of the entrepreneurial family firm (p. 222).

With evolution in the family and its firm over time, the governance mechanisms will need to evolve as well (Gersick and Feliu 2014; Ward 1991).

When analyzing family business cases or writing a consulting case, it is helpful to understand the governance mechanisms currently in place, their membership, level of activity, and effectiveness. Frequently, the issues and dilemmas of these firms can be deliberated and resolved with the help of well-functioning governance mechanisms. However, oftentimes, such mechanisms are either non-existent or underutilized. Recommendations related to governance mechanisms are generally useful for family firms. However, care must be taken to supplement these recommendations with thoughtful implementation guidance, as it is insufficient to simply set up a governance mechanism without careful thought as to how it can work effectively and evolve over time (Ward 1991).



## 4. Rules of Entry and Exit

Often the dilemmas in family business cases occur because the rules of entry and exit for the three circles are unclear. A list of items on which clear rules for entry and exit are needed is presented in **Table 1**. As observed by Hoy and Sharma (2010), “establishing a formal set of rules for entry informs young family members about what to expect and how to prepare. Such rules should be in place before younger family members begin educational choices, and may need to be appropriately ‘grandfathered’ in” (p. 144).

Table 1: Rules of Entry and Exit	
Criteria	Considerations
Eligibility/conditions of ownership	<ul style="list-style-type: none"><li>• How much ownership can be transferred to family members of different categories such as blood relatives, in-laws, separated or divorced, etc.</li><li>• Rules guiding the transfer of ownership—time line, investment needed</li><li>• Rules guiding payment of dividends</li><li>• Rules for purchase or sale of shares</li></ul>
Eligibility/conditions of employment	<ul style="list-style-type: none"><li>• Family members eligible to participate as employees—in-laws, divorced, adopted, separated, etc.</li><li>• Education level expected</li><li>• Age limits—to join and to retire from the business</li><li>• Experience—outside the family business, how much, what type</li><li>• Within family business experience</li><li>• Employment conditions—reporting responsibility, pay, perks</li><li>• Performance evaluation—by whom, how often</li></ul>
<i>Source:</i> Inspired by the 2008 <i>Leadership in Family Enterprise</i> by Patricia and Paul Frishkoff <a href="http://www.patandpaul.com/">http://www.patandpaul.com/</a>	

When analyzing family business cases dealing with succession, ownership, sibling relations, growth of the firm, or personnel issues, it may be helpful to list the rules of entry and exit already in place. Often, it will be found that the rules are implicit or simply unclear. When making recommendations, circle back to these rules and where appropriate provide guidance on how to clarify/apply them to deal with issues at hand. Don't forget to give consideration to how often and by whom the rules should be revisited and revised.

## 5. Performance of Family Firms

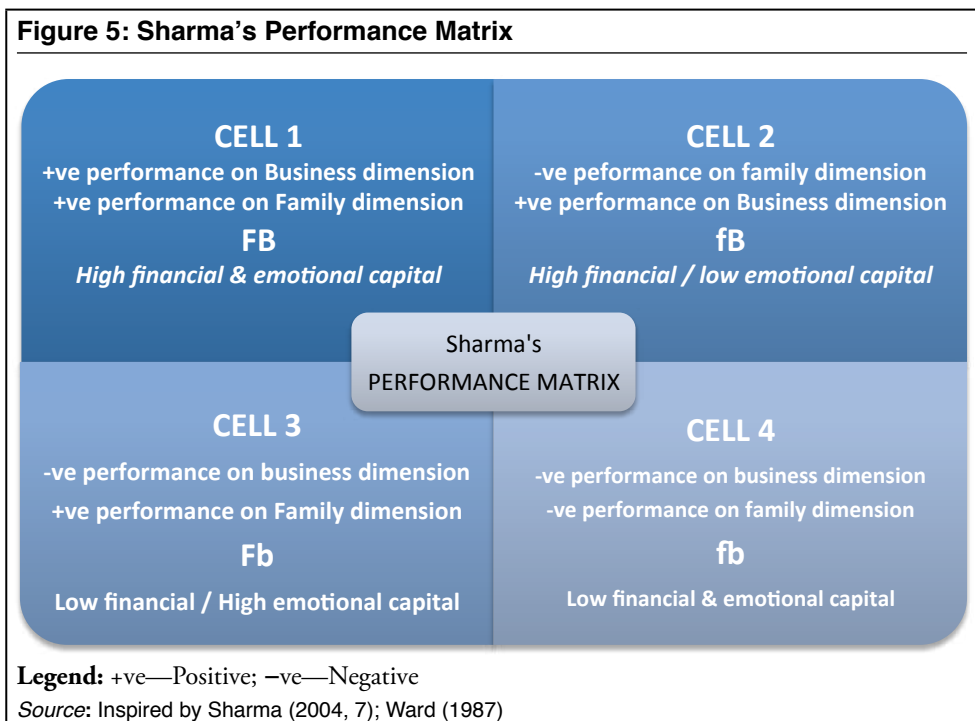
Family business research is unequivocal about the multi-dimensionality of goals pursued by family firms. With the overlap of the two systems, this should come as no surprise to family business students. For many family firms, goals such as family harmony, reputation, and continuity, are as, if not more, important than business-focused goals such as survival, profitability, and growth. Enterprising families or individuals in family firms may differ, however, on the importance or significance of specific goals on family and business dimensions. Four distinct orientations have been observed in the literature (e.g., Ward 1987): (i) Fb—Family first enterprises for whom family goals take precedence over business goals; (ii) fB—Business first enterprises for whom business goals must take precedence above all else; (iii) FB—Family Business enterprises that seek to balance the family and business goals; and (iv) fb—Enterprises “muddling through” without a clear focus either on family or on business goals. Research indicates that firms with clear goals on one or the other dimension tend to perform better on the chosen dimension. The FB orientation, wherein leaders of an enterprise work hard to

balance both the family and the business goals, is simultaneously the most challenging and the most rewarding position. Although the constant juggle to achieve the competing family and business goals is consuming and requires vigilance, ambidextrous firms successful in such dual pursuits perform better both on family and on business dimensions (e.g., Basco and Pérez Rodriguez 2009).

Sharma (2004) developed a basic matrix to capture the performance of family firms along the family and business dimensions. She observed that high performance on the family dimension helps build emotional capital and resilience capacity in the enterprising family, whereas high performance on the business dimension builds financial capacity. Firms enjoying high stocks of emotional and financial capital develop resilience to overcome challenges and build on opportunities as their family and firm go through different life stages (Hoy and Sharma 2010). In other words, cell I as shown in **Figure 5** is the ideal position for a family firm to be in. However, from time to time, firms may find themselves in one of the other three cells.

In case analysis, in order to understand the current location of a firm in Figure 5, it may be useful to clarify and distinguish between the family and the business related goals being pursued by the family business by using **Table 2**. For analysing already published cases, the reader may have to detect the relative importance of different types of goals and the performance of the family business on each dimension based on the facts in the case. When developing consulting cases, however, it would be helpful to ask each key stakeholder of the firm to provide information for this table. Such input would be helpful to understand the degree of alignment between the key stakeholders on desirable goals and perceived performance on the family and the business dimensions.

The current performance position of the firm signals whether the issues to be looked into deeply lie more on the family or the business dimensions, which are examined in more detail in the next two sections. But, before that is done, let us introduce you to one more tool that is simple yet helpful to understand the family firm being examined.





**Table 2: Family and Business Related Goals and Performances**

Dimension	Importance of Goals			Performance			Overall Performance
		<i>Low</i>	<i>Med</i>	<i>High</i>	<i>Low</i>	<i>Med</i>	
BUSINESS	Growth in sales						<b>Business dimension</b> High performing dimensions ..... Moderately performing dimensions ..... Low performing dimensions .....
	Growth in market share						
	Growth in profitability						
	Return on equity						
	Return on total assets						
	Profit margin on sales						
	Ability to fund growth from profits						
	Growth in number of employees						
	Employee turnover						
	.....						
FAMILY	Family harmony						<b>Family dimension</b> High performing dimensions ..... Moderately performing dimensions ..... Low performing dimensions .....
	Family wealth						
	Growth in family's human capital (education, experience)						
	Development of next generation of family						
	Family's reputation in the community						
	.....						

**6. Key Events Table**

As compared to other enterprises, family firms are distinguished by their shared history and future tied together as a family and through the business. A systematic listing of the key family and business related events from the past in a tabular format is often helpful for the case analysis. Family business advisors often use this technique asking each key stakeholder in a family enterprise to list the key events in the family's and business's past, and project their desired goals on the two dimensions. In other words, each key stakeholder is asked to complete **Table 3**. By comparing the input from different individuals, the points of shared history become evident. Equally illuminating is the list of events that may be considered critical or life changing by some family members but have been lost in the memories of others. And, the desired future goals individually and collectively begin to help understand the dreams that are shared, as well as those that are not (Lansberg 1999).

**Table 3: Key Family and Business Events—Shared Past, Desired Future**

Year (past events)	Key family events	Key business events			
			Desired family goals	Desired business goals	Year (desired future)

As the case analysis is often based on already published material and the depth of available information is likely to vary significantly, the above technique may not apply equally to all cases. However, it is valuable to have this tool in your tool kit as it may come in handy at times. Now, let's turn to the part of case analysis that many business students and teachers alike are less comfortable with—analysing the family system.

## THE FAMILY IN THE FAMILY BUSINESS

Thanks to researchers in family studies, several easy to use and reliable techniques are available for your tool kit to better understand the players, relationships, diversity of perspectives, and health of the family dimension. Three of these are discussed below.

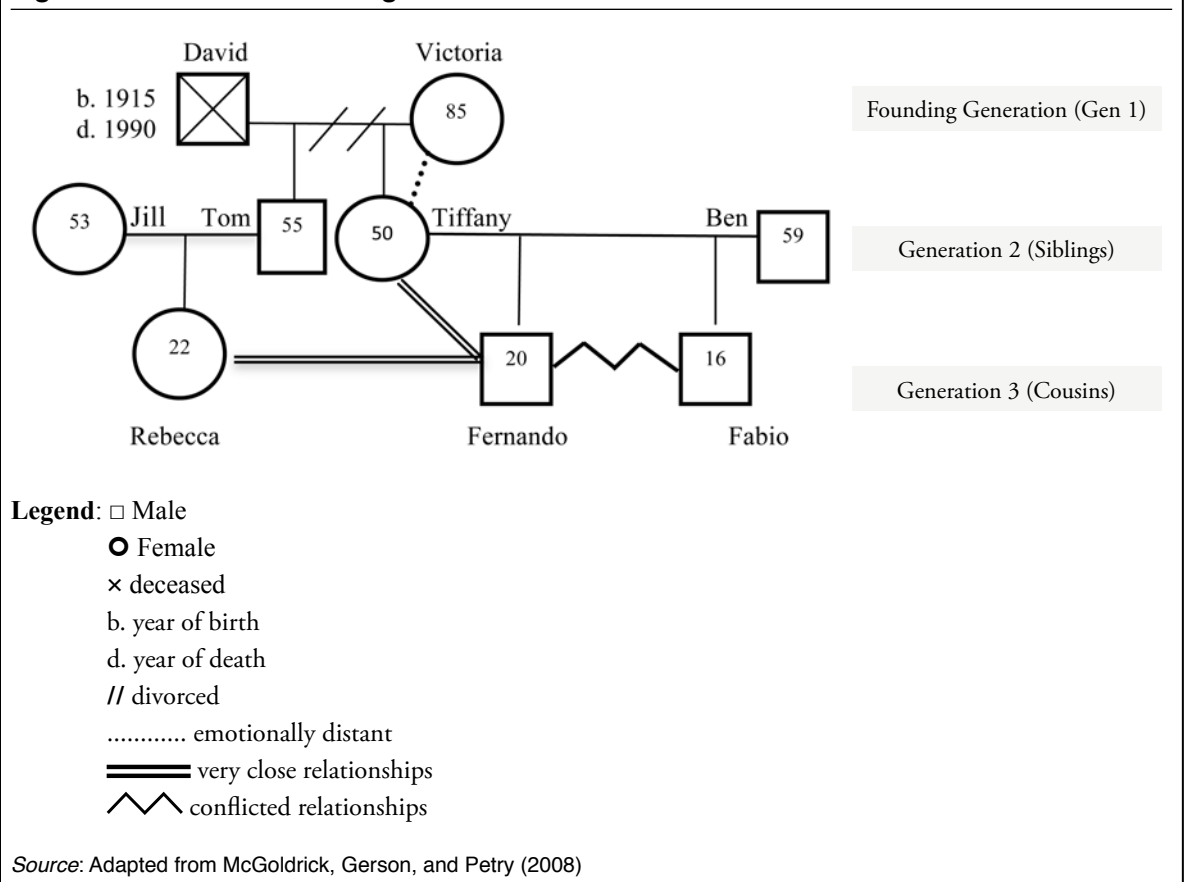
### 7. Genograms

A family genogram is a visual representation of the membership of a family, exits and entries into this system, and relationships within. First introduced in 1985 by McGoldrick and Gerson through their book entitled *Genograms: Assessment and Intervention* (now in its third edition, with Petry), today several software programs such as “genopro” are available to create genograms. While we encourage you to check such programs for a full set of genogram rules and symbols, an illustrative genogram is depicted in **Figure 6**.

When analyzing family business cases, preparing a genogram of the controlling family starting from the founding generation, can be a powerful tool to capture the family system's key players and relationships effectively. Each row depicts a generation of a family, and lists siblings from oldest to youngest, from left to right. Gender, marital status, age, nature of relationships and other details like role in the business and ownership can be included using legends.

When doing case analysis, it is often helpful to draw a genogram of the family with the information in the case. The depth of the genogram that can be drawn is likely to vary from case to case, but this is a helpful pictorial in many family business cases. For consulting cases, developing a genogram tends to be an interesting exercise for the participating family and an invaluable tool for the advisor to understand the players and dynamics of the family.

**Figure 6: An Illustrative Genogram**



## 8. Perceptual Map

Family business cases often involve perceptions of family or non-family members about each other, albeit accurate or not. Developing a perceptual map (Table 4) of the perceived strengths, weaknesses, and the best fit role within or outside family firms can be useful for understanding the shared perspectives and points of dissonance. Moreover, the degree of alignment between the perception of self and perspectives of others becomes evident. This information is easy to collect for consultants or students developing a consulting case as each key stakeholder of the family business system can be asked to complete one row of information and the case writer puts together all of the data to reveal the system level information. When doing case analysis, while there may be cells with missing data, where possible developing a perceptual map can be illuminating to understand the strengths, limitations, and the best suited role for key stakeholders within or outside the family business.

**Table 4: Perceptual Map of Key Stakeholders**

	#1	#2	#3	#4
#1	<b>Self perception of #1</b>	#1's perceptions of #2 • Strengths • Weaknesses • Best fit role	# 1's perceptions of #3 • Strengths • Weaknesses • Best fit role	#1's perceptions of #4 • Strengths • Weaknesses • Best fit role
#2	#2's perceptions of #1 • Strengths • Weaknesses • Best fit role	<b>Self perception of #2</b>	#2's perceptions of #3 • Strengths • Weaknesses • Best fit role	#2's perceptions of #4 • Strengths • Weaknesses • Best fit role
#3	#3's perceptions of #1 • Strengths • Weaknesses • Best fit role	#3's perceptions of #2 • Strengths • Weaknesses • Best fit role	<b>Self perception of #3</b>	#3's perceptions of #4 • Strengths • Weaknesses • Best fit role
#4	#4's perceptions of #1 • Strengths • Weaknesses • Best fit role	#4's perceptions of #2 • Strengths • Weaknesses • Best fit role	#4's perceptions of #3 • Strengths • Weaknesses • Best fit role	<b>Self perception of #4</b>
	Consensus points wrt #1 • Strengths • Weaknesses • Best fit role	Consensus points wrt #2 • Strengths • Weaknesses • Best fit role	Consensus points wrt #3 • Strengths • Weaknesses • Best fit role	Consensus points wrt #4 • Strengths • Weaknesses • Best fit role
	Low consensus points wrt #1 • Strengths • Weaknesses • Best fit role	Low consensus points wrt #2 • Strengths • Weaknesses • Best fit role	Low consensus points wrt #3 • Strengths • Weaknesses • Best fit role	Low consensus points wrt #4 • Strengths • Weaknesses • Best fit role

## 9. The Circumplex Model of Family Functioning

The Circumplex Model (Olson et al. 1989) is a widely researched model from family studies that enables an examination of the dynamics and heterogeneity within families. The model (**Table 5**) was originally developed for understanding marital systems but since has been found useful to understand the functionality and tenacity of families when handling stressful changes. While over fifty terms describe a family's behavior, this model focuses on two primary factors: *cohesion* and *adaptability*. Communication is considered a facilitating dimension in the Circumplex model that helps alter the levels of cohesion and adaptability.

*Cohesion*, also referred to as *togetherness* and *closeness*, is described as “the emotional bonding that family members have toward one another” (Olson and Gorrall 2003, 516). Families operate on one of four levels of cohesion:

- Disengaged family—extreme separateness
- Separated
- Connected
- Enmeshed family—extreme togetherness

*Adaptability* or *flexibility* is the amount of change in leadership and roles in a family system. Families operate on one of four levels of adaptability:

- Rigid families—extreme stability with authoritarian leadership
- Structured
- Flexible
- Chaotic families—lack of leadership, dramatic role changes, erratic discipline, too much change

With four levels on each continuum, the Circumplex model defines sixteen types of families. Research evidence points to the following outcomes associated with these types (e.g., Michael-Tsabari and Lavee 2012; Olson and Gorall 2003).

- The four types in the center describe balanced families with optimal functioning. These families are better at dealing with crises and change, effectively making them better prepared to take on the more challenging market and product growth initiatives discussed in the next section (Ward 2001).
- The four types in the corners describe problematic functioning with low ability to handle crisis and change.
- The remaining eight cells depict mid-range family functioning in terms of the ability to deal with crisis and change.

The family system has been described as the oxygen and life-blood of the family business, suggesting that when the health of this system is poor, attention must be directed to it so as to ensure the survival and success of the business system (e.g., Rogoff and Heck 2003; Sharma 2004). When analyzing family business cases, it may be helpful to locate the current positioning of the family in the Circumplex model. If the family is found in a less than satisfactory position, considerations should include how to move the family to the better functioning mid-range cells. If the family in the case is identified to be in dysfunctional cells, stressful changes in the business system should be avoided before attending to the family system. In some situations, however, the two may necessarily be intertwined.

Next, we turn our attention to the techniques that deepen our understanding of the business system.

**Table 5: Olson’s Circumplex Model**

		COHESION Emotional bonding between family members			
		DISENGAGED “I” focused highly independent	SEPARATED “I-we” focused; Some dependence and loyalty	CONNECTED “I-we” focused; Moderate-low dependence; Highly loyal	ENMESHED “WE” focused; Very highly dependent and loyal
<b>FLEXIBILITY</b> Extent of change in leadership/roles	<b>CHAOTIC</b> Frequent/extreme changes in roles; Lack of leadership	Chaotically Disengaged	Chaotically Separated	Chaotically Connected	Chaotically Enmeshed
	<b>FLEXIBLE</b> Role-sharing changes when necessary; Shared leadership	Flexibly Disengaged	Flexibly Separated	Flexibly Connected	Flexibly Enmeshed
	<b>STRUCTURED</b> Stable roles; Change when demanded; Some shared leadership	Structurally Disengaged	Structurally Separated	Structurally Connected	Structurally Enmeshed
	<b>RIGID</b> Too little change in roles; Authoritarian leadership	Rigidly Disengaged	Rigidly Separated	Rigidly Connected	Rigidly Enmeshed

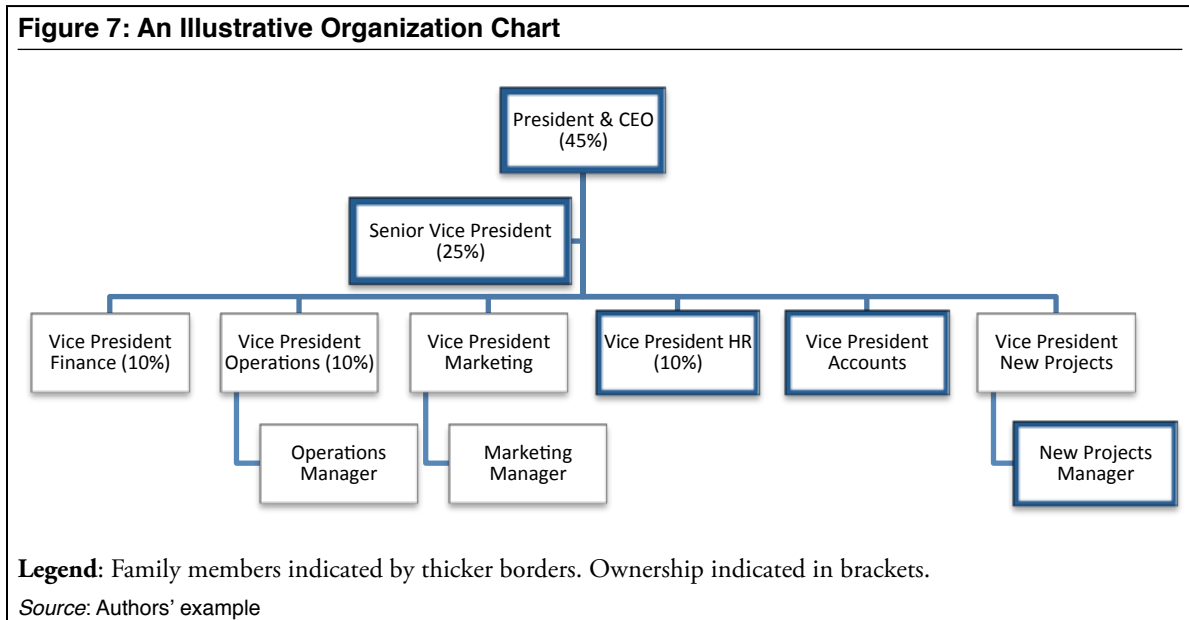
*Source:* Adapted from Olson (2000, 148)

## THE BUSINESS IN THE FAMILY BUSINESS

When it comes to the business system, techniques learnt in business courses of strategy, management, operations, finance, and accounting come in handy as the family business, while influenced by the controlling family, is fundamentally a business. Thus, students are encouraged to utilize business tools to understand the level of efficiency in and effectiveness of the firm. In addition, however, the following four conceptual tools/techniques are likely to be useful to shed light on how the family system is influencing the business system.

### 10. Organization/Ownership Chart

An organization chart is a diagram depicting the structure of an organization and the relative ranks of its parts. This pictogram is helpful to understand the positional authority of individuals and their departments. Developed mostly in the context of non-family firms with separation of ownership from management, and personal relationships kept distant from work, an organization chart indicates the positional power of departments and individuals in a firm. Two features of family firms necessitate slight modifications in the organization chart, so as to better understand and depict the family influence on business. First, given the often-found alignment between the ownership and management roles, it is helpful to add a legend to indicate owner-managers in the chart (Figure 7). Regardless of their formal position, given their role as owners, their influence is likely to be higher than others in the same managerial positions. Second, members of the controlling family are likely to have more influence or perceived influence in the firm, as compared to other managers in the same position. Thus, a legend may also be added to indicate the family members in the organization chart. Developing an organization chart with legends to indicate the owners and members of the controlling family can be a useful tool for summarizing case facts and relationships.



## 11. Succession Issues

Many family business cases revolve around the succession or leadership transition process. Three developments in the family business literature that can help to deepen case readers' insights into succession and transition situations are explored below. They may help students and consultants develop more effective recommendations for firms facing succession and transition issues.

**Steps in succession planning:** The following six-step process has been suggested for a carefully planned leadership transition in family firms (Chrisman, Chua, and Sharma 1998).

1. *Define the broad ownership, governance, and management goals* of the controlling family, and its desired involvement in each of these aspects of the business. The future focused stakeholder map discussed earlier may shed light on this issue.
2. *Organize a succession task group*, that is, individuals responsible for managing the process. In family firms with a functional governance system such as a board of directors with internal and external members, they could be assigned the responsibility to manage this process. Absent such a governance body, a special task group can be formed for this purpose.
3. *Set criteria for selection of the successor*—Rules of entry and exit, discussed earlier, are likely to be helpful in setting criteria and a process to select the successor.
4. *Develop the successor*—Career development strategies can be put in place to ensure the selected successor is well prepared to take over the leadership of the firm.
5. *Time the event*—A clear time line and process for transitioning management and ownership responsibilities from the incumbent/s to the next leader/s is useful.
6. *Re-orient the retired incumbent and other contenders* for the leadership position. Unlike non-family firms, members of the controlling family continue to be part of the family and thus connected to the business, even if they are not active as leaders of the firm. Thus, it is critical to ensure post succession roles and career plans for the retired business leader and other family and key non-family members who were keen on becoming his or her successor.

**Incumbent's exit styles:** Research suggests the exiting leaders of family firms should adopt one of four exit styles—*monarch*, *general*, *governor*, or *ambassador* (Sonnenfeld and Spence 1989). Each exit style uniquely influences the planning of the succession process.

- *Monarchs* retain close control over key strategic decisions of their firms and have long terms in office. While they attain high growth in earlier parts of their career, they face frustrations in the later part as they find it difficult to delegate or grow. Their desire is to have one last victory so they do not leave office until forced to do so.
- *Generals* closely identify with their firms but do not enjoy the level of success that monarchs do in their careers. Thus, they are not as highly respected by others as monarchs are and spend their “retirement” planning a comeback as CEO.

- *Governors* serve the shortest term in office, with a lackluster performance most of their careers. However, they strike in the last few years and leave willingly at the end of their term. Governors maintain virtually no contact after their departure.
- *Ambassadors* lead the firm to moderate levels of success and recognize when it is time to step down and serve as advisors when called upon. They are not captivated by their own vision or position in the firm.

Readers of family business cases may find it useful to determine which of the four exit styles the incumbent is likely to follow, or is currently following, and suggest post succession roles accordingly. The best scenario is when the past leader of the enterprise is available for consultation and guidance when approached by the new leader. But, it often helps to retire an individual into a new project or role, so s/he is moving into something while letting go of their previous position.

**Next generations' commitment:** Four motivating reasons have been found to drive the decision of next generation members to pursue a career in their family firms (Sharma and Irving 2005, 19). These are:

- *Affective commitment* is based on a strong belief in and acceptance of the organization's goals, combined with a desire to contribute to these goals, and the confidence in one's ability to do so. In essence, the successor "*wants to*" pursue such a career.
- *Normative commitment* is based on feelings of obligation to pursue a career in the family business. Successors with high levels of normative commitment feel that they "*ought to*" pursue such a career to foster and maintain good relationships with individuals they deeply care about rather than because of their own interests.
- *Calculative commitment* is based on successors' perceptions of substantial opportunity costs and threatened loss of investments or value if they do not pursue a career in the family business. Successors with high levels of calculative commitment feel that they "*have to*" pursue such a career or they will lose significant wealth.
- *Imperative commitment* is based on feelings of self-doubt and uncertainty of the ability to successfully pursue a career outside the family business. Those with imperative commitment have low self-confidence in their ability to get a job outside their family business or start their own firm. Thus, the underlying mind-set in this case is a "*need to*" pursue such a career.

Research suggests that the performance of next generation members pursuing a career in their family firm due to desire or obligation is better than others motivated by calculative returns or a perceived lack of alternate career choices (Dawson, Irving, Sharma, Marcus, and Chirico 2014). When analyzing family business cases related to inter- or intra-generational relationships, succession, or future growth issues, it is likely to be helpful to try to understand the dominant basis of commitment that has led each individual to pursue a career in this family business. Those with an affective or normative commitment must be encouraged to continue in their business, but others with calculative or imperative commitment might be encouraged to develop their skills and alternate career paths so as not to impact the family enterprise negatively and perhaps enjoy a more fulfilling career.



## 12. Exploitation and Exploration of Products and Markets

Dynastic family firms that survive beyond three generations of family control have been found to simultaneously engage in multiple levels of innovation (e.g., Hatum 2007; Miller and Le-Breton Miller 2005). Bergfeld and Weber (2011) describe them as *incremental*, *progressive*, and *radical innovations* (Table 6).

- *Incremental innovation* focuses on increasing share in current markets and perfecting efficiencies in current products or services. These innovations are designed to exploit the current markets and expertise in products and are characterized by low levels of uncertainty. Family firms often leave such innovations to be managed by the family and non-family employees who are new to the business as their fresh perspective is helpful.
- *Progressive innovations* focus on using adjacent or slight modification in technologies to open new markets and launch related product lines. These innovations further extend the exploits of familiar products into new markets, or new products in current markets. There is a moderate degree of newness in these new directions. Dynastic firms have been found to use this as a challenge for somewhat experienced family and non-family managers.
- *Radical innovation* focuses on entirely new technologies and opens new markets. Such innovations are characterized by high market and technical uncertainty. More senior members of long-lived family firms tend to focus their efforts on identifying such path breaking, risky, explorative directions aimed to continue value creation for the firm in the distant future when the harvest from incremental and progressive technological efforts has dried up.

For cases focused on future growth directions, roles of family and non-family members, and career planning issues, it is often helpful to determine the levels of innovation being targeted by the family firm and who is responsible for achieving results on each level. When thinking about plateaued family or non-family members, it is often helpful to understand what level/s of innovation they have been involved with, and for how long. For development of entrepreneurial spirit in an organization and leadership skills of individuals, moving from responsibilities with lower to higher challenges (with support systems) might be considered and incorporated into actionable recommendations.

	<b>Existing Products/Services</b>	<b>New Products/Services</b>
<b>Existing Markets</b>	MANAGE Efficiency focused <i>Incremental Innovations</i>	EXTEND Evolutionary <i>Progressive Innovations</i>
<b>New Markets</b>	ADAPT Evolutionary <i>Progressive Innovations</i>	CREATE Revolutionary <i>Radical Innovations</i>
	<b>EXPLOITATION</b>	<b>EXPLORATION</b>

*Source: Bergfeld and Weber (2011, 86).*

### 13. Types of Conflict

Many family business cases revolve around conflict in one or both systems. Researchers have identified three forms of conflict—*task*, *process* and *relationship* (McKee, Madden, Kellermanns, and Eddleston 2014). Task and process conflicts revolve around work issues. While *task conflict* is focused on disagreement in a group regarding goals or objectives to pursue or accomplish, *process conflict* relates to “how to achieve the agreed upon objectives.” Disagreements within a family/business/family business along task or process issues helps improve performance as alternate courses of action are discussed leading to superior decisions (Eddleston and Kellermanns 2007). In contrast, *relationship conflict* is not linked to the “what or how” issues of business operations. Instead, it is based on negative emotions or feelings such as intense anger, rivalry, resentment or animosity among family members (Kellermanns and Eddleston 2004). This dysfunctional type of conflict prevents family members from functioning effectively and leads to negative performance.

Hints of relationship conflict in a family firm may be found when developing a perceptual map (Table 4) as some stakeholders or their statements in a case may lead one to believe that they are having difficulty seeing the positives and negatives in others in a balanced manner. When analyzing family business cases dealing with conflict issues, it may be useful to identify the nature of the conflict before developing actionable recommendations.

---

### CONCLUSION

Our aim in this article is to present a compendium of tools available to analyze family business cases. These should be treated as a tool kit, with the reader choosing which of these techniques are likely to help understand the context, situation, dilemma, and its basis in the family firm at hand. Once such understanding reveals the source of the problems, alternate action plans need to be evaluated, and actionable recommendations developed.

Family business cases can evoke high emotions at times, as cases may hit close to home for some students. Thus, an instructor must set up an environment of empathy and understanding in the classroom so as to enable the learning of all. Clarifying expectations regarding communication within the classroom, confidentiality issues, and managing one’s own emotions when discussing issues are likely to be helpful.

Although it is not news anymore that family firms dominate the global economy, a large proportion of management education continues to downplay the family dimension of business organizations. It is our hope that this compendium of tools will be useful for students, teachers, advisors, and practitioners alike to understand family firms and their paradoxes.

---

### REFERENCES

- Basco, R., and Pérez Rodriguez, M. J. 2009. “Studying the Family Enterprise Holistically: Evidence for Integrated Family and Business Systems.” *Family Business Review* 22(1): 82–95.

- Bergfeld, M., and Weber, F. 2011. "Dynasties of Innovation: Highly Performing German Family Firms and the Owners' Role for Innovation." *International Journal of Entrepreneurship and Innovation Management* 13(1): 80–94.
- Chrisman, J. J., Chua, J. H., and Sharma, P. April 8, 1998. "Passing the Torch to a New Generation of Entrepreneurs: Managing Succession in Family Firms." *Financial Post*.
- Davis, J. A. 1982. "The Influence of Life Stage on Father-Son Work Relationships in Family Companies" (doctoral dissertation, Harvard University).
- Davis, J. A. 1999. "Preparing Family Business Cases." Harvard Business School Note 9-800-021.
- Dawson, A., Sharma, P., Irving, P. G., Marcus, J., and Chirico, F. (in press) "Examining the Behavioral Outcomes of Family Business Successor Commitment." *European Journal of Organizational Behavior*.
- Eddleston, K., and Kellermanns, F. W. 2007. "Destructive and Productive Family Relationships: A Stewardship Theory Perspective." *Journal of Business Venturing* 22(4): 545–565.
- Gersick, K. E., Davis, J. A., Hampton, M. M., and Lansberg, I. 1997. *Generation to Generation: Life Cycles of the Family Business*. Boston, MA: Harvard Business School Press.
- Gersick, K. E., and Feliu, N. 2014. "Governing the Family Enterprise: Practices, Performance, and Research." In *SAGE Handbook of Family Business*. Edited by Melin, L., Nordqvist, M., and Sharma, P. London, U.K.: Sage Publications.
- Goldbart, S., and DiFuria, J. 2009. "Money and Meaning: Implementation of Effective Family Governance Structures." *Journal of Practical Estate Planning* 11(6): 7–9.
- Hatun, A. 2007. *Adaptation or Expiration in Family Firms: Organizational Flexibility in Emerging Economies*. Northampton, MA: Edward Elgar Publishing.
- Hoy, F., and Sharma, P. 2010. *Entrepreneurial Family Firms*. New York: Pearson Prentice Hall.
- Kellermanns, F. W., and Eddleston, K. 2004. "Feuding Families: When Conflict Does a Family Firm Good." *Entrepreneurship Theory and Practice* 28(3): 209–228.
- Lansberg, I. 1999. *Succeeding Generations: Realizing the Dream of Families in Business*. Boston, MA: Harvard Business School Press.
- LaPorta, R., Lopez-de-Silanes, F., and Shleifer, A. 1999. "Corporate Ownership Around the World." *The Journal of Finance* 54: 471–517.
- McGoldrick, M., Gerson, R., and Petry, S. 2008. *Genograms: Assessment and Intervention* (3rd ed.). New York: W. W. Norton and Co.
- McKee, D., Madden, T. M., Kellermanns, F. W., and Eddleston, K. A. 2014. "Conflicts in Family Firms: The Good and the Bad." In *SAGE Handbook of Family Business*. Edited by Melin, L., Nordqvist, M., and Sharma, P. London, U.K.: Sage Publications.
- Michael-Tsabari, N., and Lavee, Y. 2012. "Too Close and Too Rigid: Applying the Circumplex Model of Family Systems to First-Generation Family Firms." *Journal of Marital and Family Therapy* 38(s1), 105–116.

- Miller, D., and LeBreton Miller, I. 2005. *Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses*. Boston, MA: Harvard Business School Press.
- Olson, D. H., Russell, C. S., and Sprenkle, D. H. 1989. *Circumplex Model: Systemic Assessment and Treatment of Families*. Binghamton, NY: The Hawthorn Press, Inc.
- Olson, D. H. 2000. "Circumplex Model of Marital and Family Systems." *Journal of Family Therapy* 22(2): 144–167.
- Olson, D. H., and Gorall, D. M. 2003. "Circumplex Model of Marital and Family Systems." *Normal Family Processes: Growing Diversity and Complexity*. Ed. Walsh, F. 3rd edition. New York/London: The Guilford Press.
- Rogoff, E. G., and Heck, R. K. Z. 2003. "Evolving Research in Entrepreneurship and Family Business: Recognizing Family as the Oxygen that Feeds the Fire of Entrepreneurship." *Journal of Business Venturing* 18(5): 559–566.
- Santiago, A. L. 2011. "The Family in Family Business: Case of the In-Laws in Philippine Businesses." *Family Business Review* 24(4): 343–361.
- Sharma, P. 2004. "An Overview of the Field of Family Business Studies: Current Status and Directions for Future." *Family Business Review* 17(1): 1–36.
- Sharma, P., and Irving, P. 2005. "Four Bases of Family Business Successor Commitment: Antecedents and Consequences." *Entrepreneurship Theory and Practice* 29(1): 13–33.
- Sharma, P., and Nordqvist, M. 2008. "A Classification Scheme for Family Firms: From Family Values to Effective Governance to Firm Performance." In Tàpies, J., and Ward, J. L. (Ed.) *Family Values and Value Creation: The Fostering of Enduring Values within Family-Owned Businesses*. Palgrave Macmillan Publishers, 71–101.
- Sonnenfeld, J. A., and Spence, P. L. 1989. "The Parting Patriarch of a Family Firm." *Family Business Review* 2(4): 355–375.
- Ward, J. 1987. *Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability, and Family Leadership*. San Francisco, CA: Jossey-Bass.
- Ward, J. L. 1991. *Creating Effective Boards for Private Enterprises: Meeting the Challenges of Continuity and Competition*. San Francisco, CA: Jossey-Bass.
- Ward, J. L. 2001. "How Strategy is Different for Family Businesses." *Families in Business*. Autumn, 50–53.