Family Managed Business(FMB): A Review

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Abstract

The family businesses are vital for the world economy. So, it is interesting to know what are the main features of a family business and to know how family, business and ownership interact which each other to reach at a common goal.

Keywords: family managed Business and family owned business

1. Introduction

Family businesses are one of the bases of the world's commercial community. Their formation, evolution and prolonged existence are critical to the success of the international economy. In spite of facing numerous of the same day-to-day management concerns as publicly-owned companies, they must also manage many issues that are specific to their status in order to grow since global economy is constructed around family businesses. In the views of Pearl Initiative & PWC (2012), many of the largest MNCs began as family businesses, and around 90% of the world's businesses can be defined as family managed businesses, both in developed, developing and emerging markets with the majority are small and medium-sized enterprises (SMEs), but some are very large companies (Sarbah, A. and Xiao, W.,2015).

According to Ward (1991), family businesses, over the world, represent a dominant and noticeable form of enterprise in the economic and social landscape. Some researchers estimate that, today, family-owned businesses(FOBs/FMBs) comprise over 95% of all business establishments in the worldwide(Litz,1995). Studies in the developed countries suggest that FMBs account for the majority of the businesses and have a major influence on the progress of the national economies (Poutziouris et. al.,1997, Sarbah, A. and Xiao, W.,2015).

2. Family Owned/Managed Business(FOBs/FMBs)

A family business can be described as a system that encompasses of three independent but coinciding subsystems which can impact each other. These subsystems are business, ownership and family and are depicted in the Three-Circle model (Figure 1) of Gersick et al. (1997). The three circles divide the entire figure in seven segments. Any individual in a FMB has one location in this model, depending on the connection that person has with the organization. Number 1 refers to the family members who are not involved in the business. Number 2 are non-family owners of the business. Then number 3 are non-family members working for the company. Next, number 4 are family members not working in the enterprise but are owner of the firm. Number 5 are non-family owners who work in the business. Number 6 are family members who work in the business but are not owners and finally number 7 who are family members working in the business and are owners of the business (Jeroen Verbruggen, 2012).

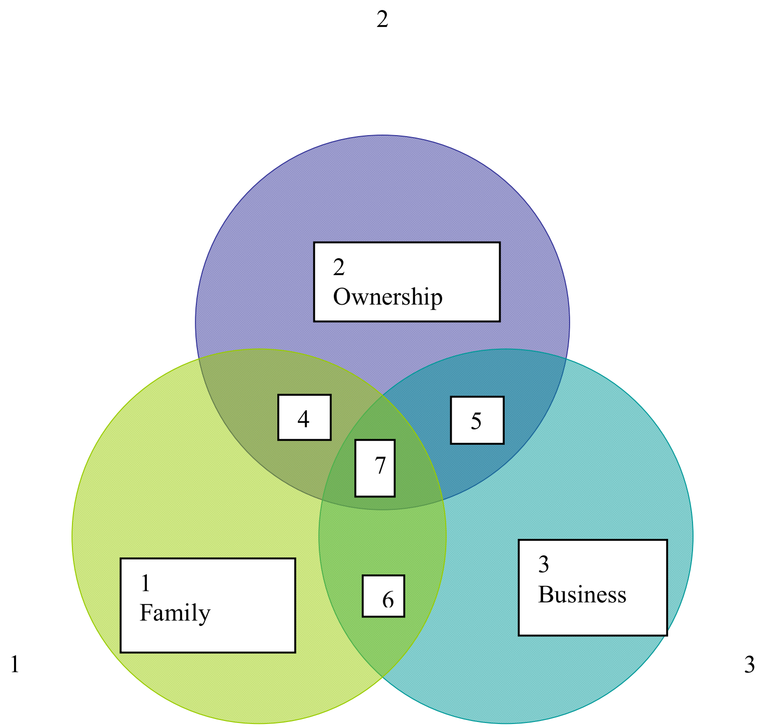

Fig.1. Three-Circle Model (Gersick et al., 1997)

Because the three circles are constant in motion and are not as static as in the Three-Circle model, Gersick et al. (1999) transformed it into a Development Model presented in figure 2.

2.2 Transforming the family business

To understand the evolution of the family business and the movement of the three subsystems through a sequence of stages over time Gersick et al. (1999) transformed the three-circle model into a development model illustrated in figure 2. In this model the subsystems are divided over three axes. Next to the developments in the family, figure 2 also shows the evolvement of family ownership and the family business over time. According to Gersick et al. (1999) especially ownership development is playing an important role regarding the implementation of governance structures within family businesses. The development of these stages is a controlled process. According to Gersick et al. (1999) it is important to manage these periods effectively to increase the chances of family business continuity. Because the business develops from a controlling owner to a sibling partnership and finally to a cousin consortium the number of family members is increasing. Resulting that the relation between the family members is changing which means that the need for a more formal management structure is simultaneously growing (, Millet-Reyes et.al., 2010). Many companies are struggling with a certain structure because they find it hard to find a structure which also fits the culture, principles and values of the family

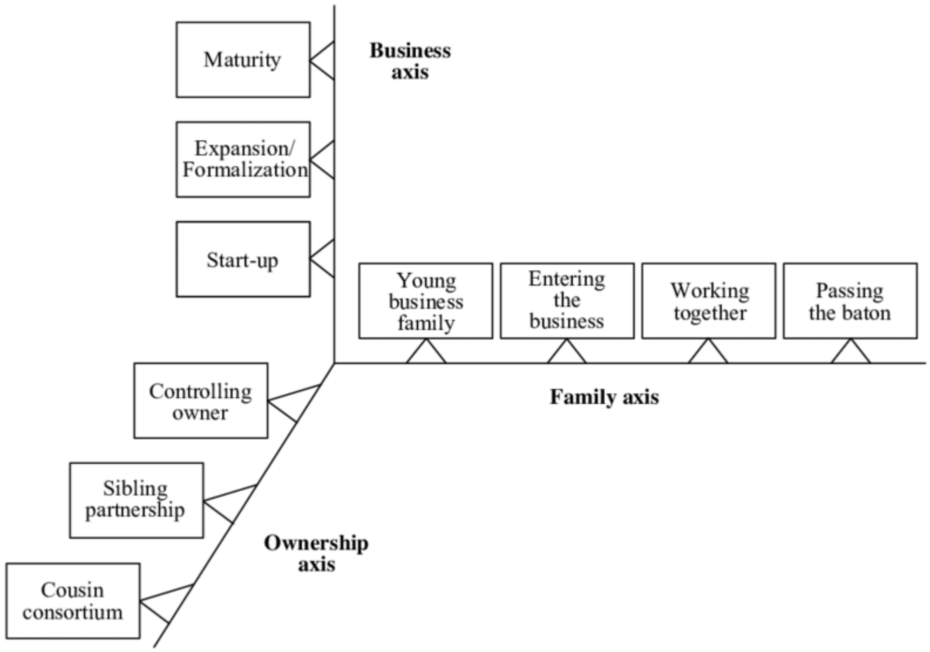

Fig. 2: Development model (Gersick et al., 1999)

Business (Jeroen Verbruggen, 2012). This culture is created through the beliefs, values and goals propagated by the family, and is rooted in the history of the firm and the social relationships between the members. The professional and personal membership roles disappear over time and this culture is transferred from generation to generation (Hall et al., 2001).

2.2.1 The family

The elements of a family are its members. A family is consequently the more complex, the more members it has. Furthermore, complexity comes with different age of the family members, with geographic distance between them, and finally with their goals and how important these goals are for each family member (Klein, 2010). Depending on the level of complexity, the essential degree of family governance regulations can be estimated for the respective family (Jeroen Verbruggen, 2012). According to Klein (2010) here, mechanisms such as informal family meeting, formal, frequent, several times per year occurring meetings or even so called family councils can be organized.

2.2.2 Business

The family business is governed and/or managed by a family and controlled by members of the same family or a small number of families. To ensure the continuity of the business this is done in a manner that is potentially sustainable across generations of the family or families. According to Flören et.al. (2002) a firm is considered as a family-owned business when it meets two of the following three requirements:

- One family has ownership of more than 50% of the total firm.

- One family has decisive influence on the company's strategy or on succession decisions
- A majority or at least two members of the board of the company come from one family.

2.2.3 Ownership

The complexity of the ownership system mainly comes from the number of shareholders as well as from the differences between share sizes. The more shareholders exist, the more complex communication and coordination becomes. A further interest conflict which has been discussed many times in corporate governance literature exists between majority and minority shareholders (Jeroen Verbruggen, 2012).

3. Conclusion

With the increasing number of family members which are involved in the business, the more complex issues within the family can arise, which can harm the business. In this case corporate governance can bring structure within the business and the family which makes it easier to deal with these issues.

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