The Challenges of Family Businesses: growth, transfer of ownership and management

Yolanda Gibb and Dinah Bennett
The Context in which Family Businesses are operating

Global Pressures

Greater Uncertainty and Complexity

Organisation Repositioning

State Repositioning

Individual Repositioning

Small business
Corporate venture

Social enterprise
Civic/public enterprise

Drive to Entrepreneurial Responses

Family Business Workshop, Zagreb 21.10.2013
Gibb’s Model – Entrepreneurial Paradigm

Organisational
- Downsizing/Restructuring SOE’s
- Network organisations
- Small business growth
- Longer working hours
- Wider management responsibility
- Supply chains
- Global investment mobility
- Knowledge based business
- Strategic alliances

Societal/State
- De-regulation
- Privatisation
- Markets in public services
- Environmental protection
- High Technological change
- Differentiated products/markets
- Higher divorce rates
- Single parent families
- One child policy
- Decline of religion
- Reduced welfare and social security spending

Individual
- Higher stress
- More contract employment
- Less career certainty
- More part-time contracts
- Fewer guaranteed rewards
- Early retirement – multi careers
- Lower opportunity cost of own business
- Portfolio occupations
- Greater geographical and occupational mobility
- More diverse personal responsibility/relationships
- Life style businesses

The Global Pressures

<table>
<thead>
<tr>
<th>The ICT revolution</th>
<th>Growth of trading blocs</th>
<th>Travel</th>
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<tbody>
<tr>
<td>Reduction of barriers in international business</td>
<td>Universality of English language</td>
<td>International standards</td>
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Family Business Quiz

- What % of non-governmental GDP in most countries do Family businesses generate?
- What % of private sector jobs are created by Family businesses?
- What % of business start-ups are started with Family money?
- (roughly) What % of net job growth do family businesses represent in any economy?
- In most countries around the world, Family businesses are between ?% and ?% of all business entities
The importance of Family Business

According to the best available research, the importance of family business has been equated to:

- **GDP**: in most countries around the world they are 60 - 90% of non-governmental GDP
- **Jobs**: in most countries around the world they are 50 – 80% of all private sector jobs
- **Start-Ups**: 85% of all business start-ups are started with family money
- **Job growth**: family business represent more than 75% of net job growth
- **Weighting**: in most countries around the world, family businesses are between 70 and 95% of all business entities

December 2011 Centre for European Economic Research study.
What are the challenges facing family businesses?
Survival Rates

- **1\textsuperscript{st} Generation**
  - **2\textsuperscript{nd} Generation** – 33%
    - **3\textsuperscript{rd} Generation** – 12%
      - **4\textsuperscript{th} Generation** – < 4%
      - **5\textsuperscript{th} Generation** – < 2%
Dealing with Diverse Interest Groups

- Owners & Investor: non-family
- Owner Managers: not family
- FAMILY: inactive owners, manager family
- FAMILY employees
- FAMILY Not involved
- External Stakeholders

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## Challenges

<table>
<thead>
<tr>
<th>Growth / Development</th>
<th>Other</th>
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<tbody>
<tr>
<td>• Responding to opportunities and growing the business</td>
<td>• ….</td>
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<td>• Internationalisation</td>
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<tr>
<th>Transfer of ownership</th>
<th>Management</th>
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<tr>
<td>• Ensuring continuity of the business</td>
<td>• Dealing with potential differences and conflict</td>
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<td>• Dealing with an unfavourable environment</td>
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<td>• Responding to threats and surviving</td>
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</table>
Process of Development

1st STAGE GROWTH
(OPERATIONAL v. STRATEGIC)

- CONSOLIDATION
  ("MAKING A PROFIT")
- SURVIVAL
- LAUNCH
- ACQUISITION of RESOURCES
- IDENTIFICATION of RESOURCES
- VALID IDEA
- RAW IDEA
- MOTIVATION

2nd STAGE GROWTH
(DELEGATION/SUCCESSION/TEAM BUILDING)

- 3rd STAGE GROWTH
  (TEAM BASED DEVELOPMENT)

Owner Managed                 Team Managed

Process of Development

Iterative Process
What is a family business with ‘Growth Potential’?

If you went to a family business for half a day what would you look for or at in order to answer the question?
GIBB Growth Model

Where the business could go...

The Base Potential for Development

Current Performance

The Project: Process of Product/market development

Key External Influences on the Development Process

Key Internal Influences on the Development Process

Extent and Depth of Change

Time

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GIBB Growth Model

Where the business could go...

The Project:
Process of Product/market development

Key External Influences on the Development Process

Key Internal Influences on the Development Process

Resources  Experience  Control  Ideas  Leadership

Markets  Operations  Finance

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## Framework for Growth and Family Firms

<table>
<thead>
<tr>
<th>4. The Project:</th>
<th>How sound is the specific growth project?</th>
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<tbody>
<tr>
<td>Objectives</td>
<td>Market</td>
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<td>Resource requirement</td>
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<td>Mgt. Ability &amp; commitment</td>
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<td>Financial projections</td>
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<th>3. The Potential:</th>
<th>How strong is the potential to achieve growth?</th>
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<td>Resource base</td>
<td>Experience base</td>
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<td>Control base</td>
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<td>Ideas base</td>
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<td>Leadership base</td>
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<th>2. The Politics:</th>
<th>To what extent does family help or hinder?</th>
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<tr>
<td>Succession</td>
<td>Governance</td>
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<td>Leadership</td>
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<th>1. The Performance:</th>
<th>How good is the current performance?</th>
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<td>In the Market</td>
<td>In its Operations</td>
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<td>In Financial terms</td>
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## Growth Potential

<table>
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<tr>
<th>Resources</th>
<th>Experience</th>
<th>Controls</th>
<th>Ideas</th>
<th>Leadership</th>
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</thead>
</table>
| • Liquidity and availability of finance  
• Technology: level & capability required  
• Physical assets: age and state  
• People: quality/skills/flexibility/attitude  
• Product range and life cycle  
• Managerial resources and time available  
• External resources e.g. agents, distributors, etc. | • Experience of:  
- developing markets  
- using external agents  
- moving sites  
- succession  
- managing growth & change  
- introducing new technologies  
- whatever it is you are seeking to do etc. | • Adequacy of info & control systems  
• Management team’s/process to assess  
• ‘Professionalism’ of management  
• Adequacy of planning and monitoring  
• Degree of delegation to team  
• Ability to define and assess performance etc. | • Sources and number of ideas – knowledge based used?  
• Appropriate means/ process to assess Market/customer orientation of ideas  
• Degree of development/testing of these ideas  
• Degree of creativity/problem solving etc. | • Degree of involvement of key staff  
• Age/occupational base of owner-manager(s)  
• Leader’s personal goals and objectives, style and ambition  
• Family influence  
• Personal attitude to change  
• Degree of strategic awareness and understanding of environment etc. |
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<th>The Politics:</th>
<th>The Family</th>
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What would help you solve some of your current challenges?

What do you think is required to support a vibrant Family Business sector in Croatia?

What would the priorities be?

On what basis would you select these?
The Black Cab – Why is it like it is?
The Keyboard – Why is it like it is?
What’s the connection?
From a horse’s rear to the Space Shuttle
We must think differently!
<table>
<thead>
<tr>
<th>Network/Family Business Specific Organisation</th>
<th>Employers' Organisation</th>
<th>Government</th>
<th>Support Service Provider</th>
<th>Others ¹</th>
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Note: The table provides an overview of institutional actors dealing with family businesses in Europe as of October 21, 2013.
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<td>Business Support</td>
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¹ “Other” organisations refer, for example, to financial institutions or private business consultants offering services specifically targeted at family businesses.

Remark: One organisation may be classified into several categories, depending on the offered services. No relevant actor could be identified for Latvia.
SE Europe Countries

- No experience of inter generational transfer
- Transfer to next generation - younger and fewer
- Better educated and want something else
- Demographic impact – longevity of founders
- Financial implications make it unviable or more complicated
- Governance frameworks, balancing business and family new/weak
- Access to finance
- Image on labour market poor – nepotism…
Responses to challenges

• Business transfers – legal framework and financial support
• Tax regime for reinvested profits
• Governance codes
• Succession planning
• Succession scorecard – Belgium
• Passing the Baton Programme – Finland
• FB Market Place – Austria and Luxembourg
• Patchy provision of information to Stakeholders and limited information on environment to FF
Required

• Systematic and detailed info about sector
• Unambiguous and useful definition of FB
• Incorporate wider definition of family
• More effective representative bodies
• Better dissemination among Policy makers
Discussion