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The Dream of Continuity of a Family Business across Generations

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Abstract Today, the family business companies are an important subject of study and research. They form the backbone of the economy and represent 80% of worldwide companies according to the Institute for Family Business (IFB). These companies surf from a significant problem the conflicts between the family and the style of management. The different phases of business Development as the transmission are dominated by emotions. This is why the learning Institutes and consultants as IEF, OSEO, INSEE, IFA, KMPG and INSEAD were founded to help entrepreneurs and family businesses and to support their families regarding conflicts, transmission, funds transfer, properties. The main objective of this paper is to shed light on the common factors and characteristics that contribute into the success of family business companies.

Keywords Family business, Management, Factors of success

1. Introduction

Companies are an advanced form of ethnic operations and provide needs and services to humans. In these enterprises, the operational and the administrative officers, the managers, and the leaders work together and share the tasks to ensure the smooth functioning and sustainability of the organization. Companies differ from one another; each has its own culture, identity, values, characteristics, properties, vision, history, successes, failures and most importantly different governance. For centuries, the family business is one of the most recognized forms of organizations in the world of work. Researchers weren't interested in the family business before but it became a research subject later. In their book on the government of the family business, B.Carty and A.BUFF (1996) describe the presence of this type of business as critical to the future of economies and these companies are the roots of capitalism and individual initiative. Studies showed that because of the family business, the developed economies countries and the under development countries can be rebuild to ensure their sustainability. Some existing businesses for centuries still belong to an nthgeneration of the same family. A lot of international companies that are globally recognized are family based. Businesses play a very important role in the economy and they are the most resistant to crises. The businesses, previously called informal, are now companies with an important position from experience, expertise, and they have an important development capacity especially because the most have succeeded with just a school education without knowledge in the field of management, commerce, or industry. Moreover, we are not talking about some thousands of dollars but about millions and milliards like for example Hojeij and Tageddine families. Hojeij and Tageddine are two Lebanese families that have achieved a great success in Africa although they have "started from scratch". This nature pushed the family members to unify and to create a family business to ensure their financial security and their sustainability over time.

In terms of age, we must mention the existence of a large number of companies over the age of hundred years and till now the governance belongs to the same family.

Table 1. Some old American family business (Family Business Institute, 2007)

Name of the company	Activity	Foundation date	Turnover (Dollar)
R.R. Donnelley & Sons	Publishing, advertising/Chicago	1864	$5.8 billion
McCarthy	Construction/St. Louis	1864	940 million
Cargill Inc.	Commodities trader	1865	47.6 billion
Milliken & Co.	Textiles/Spartanburg, S.C.	1865	3.1 billion

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2. Problem Statement

This table below shows that less than half of family businesses are held jointly by the first and second generation. Less than half of family businesses are held jointly by the first and second generation.

Table 2. Family Businesses and generations (Family Business Institute, 2007)

Country	% Of family business held by the first generation	% Of family business held by the first and second generation together
Suede	86	42
Spain	86	33
France	76	17

The core problem of this paper is the sustainability of family businesses. Is there a problem in the transmission of these companies?

3. Study Objectives

- Assessing the succession process.
- Describe the preparation phase of the successor.
- Determine the level of interest of the heir to take over the business.
- Determining the impact of the relation between the owner and the successor.
- Determining the impact of the owner resistance on the succession phase.

4. Literature Review

Family Business Evolution

The presence of family businesses is widespread in the business world. A survey of INSEAD showed that the majority of the 250 largest companies listed in France and Germany are also family businesses. Some global companies are known to be family businesses and they occupy the first rows in the economy of most countries. Family businesses play an important economic role. This table shows the presence of family businesses in some countries:

Table 3. Presence of family business

Country	% Family Business	Country	% Family Business
Britain	65	Germany	80
Spain	85	Greece	80
France	83	Suede	79
Cyprus	80	Italy	73

Characteristics of a family Business

The family business firm differs from other firms because it takes into consideration two separate entities: family and business.

There is a unique interaction between business and family ties in family business companies, where the company depends on the family and the family depends on the business. That's why family events and business events are related to each other in this type of companies.

For a person who is an owner, employee and a family member in the company, he can take the opportunity to better understand the family, and at the same time to understand the strengths and weaknesses of each member. This person knows the business of the company from all its sides and this gives him a lot of responsibilities and duties to do. He is not in a neutral position and must not mix between family business and property owners.

Another person that may present a family business characteristic is the one who is an owner and a family member, but does not work in the company. This person is found in every family business and is mostly interested in the company's profits and dividends.

Tagiuri and Davis (1996) were able to categorize the family business based on a system of three circles: employee(s), family and owner(s). It is important to describe the status of stakeholders and to define their limits so that everyone knows their position, in what they are concerned and how far they are concerned.

Management of Family Business

Management in family business differs from other companies because of the existence of one or more members of the family in the company. To analyze the performance and management of those companies we need to study three criteria; power, experience and culture.

To measure the degree of power, we must analyze the shareholding structure, governance and the management practiced by the members of the company.

To measure the influence of the family on the business, we must study the similarities of family values with the company and the commitment of those members to the company.

To measure the experience, we need to study four criteria; the generation of the family that owns the capital, the generation of the family that plays an active role in the management of the company, the generation of this family that participated in the governance, and finally the number of family members involved in the activities of the business.

Informal strategy due to informal communication

Strategic planning in family businesses differs from that of non-family businesses. Whatever the strategy is, implicit or explicit; it must be clearly formulated, executed and controlled according to the objectives of the family business. Decision making in a family business is unique compared to that of non-family.

Informality rules the family business concerning the rules and communication. Personal relationships between leaders and employees make the formalization of rules very difficult.

Table 4. Difference in decision making between family businesses and non-family business

	Non-Family Business	Family Business
Dominant Dimension	Rational Dimension	Affective Dimension
Decision Process	Hierarchical System	Centralized by owner
Speed of the decision making process	Slow	Fast
The decision is based on	Rational argumentation, justification	Owner Belief, perception, Subjective

Life Cycle

Transmission strategy is important to ensure the sustainability of the family business. The average time that a family business needs to grow properly is set to be 24 years, where the owner rules 14 years during this period. Covering family-business-management pushes the family business to target specific objectives where Values, culture, emotion, experiences, and family are taken into account.

Stages of development that the family business take during its life cycle are four: pre-family, family, family adjustment and post-family. As a whole, family businesses are directed towards themselves or directed towards family environment.

Conflicts

The most important family values any business company focuses on are affectivity, security and tradition. These values changes when it comes to the priorities of the company, which are profit, competitiveness and growth.

Conflicts in a business family are only revealed when members are working in the company and living in the same family, acting according to these values makes conflicts occur.

Family Business Transmission

Entrepreneurs' age and health are the main reasons for the business transfer. Poorly organized companies are the companies with high probability to disappear from the economy and can't be transmitted. Other companies may survive maximum 30% of their business for the second generation and no more than that.

Family business transmission is also affected by inadequate financing tools, insufficient preparation from owners, or high taxation and many over damages that may impair its transmission.

Succession Process

To ensure proper transmission, multiple issues, factors and decisions are taken into consideration.

- The contractor shall select a member of his family to run the business competently.
- The father has to choose the successor among his children from an early stage, and train him for the role of leadership.
- Potential successor should always be present in the organization to monitor the daily management activities, as he should be trained to work in different company positions.

The succession process, which includes planning, selection, conflict, family, and preparation of an heir, is one of the most difficult obstacles facing the family business. It is a group of factors and events that work together and affect the transmission process of family business. This process can only be attained successfully when it is anticipated, and once it is attained it can give the family competitive advantage over other companies.

The succession process in a family business of multi partners is more difficult than normal company of few partners. Choosing the successor becomes harder and many things should be taken into consideration:

- Anticipation of problems that might occur between family members
- Proper positioning of each family member
- Minimum qualifications required from a member to rule the business

The owner resistance

The owner hesitates to make the transmission; he fears that the company will malfunction without him. He tries to delay the transmission as possible as he can when he is able to manage the business. This delay can cause a negative impact on the business since with age, the performance of the individual decline.

It is important to involve young people in certain responsibilities to train and develop them; the late departure of the leader can hinder the development.

Preparation of the heir

The succession plan should not only identify potential candidate for the succession, but also the reasons why he is preferable to other candidates. In general, the succession takes place regardless of the abilities of the company successor. Some factors which are related to successor and may affect the succession process:

- The will of the successor to take over the business.
- Level of preparation of the successor.
- Relationship between the owner-manager and the successor.

The will to take over the business

The will of the successor to take over the business depends on three variables: commitment to family, Successor maturity and Degree of responsibility of the successor.

The successor must join the company as soon as possible in order to gain experience and loyalty to the company by training. We must then begin by exposing the successor to work in the company. After that contractor will tell him about the things he likes in the work to guide the successor to love the company. Then, the successor must be motivated to continue and succeed in the business.

The Stage of preparation of the successor

It is important for the successor to acquire knowledge while working in every department in the family business. He has to start from the bottom of society and to grow for several years without burning steps to finally arrive at the top position in the business.

The successor should have work experience in other company or companies, in related and unrelated fields to build his capacity, gain confidence in himself and overcome possible obstacles at the time of resumption of the family business. Moreover, the successor must not only win the trust of his colleagues, but also, it must be perceived by third parties like customers and suppliers as a true entrepreneur.

5. Methodology

Sample Data

A questionnaire is the methodology used to obtain the necessary data of this study. The multiple questions were presented into demographics, factors of success, opinion about succession and finally the strengths and weaknesses of the family business.

The variables

- **Demographic Variables**: The demographic variables are business position, gender, company type, business field, business generation and the business rate.
- **Succession phase variables**: conflicts, decisions and general facts about the succession phase of each business.
- **Family business strengths and weaknesses variables**: about family business issues.

Methodology

The dependent value is the business rating; the independent values are all the succession phase issues and all the family business issues.

A regression analysis is done to predict the relation between the business rate of success and the succession phase issues on one hand and on the other between the business rate of success and the family business strengths and weaknesses.

6. Analysis

Descriptive Statistics

SPSS statistical software was used to generate descriptive statistics reports for all the variables included in the questionnaire and here are the results:

- Most of the respondents are owners: 64.3%
- most owners and/or founders of family and of commercial businesses are men: 80%
- Most of respondents belong to family businesses rather than commercial businesses: 71.4%
- Most respondents are traders: 32.9%
- Most respondents belong to the first generation: 37.1%
- Most respondents described their businesses as normal businesses: 51.4%

After analyzing the frequencies of 70 questionnaires, it was clear that most respondents agreed that companies usually face troubles during the succession phase. They also agreed that the owner should give his advice and share his experience with the successor, the owner of a family business usually prefers to pass the lead to the son rather than to the daughter, the owner of the family business usually prefers the eldest son to take the lead and the owner prefers to maintain the ownership during all his life.

Most respondents disagreed that business transition is a big challenge to the owner, and that business owner usually prefers that his/her chosen successor is well educated, the successor has to pass through several departments before taking the lead and the successor should have an external experience before taking the leadership.

Correlation Analysis

Correlation analysis determines the strength of the relationship between the seven main variables: owner's advice and experience, lifetime ownership, succession troubles, transition challenge, successor education, passing through departments and external experience.

1. Significant positive correlation between the companies' troubles variable and the other variables (0<0.05).
2. Significant positive correlation between the owner should give his advice and share his experience with the successor variable and the other variables (0<0.05).
3. Significant positive correlation between the owner prefers to maintain the ownership during his/her life variable and the other variables (0<0.05).
4. Significant positive correlation between business transitions is a big challenge to the owner variable and the other variables (0<0.05).
5. significant positive correlation between business owner usually prefers that his/her chosen successor is well-educated variable and the other variables (0<0.05).
6. Significant positive correlation between the successor should have an external experience before taking the lead variable and the other variables (0<0.05).
7. significant positive correlation between the successor has to pass through several departments before taking the lead variable and the other variables (0<0.05).

Regression Analysis

It is to determine the relevant factors that contribute to the success or failure of a business. Regression outputs are analyzed to determine the most relevant factors.

Linear Regression

This analysis examines the relations between the "business rating" and the "succession phase" variables and also between the "business rating" and the "strengths and weakness of family business" variables.

Table 5. Model Summary 1

R	R square	Adjusted R Square
.998	.995	.994

- The R-value is 0.998, which represents the simple correlation.
- R square value indicates how much the dependent variable "business rate" can be explained by the independent variables "succession phase" and "strengths and weakness of family business".

The next table is the ANOVA table. This table indicates that the regression model predicts the outcome variable significantly well.

Table 6. ANOVA 1

Model	F	Sig
Regression	97.40	.000

The **Coefficients** table below provides information on each predictor variable. This gives the information needed to predict the "business rating" from "succession phase" and "family business strengths and weakness" variables.

7. Conclusions

The correlation analysis showed a positive relationship between the seven main variables: owner's advice and experience, lifetime ownership, succession troubles, transition challenge, successor education, passing through departments and external experience upon the analysis of multiple regressions. It was concluded that Companies' Troubles, Lifetime Ownership, Transition challenge and Owner's advices and experiences could be used in predicting Y (the business rate of success). The results showed that the business rate of success rely for 99.5% on the succession troubles, life ownership, transition challenge and the advice experiences shared with the successor. To conclude, for a family business, the owner has to find ways to prevent the business troubles and challenges that may exist during the succession phase because it will harshly affect the success rate of the business.

8. Study Limitations

The most important difficulties encountered in gathering the data were as follows: the limited access to family business owners from all over Lebanon, the study didn't cover the solutions provided if a family business owner doesn't have a son or daughter or any successor. Another limitation is represented by a lack of data about the root cause of the predominance of men owners over women owners; also, a lack of data about the preference of a son successor over a daughter successor. The patterns observed in this study may be only limited to the study selected sample. The limitations can be covered by further studies using further data on how to overcome the family businesses troubles and further psychological studies on the owner's feelings and fears during the succession phase.

Table 7. Regression Coefficient 1

Model	B	Sig	Model	B	Sig
Constant	2.935	.000	constant	2.935	.000
1. Companies usually face troubles during the succession phase	.145	.000	7. Business owner usually prefers that his/her chosen successor is well educated	-.308	.065
2. The owner has to choose the successor he/she wants	-.005	.849	8. The successor has to pass through several departments before taking the lead	.013	.846
3. The owner always wish to pass the business across Generations	-.010	.735	9. The owner should give his/her advice and share his/her experience with the successor	.002	.010
4. The owner prefers to maintain the ownership during his/her Life	.182	.000	10. Conflicts are a normal facts during the succession phase	-.002	.941
5. Business transition is a big challenge to the owner	.022	.040	11. The majority of owner's children wish to take the lead	.005	.565
6. The responsibilities of each member in the enterprise are clearly defined	-.009	.866	12. Children working in the business are able to make decisions without hesitation	-.012	.490

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