

Wiley Finance Series

# Family Enterprise

*Understanding Families in Business  
and Families of Wealth*

+ online assessment tool

THE FAMILY FIRM INSTITUTE, INC.

WILEY



# **Family Enterprise**

Founded in 1807, John Wiley & Sons is the oldest independent publishing company in the United States. With offices in North America, Europe, Australia, and Asia, Wiley is globally committed to developing and marketing print and electronic products and services for our customers' professional and personal knowledge and understanding.

The Wiley Finance series contains books written specifically for finance and investment professionals as well as sophisticated individual investors and their financial advisors. Book topics range from portfolio management to e-commerce, risk management, financial engineering, valuation, and financial instrument analysis, as well as much more.

For a list of available titles, visit our website at [www.WileyFinance.com](http://www.WileyFinance.com).

# Family Enterprise

*Understanding Families in  
Business and Families of Wealth*

THE FAMILY FIRM  
INSTITUTE, INC.

WILEY

Cover image: texture © iStockphoto.com/gaffera; leaves © iStockphoto.com/hugbee  
Cover design: Wiley

Copyright © 2014 by The Family Firm Institute, Inc. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at [www.copyright.com](http://www.copyright.com). Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at [www.wiley.com/go/permissions](http://www.wiley.com/go/permissions).

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit [www.wiley.com](http://www.wiley.com).

***Library of Congress Cataloging-in-Publication Data:***

Family enterprise : understanding families in business and families of wealth /  
The Family Firm Institute, Inc.

pages cm. — (Wiley finance series)

Includes index.

ISBN 978-1-118-73092-8 (cloth); ISBN 978-1-118-73098-0 (ePDF);

ISBN 978-1-1187-3091-1 (ePub)

1. Family-owned business enterprises. I. Family Firm Institute.

HD62.25.F3765 2014

338.6—dc23

2013027432

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

# Contents

<b>Acknowledgments</b>	<b>ix</b>
<b>Family Enterprise: Understanding Families in Business and Families of Wealth</b>	<b>xi</b>
<b>CHAPTER 1</b>	
<b>Defining Family Enterprise</b>	<b>1</b>
Definition 1	2
Definition 2	2
Definition 3	2
Definition 4	2
Definition 5	2
<i>Family Business Review</i> article: “From Longevity of Firms to Transgenerational Entrepreneurship of Families: Introducing Family Entrepreneurial Orientation”	4
Assessment Test 1	37
<b>CHAPTER 2</b>	
<b>Classic Systems of a Family Enterprise</b>	<b>39</b>
The Family System	40
The Ownership System	41
The Enterprise System	42
Assessment Test 2	43
<b>CHAPTER 3</b>	
<b>Representative Governance Systems     in Family Enterprises</b>	<b>45</b>
Enterprise Governance	46
Family Governance: Family Council	48
Owner Governance: Ownership Forum	49
Assessment Test 3	50

<b>CHAPTER 4</b>		
	<b>Key Characteristics of Family Enterprises</b>	<b>53</b>
	Characteristics	53
	Challenges	54
	Comparison of Family Systems and Enterprise Systems	55
	Assessment Test 4	57
<b>CHAPTER 5</b>		
	<b>Concepts in Family Enterprise Study</b>	<b>59</b>
	Systems Thinking: A Very Brief History	59
	Systems Thinking: The Individual in the System	60
	Relevant Systems Concepts: Triangles, Scapegoat(ing), Homeostasis, Boundaries	61
	Content and Process	63
	<i>Family Business Review</i> article: “Using the Process/Content Framework: Guidelines for the Content Expert”	65
	Assessment Test 5	77
<b>CHAPTER 6</b>		
	<b>Theoretical Frameworks in Family Enterprises</b>	<b>81</b>
	The Three-Circle Model	83
	The Developmental Model	87
	The Balance Point Model	88
	Assessment Test 6	89
<b>CHAPTER 7</b>		
	<b>Core Professions Working With Family Enterprises</b>	<b>93</b>
	Differing Perceptual Filters	95
	Understand the Differences Among the Core Professions	96
	Assessment Test 7	99
<b>CHAPTER 8</b>		
	<b>Multidisciplinary Professional Teams</b>	<b>101</b>
	Types of Teams	101
	Challenges Teams Face	102
	<i>Family Business Review</i> article: “The Effects of Goal Orientation and Client Feedback on the Adaptive Behaviors of Family Enterprise Advisors”	103
	Assessment Test 8	138



---

<b>CHAPTER 9</b>	
<b>Applying What You Have Learned</b>	<b>141</b>
Case 1	141
Case 2	142
Case 3	142
<b>Glossary</b>	<b>145</b>
<b>Suggested Readings From <i>Family Business Review:</i> <i>Journal of the Family Firm Institute</i></b>	<b>153</b>
<b>About the Website</b>	<b>155</b>
<b>About The Family Firm Institute, Inc.</b>	<b>157</b>
<b>About the Authors</b>	<b>159</b>
<b>Index</b>	<b>161</b>



# Acknowledgments

**T**his book, which is the result of years of research and education undertaken by The Family Firm Institute, Inc. (FFI), would not have been possible without the intellectual collaboration and steadfast support of numerous individuals. A special debt is owed to the many members of FFI who, since 2001, have contributed to the rich body of knowledge contained herein—most especially the chairs of the Body of Knowledge Committee—Fredda Herz Brown, Karen Vinton, Mark Voeller, and Frank Hoy.

With regard to this book, we particularly want to thank co-authors Judy Green and Jane Hilburt-Davis whose leadership in the field of family enterprise advising and consulting is legendary—Judy as the president of FFI and Jane as FFI chair emeritus and curriculum developer for the FFI Global Education Network (GEN).

Thanks are also due to Paul Karofsky, who supplied the work on the cases that appear here and has provided advice and input at key stages in the development of this project.

We also want to thank John Davis, Dennis Jaffe, Cary Tutelman, and Larry Hause for permission to use their intellectual models included as part of the course.

Thanks are also due to Karen Shea of Karen Shea Design for her work on the graphics.

Family Firm Institute  
Boston, Massachusetts  
October 2013



# Family Enterprise: Understanding Families in Business and Families of Wealth

It would not be an exaggeration to say that family enterprises are as ubiquitous as they are complex. Indeed, family enterprise is as old as humanity itself, at least in an anthropological sense. Members of families have been working together—and coming into conflict with one another—for millennia.

Of course things have changed considerably since the days when collaboration within families was simply oriented toward securing basic necessities. Today, under the imperatives of global supply chains, markets without borders, and economic interdependence, family enterprises have become powerful, and complex engines of a world economy. Many of the world's largest businesses, such as Wal-Mart, Samsung, and Tata, as well as hundreds of thousands of small to medium-sized enterprises, are family-owned and major drivers of economic output across the globe.

The purpose of this book is to clarify the complex nature and functioning of contemporary family enterprises for a wide variety of professionals—both inside and outside the family enterprise, providing an informative and cutting-edge multidisciplinary approach to the understanding of and advising to family enterprises worldwide. Although focused on the professionals in the family enterprise field, it is our hope that this information will also be useful for owners and members of family enterprises.

The book is divided into nine chapters, each of which presents essential knowledge and methods central to understanding classic approaches and current trends in the field.

The discussion begins with the challenges and opportunities peculiar to defining what, precisely, constitutes a family enterprise. While various definitions are explored and assessed, this book defines family enterprises as those with two or more members of a family involved in the ownership and business of the enterprise.

The second chapter focuses more explicitly on the classic systems of a family enterprise. Three systems, in particular, are emphasized, namely, the systems unique to the family, the ownership, and the enterprise.

The third chapter explores representative governance systems in family enterprise. Not surprisingly, family enterprises deploy a variety of governance systems that encompass family, ownership, and enterprise.

The fourth chapter highlights the key characteristics of family enterprise, including optimism, loyalty, competitiveness, innovativeness, legacy, and commitment, among others.

Chapter 5 explores relevant concepts in family enterprise study. Systems thinking and process and content, in particular, are elaborated in some detail and applied in the context of family enterprise.

Chapter 6 offers useful theoretical frameworks for analyzing and understanding family enterprises. Specifically, the three-circle model, the developmental model, and the balance point model are considered at some length.

Chapter 7 outlines the core professions most likely to engage in work with family enterprises, while Chapter 8 closes with a discussion of the importance of deploying a multidisciplinary team approach to address the challenges and opportunities facing family enterprises in today's globalized world.

Chapter 9 concludes the book with three actual cases in family enterprise. In this way the book affords readers the occasion to apply what has been learned by engaging the real world challenges and opportunities characteristically faced by those working with and within family enterprises.

Each chapter is designed to engage with relevant graphics, illustrations, and examples, as well as suggestions for further reading. Additionally, each chapter concludes with a brief self-assessment.

Taken in its entirety, this book provides a toolkit of multidisciplinary concepts, methods, examples, and assessments directly applicable to, and of use for, those engaged in the work of family enterprise. With family enterprises constituting between 65 to 80 percent of all businesses engaged in today's global economy, it is clear that providing such a toolkit is essential not only to the success of family enterprises and the professionals who work with them, but also to the future prosperity and well-being of the world's economy and the many individuals who are employed within it.

# **Family Enterprise**





# Defining Family Enterprise

**F**ound virtually in every sector of the world's economies, family enterprises are the most common form of business entity in the world. Yet, their ownership, management, and family composition create a complexity that requires special knowledge and skills in order to understand them and to advise them effectively.

Indeed, perhaps one of the most discussed issues in the field today is how to define a family enterprise. There is no one definition for family enterprise, but there are a few working definitions that have evolved over the years.

Family Group  
Share Capital  
Vision of the Business  
Family Firms  
Enterprise Group  
Decision-making Rights  
Owners  
Governance

**DEFINITION 1**

---

Family firms are those in which multiple members of the same family are involved as major owners or managers, either contemporaneously or over time (Miller, Le-Breton Miller, Lester, Canella, “Are Family Firms Really Superior Performers,” *Journal of Corporate Finance*, Vol. 13, Issue 5, 2007).

**DEFINITION 2**

---

Family firms are those in which the family controls the business through involvement in ownership and management positions. Family involvement in ownership (FIO) and family involvement in management (FIM) is measured as the percentage of equity held by family members and the percentage of a firm’s managers who are also family members (Sciascia and Mazzola, *Family Business Review*, Vol. 21, Issue 4, 2008).

**DEFINITION 3**

---

A family enterprise is an economic venture (enterprise group) in which two or more members of a family (family group) have an interest in ownership (owners) and a commitment to the continuation of the enterprise.

**DEFINITION 4**

---

The family business is a business governed and/or managed with the intention to shape and/or pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.

**DEFINITION 5**

---

A firm of any size is a family business if:

1. The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the