

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

ENTREPRENEURIAL MANAGEMENT – LECTURE 5

CHAPTER 5 – The Family Business

LESSON 5

The Family Business

Learning Objective 5.1 – What is a Family Business?

5-1 What Is a Family Business?

The term "family" refers to a group of individuals who are united by a shared history and a commitment to share a future together, while also promoting the growth and well-being of individual members. This concept takes into account the substantial variation in family composition. They can differ according on blood connections, generational representation, and legal status, among other factors. A family business is defined as one "in which the persons who founded or bought the firm, or their descendants, have a considerable impact on the firm's strategic decisions and life path." Family influence can be used through the firm's management and/or ownership.

5-1a Family and Business Overlap

Families and companies are fundamentally distinct entities. The major function of the family is to care for and nurture its members, whereas the company focuses on the production and distribution of commodities and/or services. And, while the family's primary objective is to generate value for family members by emphasizing collaboration, unity, and stability, the business's primary objective is to create value for customers by emphasizing competitiveness, diversity, and adaptability.

EXHIBIT

5.1 The Three-Circle Model of Family Firms



Legend:

1. Family members (not involved in business)
2. Nonfamily employees
3. Nonfamily owners (not involved in operations of the business)
4. A family member employee (not an owner)
5. A family member owner (not involved in operations of the business)
6. An employee owner (not a member of the family)
7. A family member owner and employee

FAMILY MEMBERS = Individuals in areas 1+4+5+7
EMPLOYEES = Individuals in areas 2+4+6+7
OWNERS = Individuals in areas 3+5+6+7

5-1b Advantages and Disadvantages of a Family Business

Problems with family businesses can easily blind people to the particular benefits of being a part of a family business. When recruiting relatives and nonfamily members to work in the family enterprise, the benefits of family involvement should be recognized and discussed. The strength of family bonds is one of the key benefits. Family members have a special incentive: business success is synonymous with family prosperity.

EXHIBIT

5.2 Positives and Negatives of Family Businesses	
Positives (+)	Negatives (-)
Trust among family members	Mistrust by nonfamily employees of incompetent family employees
Loyalty to the family by those within the firm	Lack of loyalty to the firm by family members not directly involved in the business
Commitment to the firm by all family	Sense of entitlement by the succeeding generation and those not working in the firm
Knowledge among extended family members	Lack of knowledge among those outside the firm
Long-range thinking by leaders of the firm	Demand for instant gratification from those who feel entitled
Close communication among family members	Failure to communicate across generations and with family not involved in the firm

Sources: Based on Priscilla M. Cale and David C. Tate, *Sink or Swim: How Lessons from the Titanic Can Save Your Family Firm* (Santa Barbara, CA: Praeger, 2011); Frank Hoy and Pramodita Sharma, *Entrepreneurial Family Firms* (Boston: Prentice Hall, 2010); and Ritch L. Sorenson, Andy Yu, Keith H. Brigham, and G. T. Lumpkin (eds.), *The Landscape of Family Business* (Cheltenham, UK: Edward Elgar, 2013).

Learning Objective 5.2 – Dynamic Family Business

The family firm's culture demands special consideration because it can work in either direction. On the plus side, it can serve as a strategic resource that fosters entrepreneurialism. This discourages succeeding leaders from thinking of themselves solely as administrators charged with carrying on the founder's practices.

5-2a The Imprint of Founders on the Family Business Culture

Founders have a profound effect on the family enterprises they establish. And the distinct values that motivate and guide an entrepreneur as he or she establishes a business may contribute to the establishment of a competitive edge for the new venture. Entrepreneurs are frequently innovators who identify unique ways to meet consumers' requirements and prioritize customer service as a guiding concept for the business. Founders frequently imprint their businesses with their personalities. They hire the initial employees and, as the firm grows, they may become acquainted with every employee and their family members.

5-2b The Commitment of Family Members

When the founder relinquishes leadership (most frequently to a new generation), the business's continuation is contingent on the next generation family members and their level of devotion to the business. According to recent research, family members join a family business for a variety of reasons, and these reasons influence the degree and type of their commitment to the business.

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

Socioemotional Wealth

One of the newest theories regarding family businesses is the finding that the commitment of family members to the firm relates to what is called socioemotional wealth. The idea is that gains and losses in nonfinancial characteristics of the relationship between the family and the business affect strategic and policy decisions regarding the company. The socioemotional involvement of family members can include the exercise of personal authority, the enjoyment of family influence, and close identification with a firm that may be carrying the family name.

Learning Objective 5.3 – Family Roles and Relationships

5-3a Co-preneurs

Certain family enterprises are jointly owned and controlled by spouses. These couples are commonly referred to as co-preneurs.

5-3b Mom or Dad, the Founder

Many entrepreneurs envision passing their business on to a son or daughter. The concept is for the business and family to flourish and prosper in tandem. Entrepreneurs with children naturally consider succession planning.

5-3c Sons and Daughters

Should sons and daughters be recruited to work in the family business or pursue vocations of their own choosing? Experts urge that children be introduced to the family business at a young age.

5-3d Sibling Cooperation, Sibling Rivalry

It is not uncommon for parents to hire more than one child as they enter the profession or make a career move. Even if they are not employed in the industry, the brothers and sisters of those who are may be more than spectators on the sidelines. They may have an interest in the business as heirs or partial owners.

5-3e In-Laws In and Out of the Business

When an in-law joins a business, efficient collaboration can be accomplished by assigning family members to various branches or responsibilities within the business. However, competition for top positions may eventually push businesses to make distinctions between their offspring and in-laws who work there. Fairness and family loyalty become more difficult to sustain as the number of family

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

employees grows. In-laws who remain on the sidelines also exert a significant amount of influence over the business and family.

5-3f The Entrepreneur's Spouse

Couples do not necessarily take on the role of co-preneurs. However, even if a spouse is not employed by the firm, he or she may play a significant role behind the scenes. Traditionally, this function has been filled by the husband and mother of the male entrepreneur's children. However, many spouses have taken on the role of the entrepreneur's spouse in recent years.

Learning Objective 5.4 – Good Governance in the Family Firm

Occasionally, family enterprises endure the stereotype of being unprofessionally managed. Nonetheless, numerous research studies have demonstrated that publicly traded family businesses outperform nonfamily organizations.

5-4a Nonfamily Employees in a Family Firm

Nonfamily members frequently learn that their chances are limited in a family enterprise. Promotions are occasionally overlooked due to the presence of family members who may have an inside track. Few parents would promote an outsider over a capable daughter or son nurtured for future leadership, which is understandable. However, this limits nonfamily employees' career opportunities, which may cause them to become irritated, feel tricked, or leave the company.

David Lansky, CEO of a family business consulting organization, proposes the following recommendations for ensuring the success of a family business retreat:

1. Be certain about the retreat's objective. Be able to respond to the following question: "What would the meeting look like if it accomplished everything you could hope for?"
2. Establish tiny, manageable goals. Consider the retreat as an opportunity to accomplish all feasible aims.
3. Establish and adhere to a schedule. Schedule the meeting for a specific time period and designate someone to take notes.
4. Allow everyone an opportunity to engage. This is a key first step toward developing trust among the participants. Individuals require a sense of being heard.
5. Distinguish between consensus and agreement. Participants do not have to agree on everything (consensus) in order to agree on a course of action (consensus).

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

5-4c Family Councils

A council meeting is not a casual gathering. It should be a formal entity that governs family members' interactions with the firm. Members of the council are often elected by extended adult family members. Regular meetings are held by the representatives, who record minutes and make recommendations to the firm's board of directors. Typically, during the first few meetings, an appropriate mission statement and family constitution are developed.

5-4d Family Business Constitutions

A family company constitution, occasionally referred to as a family creed, establishes the basis for a family's system of firm governance and may cover the following issues.

- The family's basic principles
- A decision-making process
- The benefits that family members may gain from the firm
- A technique for introducing younger family members to the family business and its governance structures
- A conflict resolution procedure

Learning Objective 5.5 – The Process of Leadership Succession

Preparing family members for jobs, leadership, and ownership within the business is a challenging and perhaps frustrating task. Professional and managerial responsibilities are inextricably linked to family emotions and interests. Developing a method that works can take years.

5-5a Available Family Talent

Businesses that endure long enough to undergo a generational transition are frequently led by brilliant, visionary CEOs. However, the leadership that made the business successful at one point may no longer be appropriate as circumstances change. As a result, a business's future success is contingent upon establishing or attracting successful leaders. If existing talent is insufficient, the owner must recruit outside leadership or complement family talent in order to avoid the business declining under the leadership of second- or third-generation family members.

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

5-5b Preparing for Succession

Typically, sons or daughters do not assume leadership of a family business at a specific point in time. Rather than that, a lengthy, drawn-out process is involved. This process can be planned and conducted consciously, or it might occur naturally as all parties age. Nobody should be surprised, in the latter circumstance, if the following generation is unprepared when a change is essential. Management and ownership transitions that are successful involve deliberate activity on the part of both the present and future leadership teams. Greg McCann, a family business educator, advocated certain measures for both generations, which are described in the following subsections.

Senior Generation Responsibilities

The following are some subjects and actions that the senior generation should consider:

1. The first is communication. Parents must listen and inquire. Communication is a powerful tool for establishing trust and communicating values. Support and feedback are critical, but not in a one-way fashion.
2. Preparation. Not only the company's vision should be communicated, but also the family's values and even a strategy for settling the senior generation's estate. Family members, employees, and owners should all be included in the planning process.

Thirdly, accountability. Seniors assume dual duties of parent and business owner. In each scenario, investments in and support for the next generation's development should be made. This includes keeping the next generation accountable for their acts, particularly those involving credibility and integrity.

4. Entrepreneurial development. To adequately train the next generation to participate in the firm's governance, the senior generation should be explicit about the work structure of an active owner-manager or board member.

5. Planning for the long term. When requesting that the next generation build long-term plans that will prepare them for leadership, the present generation of leaders must construct their own plans concurrently. These plans should consider future business expansion, board of directors and advisors, family councils, and other organizational structures.

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

Responsibilities of the Junior Generation

If future family enterprise leaders hope to ascend to executive roles, they must take an active role in their preparation by undertaking the following:

1. Maintain an open line of communication. The succeeding generation should comprehend the ideals that motivated the family enterprise's founding and success, as well as its current objective. If they believe that change is necessary, their actions should be deliberate. They should endeavor to be completely informed about the company's past and future strategy.
2. Create an action plan for yourself. At this point, prospective successors should consider if they have adequately addressed the following issues: What kind of person am I? What are my fundamental values? What are the critical areas of my personal and professional life in which I should focus my efforts?
3. Put the personal action plan into action. This entails obtaining the necessary education, training, and experience. Personal credibility and marketability should be established through actions. The junior generation should not be forced to join the family business out of a lack of options.
4. Make preparations for ownership. Future leaders must acquire fundamental management abilities, such as the capacity to interpret financial figures and supervise personnel successfully. They must understand the board of directors' responsibility in respect to the management team of the company. Additionally, they must comprehend the nexus between business and family.
5. Create a life plan. Individual and company life planning are necessary. What should the CEO's résumé look like after five or ten years? A critical obligation for members of the junior generation is to remember that they are not entitled to leadership positions. These positions must be earned.

5-5c Transfer of Ownership

The succession process for a thriving family business eventually necessitates ownership transfer. Questions of succession influence not just the successor to the leadership position, but also other family members who are not involved in the firm. When it comes to estate distribution, most parent-owners want to treat all of their children equitably, both those participating in the firm and those who are not.

Entrepreneurial Management

Chapter 5

The Family Business

Lecturer: Michaella DeLeon Castillo, DBA

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ONLINE SOURCES

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Entrepreneurial Management
Chapter 5
The Family Business
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Progress Check:

Requirements:

1. Due Date : _____
2. Essay format, minimum of 20 words and maximum of 100 words.
3. Format



4. Rubrics (40 points)

Criteria	Below Expectations	Proficient	Exemplary
Reasoning and Analysis	Weak reasons and/or irrelevant or confusing reasons given that don't support the answers; incomplete answers.	Reasons support answers with some / an important reason(s) overlooked; general examination and assessment.	Clear and accurate answers; insightful, specific.
Focus on Topic	Some of the documentation relates to the assigned topic; misuses or uses limited course vocabulary.	The answers are not as detailed and/or concise as needed; and/ or use limited course vocabulary.	Answers address the questions clearly and fully, showing higher level analysis and synthesis of concepts and uses course vocabulary.
Accuracy of Facts and Citations	No direct quotes or "work consulted" used or referred to in the paper. Incorrect facts and / or citations.	All facts are accurate and relate back to the answer, yet there was a disproportionate amount of opinion based statements then facts. Provided 2-5 citations throughout paper using the text, interview and or other related documentation.	All facts are accurate and relate back to the answer. Provided 2-5 citations throughout paper using the text, interview and or other related documentation.

Entrepreneurial Management

Chapter 5

The Family Business

Lecturer: Michaella DeLeon Castillo, DBA

APA	No works cited.	Works cited is not formatted in the correct APA style.	Works cited is formatted in the correct APA style.
Mechanics/ Organization	Numerous errors, paper hard to read; questions are not stated before answers; format details are not adhered to.	Enough errors to distract the reader; organization problems; questions not stated before answers; and / or format difficult to navigate.	Use of correct grammar, spelling, and punctuation; well organized; one idea follows another in a logical sequence with clear transitions; questions stated before answers; format easy to navigate.
Timeliness	On time	late	No points

Questions

1. Define the terms family and family business.
2. Explain the forces that can keep a family business moving forward.
3. Describe the process of managerial succession in a family business

Answers

1. The word family refers to a group of people bound by a shared history and a commitment to share a future together while supporting the development and wellbeing of individual members.
 - A majority of businesses in the United States and other countries with free-market economies fit some definition of family ownership.
 - A family business is an organization in which either the individuals who established or acquired the firm or their descendants significantly influence the strategic decisions and life course of the firm.
 - A family business can be described as an owner-managed business, a sibling partnership, or a cousin consortium.
2.
 - The organizational culture of a family business is composed of the patterns of behaviors and beliefs that characterize a particular firm.
 - The founder often leaves a deep imprint on the culture of a family firm.

Entrepreneurial Management

Chapter 5

The Family Business

Lecturer: Michaella DeLeon Castillo, DBA

- The long-term survival of the business is dependent on the commitment of family members. They may be committed to the family business for different reasons, and these reasons will likely determine the nature and strength of that commitment.
- 3.** Couples known as co-preneurs join in owning and managing a business together, which can strengthen or weaken their relationship.
- A primary and sensitive relationship exists between a founder and her or his son or daughter. Some children decide to work outside the company to gain experience before joining the family business.
 - Siblings and other relatives may similarly strengthen or weaken their working and personal relationships through a family business.
 - In-laws play a crucial role in the family business, either as direct participants or as sideline observers.
 - The role of the founder's spouse is especially important, as he or she often serves as a mediator in family disputes and helps prepare the children for possible careers in the family business.

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

Assignment

1. Launching of on Selling Activity
2. Everyday post your products
3. Duration April 1 to May 15, 2021 before 5pm
4. Create a excel file for your recording
5. Please see attached rubrics

Criteria	Weight	1 2points	2 5points	3 8points	4 10points	Score
1. Introduction Strong and engaging online page; draws the audience into presentation						
2. Preparedness/Organization Thoroughly prepared, well- organized, logical sequence of information that the listener could easily follow.						
3. Knowledge <ul style="list-style-type: none"> • Clear, thorough description of product or service. • Communicates benefits and/or how product/services solves a problem 						
4. Visual Aids/Materials <ul style="list-style-type: none"> • Correct spelling and grammar used on all handouts used to support the pitch (if applicable) 						
5. Teamwork Members had a contributory role in the online selling						
6. Content The fb page was presented clearly to the target customers						
7. Transaction Showed proof of purchase (pictures, receipts etc.)						

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

Sample Record Data

Category	Quantity	Amount	Date	Remarks

Quiz 5

Identification

1. Of all the relationships in a family business, the _____ relationship has been recognized for generations as the most troublesome.
2. The _____ involvement of family members can include the exercise of personal authority, the enjoyment of family influence, and close identification with a firm that may be carrying the family name.
3. A family business constitution, sometimes called a _____, provides the framework for a family's system of governance of the firm.
4. Companies that survive long enough to face a generational transition generally have talented, _____ leadership.
5. _____ who are on the sidelines also have considerable influence on the business and the family.
6. In the family business, a mentor and _____ have the opportunity to navigate and explore family as well as business-related roles and responsibilities.
7. _____ is a long-term process starting early in the successor's life.
8. _____ can be used to build trust and to convey values.
9. FIBER means Family control, _____ of the firm, Binding social ties, Emotional attachment and Renewal of family bonds through dynastic succession.
10. Parents can make a conscious effort to teach their children that a successful enterprise demands hard work and is not just an _____.

Entrepreneurial Management
Chapter 5
The Family Business
Lecturer: Michaella DeLeon Castillo, DBA

Answer

1. Parent-child
2. Socioemotional
3. Family Creed
4. Visionary
5. In-Laws
6. Protegee
7. Successions
8. Communicating
9. Identification
10. Inheritances