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Problems and Opportunities of the Relationships between the First and Second Generation of Self-Managing Family Businesses

ABSTRACT

Purpose – The purpose of this research is to investigate how relationships have assisted and facilitated the succession process of family businesses in Greece.

Design/methodology/approach – Primary data of a non-probability sample using respondents suitable for the research with the use of a structured questionnaire were collected. Data were collected from a database of Greek independent private family companies (n=380) using personal interviews by the owners/managers of the first and second generations of a family business.

Findings – The results indicate that family relationships tend to be positive. Determinants of relationships such as trust and co-operation appear to have a significant impact on the succession of the second generation.

Research limitations/implications – The findings also provide feedback for further research. There is a need for more work to address the complexities of family business operations. Future research should examine family and non-family members in order to gain a broader understanding of the family business.

Practical implications – A major contribution of this research has been the provision of the general sets of variables thought to influence the relationships of family business.

Originality/value – This paper presents innovative findings about highly relevant, family business relationship determinants for a thriving succession.

Key words: Family Business, Succession, Relationships

INTRODUCTION

Family businesses make a major contribution to economic activity and employment in market economies. It is axiomatic that the majority of these firms remains privately owned and, often, family controlled. The family business sector is estimated to account for about 60–75% of all businesses. More analytically, in the USA, family businesses represent up to 90% of the 15 million businesses and 175 of the Fortune 500 list. Family businesses represent 80–90% of businesses in South America and 60–70% in North America. It is estimated that 80% of all the businesses in Canada, 70–80% in Europe and 70% in Australia are owned and operated by families.

It is also estimated that during 2005, a great percentage of the businesses mentioned above would have ceased to operate due to the death or retirement of the owner. Only 40% of family businesses survive to the second generation, 12% to the third and 3% to the fourth.

Family businesses are not constrained to small- or medium-sized businesses that only operate regionally, but also include large corporations that operate on a national or global scale. According to Wang (2002), citing the European Group of Owner-Managed and Family Enterprises (GEEF) there are 17 million owner-managed and/or family enterprises in the fields of manufacturing, commerce and services in Europe. European family businesses employ more than 100 million people (almost 80 % of employment in Europe).

In addition, Wang (2002) highlights the fact that in many EU member-states approximately 25 % of the 100 largest enterprises are owner-managed and family businesses. He also states that the future wealth of the European economy depends, to a large degree, on this entrepreneurial sector, and in the future society will require significant contributions from owner-managed and family businesses in social and economic developments. Family businesses form the backbone of the European economy and the dynamism of the economy largely depends on the performance of family businesses in the future (Wang, 2002).

Family businesses comprise a significant part of the Greek economy, yet comparatively little Greek research has been done to verify the relationships between family business members and identify their needs, aspirations and challenges (Wang, 2002).

According to recent research conducted by Grant Thornton, an international audit control company, 80% of business owners in Greece consider their business to be of family type. Greece has, proportionally, the largest number of small businesses than any other EU member-state. Most of them are small family businesses that operate in traditional sectors such as tourism and agriculture. A developing high-technology sector also exists, but its epicentre remains the informatics area, which mainly targets local markets. Owing to the history and resources of Greece, there are also many powerful family businesses in the maritime and constructional sector. However, they are generally lacking organization despite the potential that innovation and the spread of technology offers. It is worthy adding that even though their significance with regard to the economy is very important, their problems remain complex.

Only three out of ten family businesses are passed from the first to second generation, while only one in ten achieves the transition to the third. Therefore, the average running time of an operation is 24 years, 'which is virtually the time that their owner operates the company'.

A widely cited statistic suggests that 30% of these firms survive into the second generation of family ownership, while merely 15% survive into the third generation (Ward, 1987). However, while much has been written on the need for succession, estate planning and properly instructed heirs, little empirical evidence has been produced regarding the factors that result in successful transitions.

The difficulty in researching family businesses is heightened because family businesses take many forms, ranging from sole traders to private companies. Family businesses range in size from small and medium to large in terms of employees and turnover. Family business owners define family business by the degree of family ownership, family management or family involvement (Bjuggren and Sand, 2001, Wang et al., 2002).

The aim of the present research is to assess more comprehensively the relationships between members of first- and second-generation family businesses and to underline the determinants which assist and facilitate the successful succession process in family firms. Another purpose is to examine the mentality of the first-generation owner of family firms, and to identify the criteria that lead to a family member undertaking the management of the business. Finally, the challenges that second-generation businesses face are analysed.

LITERATURE REVIEW

Family firms are defined as family-controlled (ownership) or family-managed firms. Simply defined, a family business is any venture in which the majority of the ownership or management control lies within a family, and in which two or more family members are directly involved. It is also a complex, dual system that consists of a family and a business; family members that are involved in the business are part of a market-based task system, the business, and the emotional state of affairs, the family (Sharma et al., 1996; Chrisman et al., 1998).

Handler (1991) identifies four dimensions, used by authors in the family business literature that define the family firm: degree of ownership and management by family members, interdependent sub-systems, generational transfer and multiple conditions. Although there is no consensus as to what uniquely defines a family business, there seems to be general agreement that the dimensions to be considered are the first three. Some authors only use one of the aforementioned dimensions in order to define a family business, although their writings do recognize the importance of the others. Donckels and Frohlick (1991) define the family business as: "one where in the "‖controlling ownership is rested in the hands of an individual or the members of a single family"|. Miller (1998) has defined a family business as one in which both ownership and policy making are dominated by members of an 'emotional kinship group' definition is very difficult to operationalize.

Based on the presentation of Handler's four dimensions, some dimensions are treated as variables for the definition of the unit of analysis presented in this paper, most notably ownership structure and family size. For the purpose of this study, the family business is defined as: a proprietorship, partnership, corporation or any form of business association, which is classified as an SME and where the majority of ownership is held by the family and family members are employed in the family business (McConaughy, 1999).

Management succession planning in family business

According to recent research conducted by Grant Thornton, an international audit control company, 80% of businesses in Greece take the form of a family business. Even though there is no specific definition of a family business (according to the stocking, legal and administrative control), in most family businesses the definition of the total control of the company on behalf of the owner's family members is ingrained. It seems that often family businesses owners prefer less profit than having a new 'non-family member' as a shareholder. The above constitutes a serious disadvantage of family businesses as it renders them as introvert and non-flexible.

Nevertheless, statistical figures produced by various researchers agree that family businesses are generally more vigorous. This success is possibly due to the fact that the employees of these businesses have a dual role (both employee and employer) and are highly motivated while managing their business.

Unfortunately, the life cycle of family-operated organizations lasts only between 24 and 30 years, as only 10% of them pass to the third generation.

In reality, family businesses display characteristics that directly contributes to the difficulty of transferring management to the next generation (Dumas,1992).

The philosophy of a family business has been characterized as exactly opposite to the techniques of effective management according to McConaughy (1999). Reasons such as favouritism, behavioural matters of administration, such as succession issues that are influenced by the emotional and family ties, are important. This is the most important and difficult issue that concerns every business and is considered to be the easiest and fastest way to failure. The successors should be identified, trained and placed in their position before the departure of the current owners.

In recent research, McKinsey, a multinational management consulting firm, together with the London School of Economics have studied the quality of management by successors in family businesses, by analysing more than 700 medium-sized construction businesses in France, Germany, the UK and the USA. It was found that 36% of the businesses that were managed by people other than from the family environment received a higher score for their management quality (by 12 points). Therefore, a possible explanation for the above could be that family ownership combined with professional management could prove vital in the success of businesses. This could be due to the fact that family ownership allows managers to reach a decision by taking into account the business's future and and be burdened with less pressure in their efforts to achieve greater yields.

The difficulty in succeeding the founder of the family business often represents a hard to solve problem and is an issue that family businesses frequently face. However, while many family business founders have been charismatic in their managerial decisions, they have not prepared a succession plan and as a result confusion surrounds the business after their departure (for many reasons). Some time is required to train the next generation and the best way of contributing to a smooth transition in a family business is to prepare a five-year plan.

The preparation should also be made based on a plan that will take into account the financial and managerial issues and, therefore, profit and success, in general, is likely to be more possible. Furthermore, the founders of these businesses often tend to choose their successors based on emotional reasons (kinship) and not on meritocratic ones, resulting in problems that are not properly solved. In the case where the founder's departure takes place gradually over time, there is still an involvement in the company's decisions.

McConaughy (1999) suggested that the next generation could only earn a company position through education and experience. Moreover, Tashakori (1985) stated that the third generation should have the intellectual capability, education and experience to make the best decisions for the business (Morris and Williams, 1996). Working in a different industry might provide a broader perspective and give the person a sense of worth when coming to join the business. Although outside experience is a good way to train the successor, sometimes it might not fit with the core competence of the family business. It is difficult to have both inside and outside training in small- to medium-sized businesses, because everyone is usually responsible for all the tasks in the business. Therefore, the successor's outside and inside experience is not readily applicable to small- to medium-sized family businesses.

The succession planning in a family business is often painful and emotionally charged as it signals the end of an era and the beginning of a new one; however, it is the sole method to secures the business's prosperity and longevity.

Underlying relationship determinants

Research in the form of systematic attempts to reveal the underlying relationship determinants associated with effective succession among first and second generation tends to be scarce. Nonetheless, a number of factors have been identified. A review of the literature is concerned with personal relationships within the family and between family and non-family employees of the firm. The principal issue here concerns trust and communication among family members (e.g. Ward and Aronoff, 1990; Sharma et al., 1996). The potentially dysfunctional outcomes of sibling rivalries and/or failure to accommodate one another have also been highlighted (e.g. Handler, 1991; Davis and Harveston,1998). The refusal of the owner of the family business to let go, or to share power in incrementally increasing degrees, as well as his/her resentment of successors are related topics receiving the focus of attention (e.g. Handler, 1991). The importance of shared values, agreement regarding what is equitable, and common traditions across family generations is also emphasized (e.g. Dyer, 1994; Ward 1987; Chrisman et al., 1998).

Other research has concentrated on the help of relationships among members in order to facilitate the succession process to the extent of which the second generation have the requisite business skills, managerial capabilities, knowledge of company operations and attitudinal disposition to handle the running of the business (Westhead and Cowling, 1995; Miller,1998; Alcorn, 1982).

Specific variables receiving attention include the second generation's formal level of education and training, years of work experience in the firm and in other firms (within and outside the same industry as the family firm), entry-level position, number of different positions held (e.g. at different levels and in different functional areas within the firm), years employed by the firm and motivation for joining the firm.

Based on the above, the current study has made an attempt to determine how family firms are actually managing the relationships between the first and second generation using some of the variables that have been identified.

Research Methodology

A research questionnaire was specifically developed to collect information among the first- and second-generation owners about their relationships, problems and concerns in running the family business. The questionnaire was based on a review on management succession from Morris and Williams (1996) with a view to extract insights into successful relationships in family businesses. Drawing on the literature study above, the survey was devised with the following questions in mind:

1. Which factors in particular affect the relationships between family members in order to facilitate the succession of the second generation?
2. What is the preparation level of the second generation and what does the first-generation owner require to ensure the development of the family business?
3. Which are the business challenges faced by the second generation?

The questionnaire was divided into four sections (Sections A, B, C and D), each with its own subsections. Section A, titled 'family business constraints from the second generation perspective', asked the respondents to state the barriers to entering the family business. Section B, titled 'the preparation of second generation to undertake the management of family business' concerned the determinants of the successful transition. Section C, titled 'family business relationships', asked questions that were formulated to define the characteristics of relationships between family members of the first and second generation. This section focused on determining how teams operate within the business. The respondents were asked 16 questions, investigating first, how the family business deals with information and communication within the business. Finally, Section D, titled 'business challenges', asked questions relating to the strategic issues of the business. The questions in this section and each subsequent section were posed using the Likert scale. For more accuracy, each scale included five items: 5=strongly agree, 4=agree, 3=neutral, 2=disagree, 1=strongly disagree. The questions in Section C included five items: 5= very well prepared , 4=prepared, 3=neutral, 2=little prepared, 1=not at all prepared.

To get answers to these questions, an interview based on a pilot questionnaire was conducted and handed out in five retailing companies in Greece. The respondents were the first-generation owners. Since the start of this research in February 2007, the sample size has reached 550 family businesses, from a list provided by the Industrial and Commercial Chamber in Piraeus.

The database, which was created specifically for this survey included owner-members of family businesses. The questionnaire was distributed by personal interviews. The survey team researched family businesses that had existed for at least 20 years who had at least two officers or directors with the same last name. There were 380 companies that participated in the survey and the overall response rate was 47.5%.

These questionnaires included, as usual, a first-page covering letter explaining the purpose of the project and advising the participants that the survey had been endorsed. Data are reported in the form of percentage counts or means. For some items cross-tabulations by the turnover of the business are reported.

Family business demographic characteristics

The sample company's main characteristics can be summarized as follows:

Age distribution: The majority of family companies (41, 67%) are in excess of 17 years old and the remainder (26, 67%) have been established since 1980.

Turnover distribution: About 43.2% of the family companies have an annual turnover up to 100,000 euros, while the turnover of 32.4% per cent is up to 500,000 euros; only 8.2% surpass 1,000,000 euros.

Business type: It appears that family companies are more prolific in retail trade (41.6%) and services (26.3%) and construction activities (9.7%) and less prolific in wholesale trade (8.2%).

Legal form: Unlimited general companies (41.66%), Sole Corporation (45%), anonymous company (1%) and limited liability company (16%).

Business transfers: Only 32.4% of the family companies have a second-generation perspective and have been through ownership change.

Average percentage of sales from each market: Going global the respondents (24.87%) say that they generate international sales. It is not surprising that respondents view domestic competition as their most significant challenge to the growth and survival of their business (79.16%). The rest of the family business activities are focused on the domestic market (36.53%).

Financial resources: Financial resources used by family businesses reflect a conservative borrowing profile.

Data analysis

Family business challenges

Family business owners were asked to rate the importance of family and business issues and challenges faced in the running of the business. Analysis of the responses (Table 1) revealed a number of underlying issues: family business direction and transition success, such as growing profitability, the succession planning, international activities and other management issues. It should also be noted the dynamic of operation management is a key factor in order to run a family business.

Table 1: Family business challenges

	Mean	Std. Deviation	Very semantic
Growing profitability	4,55	0,66	61%
Future directions	4,52	0,70	62,0%
Family succession	4,22	0,88	45,8%
Establishing professional business management	4,16	0,81	25,9%
Balancing different interests between members	3,93	0,83	25,8%
Managing family relationships	3,86	0,95	27,0%
International activities	3,05	1,35	17,6%
Aquisition/merger of business	2,65	1,35	11,6%

The most important concerns to family business owners are: growing profitability, future directions, planning succession, balancing different interests and establishing professional business management. Overall, the least important are selling the business and international growth. However, a comparison of the importance of these themes to size related to turnover reveals some differences in their importance (Table 2). These differences are described and discussed for each theme. The themes are discussed in descending order of overall importance in the following text.

Table 2: Family and business issues according to turnover

	Business Turnover					
	Overall Mean	**Up to 100.000 €**	**100.000 up to 500.000 €**	**500.000 up to 1,000.000 €**	**1,000.000 up to 1,500.000 €**	**More than 1,500.000 €**
Growing profitability	4,56	4,51	4,61	4,45	4,89	4,68
Balancing different interests	3,90	3,90	3,90	3,90	4,22	3,84
Future directions	4,51	4,36	4,59	4,68	4,78	4,79
Family succession	4,22	4,08	4,30	4,48	4,56	4,37
Establishing professional business management	4,15	4,10	4,18	4,19	4,22	4,32
Selling the business	2,64	2,66	2,53	2,77	3,00	2,83
Managing family relationships	3,85	3,74	3,84	4,06	4,33	4,26
International growth	3,05	2,87	2,99	3,60	3,78	3,68

Items that formed these themes were rated on a five-point scale: 1=not at all important and 5=very important

Growing profitability

Regardless of the business, this was the most important concern for all family business managers. This issue includes concerns about profit and sales growth and the need for planning.

Future directions

This issue was generally the second most important one for respondents, in finding a direction for the business and the challenge of moving into new markets. It was particularly important to larger-sized businesses.

Family succession

Family businesses (32.4%) differed in the importance they placed on this issue based on their size and the year of establishment. Notably, the smallest firms differ from larger firms in that they are the least concerned about issues of selecting, preparing and training the second generation. Also, 67.6% stated that there is no such perspective for the second generation.

Balancing different interests

It includes items that have to do with the need to balance the interests of the family and the business, deal with family issues and resolve conflicts between family members.

Promoting the business

This issue includes the need to find a buyer and make a financial evaluation of the business. Not surprisingly, it is important for the smaller firms.

International activities

This was the least important issue overall, consistent with the fact that only 24.8% of the businesses surveyed reported sales from international markets.

Establishing professional business management

This issue includes concerns such as the need to include non-family members in reaching strategic decisions. There are notable differences in the importance of this issue by business turnover. There is a positive correlation between business turnover and the importance of the issue. That is, the larger the firm the more important the need to establish professional business management.

Succession planning

The findings for the preparation levels of the second generation are summarized in Appendix Table 1. As can be seen, the respondents' level of education tends to be closely related to the family business. A percentage of 36.3 had relatively few years of experience outside the family business, while 28.2% had more than five years experience. The relation of outside experience to the family business was related, 29.7%, and not related 22.9%. They had worked full-time in the family firm for an average of five years prior to assuming operational control. Most of them were encouraged by the preceding generation to enter into the business, but ultimately joined because of their own desire to participate.

Motivation of second generation in joining family business

The primary motivation of the second generation in joining the family business was a 'personalized satisfaction' (Table 3) in becoming a member of the family business and 'career opportunity' followed by their obligation to develop the family business. Their previous outside experience related to a family business which constituted a strong motive in preparing them to entry their own family business. Also the second generation is oriented to family business requirements and felt prepared enough to take over when they did, since their lifestyle matched the first generation's lifestyle.

Table 3: Motivation of second generation

Variables	Mean	Std. Deviation
Personalized satisfaction	3,94	0,94
Career opportunity	3,88	0,94
Obligation to family business	3,81	0,94
Family business orientation	3,68	0,93
Experience	3,62	1,08
Preparation level of second generation when taking over the management of the family business	3,58	0,91
Lifestyle	2,91	1,02

When these motives are implemented, they help the second generation to be more effective when they take over the management of the family business.

Family business barriers s from the perspective of second generation

As far as business barriers are concerned the results showed a gap among the first and second generations arising from the existence of communication problems between members and different expectations of business between the two generations (Table 4). The more the gap increases the more it will create impediments to the development and continuation of the family business.

In addition, the second generation appears to lack proper training and has inadequate experience in a particular industry, as well as a lack of interest in running the family business. Also, the working style of the first generation is different from the second. It is apparent that the first generation did not receive a great deal of attention, a fact that affects the structure and review of such plans, which the second generation should adopt in their transition to the family business.

Table 4: Family business problems

Variables	Mean	Std. Deviation
Father's working style different from son	3,66	0,99
Father's expectations in business different from son's	3,15	1,09
Communication problem between members	2,55	0,99
Inadequate experience in the industry	2,37	1,05
Lack of proper training in running the family business	2,32	0,96
Lack of interest in running the family business	2,16	0,98

Internal environment opportunities

The second generation should take into consideration some important factors in creating the premises to be implemented. With regard to relationships among family members, the findings have identified a number of factors (Table 5). The more these relationships were characterized by trust (4.47), co-operation (4.34), loyalty (4.35), communication (4.19) and team working (4.19), the easier the relationships to maintain and the easier the transition from the first to the second generation proved to be.

Table 5: Internal environment opportunities

	Mean	**Std. Deviation**
I felt myself to be a valuable member of the organization	4,53	0,59
Family members trusted one another	4,47	0,73
I felt pride being part of the family firm	4,35	0,76
Family members were co-operative with one another	4,34	0,67
Family members treated each other with significance	4,19	0,71
Family members work together as a team	4,12	0,79
I was not willing to put myself out for the firm.	3,50	1,29

The above findings underlie the determinants for successful relationships among family members and represent the criteria for the second generation in undertaking the company's management. Consequently, the main characteristic of family businesses, in relation to other businesses, is the preservation of satisfactory relationships among members in order to survive in the long run.

Here the results confirm how close family members were to each other.

Internal environment problems

The first generation should work to minimize the internal problems that the second generation may face in the long term.

There was, however, a degree of conflict among particular individuals, as illustrated in Table 6. Many of them considered leaving at times, and relationships among family members were impersonal, lacking in respect and tended to be based on resentment. The results showed that most respondents reported levels of discomfort, difficulty and frustration.

Table 6: Internal environment problems

	Mean	**St.Deviation**
There was very little bickering among family members	3,04	Internal environment problems 1,20
There were tensions among members which impeded the business's activities	2,98	1,13
It was easy to express positive, but no negative feelings expressed	2,74	1,05
I felt little loyalty to the family business	2,39	1,38
I felt like leaving the firm for good at times	2,28	1,19
My involvement with the family business hurt my relationships with certain family members	2,05	1,05
Other family members were resentful of my position in the firm	1,87	0,91
Certain family members had no respect for the other members	1,81	0,88
Relationships among family members tended to be impersonal	1,75	0,77

Conclusions and implications

It was found that a challenge of the second-generation owner – as they approach the management succession in a Greek family business – is the need to create a new infrastructure in their efforts to develop their own business initiatives.

Analytically, the challenges facing family businesses were found to fit into eight main categories. The three most important challenges to all family businesses were those of growing profitably, future directions and family succession. However, the importance of some categories varied depending on the size of the business. There was a positive relationship between the size of the business and the importance of challenges such as establishing professional management and international growth.

The results suggest that the second generation tends to be reasonably well prepared, both in terms of their educational background and experience. They tend to start at the bottom of the company and spend a number of years serving in a variety of capacities throughout the organization.

Overall, it would appear that all three of the general sets of variables thought to influence the nature of family business transitions did, in fact, have a significant impact.

This study primarily deals with the fact that relationships within a family tend to be positive. Emphasis should be placed on relationships in the succession process formula. It appears that one's first priorities should be given to the human element, the complex relationships that dynamically unfold, in order to build trust, encouraging open communication among the family members themselves. Thus, greater attention and communication is needed for mediations aiming to establish and retain family coherence. Levels of trust and expressions of positive feelings as part of family business are in evidence although limited levels of bickering and strain among members are identified. It was also found that succession activities tend to be relatively scarce. Transitions occur more smoothly when heirs are better prepared, where relationships among family members are more trust based and affable, and where family businesses engage in a more succession-related planning. Of these three, the nature of family relationships has the greatest connection, at least in terms of the number of relationships identified. Education related to the family business and previous experience in taking control are positive elements for the second generation, as well as the first generation's encouragement in joining the business. It was also found that psychological motives 'personalized satisfaction', to be a member of the family business and ‘career opportunity’, followed by their obligation to develop the family business were safety valves in making the transition. The fact that formal succession plans are not prepared does not necessarily mean that there is an absence of planning. It may be that ‘plans’ exist but are unstructured. Formalization may be thought to undermine family relationships or undercut motivation. In addition, the nuances of such plans may have mostly resided in the mind of the predecessors, with many details never shared with the successor

A number of limitations should be kept in mind when interpreting these results. Firms that had successfully made the transition are not represented.

The findings also provide direction for further research. There is a need for more empirical work to address the complexities of family business operations. Certain levels of difficulty may, in fact, serve a positive purpose. Insights are also needed into possible interrelationships among the relationship factors thought to influence the succession process.

Managerial Implications

The research provides the opportunity of specialized information for the owners of family businesses. As a tool it supplies a comparative standard with other family businesses since it concerns the procedures followed by owners regarding the business’s future ownership succession.

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Appendix

Table 1: Preparation levels of second generation

Variables	**%**
Relation to outside experience to family business	**Not related** 22,9 %, **Somewhat** 12,6 %, **Related** 29,7, **Closely related** 17,9 %
Years outside experience	**None** 34,7% ,,**1-5 years** 36,6%, **< 5 years** 28,2%
Years in family business prior to taking control	**<1** 43,2%, **1-5** 30% **6-10** 13,2% **11-15** 9,4%
Relation of education to family business	**Not related** 21,3%, **Somewhat related** 12,4%, **Related** 12,4, **Closely related** 24,5%
Preparation level of second generation at taking over the management of family business	**Not at all prepared** 2,1%, **Somewhat prepared** 8,5%, **Neutral** 33,1% , **Well prepared** 42,3%, **Very well prepared** 14,1%
Preceding generations encouraged in joining the business	**Strongly discouraged** 3,5%, **Neutral** 31,3%, **Encouraged** 39,7 %, **Strongly encouraged** 23,1%