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Family and Business are Important Parts in Every Family Enterprise

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Abstract

An important part of any economy is family-owned enterprises, especially in developed countries, which have a long tradition of entrepreneurship and private ownership. A family business is a combination of two different terms - family and business. On the one hand, a family is a group of people in which a person is born, grows up, who also cares for and protects him until the moment he creates his own family, in which the same cycle repeats itself over and over again. The enterprise, on the other hand, is also a group of people, but it is bound by the interest of pursuing a profit-making activity that ensures the employees' daily existence, and the owners of these companies achieve their ultimate goal, which is to maximize personal wealth. The aim of this paper is focusing the attention of future entrepreneurs on some of the most important components of any successful family business.

Key words: Family; Business; Leadership; Entrepreneurship; Economy

Introduction

Today's financial markets are characterized by the proliferation of financial conglomerates and complex financial groups and by the blurring of the frontiers between the types of business that financial firms undertake, thus rendering institutional classifications less meaningful [1]. Supervision has traditionally been organized by institution, irrespective of the business function or range of functions that the institution undertakes. Inter-industry affiliation and inter-industry competition in the financial sector have suggested the need for enhanced consolidated supervision and increased reliance on regulation by business function rather than by institution. Under a system of supervision by business function, supervisors focus on the type of business undertaken, regardless of which institutions are involved in that particular business. Not with standing this functional–institutional boundary problem, whether we need to circumscribe government protection to a specified set of regulated institutions remains an issue of great importance. If regulation is to differ in intensity between the systemically important and those less so, then there is a need for (legal) clarity as to which falls into each camp. But the systemic importance of any financial intermediary may vary depending on circumstances.

Basics

Participation refers to the nature of the involvement of family members in the enterprise-as part of the management team, as board members, as shareholders, or as supportive members of the family foundation [2]. Ownership control refers to the rights and responsibilities family members derive from significant ownership of voting shares and the governance of the agency relationship. Strategic preferences refers to the risk preferences and strategic direction family members set for the enterprise through their participation in top management, consulting, the board of directors, shareholder meetings, or even family councils. Culture is the collection of values, defined by behaviors that become embedded in an enterprise as a result of the leadership provided by family members, past and present. Family unity and the nature of the relationship between the family and the business also define this culture.

Vision

Without vision and leadership from members of two generations and the use of select family, management, and governance practices, the future is bleak for family-controlled enterprises [2]. The blurring of boundaries among family membership, family management, and family ownership subjects family businesses to the potential for confusion, slow decision making, or even corporate paralysis. An inability to adapt to changes in the competitive market place or powerlessness to govern the relationship between the family and the business will ultimately undermine the enterprise. As a result, a family business that lacks multi generational leadership and vision can hardly be positioned to retain the competitive advantages that made it successful in a previous, often more entrepreneurial, generation.

It takes ongoing dialogue across generations of owner-managers about their vision for the company to build a family business so that it continues. Family businesses that have been built to last recognize the tension between preserving and protecting the core of what has made the business successful on the one hand and promoting growth and adaptation to changing competitive dynamics on the other. Family businesses that are confident that each generation will responsibly bring a different but complementary vision to the business have a foundation on which to build continuity.

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Leadership can be defined as the process of influencing the activities of an organized group in its efforts towards goal setting and goal achievement [3]. In family businesses leadership concerns two areas to which every leader addresses its forces: family and firm. How the family business leaders behave is the outcome of the forces exerted by these two areas, both of positive value. Moreover, considering that, in family firms, leadership is more transformational than it is in non-family firms, we can assume that many of the features traditionally assigned to family firms may be the consequence of a similar action and behaviour linked to the idea of transformational leadership that family firm leaders exert. Many of these features, that have been considered strong points by the literature on family firms, are of a cultural nature, and transformational leaders generally have an important part in creating and developing the set of values and all the other elements that describe the culture itself. Besides this, leadership in family business remains transformational regardless of the family generation which runs it.

The family business vision statement is the family and its stakeholders' shared agreement on a desired future state, as defined by their values [4]. The family's vision expresses a shared commitment to the business and family's future success. It is what they want to become by working together. The vision statement is anchored in the future, usually five to ten or more years ahead, and includes a vivid description of the positive outcomes expected. Visions call for action and are inclusive so that they invite commitment from the entire organization.

HR

HR (Human Resources) can and should be a strategic partner within the firm, rather than just a transaction-focused administrative function [5]. Despite the potential value of HR, too many firms fail to use this function strategically, relegating it to an administrative and/or policing role, with a focus on the nuts and bolts of the employee experience or the perfunctory enforcement of routine policies. As such, HR becomes more like a metaphorical finger-wagging librarian than a trusted, value-generating partner. These firms are missing out on potentially larger opportunities for creating value on multiple dimensions or at the very least for involving HR when dealing with complex employee-related and cultural issues. There is mounting evidence for the strategic value of HR—both the people and the systems/ processes involved. One piece is the rise of the CHRO, or chief human resources officer.

Employment

Families that appreciate the utility of family meetings are, sooner or later, candidates for policies spelling out family participation, particularly the form of participation closest to the heart of a family-controlled business-company employment [2]. By the time a family company is in its second or third generation, the number of potential family candidates can be overwhelming to employment based on merit.

Family employment policies, including promotion practices, need to be written down and communicated to create greater clarity, transparency and asense affair play. Employment policies speak loudly to the principle of equal opportunity. Whereas the importance of these policies to family members is obvious, family employment and promotion practices are also of great concern to nonfamily managers seeking employment in family-owned and family-controlled companies. Second, third and fourth-generation family firms need highly capable nonfamily managers, who are critical to successfully running and governing a family business. Communicating anything less than equality in career opportunities to potential and current key nonfamily managers will result in losing them to more meritocratic employers.

Shareholders

Cash flow or earnings before interest, taxes, depreciation and amortization (EBITDA), net earnings, earnings growth rates, and debt/equity and debt/asset ratios are therefore important elements of the financial scorecard of a family enterprise [2]. Managers, on the other hand, tend to be more concerned with market share, competitors, growth and their own compensation and career opportunities. Their scorecards often reflect this bias by focusing more on revenues, sales growth, and market-share numbers, sometimes to the detriment of profitability and healthy profit margins. But it is profit that drives both shareholder value creation and the possibility of other shareholder returns, like dividends.

Family shareholders expecting to fulfill their responsibility of aligning management interests with shareholder priorities and holding management accountable need a thorough understanding of financial statements. They need to be able to make sense of what the numbers say about the firm and its competitiveness. Financial literacy is, therefore, essential knowledge for every shareholder, not just the ones active in the management of the company. Without it, the desirable alignment of management and shareholders is at risk. Without it, family-business shareholders can easily become just as indifferent or impatient, fickle, and greedy as investors on Wall Street. The latter, aided by analysts and the media, often pressure well-managed publicly traded companies into short-term thinking. Family shareholders inactive in the business, with little understanding of management and the time cycles involved in new strategies or new investments, can hamper the effective operation of a family-controlled business. They can bring about significant erosion of the founding culture, which valued the role of hard work and patient capital and understood the benefits of owner–manager alignment.

Board

Acommon conception about family business throughout the world holds that the first generation builds the business and later generations harvest the business rather than reinvesting for long-term success [6]. None the less, many family businesses strive to achieve a lasting legacy. A strong, independent board of directors is one tool to strengthen the business. But, the board alone cannot ensure survival. A supportive family ownership group, organized to work in support of the board and the business, is crucial as well. As the shareholder base expands and becomes more diverse over time, ensuring healthy shareholder relations becomes more important and more complicated. Harnessing the power of a cohesive, committed family shareholder base provides great strength to a company. Conversely, managing disparate family interests can sap management energy and distract the CEO from pressing business issues. And while an effective independent board can be of great help in perpetuating the family business, directors must enjoy the trust of family shareholders and communicate well with them to exercise needed creativity and insight.

Wealth management

Wealth management services for clients who are entrepreneurs or hold quotas or shares in family-owned firms (private companies) have some very particular features as regards investment or asset management [7]. As a matter of fact, wealth management providers have to take into consideration two aspects of this type of clientele. On the one hand, an entrepreneur and his/her family or an entrepreneurial families are considered to be individuals with their own assets and annual income flows which must be optimized according to the established principles of asset management. On the other hand, however, the source of the income flows is closely linked to the management of the company and a large part of the entrepreneur's wealth is invested in the company itself. These characteristics raise particular problems in terms of optimizing the client's wealth.

This particular aspect has always had and continues to have considerable influence on those providing advisory services to entrepreneurs and entrepreneurial families. When financial intermediaries realized that this type of clientele presented some rather unusual features they began to gradually change their private banking activities. Although these activities initially focused mainly on managing the financial assets of high or very high net worth individuals, irrespective of the source of their wealth, they gradually turned into highly personalized services. This involved switching from an approach based on "financial" private banking to a broader one based on the management of the client's overall assets i.e. "wealth management". The search for a new role also meant segmenting the high or very high net worth clients even more and identifying groups of clients – including entrepreneurs and their respective families – with diversified needs due to the different source of their income or assets portfolio.

International Business

In the European Union, family enterprises represent, depending on the country, 60–90% of economic activities and are responsible for two thirds of GDP and workplaces [8]. In the mid-1990s, in the USA, family firms were over 90% of the total and produced more than half of the goods and services; moreover, a third of the "Fortune 500" enterprises (i.e. the largest and richest enterprises in the country) were controlled by one family or by the founder family that took part in the business management. But the most important thing is that these enterprises tended to create better outcomes and advance more rapidly than the average of the executively managed competitors (non-family members). Besides Europe, also in the developing countries, family enterprises give a valuable contribution to economic development, because their cultural, political and economic situation isn't mature for industrial structures of managerial type. In fact, in many of those areas, Africa, Middle East, most of Southern Asia and South America, family firms are the hope for economic start-up, seeing that they add safety and human resources. So, both West and East seem more inclined to a "community" idea of enterprise, biologically identified with the entrepreneur and his family as the main source of the resources needed by the business.

International treaties have long occupied a special place in global economic affairs, especially in trade matters [9]. Part of their popularity lies in their overt democratic trappings: unlike customary law, where international law is deducted from the consistent practice of states, treaties specifically memorialize agreement between countries and often require approval by national legislatures. As a result, treaties are not only able to express commitments in more precise terms than customary international law, but they are also imbued with legitimacy and imply the 'consent of the governed'.

As species of 'hard law' that is, as recognized sources of international law treaties are additionally viewed as especially well positioned to address what can be considered the distributive challenges inherent to international trade. Trade, like many areas of international economic law, is not always an area in which agreement can be reached between parties and sustained. To the extent to which they open barriers to goods and services, trade agreements inherently involve a redistribution of wealth or market share to more efficient industries. As a result, where markets are opened, some businesses will find themselves potentially losing market share to new, more efficient competitors and will lobby their national government to backpedal on liberalization efforts even if consumers benefit from lower-priced goods and services. Trade liberalization is, as a result, an inherently fragile activity, and is difficult to achieve on a sustained level even where countries express their intent to liberalize markets and open their borders to one another's goods.

International Payment

The expressions 'documentary credit' and 'letter of credit' are used interchangeably to refer to the most frequent and most secure facility for financing international trade [10]. The security aspect of a documentary credit rests upon the fact that it represents an undertaking by the bank issuing the documentary credit at the request of its customer (usually the buyer of goods) to pay the beneficiary (usually the seller of goods), a specified amount on condition that the beneficiary presents to the bank stipulated documents. These documents evidence, among other things, the shipment of goods within a prescribed period of time. The bank thus acts as an intermediary between the buyer and the seller, satisfying the competing interests between them, and removes the risk of each party to the commercial transaction. While the bank guarantees payment to the seller for the goods, it protects the buyer by ensuring that no payment is made to the seller until the latter has shipped the goods, delivered the relevant documents, and otherwise complied with the prescribed conditions.

Hence, a letter of credit is a conditional promise issued by the issuing bank, to pay a specified amount in the stated currency, within the prescribed time limit and against stipulated documents. These documents are specified to the bank by its customer, namely the buyer who applies for the issuing of a letter of credit. Letters of credit are popular instruments in international trade because they substitute the financial standing of a bank for that of an individual or firm. The popularity of letters of credit derives from the fact that a seller can be confident that, provided he can meet the requirements stipulated in the letter, he will receive prompt payment. Also, a buyer who is able to offer the security of payment by a letter of credit is usually in a better bargaining position than a buyer offering an alternative method of payment.

Conclusion

Family businesses are manifested in different sizes and shapes, from crafts and small businesses, medium to large family businesses, to large multinationals owned or controlled by families. Family-owned businesses are of a very wide range of ages and extremely diverse businesses. In addition to the activity they carry out, family businesses also differ in the number of employees: some do not hire workers but are employed by family members without compensation, while they employ one or only a few workers, some employ hundreds of workers, and some dozens thousands of workers, only a few of whom are family members. The presence of family-owned enterprises, both small and medium-sized and family-owned large and globally significant corporations in all activities of the global economy, illustrates their relevance in the world economy and the need to pay attention to the way they operate and the future challenges with which they are facing.

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