



Institute for  
Family Business

# Family Business Challenges

Understanding Family Business



## The *Family Business Challenges* series

This guide is part of the *Family Business Challenges* series commissioned by the IFB Research Foundation. The series offers practical guidance for family business owners seeking to manage the unique challenges and opportunities they encounter.

The series provides concise information on a broad range of topics, covering family business dynamics, governance, performance, succession and family business wealth.

Each guide, which is illustrated by a real-world case study, is divided into three sections:

1. **Defining the challenge** – clarifying the issues and summarising expert thinking.
2. **Actions to consider** – ideas and strategies to help family business people meet the challenge.
3. **Resources** – annotated further reading.

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## The publisher

### About the IFB Research Foundation

The IFB Research Foundation is a charity (no. 1134085) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside *Family Business Challenges*, its work covers a broad range of publications, including:

- *Family Business Sector Report* – benchmarking the size and importance of the sector.
- *Family Business Research and White Papers* – thought leadership on key family business characteristics and issues.
- *Family Business Case Studies* – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities.

### About the IFB

The IFB Research Foundation works closely with its sister organisation, the IFB (Institute for Family Business), which is a membership association representing the UK's family business sector. The IFB supports and promotes the family business sector through events, networking and representation, while the Foundation, whose board includes independent directors not affiliated to the IFB, focuses on educational research in accordance with its charitable objectives. The IFB is a member of FBN International, the global network for family businesses.

**[www.ifb.org.uk](http://www.ifb.org.uk)**

# Understanding Family Business

## 1 Defining the challenge

**Family businesses differ from non-family enterprises** – as do business families from other types of family. It's critical that business families understand these distinctions before they can begin to manage the challenges they create and make the most of their opportunities.

**Strengths and challenges.** Family firms enjoy unique advantages: their shared family vision, values and commitment can inspire employees and drive business performance; they're seen as stable, reliable organisations; and they have the opportunity to be long-term oriented. But family companies are also prone to challenges: they can be inward-looking and resistant to change; they often face difficulties around succession and transitioning to the next generation; and they must recognise psychological, family-based, emotional dilemmas that, unchecked, will interfere with the company's decision-making.

**Business objectives and rules versus family priorities and emotions.** This is often a culture clash (see Exhibit 1) and it leads to long-term tensions, friction and values conflicts. Successful families learn to understand what's going on, and they devise strategies to keep sometimes contradictory forces under control. This helps them to make the most of the special advantages enjoyed by family companies.

### Exhibit 1: The psychological perspective

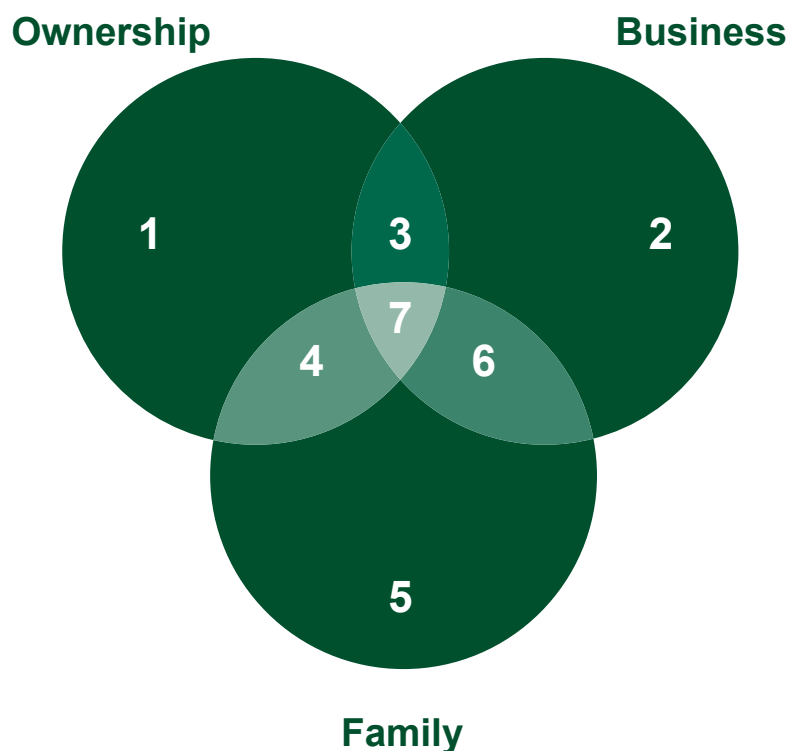
“In most societies the family is a fundamental institution for transferring values to succeeding generations, and for ensuring their physical and emotional development. Families are usually driven by a deep concern for both the well-being of individual family members and for the family legacy. However, in a business family, normal family goals may come into conflict with the business's economic goals because an important theme within the family system is to meet the human and psychological needs of its members rather than to arrive at the best economic return.”

Source: Manfred F.R. Kets de Vries and Randel S. Carlock with Elizabeth Florent-Treacy (2007), *Family Business on the Couch: A Psychological Perspective*, Wiley, p.9.

**Build a mental model of how people fit into your family business.** The famous Three-Circle Model helps identify the roles, motivations, expectations and fears of individuals within three groups: ownership; the business; and family members.

These three circles overlap (see Exhibit 2), defining seven categories of people who may want different things at different times – vital knowledge if you are to manage the complexity, role confusion and interpersonal conflicts that can arise in family companies.

**Exhibit 2: The Three-Circle Model of family business**



- 1** External investors, who own part of the business but who do not work in it and are not members of the family.
- 2** Non-family management and employees.
- 3** Owners who work in the business but who are not family members.
- 4** Family members who own shares in the business but who are not employees.
- 5** Family members who are not actively involved in the business either as employees or owners.
- 6** Family members who work in the business but who do not own shares.
- 7** Inhabiting all three circles are owners who are also family members and who work in the business.

Source: Adapted from R. Tagiuri and John A. Davis (1982) "Bivalent Attributes of the Family Firm", reprinted (1996) in the "Classics" section of *Family Business Review*, Volume IX, Number 2, Summer, 199–208.

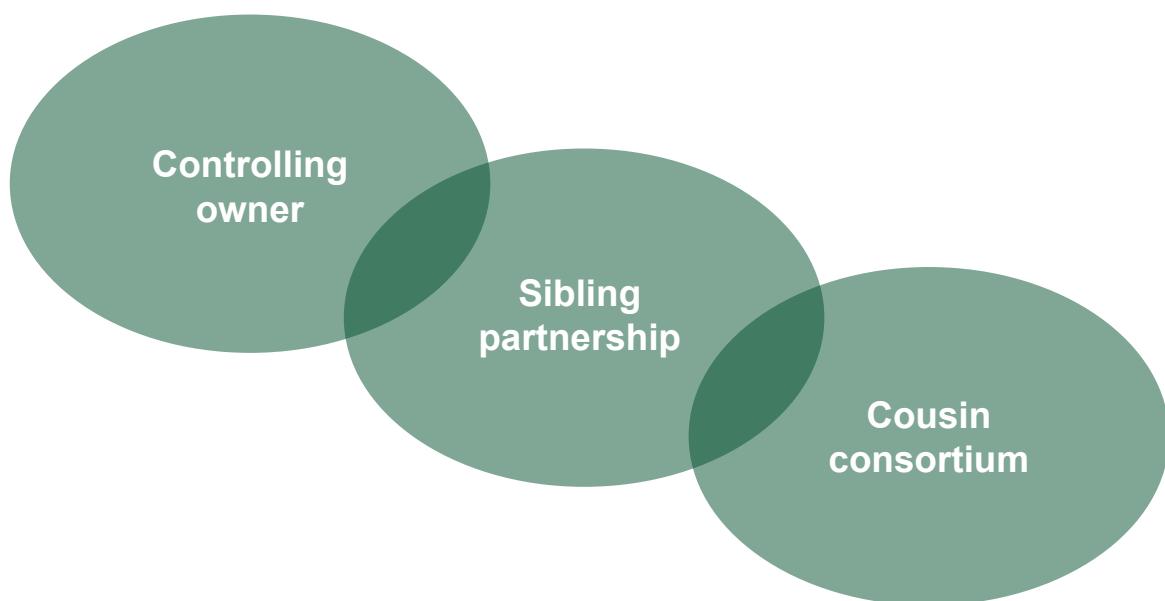
**Coping with change.** Family businesses do not stand still and change is a constant, particularly due to the ownership life cycle, which broadly follows three stages:

- Controlling owner (owner-managed / nuclear family)
- Sibling partnership (second generation; control shared by a group of close relatives)
- Cousin consortium (third generation and beyond; a network of families)

Understanding these stages – and navigating the transitions between them (see Exhibit 3) – helps families to manage the growth and sustainability of their business.

**That “light bulb” moment.** This is when family business owners grasp why they and their businesses are different – that their problems are not unique and they are not alone. It creates a new sense of belonging, and business networks and associations are good places to explore this common ground.

### Exhibit 3: The family business ownership life cycle



Source: Adapted from Kelin Gersick, John Davis, Marion McCollom Hampton and Ivan Lansberg (1997) *Generation to Generation: Life Cycles of the Family Business*. Boston, MA: Harvard Business School Press.

## 2 Actions to consider

- Are we developing the family's relationship with the business in a way that generates pride and passion?
- Can the family's involvement have a negative impact? Do we have strategies for mitigating any negative issues arising?
- How can we maximise the special advantages of our family business status?
- How does everyone involved in our business plot onto the seven segments within the Three-Circle Model?
- Does each circle in the Three-Circle Model – ownership, business and family – have its own governance structure in our family business?
- How do we foster good communications between the owners, family members and the business?
- What stage is our business at in terms of the family company life cycle – controlling owner, sibling partnership or cousin consortium?
- Are we approaching a transition between life cycle stages? What will moving to a new ownership system mean for us?

## Case study: M.I. Dickson Limited



Preparing for succession and coping with a changing market were family business challenges which Michael Dickson (then Managing Director) and his sister Christine (Finance Director) identified around 2007. They were second generation working owners of M.I. Dickson Limited

– one of the North-East’s leading meat companies – who had been thrust into their leadership role as teenagers following the untimely death of their father in 1966.

At that stage it was an artisan business – with two very good shops – but now the company is a force in the North-East of England, with a 30 strong retail estate and a staff approaching 350, who manufacture and supply own-recipe meat and food products across the region.

Michael and Christine had a family business “light bulb” moment in 2007, which served to refocus and re-energise the company. It had been preceded by some soul searching over the future of the business and their eventual retirement, with these issues complicated further by concerns about how best to position the company in a challenging trading environment and what the family’s future involvement in the business might look like.

It was around this time they met with Lucy Armstrong, a family business specialist, who encouraged them to address some basic questions – “What do you want for the business?”, and “If it were one of your children, or a close family member, what might your ambitions be for them?” Lucy held confidential, informal meetings with family members and it became apparent that, aside from any thought of personal gain, there was a powerful history of family emotional investment in the business. Family members recognised their strong connection demanding loyalty to the family business and its people – an untapped passion for the firm that, frankly, took them by surprise.

Following this realisation, they set about deciding how best to maintain family control into the next generation and beyond. The resulting plan was based around a set of values and beliefs, committed to writing in a family constitution, which were to act as a guide to the establishment and operation of a family council, made up of Michael, Christine, their sister Dorothy, and Michael’s four adult children.

The family council was initially the forum where the wider family were familiarised with performance, new developments and the challenges and opportunities facing the business. But the ultimate aim was that, upon Michael and Christine’s retirement, the

family council would appoint and instruct an external Managing Director and board of directors. Christine sadly died in 2013, but in anticipating the retirements of both key family members, plans were, by then, well advanced. Elena, Michael's younger daughter, was appointed a Director in 2014. Michael appointed an external Managing Director (Chris Hayman) in summer 2016, and himself took on the role of Executive Chairman, while his elder son (also Michael) recently changed career and joined the company's Retail Operations team.



Chris Hayman (Managing Director) right, with Elena Dickson (Marketing Director) and Michael Dickson (Retail Operations)

The years since the family's "light bulb moment" saw new impetus in the business, with M.I. Dickson's shop numbers growing 50 per cent across the period, and an increase in factory capacity to allow the company to service national retailers across the region.

Michael is confident summing things up: "With Chris Hayman at the helm as MD, supported by a new senior team, we're in a strong position to move forward" he says. "Ten years ago, without continuing family direction that would never have happened. It's been a long, hard road to get to this point, but if we hadn't addressed the succession challenge it's possible the business would no longer exist, and certainly not in its current form."



## 3 Resources

### Articles and reports

#### **What Makes Family Businesses Different?**

Dr Barbara Murray and Ken McCracken, Family Business Solutions (available at <http://www.bizupconsultora.com.ar/2013/09/what-makes-family-businesses-different-three-circle-model/>).

A presentation of the Three-Circle Model, explaining the complexity that results from having a family system, a business system and an ownership system linked together through wealth, legal structures, employment structures and emotional / relational bonds.

#### **Bivalent Attributes of the Family Firm**

Renato Tagiuri and John Davis (1982) reprinted in *Family Business Review*, 9(2), Summer 1996, 199–208.

This classic academic paper continues to underpin much of today's study of family business dynamics.

#### **What You Can Learn From Family Business**

Nicholas Kachamer, George Stalk and Alain Bloch, *Harvard Business Review*, November 2012 (available at: <https://hbr.org/2012/11/what-you-can-learn-from-family-business>).

The authors discuss research findings highlighting seven synergistic factors helping family businesses build resilience: family firms are frugal in good times and bad; they keep the bar high for capital expenditure; they carry little debt; they acquire fewer (and smaller) companies; many show a surprising level of diversification; they are more international; and they retain talent better than their competitors.

### Books

#### **Family Business Dynamics: A Role and Identity-Based Perspective**

Annika Hall, Edward Elgar Publishing (2012).

An accessible introduction to the practical issues surrounding why and how family relations influence the dynamics of family-owned businesses.

#### **Generation to Generation: Life Cycles of the Family Business**

Kelin E. Gersick, John A. Davis, Marion McCollom Hampton and Ivan S. Lansberg, Harvard Business School Press (1997).

The most comprehensive and influential book available on family business life cycles, and how they shape interactions and relationships.

### **Family Enterprises: The Essentials**

Peter Leach, Profile Books (2015).

An in-depth study of all aspects of family businesses. The book is particularly strong on techniques and strategies needed to manage competing demands and to make the most of the unique advantages enjoyed by family businesses.

### **Understanding Family Business: A Practical Guide for the Next Generation**

Andrew Drake, published by the IFB Research Foundation (2009).

A succinct review of the rights, duties and responsibilities of working in a family company, and how – from an administrative and governance perspective – they are typically run.

# Family Business Challenges

The *Family Business Challenges* series of guides offer practical guidance for family business owners. Each guide identifies issues commonly faced in a particular topic area, suggesting strategies for managing the tensions and competing demands that arise. Titles include:

## Family business dynamics

- Understanding Family Business
- Maintaining Family Values
- Developing Stewardship
- Promoting Sustainability

## Family governance

- Managing Differences
- Building Family Governance
- Strengthening Family Communication
- Fostering Responsible Ownership
- Managing Communication:  
Owners and the Board

## Family business performance

- Fostering Entrepreneurship
- Professionalising the Board
- Maximising People Capital
- Employing Advisers
- Branding the Family Business

## Family business succession

- Engaging the Next Generation
- Planning Succession

## Family business wealth

- Selling the Family Business

Growing successful enterprises  
for generations to come

**Institute for Family Business**

32 Buckingham Palace Road

London SW1W 0RE

Tel **020 7630 6250**

Fax **020 7630 6251**

**[www.ifb.org.uk](http://www.ifb.org.uk)**