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CHARACTERISTICS OF SUCCESSFUL FAMILY BUSINESSES

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Abstract

In response to the statistics showing high mortality among family businesses, this study looks at a group of Spanish family businesses (FBs) that have demonstrated an ability to grow and innovate.

Typically, these FBs have gained prestige in the Spanish economy not only because they have reached the top 1000, but also because they have stayed there for over 30 years. We collected data from interviews with the managers of 21 of the 64 companies that fulfilled both these conditions. Our aim was to learn from these successful business leaders what, in their personal opinion, had been the driving force behind their firms' success.

The factors they mentioned included a set of values that successful business families have made a way of life. They are what we have called the "ELISA" values.

These values are the bedrock of these firms' culture, inspiring top performance, reducing the cost of capital, and resolving other, related issues that are made easy to deal with by adherence to these values.

Keywords: family business, success factors, business culture.

CHARACTERISTICS OF SUCCESSFUL FAMILY BUSINESSES

Introduction[1]

Data from a study of family businesses (FBs) in 1972, 1982 and 1992 reveal that the proportion of FBs among Spain's 1,000 largest firms in terms of sales decreased from 40% in 1972 to 23% in 1992.

In 1992, 229 of Spain's top 1,000 companies (TOP 1,000) were FBs. Many of them were companies that had been strong and powerful from the moment they were founded, but 10 of them (4%) were emerging companies–dynamic companies that had grown fast to qualify in the TOP 1,000 in less than ten years.

In spite of this initial surge, not all FBs have the staying power to remain there through the generations and soon fall out of the TOP 1,000. Besides succession, there are other less visible behavioral factors that threaten FB survival and require special attention.

Although FBs have a high mortality rate due to their difficulty in growing, there is a group of FBs within the TOP 1,000 that has been able to effectively protect itself against many of the diseases that usually lead to these firms' disappearance.

Typically, these companies have gained prestige in the national economy because they are in the TOP 1,000, and have stayed there for over 25 years. That is why we have categorized them as "successful family businesses" (SFBs). There is a total of 64 companies in this category.

By comparing the business policies of these SFBs with the generally accepted policies of successful non-family businesses (SNFBs) and non-successful family businesses (NSFBs), we may be able to identify the reasons for their success. We will then be able to establish recommendations for "Best Practice".

That is exactly our purpose in this research – to analyze in detail the behavior patterns of SFBs and the reasons for their success. Our goal is to describe a certain business model that may serve as a guide for other FBs.

The most prominent results are:

- The need for the FB to maintain a balance between current strategy and the organizational structure it needs to support it. Strategic changes generally lead to growth in SFBs, and to the changes that are necessary to stay in the TOP 1,000.

- Also worth noting is the important role the founder plays in SFBs, especially where his strong personality makes a mark by prompting the adoption of certain values which, over the years, become part of the company's culture. We call these the "ELISA" values (an acronym made up of the first letter of each of the five values).

- The importance of the support the business receives from the family, who love the business because of the information they receive and the possibility of taking active part in the Annual General Meeting of Shareholders.

- Lastly, it is also important for these SFBs to have on board a skillful person, capable of keeping in check the sometimes unscrupulous business dealings that constantly threaten FBs. The five most important ones are the "five traps" of family business (Gallo and Estapé, 1993).

Work Method

Research methodology

For the study, an interview script was prepared that would help us to discover the reasons for the success of the FBs in our sample. The interview was based on a critical study carried out by three members of the Family Business Chair at IESE and was put to the test with a small number of SFB managers.

The individuals interviewed were family members in managerial positions in the SFBs. Where this was not possible, first a member of the management team was interviewed, and then a family member.

Twenty-one interviews were conducted during the months of April, May and June of 1995. The actual interviews were carried out by second-year students doing their master's degree at IESE who had chosen the optional FAMIA course[1].

The interview consisted of two parts. In the first part, the subjects were asked about the most typical business aspects of the FB: strategy over the previous 20 years, organizational structure, dividend policies, possible links with foreign partners, etc.

In the second part, the questions were aimed more at topics relating directly to the family.

What we wanted to know was how these companies had managed to reach such prominence in their industry and how they had been able to maintain their position and stay in the TOP 1,000.

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[1] FAMIA is an elective course consisting of 22 sessions held in the second term of the second year. During the course several features of family business are studied from a general management perspective.

Analysis of the interviews

Once the interviews were finished, they were individually analyzed, comparing certain features of the SFBs in the sample.

Over the previous 20 years, these companies had undergone far-reaching changes that were common to all firms in the industry, and at the same time had made many changes of their own, realizing that to be leaders in their industries they had to grow and change.

The companies in the sample were from different sectors and subsectors, each of which underwent very specific changes. To compare the behavior of the different SFBs, we needed to know about the changes in each sector, and so see what contributions each company had made to those changes.

This analysis was the most complex part of the entire procedure. Abstractions were made of the changes in each sector in order to obtain comparable data for the whole sample. Indeed, it was possible to note analogous behavior in the various SFBs.

The vast amount of information on each company was analyzed by the same research team over several sessions.

The interviews were analyzed to draw some general conclusions. This was done over several sessions with the aim of correctly interpreting the information.

The team finally arrived at certain propositions which may be applicable to other FBs.

This study was worthwhile for several reasons. First, it was the first time that so many direct, personal interviews had been conducted with family members of SFBs in Spain. The most important thing, therefore, was perhaps the interview design: it was the interviewee who had to explain the reasons for his or her company's success. Second, the sample represented a wide range of sectors, containing Spain's largest FBs.

Characteristics of the sample

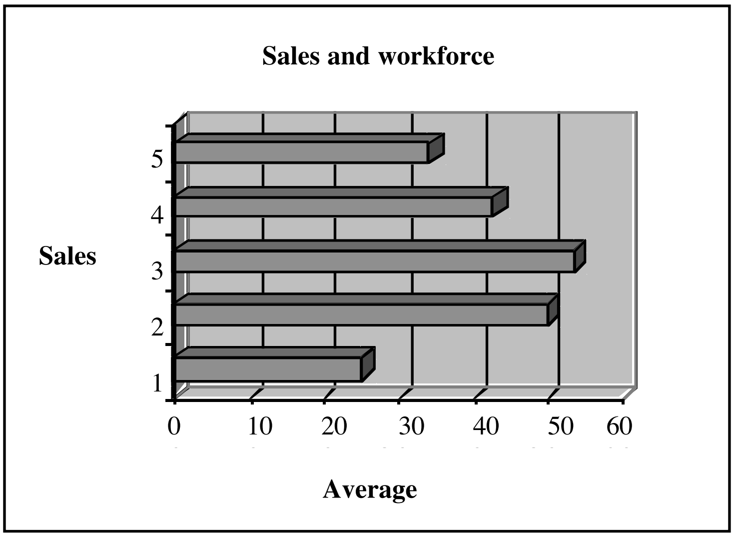
Numeric data

General data	Average value
Total number of FBs	21
Year of foundation	1908
Age in 1998	90
Generation incorporated	3rd
Sales in millions of Euros 2001	241,54
Workforce	552

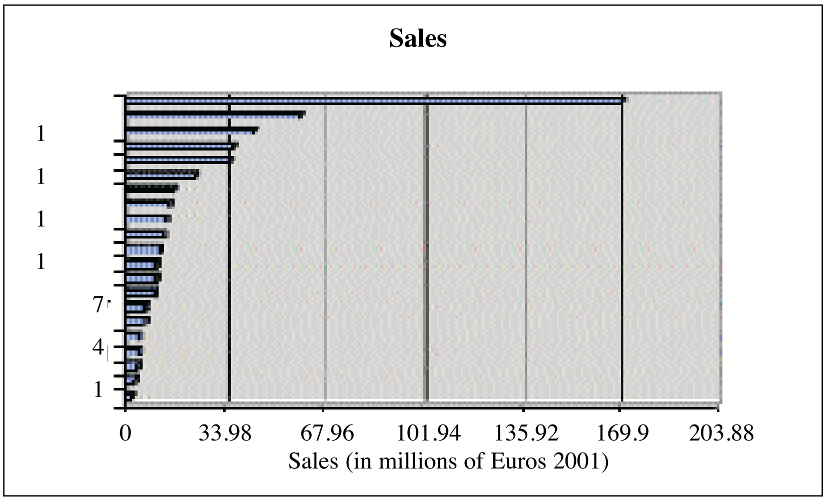
In light of these data, it is fair to say that the sample companies were large FBs with high average age. That meant they were multigenerational companies. As has already been said, the 21 companies in our sample were among the leading family businesses in Spain, having been in the TOP 1,000 for the previous 25 years.

Common characteristics

All of the companies in the sample had a high rate of growth. They all had a great desire to be leaders in their industry. Each one handled growth differently, each trying to differentiate itself from the rest, acting as a true pioneer. They were continuously looking for new product and market opportunities. Some had even diversified away from their core business into related businesses.



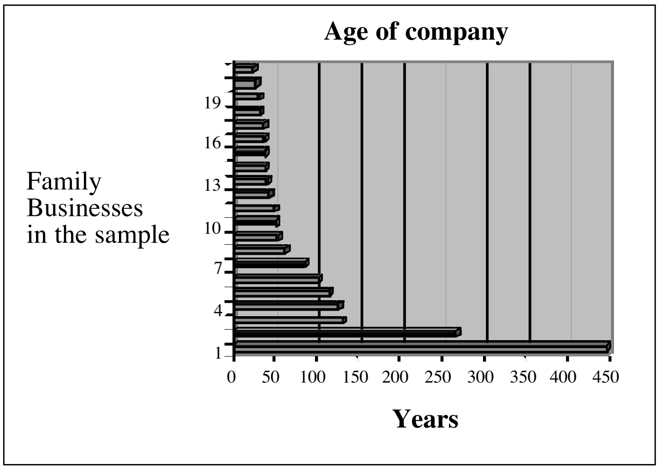
Categories (million of euros 2001)	Sales (cat)	Workforce average
<67.98 – 135.92	1	248
67.98 – 135.92	2	500
135.92 – 339.8	3	534
339.8 – 679.6	4	427
>679.6	5	340

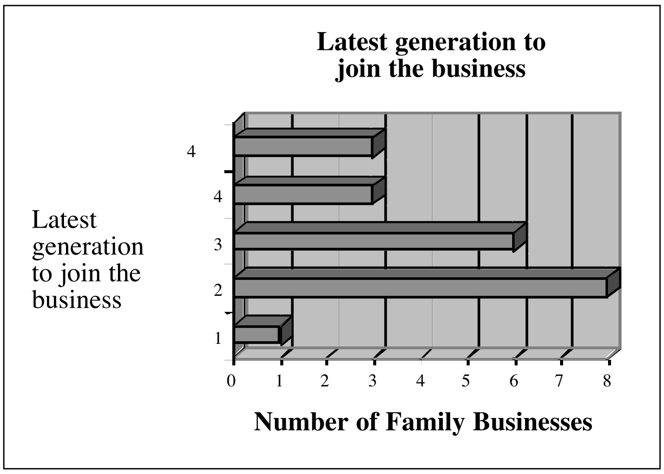


Latest generation to join the business

One of the most critical stages in the life of a FB is when a new generation joins the company. One of the companies in the sample was still in its first generation. Two were in the middle of the change from first to second generation. Nine were in the second generation, with first-generation members holding "senior advisory" positions rather than active management positions. Three were already into their third generation, and a further three were into their fourth. Finally, three were over 150 years old.

In one third (33%) of the companies in the sample, the founder was still active in spite of advanced age. In several cases, the position held by this person was that of chairman of the board, at a considerable remove from the day-to-day running of the business.





Sectors

Over the last 25 years, thanks to democracy and accession to the European Union[1], the Spanish economy has offered many opportunities for companies. The opportunities were much the same for all of the companies, whether they were FBs or not. Therefore, when considering the behavioral differences found in this study, those assumed to be the result of socio-economic changes must be excluded, as they affected all businesses equally.

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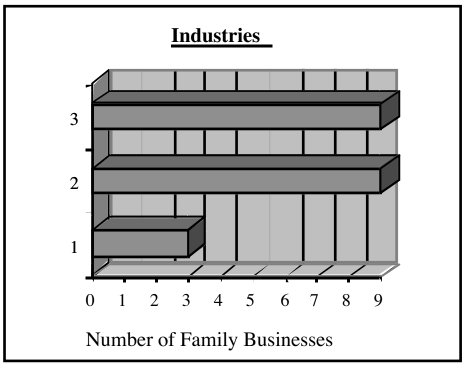
[1] Gallo, M., Estapé, M.J. and Cappuyns, K. La continuidad en las Empresas Familiares. IESE Research Paper No. 290, 1995.

The companies in our sample operated in different industries that have offered great opportunities in recent years, though the opportunities were the same for FBs and NFBs alike.

Therefore, the FBs in the sample that became leaders in their industries owed their success to their own merits. They always fought to overcome the obstacles they encountered along the way and were determined to make their business grow and change, while remaining FBs.

The SFBs, however, rose above their closest competitors by learning to be flexible and agile in responding to change. They got ahead of the competition by quickly adapting to trends in consumer tastes.



Industries

1.	Beverages
2.	Food
3.	Various: Perfumes, press, retail, information systems, decoration, fur and leather,...

The strengths of successful family businesses compared to non-family businesses

This study has told us a great deal about FBs. After several interviews, we came to the conclusion that what makes a family business successful is a blend of two characteristics: they follow generally accepted rules for running companies, and at the same time they are guided by a strongly established family culture.

A FB is made up of two elements: business and family. It is not easy to separate the two. Certain values and family ties lead a company to deal differently with economic challenges.

The best way to learn about these differences is to compare FBs with NFBs.

Strategic plans and organization

The first key element we found was that in SFBs there is an ebb and flow in the balance between strategic plans and organization.

To successfully implement an expansion strategy, it is vital to take account of the company's organizational structure in planning the expansion. Otherwise, the balance between the two poles will be lost.

The strategy must be backed by the right organizational structure. A company that adopts a certain strategy but is unwilling or unable to carry it out, will have to first adapt the company organization and then plan a new business strategy that fits with this organizational structure.

The balance is easier to achieve in NFBs, where there are only two groups with vested interests: management and shareholders. In FBs there is a third group: the family. Naturally, the more interested parties there are, the more interrelationships there will be. "With the family, the human factor, which must be constantly dealt with, is introduced" (Rik Donckels, 1996).

What are important in companies are profits; that is the goal, generating profits. It is what employees are evaluated on. In the business world, relationships are formal and often are conducted entirely on paper. In the family, by contrast, relationships are highly personal. The very reason for the existence of the family is that the members support each other (G. Dyer, 1998).

“Because of this duality between the systems of business and family, the cause of conflicts will be very different in a FB as compared to a NFB. Therefore, conflicts in the FB will arise when these systems collide and a decision must be made as a family, as a business, or as a *Family Business*” (G. Dyer, 1998).

In addition to this duality, ownership in FBs is more than simply holding shares. It has an emotional connotation, as it is bound up with the history of the family, the founder, etc., and the family name is associated with the business. That is another reason why it is difficult to maintain the balance between strategy and organization. The influence of "family" can be overwhelming.

It is considerably more difficult to maintain this balance when opposing interests come into play, such as direct, complicated emotionally charged relations. Several SFBs have tried to preserve the delicate balance by establishing unusual rules to ensure that the various interested parties get along.

Although it is no secret that most Spanish FBs either do not want to change and grow or do not believe that they need to, the interviewees insisted that for a FB to be an industry leader, it must be willing to change constantly. This is particularly true of these SFBs.

These firms are particularly remarkable in that they have managed to maintain the harmony between family, owners and management that has allowed them to keep growing.

Growth in an atmosphere in which management could count on the approval and trust of others –the family and the owners– was their priority.

So long as this balance is maintained, the FB is an organization that, because of its strong family convictions, is blessed with characteristics that give it a significant competitive advantage over NFBs. Because it is also a *family*, the FB has certain strengths such as unity, commitment, etc. (Gallo M.A. and Estapé M.J., 1993), which, if properly used, can give it a considerable competitive edge.

Business culture based on the "ELISA" values

As E. Schein describes it, a company's culture is made up of three elements: "beliefs, visible artifacts and values".

"Beliefs" are found in any company where certain actions are repeated. Once an action has been found to yield satisfactory results on a number of occasions, it will be repeated in similar situations, thus creating the conviction that it is the appropriate thing to do in that situation.

"Artifacts"[1] are the things belonging to the business that are considered part of its tradition. Examples include the founder's office furniture, insignia, brand names, expressions or phrases that get repeated around the office. Some of these artifacts are kept out of respect for earlier times or out of nostalgia.

But business culture is also based on "values". These are the values held by the founder that have been kept alive over the years and have been passed down from generation to generation.

In all the SFBs in our sample, we found a business culture with strong values. Five values, in particular, stood out in nearly all cases: the ELISA values.

1. Excellence,
2. Labor ethic,
3. Initiative for innovation,
4. Simplicity of lifestyle,
5. Austerity.

1. Excellence: All the SFBs in the sample displayed a constant striving for excellence; in their products, services, brand name, organization, etc. They also were willing to learn to maintain their level of excellence, even if it meant learning from other companies, or from non-family managers, outside advisors, etc.

2. Labor ethic: All those interviewed agreed that to succeed, it is necessary to work hard and be completely dedicated. That is one of the strengths of FBs' commitment.

3. Initiative: As we said earlier, a company that wants to be successful must be willing to change, and this implies assuming certain financial risks. This is a contradictory point, as FBs have always been reluctant to get into debt. However, rejecting debt is a greater risk, as it limits growth and may even jeopardize the firm's survival.

The FBs in this sample were unanimous in financing growth by reinvestment and rejecting the option of borrowing.

4. Simplicity: Simplicity in the private lives of the members of the family who own the business. They do not have an ostentatious lifestyle, nor do they boast of owning a successful business, although this is not to say that they are not proud of it.

5. Austerity: SFBs are more prudent in their expenditures. Decision-making for investments is a much slower process. They carry out detailed studies of every project, as the family's wealth is at stake.

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[1] Schein, E.H. (1987).

All of these values were revealed in the responses of the SFBs' owners. But where did they come from? In nearly all cases, they were characteristic of the company's founder. The founder practiced them and succeeded in passing them on to the next generations. His example left a deep mark on the company's culture.

All the interviewees spoke of the founder with pride, explaining in no uncertain terms how the founder was gifted, brave, a go-getter with an eye for business and an indefatigable spirit of survival. These characteristics enabled the company to reach and stay in the TOP 1,000.

The founder is the one who lays the foundations for the business's eventual rise to the top, or its eventual failure – even though, naturally enough, the following generations also make their mark. Initially, the founder is responsible for the business's success, always judging the balance between the role of the family and the interests of the business. Given the founder's position, his or her values can be continued by the rest of the family, whether or not the founder remains actively involved in the business.

If the founder is able to transmit the ELISA values to his or her successors, the FB will most probably be successful. Together with commitment, unity and dedication, which are the FB's main strengths, these values add an extra dimension when competing with NFBs, which very rarely achieve the same degree of dedication and commitment.

It is also important, however, to be alert, as the erosion of these values can be the death knell for the FB. If the business performs well, future generations may not have the same dedication, and may lower their standards and live off the efforts of the glory years. This erosion will eventually lead to the firm's inevitable and irreversible demise.

We have observed this progression, which we call TRD (Total dedication, Relaxation, Disintegration), in several NSFBs (non-successful family businesses). It has been the main reason for the disappearance of many of Spain's large FBs in recent years.

FBs that adhere to ELISA values are better protected against this incipient process of disintegration.

The role of the family

In addition to the values, the family itself plays a very important role. The size of the families in our sample varied considerably, but all of those interviewed did not think that size should be a factor in the survival of a FB as such.

First, they all agreed that only qualified professionals should be allowed to join the company, regardless of whether they were family members or not. Some had special guidelines for the hiring of family members.

Second, they said that family members felt free to leave the company, in terms of ownership, whenever they deemed it appropriate. This feeling of freedom came from having established certain stock valuation formulas for anybody who wanted to sell their shares. That and the creation of a cash fund to allow the family to hold on to any shares that might be sold kept undesirable outside interests out of the FBs.

Third, all the family members who were also shareholders received information about how the business was going. We found that in many cases they were "loving" families whose members were deeply committed to the FB, even though they might not be involved on a day-to-day basis – and you cannot love what you do not know. If communication is clear, the family members will trust their management team. This trust is fundamental for the success of FBs.

What is more, well informed family members will be better able to participate usefully in the General Meeting of Shareholders, which is a great advantage for the company.

We found that, over time, FBs evolve towards a singular business model. As the organization grows, the responsibility structure also has to adapt, and new people are needed to take up the vacancies.

At the same time, as the company grows and evolves, the relationships between family members also undergo considerable changes. The changes that most commonly occur in FBs tend to follow a progression: from Working Family Businesses (WFBs), in which the owners work together closely; to Managing Family Businesses (MFBs), in which the owners are still closely tied to the business but only a few family members actually work in it, usually in positions of responsibility; and from there to Investment Family Businesses (IFBs), in which the family members unite to decide on business investments and control, but are not so closely involved in management decisions (Gallo, 1995).

As might be expected, the family's role at each stage is very different, and with each role goes a particular type of culture.

What happens in FBs when the family shareholders are not allowed to assume their proper role? The lack of information creates a climate of distrust, which leads to a loss of unity, and without unity there is little that can be achieved. Disgruntled family members will try to dispose of their share of the capital, which can lead to chaos if there are no clearly established rules on how to relinquish ownership. The FB will cease to exist as such.

Trust is a fundamental value that must be established from the very beginning; the bigger the company, the more difficult this will be. Once it is firmly in place, it will be easier to ask the owners to make sacrifices; for example, by changing the dividend policy, which may be necessary to finance growth and will, in the long run, heighten interest in the company.

Family members who work in the company are aware of what is going on in the company on a day-to-day basis, but those who do not must be kept informed and be prepared to accept their role (i.e. not make unreasonable demands on the business).

Management styles

The management styles of the SFBs deserve special attention, as we found that they all had similar systems. We did not find "skillful politicians", but we did find a more direct style, where management is left to people who speak their mind, which then evolves into a system that could be described as "institutional". Above all, we noted an ever-present concern to develop a professional management team in which the capabilities and values of each individual are developed to the maximum. It takes a great deal of patience to produce managers with an institutional style, but in the long run they are more likely to become closely integrated in the organization.

The management team was concerned with the company's near future, designing new training systems for employees, and was prepared to change as necessary. What remained completely clear was the desire to continue as a FB, but without unduly specific stipulations as to what the FB should be like in the future. To a certain extent, the management team was free to steer the company as long as its family nature was respected.

The interviewees were very clear, right from the outset, what business model they wanted to establish. The force that would make this model prosper was their firm will that the business should continue as a family business. Evidently, the family had been brought up within this framework and accepted the fact that the company should not be split up into smaller parts.

Pitfalls

The fact that these companies have been exceptionally successful does not mean that they are immune to pitfalls. What sets them apart from other FBs is their greater willingness to rectify the situation. They have protection and value systems and are not too proud to turn to experts to help them avoid these pitfalls, or to respond quickly if they do fall into them.

Conclusion

In this very intensive study of the behavior of family businesses, and of the interplay between the business and the family, we have identified five important elements that are characteristic of successful FBs, and that FBs in general should take as guidelines or best practices if they wish to be successful. These guidelines allow for a professional FB, with capable managers, regardless of whether they are family members or not.

The firm's business strategy must be backed by an appropriate organizational structure. This is not always easy to achieve in an entity that has two poles, family and business, with conflicting interests; but if their efforts are joined, both the family and the business will flourish.

Among the characteristics of the SFBs analyzed in this study are the impetus with which they were created and the way in which the company's culture was influenced by the founder's personality, based on certain values which we have called the "ELISA" values. These values are the bedrock of corporate culture, inspiring top performance, reducing cost of capital and other related issues that can be dealt with easily thanks to people's adherence to these values.

These values are important guides when it comes to balancing family and company interests. It is a precarious balance - often these are opposing interests.

However, the family must not be distanced from the company. It must be kept interested in and informed of what is happening in the company. The information must be truthful and transparent; if not, the business will be difficult to manage.

And lastly, it is important to take care not to fall into the well-known pitfalls that threaten the long-term survival of FBs.

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