

Life Cycles in the Family Business

Introduction

Family businesses (FBs) go through stages that are markedly different from those associated with non-family businesses (NFBs) due to the passage of time, efforts toward the development of the company and attempts to ensure that the business remains family-owned. The most characteristic stages tend to occur toward the end of the period in which the FB is led by the founder, during the first years in which the second generation takes over control and at the moment in which the third generation enters the business.

Figure 1 and the tables that follow provide an outline of these stages, indicating some of the problems that occur frequently in successful FBs. The period covered is a long one, approximately 70 years, and it is wrought with difficulties. However, it mirrors the principles of life: the FBs that manage to survive can be confident in their ability to take on the future in full force.

It is frequently asserted that succession is the biggest problem for FBs, but, as will be seen, this assertion represents an incomplete, simplified view of the problems faced by FBs, which are both broad and complex.

The problems that arise during the different stages should be resolved in a timely manner, meaning that they should be dealt with far in advance. This proactive approach is not used as often as it should be, especially given the fact that many of these problems can be anticipated and that there are well-known methods for managing them.

This technical note was prepared by Professor Josep Tàpies, using material developed by Professor Miguel Ángel Gallo in his technical note DGN-458. February 2006.

Copyright © 2006, IESE. This translation copyright © 2012 IESE. To order copies contact IESE Publishing via www.iesep.com. Alternatively, write to iesep@iesep.com, send a fax to +34 932 534 343 or call +34 932 534 200.

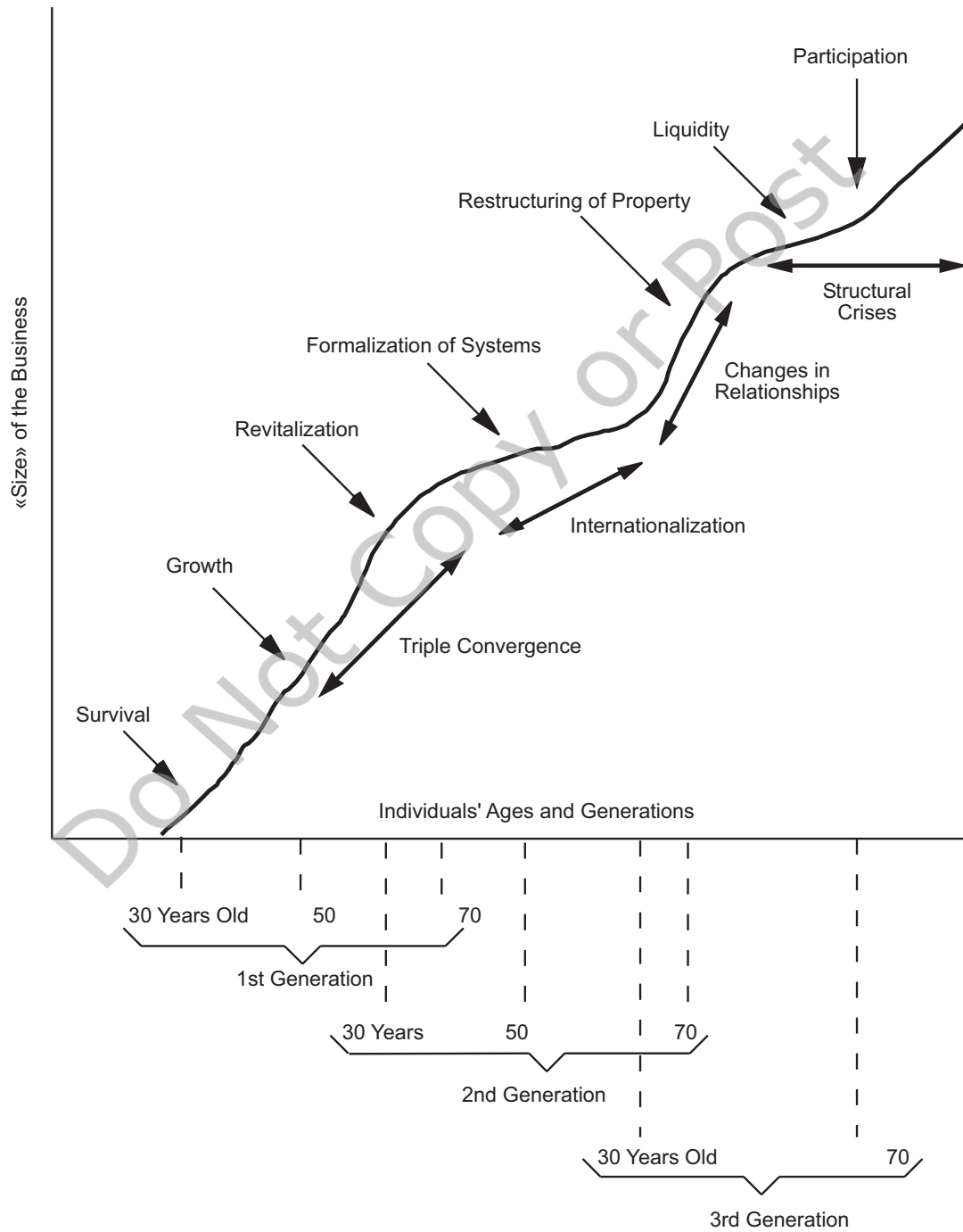
No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means – electronic, mechanical, photocopying, recording, or otherwise – without the permission of IESE.

Last edited: 1/15/13



Figure 1

Evolution of the family business



Abstract for promotional use only. Full version available at www.ieseipublishing.com

The Effects of the Passage of Time on the Family Business

The status of the family that owns the business, the degree of concentration of ownership, both the company's and the family's governance systems and how the company is organized are all areas in which changes occur as the family and the business evolve. The conflicts that can arise and the ways of dealing with them are very different in each stage. Table 1 is a schematic illustration of the different aspects that should be considered.

Table 1
Evolution of the family business over time

Family Characteristics			
Property	Sole Proprietorship	Siblings are Shareholders	Cousins are Shareholders
Family Relationships	Founder and Spouse	Siblings' Values Passed Down by Parents	Cousins. Different Families With Different Values
Governance Systems	The Founder is the Leader and Runs the Business	Board of Directors	Board of Directors
Type of Organization			

Table 2
Problems during the evolution of the family business

Stage	Problems Among Shareholders
1st: "The founder and owner"	<ul style="list-style-type: none"> • Transmission of management. Succession. • The spouse's economic security. • Planning for the transmission of assets.
2nd: "A partnership of brothers"	<ul style="list-style-type: none"> • Achieving harmony and teamwork. • Keeping ownership in the hands of the family. • Succession.
3rd: "A number of family members are shareholders"	<ul style="list-style-type: none"> • Returns. Assigning dividends. • Financing the business. • Liquidity for shareholders. • Family members' participation in the business. • Resolution of conflicts among shareholders. • Family constitution. Transmission of the company culture.