The Three Dimensional Development Model of Family Business

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Abstract

Family businesses have proved to be vital and successful part of the economy in all economies of the world, especially in developed countries which have a long tradition of entrepreneurship and private property. For successful operation of large family businesses it is necessary to hire managers who are not members of the family and that his competence and skills should cover all scarce skills in the family business, a rational view and unencumbered by family relations should raise the level of efficiency and professionalism of the company. This paper presents characteristics of the three dimensional development model of family business, which consists from family, ownership and business.

Keywords: ownership, business, family, family business

1. Introduction

Family businesses as a form of the entrepreneurship are formed by folding and mutual interaction of three subsystems - business, family and ownership. Business is work, employment, business activity and business venture. In economic practice and scientific theory of the developed world, particularly the US and the English, the term business is most often used as a general indication of each action incorporating the professionalism, entrepreneurship, trade and monetize. The family is the fundamental group unit of society based on shared life circle of blood relatives, in which combine biological - reproductive, economic and educational function. In the objective sense, property is all that belongs to someone, all of its assets and rights, while in the subjective sense it represents the power to do on his own to the subject of the property and the benefits that it brings, which includes the exclusion of every other persons. Features of property rights are uniqueness, exclusivity, elasticity and the right of parties to agree everything that is not contrary to the applicable laws. Special forms of ownership are co - ownership, joint, condominium, cooperative and state ownership.

2. Development of the ownership

Ownership as an eternal category is individual relationship between man and things and it represents a physical intervention and exploitation of things by man. It can be seen as a phenomenon, that is, the relationship between man and things, and as the essence or the social attitude of people regarding things (Kružić, D., 2004). Any physical or legal person may be the holder of the property, but also holder of other property rights, such as the right of stewardship, rights from real burden, right to build and hypothec on everything that can be the object of such rights, unless the law provides otherwise (Zakon o vlasništvu i drugim stvarnim pravima, čl. 1. st. 2.).
The family business ownership can be viewed from an economic and legal point of view. In the first case, the family ownership of the company is manifested in the appropriation of things, the means of production and objects of consumption in favor of the family, while in the second case, ownership of the family company represents the protection of domestic economic appropriation, and makes the totality of legal provisions and the provisions regulations governing the various rights the use and disposal (Kružić, D., 2004).

Effective owners must ensure that the company has qualified leadership, correctly allocates financial resources, follows a business plan, maintains the family's values and resolves disputes. To fail to consider the family's role and responsibility as owners ignores the fact that the company is family controlled (Carlock, R. and Ward, J., 2001). Although the structure-property family business can not remain static over many generations, it is possible to achieve dynamic changes over the ownership structure of a single generation. Ownership of family businesses are most often transmitted from one major shareholder (usually the founder or his heirs), on a number of owners (mostly sons and daughters), and then on extremely wide number of owners (Kružić, D. 2004).

The structure of ownership of a family business reflects the history of the company and the history of events in the family, and the phase distribution of ownership often passes following development path (Kružić, D., 2004): a) controlling owner - in which the largest number of shares are in the hands of the founders and later generation successors, and that individually - rarely at two owners, such as a spouse, b) sibling partnership – in which is relatively equal proportion of ownership in the hands of members of the same generation, c) cousin consortium - where the property remains dispersed, and which includes third and next generations of successors, d) family syndicate – which is having an extremely fractionated property and is in the hands of the fourth generation or later successor.

Regardless of whether the owner is employed in the company as a manager or not, he has the most power in the company. For this reason, in family businesses property mostly passes from parent to child at the time when parents retires or dies. Historically, forms of ownership change vary from primogeniture (right of firstborn son on inheritance) to parcenary, in which heirs receive relatively equal shares. In the US is observed tendency that in family businesses, to executives who are members of the family is given in inheritance most shares, followed by the allocation of shares descendants who are employed in the family business, and the minimum number of shares of family businesses goes to those heirs who are not employees in family businesses (Kružić, D., 2004.).

3. Development of the family

Families are the most compelling social institutions. Our families make us who we are, they are the source of both the „nature“ and the „nurture“ of individual development. Psychologists, sociologists, historians, and economists all consider the family to be one of the critical building blocks of the systems they study (Gersick, K. E. et. al., 1997). Keeping a family business alive is the toughest management job on earth. Family business have found themselves competing in a more turbulent environment driven by new technology, pluralistic social values, intensified competition, a global economy and changing politics and regulations. Around twenty five years ago, a family business did not have to consider the Internet, digital communications, balancing family and career demands, the growing number of women in management ranks, the impact of Asian economies, the European Union or the wholesale deregulation of the marketplace. The family business of the 1980s was much more concerned about interest rates, defending local market position and minimizing estate taxes (Carlock, R. and Ward, J., 2001.).

The development of the family is different from the development of the ownership and company as it develops, among other things, influenced by the biological clock ticking time to all family members. It is impossible to predict the length of life and affect it, but it is possible, because of the predictability, influence and affect the phase change of ownership and the phases of the life cycle of enterprises. Furthermore, members of the family businesses need to find an adequate response to the emergence of new generations in the family, the establishment of authority, the relationship between sons and daughters, the relationship between relatives, the retirement of the older generation and similar. Time lapse runs the family changes. Family development is under the influence of the dominant influence of the biological clock which consists of the following stages: a) stage appearance - the emergence of young business family - parents less than 40 years, children less than 18 years, b) phase of inclusion of children in a business family -parents between 35 and 55 years, children around 20 years, c) the phase of the joint work of several family generations - parents between 50 and 65 years, children between 25 and 45 years, d) phase of the withdrawal of the oldest generation - parents more than 60 years, children less than 40 (Kružić, D., 2004).

Families have three generic approaches to a family business philosophy: a) business first – generally put the business before the family, b) family first – favor the family over the business, c) family enterprise approach – work to generate a solution that meets the needs of both. Circumstances make the choice between family, business, or family enterprise. If the family is large and the business is small, there is usually no room to support family interests at the expense of the business. Business survival is paramount. In the case of a small family and a prosperous business, however, there is little penalty in serving family needs first. The choice grows difficult only when the business has limited resources and the family is large enough to spawn conflicting career and financial goals among members. The choice is also difficult in a business of any size when ownership is shared among several relatives, some of who are active in the business while others are not. In such circumstances, developing family business philosophy is critical (Carlock, R. and Ward, J., 2001). Family business leaders seldom think of themselves as governing the business or the family.

Yet thoughtful business owners almost universally value the goals of good governance, both in the business and the family, peace, cohesiveness, effective conflict resolution and freedom from internecine political warfare to pursue shared objectives and values. The business that is well governed is free to work toward the highest and best objectives of business, maximizing profit, improving strategy, creating jobs, fostering employee development and serving all stakeholders, including shareholders, employees, customers, suppliers and the community. A family that runs smoothly is free to nurture and expand upon the most positive elements of its heritage, such as family values, pride, unity, history, tradition, mutual support and legacies of service. Many business owning families drift unconsciously into haphazard or destructive patterns of decision making and communicating that can threaten and even destroy those shared interests (Arnoff, C. and Ward, J., 1996.)

4. Business Development

Planning for business growth while transferring ownership and management across generations presents many challenges in today's complex business environment. Family businesses must cope with endless industry related and organizational decisions while simultaneously planning for the management and ownership transitions driven by individual and family life cycles. These challenges are not unique to a particular family enterprise. They are related to predictable transitions that occur as both families and businesses grow and mature. Families and their businesses must address life cycle change because it is biological inevitability (Carlock, R. and Ward, J., 2001).

In family business, managers and owners have the most influence during their adult years, from around age 30 until they peak in their 60s or 70s. All businesses face challenges created by industry and organizational life cycles. The addition of the individual and family life cycle forces is what makes family business planning unique. Because family members are intimately involved as employees and owners, their life cycles also have an impact on their business. The combination of continuous life transitions and events within the family and business systems makes it imperative to understand the planning challenges driven by family and business life cycles (Carlock, R. and Ward, J. 2001.)

The development of property and family is not possible without the development of business. The age of the company, size and structure, market position, relationships with employees, customers, suppliers, financial institutions and the environment, capacity to meet current obligations, expansion, and growth and development will provide a picture of the functioning family business, or give a possible scenario how will the company develop in the future.

From a business point of view, the development of a family business is characterized by the following stages (Kružić, D., 2004): a) the start up stage - stage of majority ownership of the company, most often by founder, which is characterized by high financial risk, low degree of organization, lack of resources needed to meet the overall needs of the company, the desire for the achievement of the best possible results, and weak competitive position (targets of family and business coincide and come down to survival), b) stability and growth stage – the stage at which the company with their business decisions achieves continuous growth and development, and strengthening its position in the market, which brings with it good relationships with employees, customers, suppliers and financial institutions (this is the stage where children are involved in the work of a family business), c) maturity stage – phase in the life cycle of companies in which there is a decrease in profitability, and at this stage the owner of a family business needs to decide whether it will manage the family company to professional managers, who are educated, creative, innovative, and that is up to the task, d) restart or decline stage - phase in the life cycle of a family business in which due to stagnation, bad positioning in the market, the impossibility of further development and expansion, the owner should decide about the fate of a family business, so whether it will survive or perish. This phase marks the withdrawal of the oldest generation of the family business (family size), and some of the hybrid forms of proprietorship founder's children and relatives (size of property).

5. Conclusion

The nature of business is completely contradictory to the nature of families, because families are guided by emotion, while business is driven by objectivity and reality. Furthermore, families are protectively oriented towards its members, the business significantly less, and the families primal resistant to change, while business can not be without it. A large number of family businesses have a problem with the separation of these two sub-systems, but this process is essential if we want to achieve progress, development and growth.

A family business is one in which the family has much of the property in accordance with the continuous impact on its development, in which the right to vote is divided so that the family can have a control function, and in which comparative advantage arises from the interaction of family, business and ownership, especially when the family unit is strong. Right on that interaction is based the three - dimensional development model of a family business that is unimaginable without the development of property, family and business.

6. References

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