

Randel Carlock is the Berghmans Lhoist Chaired Professor of Entrepreneurial Leadership at INSEAD. Here he talks of his interest and work on family businesses.

The business family, not just the family business



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Isn't research and teaching on family business a relatively new area?

It really started about ten years ago. The traditional company and the origin of studies in the US in business schools was the large public corporation. In the 1970s and 1980s, entrepreneurship started to be looked at seriously. When an entrepreneur reaches the point of passing management of the firm on to the next generation, then the issues of family business start to arise. With succeeding generations, they become more complex.

Business families are always about relationships

What attracted you personally to this area?

During the last decade the combination of economic development, new technologies and increasing market opportunities, plus the participation of a new generation of family members, have together contributed to the increased vitality of family businesses. They have become more sophisticated about management. There is an increased awareness of the challenges and opportunities that exist. For me, the new emphasis must be on the business family, rather than just the family business. This represents an important change in thinking about how families view themselves.

The expansion of the family stakeholder group and the increasing number of non-business roles require recognition. There are also many business families that are not directly involved with running a business, but rather participate in a range of enterprise activities including a family holding company, a family investment partnership or a family foundation.

If the emphasis is on the people, then we are talking about relationships?

That's right: business families are always about relationships. What makes this so relevant is that today more and more business generally is built on relationships. This has real advantages. Alvin Toffler said "wherever family relationships play a part in business, bureaucratic values and rules are subverted and with them the power structure of bureaucracy."

And what about the structure in family businesses?

Yes, most of the problems in family business are structural, too. It's not just one member of the family falling out with another. Look at it this way. Dad aged 64 is the CEO. His son aged 40 wants the job. For him, his father is not up with modern ideas, markets, technologies. It's time his father took it easy and occupied himself elsewhere. For Dad, is this the end of his business life? Overlapping careers like this can be a big structural issue.

When we look at family firms, we see that there are five structural pressures: control, capital, careers, conflict and culture.



So these are the challenges for the family?

They are the issues. The real challenge comes in balancing the business requirements and opportunities against the family needs and wants when faced with these structural pressures. The family system puts priority on emotional concerns, family needs and maintaining stability. The business system puts priority on business performance, business demands and managing change. What needs to be put in place is a parallel planning process. Take values: the family has certain core values. How do these translate into a management philosophy that meets the needs of the business? On the other side, strategic thinking for the business requires family commitment. Both family and business must share a common future vision. When formulating business development plans, they must fit in with the family enterprise continuity plan.

There are these two elements: the family and the business?

Actually, we believe there are three subsystems: ownership, family and business. This is important when you look at governance structures. Typically there is a Board of Directors and a Family Council. The Board is concerned with the management of the business and also the ownership. The Family Council is obviously concerned with family matters and also the ownership. The areas overlap and the structures run in parallel. Similar principles apply when identifying business strategies.

Is there one critical task?

Yes, and it is obviously creating capable owners. You see, managerial parents may not know how to train successful owners. The next generation's ownership is not always tangible in their minds. The next generation can lack a connection or commitment to the business, or feel unworthy or powerless in relation to their parents and business. And there is no job description for owners!

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And what about advantages?

Well, let me give you a list! Individual family members can have star power in the market. Family firms have greater resilience in tough times. Family trust earned in management and ownership relations creates a lower cost of capital. Family investors have a long-term perspective.

With a family firm there are identifiable owners whose interests are the total well-being of the enterprise. This means a very different approach to corporate governance than in a typical major public company, which may have a million shareholders all over the world with dividends and share-price uppermost in their minds. And families tend to create social, economic and emotional capital.

I have a personal comment, too. How many of us see our mothers or fathers doing their best works in the business side of their lives? And how many parents actually witness their children successfully fulfilling their business roles? **IQ**

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