What Makes Family Business Different From Others?

It's Friday. You quickly rush out of the office to Central World for a catch-up session with old friends at MK. Before ending the night with a pint of Singha Beer. Does this situation sound like one normal day for an ordinary office worker? How many of them would notice that, everyday, they are surrounded by products and services of shared attribute? That is, provided by family businesses.[1]

In fact, the number of family businesses accounts for a large proportion of companies around the world. Statistically, in United States, family businesses accounted for more than one-third of companies in S&P 500, including retail giant like Wal-Mart (Walton Family).[2] Similarly, in Europe, almost half the listed firms are family businesses.[3]

The Reign of Family Business

Why family businesses are so common across the globe? And are they any different from other types of companies? The answer is yes, they are different and that is the reason why they are so common. Family business is a result from interaction between family and commerce. Making the company be guided by a different set of goals and motives, as well as different strategic planning. This differentiation makes them more likely to survive. Family businesses are often founded to be financially superior to nonfamily ones. Statistical research shows that listed family businesses had a higher 10-year total returns to shareholders, measured by CAGR, when compared to leading indexes such as MCSI Europe, MSCI World, and S&P 500.[4]

Back to the beginning example, Central Group and Boon Rawd Brewery (the owner of Singha) are still largely owned and managed by Chirathiwat and Bhirombhakdi families, respectively. Their founders' principles are embedded in the core cultures of the companies. Similarly, MK Restaurant Group is now managed by the extended family member, Mr. Rit Thirakomen, the son-in-law of the founder. With these evidences, through several decades of company histories, it is possible to claim these businesses have survived as a successful company.

A Myth Or A Solvable Problem?

On the contrary, numerous family-owned companies did not experience such lucky survival in reality. Many did fail. Family businesses are mortal, as some believes that only 15% of family businesses survive by the third generation.[5] This issue is, in fact, not a myth, but a solvable problem. Though a careful analysis of each building blocks of the company, the truth behind could be revealed.

Resource-Based View Approach (RBV) comes into play in this step. As the diagram shows, RBV views the firm as a bundle of resources, in which the way resources combined mark a distinction between firm performances. And by exploiting the firm's

[1] Family business can be defined by the involvement approach, in which a single group of family members has a majority of ownership interest or significant control over the company.

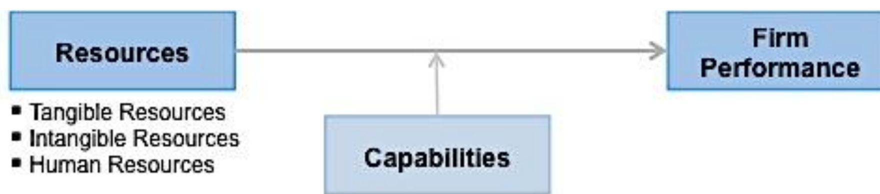
[2] Caspar, C., Dias, A. K. and Elstrodt, H. P. (2010) *The keys to long-term success are professional management and keeping the family committed to and capable of carrying on as the owner*.

[3] Faccio, M. and Lang, L. (2002) The ultimate ownership of Western European corporations. *Journal of Financial Economics.*

[4] Caspar, C., Dias, A. and Elstrodt, H. (2010) *The five attributes of enduring family businesses.*

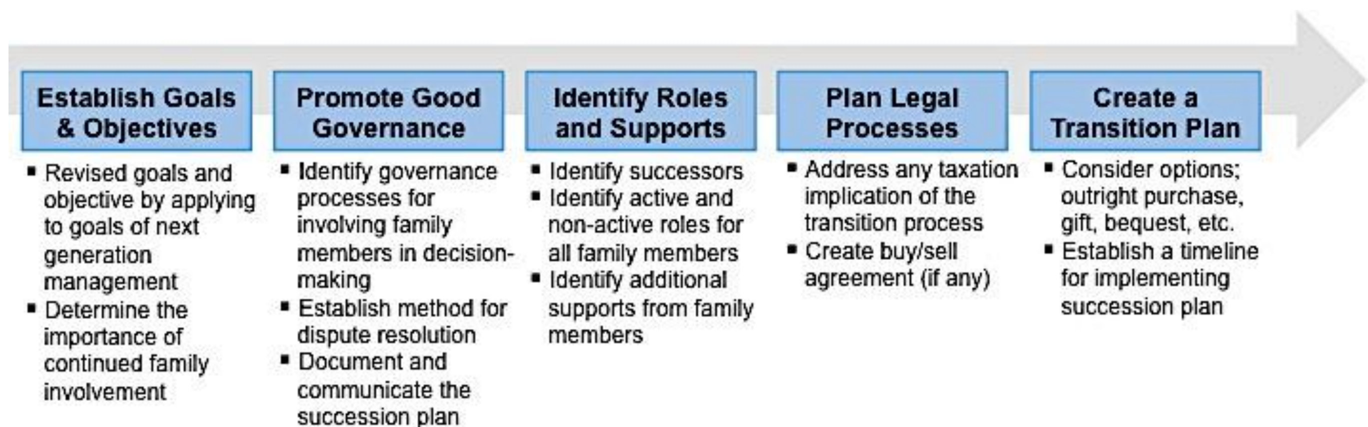
[5] Mandelbaum, L. (1994) Small business succession: The educational potential. *Family Business Review*

resources, a firm can develop a sustainable competitive advantage and achieve higher performance than others.



Family business possesses a different set of resources from other types of companies, thus differing their performances. Although, resources of nonfamily firms are varied by company's strategic position, they are more towards technical and industry-specific resources. For examples, a breakthrough innovation, special production process that gives cost advantage, or supreme quality control procedure. Whereas, key resources of family firms are the additions to the nonfamily ones, they are more concentrated on people and non-technical components. For examples, family communication, family expectations, family values, family competencies and family dynamics.

These family resources are mostly tacit knowledge, that is cannot be easily articulated by verbal means. So they are slower to transfer than explicit knowledge and costly, in term of time and efforts taken to transfer. This makes transition of family business to the next generation even more difficult. For instance, how can the next family leader know how to maintain the current effectiveness of 'family communication', that is able to get point across all family members and receive prompt consensus? Also, how can the leader use 'family value' to drive high productivity and job satisfaction in the employees?



For this difficulty in transition of family business to the next generation, the above diagram provides a framework of 5 steps for succession planning.[6] Current family leader who is controlling the company should start by reviewing the company's current position, before revising the business goals and objectives together with the successor to reflect the next generation's planning of the company. These two generations' leaders should then construct a good internal control function for the company to avoid any dispute or bias that may result from family involvement. Once, roles and responsibilities of all family members are identified, both leaders can proceed to planning legal documents and construct an implementation action plan for transition to the next generation.

[6] Evans, M. (2013) 5 Steps To Create A Viable Succession Plan For Your Family Business. *Forbes.*

This framework can be a guideline for family businesses that is mostly owned and managed by a single family group. However, the framework should be adjusted to company's unique attributes. Taking listed company for example, company needs to undergo more intense legal process planning for transferring shares, as well as putting more importance to the reaction of the stakeholders and effect on share price. Nonetheless, family leaders should be aware that the key success factor for succession process is communication. Clear communication could facilitate the process of new leader, assessing his/her competencies, and selecting new roles. Although, it should be easiest to communicate among family members due to their intimacies, in some cases of high conflict of family interest or high resistance to change (to the next generation), external guidance from independent parties such as professional consultants/advisors would be a better solution to smoothen the succession process.

Putting It All Together

In today's dynamic world, family-owned companies have struggled to survive in the competitive environment, especially when many companies have died out in the succession phase. Thereby, solving the succession planning for family business is an evolving market for consulting industry. As already recognised by some institutions in Thailand, for instance, University of the Thai Chamber of Commerce, Bangkok University and Kasikorn Bank.

Additionally, as previously identified, family business comprises of a distinctive bundle of resources that differs from other types of company. In any case of conducting company analysis, including when a family leader want to assess their company's current position before planning to adjust to next generation's view, and when professional consultants conducting a succession plan, one should be aware of the level of family ownership and involvement in managerial decision in the company since family component could effect firm's decisions, performances, as well as recommendations.

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