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## Family and business: Complementary and conflicting values

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### 1 Introduction

Most businesses are, or were originally established as, family businesses. In family businesses there is an intensive interaction between the entrepreneur, his or her family and the firm, as shown in the extensive literature on this subject (cf. Donckels 1993, Gersick 1997).

It is not easy to define family business. Donckels (1993) refers to two criteria: ownership and management. A family business can be defined as a firm where the ownership and the effective control over the management are (mainly) at the hands of the members of the same family. Leadership by members of the same family can be an important determinant for success for a firm, but it can also be at the origin of a lot of problems.

The two main elements of tension between family and business are:

- Disagreements regarding the objectives, which occur mainly when decisions have to be made about the allocation of profits: short-term interest of the family (distribution of the profits) versus long-term or middle-term interest of the firm (reinvestment of the profits)
- Disagreements concerning the role and position of individual members of the family. Hierarchical structures within the family such as a right of primogeniture for older children over younger children or (very often) a preference for sons over daughters are transferred to the firm, even if there is no reason for this from a management point of view.

In the literature, the “family” in general is defined rather broadly as a so-called “extended family”. This “extended family” is a network, composed of several households which can be related to each other in very complex ways. Their relationship to the firm can be equally complex. Specially in larger family firms which exist for several generations, the structures and the networks can be complex and complicated.

However, even in the universe of small family firms, led by independent owner-managers, it can happen that the owner-manager has to take the “extended” family into consideration. Especially when the entrepreneur has taken over the firm from his or her parents or parents-in-law (family businesses of the second or third generation), these parents or their heirs (brothers, sisters, cousins, nephews etc.) can still be co-owners of the firm. They can be members of the board or they can try to influence management decisions in a more informal way. Very often they claim a preferential treatment for the assignment of jobs for themselves or their children.

When the interference of these relatives is becoming a liability for the management, the entrepreneur will try to reunite full property and full decision-making power in one hand and to keep it so. This is especially the case when the firm is too small to earn an

income for several households. In this case the entrepreneur will try to buy out his relatives.

Even if the entrepreneur is able to get (almost) full control over the ownership and the management such that the "extended" family no more has influence on business decisions, he (she) still has to take the "small" family (household partner and children) into consideration.

The firm is the main (or at least a very important) source of income for the household. In most cases it is also the main component of their wealth (positive or negative). This implies that the partner and the children are becoming "stake-holders" in the firm. The entrepreneur will be involved in the firm very profoundly, not only from a financial point of view, but also from an emotional point of view. In most cases the entrepreneur will take a very large working load and devote a large share of his time to the firm, so a competition can arise between the firm and the members of the household for the attention of the entrepreneur.

This phenomenon does not only happen with entrepreneurs. Also salary earners, especially at executive level and working out of home, can be confronted with a competition between their household and their job, vying for their attention. However, in most cases the problem will be more intensive for entrepreneurs. There are several reasons. On the one hand there will be more interaction between the household circle and the professional circle of an entrepreneur than of a salary earner (members of the household working together in the same firm; short physical distance between the household home and the firm...). On the other hand there is a strong interdependence between the social risk, the financial risk, the professional risk and the emotional (family) risk, which the entrepreneur has to confront (family savings money is invested in the firm, family home is mortgaged for the firm, ...). Members of the same household can be an important factor of mutual support, but we have to realize that potential household conflicts (between partners or between generations) can have an enormous negative impact on the firm.

In 1991 and 2000 empirical research has been conducted with small entrepreneurs by the Center for Economics and Ethics of the Catholic University of Louvain (K.U. Leuven), in collaboration with the Small Business Research Institute of the K.U. Brussels (cf. Schokkaert, Bouckaert 1992, Bouckaert, Sels 2001). The subject of both projects were value patterns and value conflicts in the group of small entrepreneurs.

In 1991, a survey was held with 401 Dutch-speaking (Flemish) Belgian entrepreneurs outside the agricultural sector. In the second project in March-May 2000, also small entrepreneurs in the agricultural sector were surveyed. In the sample were 501 entrepreneurs in agriculture and 531 entrepreneurs outside agriculture ("independents"). All respondents are owner-managers of small firms (less than 50 employees). In seven cases the respondent was not the entrepreneur but the husband of wife. In both sectors about one out of four respondents was female. This second project has been made possible by the support of Cera Foundation.

In both surveys, questions were submitted about several value issues such as growth, social capital and social security, public authorities and environment. In this paper we want to concentrate on family issues.

## 2 Family and business as competing values

### 2.1 *Complementary objectives of the household and the firm*

As shown in the previous paragraph, we run into several interactions between the firm and the household of the entrepreneur:

- financial interaction related to income and wealth
- spatial interaction (short physical distance between home and firm)
- emotional involvement of the members of the household with the firm
- interdependency between entrepreneurial risk, professional risk, social risk, emotional (family) risk.

The result of these interactions can be positive for the members of the household and for the firm. Members of the households can fulfil some personal objectives through the firm and the firm can take advantage of the involvement of the members of the family. There can be a large extent of synergy between the objectives of the family and the objectives of the firm. Some examples:

- Resident members of the household (especially the life partner of the entrepreneur) perform all kind of services for the firm, for free.
- The firm makes it possible to give employment to members of the family (on well-paid jobs).
- The firm can provide a high-yielding investment opportunity for the savings money of the family.
- The savings money of the family can be a cheap source of finance for the firm.
- The succession of the top executive of the firm can be nicely prepared and coached in the context of the family (cf. *infra*).

### 2.2 *Potential sources of tension and conflicts*

The synergy as discussed above has to be supported by a correct economic calculus. If the firm is not capable to provide a sufficient yield for the savings money of the family or if the members of the family think that they can earn more money by taking a salary job outside the firm, tensions cannot be avoided. Conflicts of interest can arise between the firm and the members of the household. Moreover, the firm can be at stake when conflicts arise among the members of the family.

Why can there be a conflict? Gersick (1997, p.294) points out that the objectives of owners of family firms are not mysterious at all. They want profitable firms, a high standard of living for themselves and their households and love within the family. However, problems arise when families become afraid that the pursuit of some objectives will be at the expense of some other objective. Donckels (1989, p.18) adds that very often the cause of problems lies in the interaction between the world of the family and the world of the firm. Very often, conflicting interests regarding the objectives and the priorities are forced into one system. Donckels (*ibid.*, p.19) points to at least four levels of possible tension between the family and the firm:

- Employment (objective of the family: each member of the family is entitled to a job in the family firm; objective of the firm: hiring people only when it is profitable).

- Income (objective of the family: each member of the family is entitled to equal treatment; objective of the firm: salaries are related to productivity).
  - Role of the individual (objective of the family: the well-being of each individual is a specific objective; objective of the firm: the individual is an instrument in the pursuit of the objectives of the firm).
  - Training (objective of the family: each member is entitled to a training following his or her personal wants; objective of the firm: training following the needs of the firm).
- The tension between firm and household also makes itself felt on the way an entrepreneur allocates his (her) time. Entrepreneurs work very hard and devote a lot of time on this work. At least this is the opinion they have about themselves, as it appears from the survey in Belgium. We give some results in table 1.

*How many days do you work per week?*

	Independent (in %)	Agriculture (in %)	Total (in %)
5 days or less	21.7	10.4	32.1
6 days	58.0	47.1	52.7
7 days	17.5	41.5	29.2
No answer	2.8	1.0	1.9

*How many hours do you work per week?*

	Independent (in %)	Agriculture (in %)	Total (in %)
Less than 30 hours	21.0	6.4	4.2
30 to 40 hours	5.9	3.2	4.6
41 to 50 hours	12.7	8.2	10.5
51 to 60 hours	21.0	17.0	19.1
61 to 70 hours	22.5	22.6	22.6
More than 70 hours	35.8	42.5	39.0
No answer	3.0	2.0	5.0

*How do you allocate your time over activities?*

	Independent (in %)	Agriculture (in %)	Total (in %)
Family	18.1	18.3	18.2
Business	70.8	73.1	71.9
Social activities	4.7	3.8	4.3
Hobbies	6.6	4.9	5.8

*Table 1: Working load and time allocation of the entrepreneurs*

Most respondents work six or seven days a week. More than six out of ten respondents work more than sixty hours each week. Their time allocation is as follows: 70% for the firm, 20% for the family, 10% for social activities and hobbies. As expected, men spend more time for business and women on family and household.

### *2.3 The position of the family in the value system of the entrepreneurs*

For everybody, family is an emotional issue. The job environment and household issues can become a dilemma for entrepreneurs as well as for salary-earners: on the one hand your job is an instrument to earn an income for yourself and your family, on the other

hand your job also can be instrumental in the pursuit of certain personal aspirations or objectives. Moreover, most people have to allocate a lot of time to their job environment.

Entrepreneurs allocate not only their time, but also other production factors (their savings money or other wealth components) to the firm. The decision to reinvest profits in the firm in the short run can have consequences for the standard of living of the household. Moreover, as we have seen there are also other interactions between the household and the firm (close physical distance, flexible hours of labor, life partner and children giving occasional assistance, perspective for a succession...).

The empirical research shows that the family (household) is very important in the value system of the respondents. The first impression is that the opposite could be true. Table 2 shows that the statement “I want to continue the tradition of my family” only gets a fourteenth or last place in the hierarchy of values.

*Which values do you consider “important”?*

	Independent (%)	Agriculture (%)	Total (%)
I want satisfaction in my job	90.4	92.2	91.3
I want to be my own boss	81.2	92.0	86.4
I want to make/deliver good products	83.8	88.0	85.8
I want a high reward for hard work	79.1	88.6	83.7
I want to be proud with my profession	76.6	83.2	79.8
I want contacts with people	78.9	80.4	79.6
I want a job (avoid unemployment)	71.2	82.6	76.7
I want to build up my firm	71.8	79.0	75.2
I want to be appreciated by the society	62.1	72.5	67.2
I want to make more money than as a salary-earner	63.7	68.3	65.9
I want to acquire property	55.0	64.7	59.7
I want to take risk	58.4	60.7	59.5
I want to create employment for other people	53.1	46.7	50.0
I want to continue the tradition of my family	39.9	59.3	49.3

*Table 2: Importance of family tradition in the value system*

In the group of independent entrepreneurs, only 39.9% consider the family tradition as important, in the group of agriculture it gets 59.3%. Family-related values (“to continue the tradition of the family”) are not considered “important” by about half of the respondents. However, in a second question the respondents were invited to define a hierarchy in the values. Here we get a different picture: those entrepreneurs who consider family traditions “important” give it a high place in the hierarchy. It gets a fourth place (on 15 values) with the respondents in the agricultural sector and a fifth place with the others (in both groups, autonomy or being one’s own boss, got the highest score).

We also can compare with 1990 (when 401 entrepreneurs outside the agricultural sector were surveyed). In 2000 more respondents discarded family values as “important”, but those who stressed its importance assigned a higher place in the hierarchy. In 1990 it got only a tenth place.

### 3 The position of the household partner

It has been shown earlier (cf. Degadt 1993) that not only the family, but also the household partner plays a crucial role for the functioning of the entrepreneur in the firm. It has been shown that there is an asymmetry between the position of the male partner of a female entrepreneur and the position of the female partner of the male entrepreneur. The male partner is mainly an informal advisor for strategic decisions. The female partner very often is a contributing wife (part-time or full-time) and is involved in all aspects of the management, from the strategic decision-making to the operational work.

This is confirmed by the empirical research. Table 3 shows that most respondents have a household partner: 81% are married, 4.6% are living together. More than half of these partners (65% in the agricultural sector, 55% outside agriculture) have some statute in the firm as a contributing partner, co-owner or employee. About one out of two partners effectively work in the firm in an executive, administrative/commercial or operational function. Male partners of female entrepreneurs are over-represented in executive functions. One out of four partners works at home and also one out of four has a paid job outside the firm, implying that the household has a source of income outside the family business.

*How is your household situation?*

	Independent (%)	Agriculture (%)	Total (%)
Single	9.8	9.4	9.6
Married	76.6	85.6	81.0
Widow or widower	1.1	2.4	1.7
Living together	7.5	1.4	4.6
Legally married but separated	0.9	0.2	0.6
Divorced	4.0	1.0	2.5

*Which is the legal situation of the partner in the firm? (n=933)*

	Independent (%)	Agriculture (%)	Total (%)
No statute	43.4	34.6	39.1
Co-owner	25.5	20.9	23.3
Contributing partner	19.4	38.1	28.5
Part-time employee	2.7	1.1	1.9
Full-time employee	6.3	2.4	4.4
Independent assistant	1.5	2.2	1.8

*Which kind of function does the partner perform?*

	Independent (%)	Agriculture (%)	Total (%)
Partner only helps in the household	21.5	23.6	22.5
Administrative and commercial function	21.7	22.2	22.0
Operational work	16.1	22.7	19.3
Leadership function	9.4	11.0	10.2
Partner has job outside the firm	31.3	20.5	26.0

*Table 3: Position of the household partner*

#### 4 Working load and taking a day of rest

The idea of a day of rest each week has its origins in a very ancient tradition where economical, social, ethical and religious elements come across. In most European countries a Christian religious tradition induced the option for the Sunday as a weekly day of rest. Even where the influence of the organized religion has decreased, labor remains organized on a weekly basis. For most people, the week is composed of five working days and two days of rest.

The weekly day of rest is not only considered as a religious duty, but also as a social accomplishment. The Sunday is a mandatory day of rest, not only in the Christian religion, but also in most secular labor laws. Firms and other institutions (schools, hospitals, public administration,...) have to close or to reduce activities to a more limited level. When continuity is absolutely necessary, employees are entitled to a compensation (higher wages or holidays) for working on Sunday.

In most countries not only the Sunday rest of employees is legally protected. Very often there are also laws limiting or regulating the opening hours of shops and businesses. When the mandatory Sunday rest is put onto discussion (with arguments such as “flexibility” or 24-hours economy) the opposition is in the hands of a coalition of churches, trade unions and organizations of small business owners.

Although religious considerations continue to support the idea of a weekly day of rest, they will be surpassed by arguments supporting family life. During “working days” each member of the household has his or her own life. On the seventh day they are entitled to live with and for each other.

The empirical results show that the entrepreneurs support this position. Most respondents have their lives organized on a weekly basis. Table 4 shows that the Sunday is a day of rest for about 70%. In agriculture, this proportion is slightly smaller. Almost two out of three (64.2%) entrepreneurs support the idea of closing business on Sunday.

*Do you have a day of rest?*

	Independent (%)	Agriculture (%)	Total (%)
Sunday is a day of rest	67.6	61.5	59.5
Weekly day of rest on another day	10.5	5.2	7.9
Sunday and another day are days of rest	15.4	3.0	9.4
No day of rest	16.4	30.3	23.1

*Table 4: The day of rest*

In organizing the day of rest, family life is considered as a first priority, followed by recreation (television, reading, sport en hobbies). A large share of the respondents also use the day of rest to work on their administration. A minority devotes time to visit church or other religious activities.

## 5 Family and succession

### 5.1 *The family and the firm have their own objectives*

As we have seen in the previous paragraphs, the entrepreneur combines the functions of ownership (financial risk) and leadership (strategic and operational management). Very often he or she also has to perform some operational duties. In a family firm, the entrepreneur will be assisted by members of his household in various functions: co-owners, members of the board, members of the management team, executives, employees or volunteers. Members of the family also can combine several functions.

However, there is one more element: time. The family as well as the firm will change over time. The firm can expand or stagnate. The family changes through marriage and divorce, birth and death; young members of the family will choose to work in the firm or not but if they do, they will want to rise to management positions as fast as possible; ownership structures can change; at a certain moment the entrepreneur will have to consider retirement.

The dynamics of the firm and the family are not always convergent. As shown in the literature, the networks of larger family firms can become very complicated within two or three generations. Sometimes the family will make agreements regulating the position and the involvement of family members in the ownership and the management of the firm.

However, in most smaller firms such as were represented in our sample, the structures remain simple. If the firm is not capable to provide jobs and income to more than one owner-manager, succession will imply a transfer from one household (the leaving generation) to another (the incoming generation).

### 5.2 *Potential conflicts between leaving and incoming generations and other members of the family*

If there is more than one candidate for the succession, a conflict can arise. The leaving parents face a dilemma between a desire to leave a viable firm to one of the candidates at an affordable price and a desire to give equal treatment to their children. An implication can be that the parents will have to use other components of their wealth to compensate their non-incoming children or that the incoming son or daughter must be given a chance to buy out the non-incoming brothers or sisters.

Each situation and each family is unique, so each situation needs a specific succession plan. However, there are some general considerations, as mentioned in Donckels (1985), which are also relevant for small family firms:

- Priority must be given to the continuity and the future viability of the firm. If not possible, a sale of the firm must be considered.
- A succession procedure makes the firm vulnerable, especially during the transition period.
- The succession must be prepared for a long time on all levels (legally, psychologically, economically).

The possibility of emerging conflicts of interest between the leaving generation, incoming generation and non-incoming brothers and sisters (especially when setting the



price for the take-over) is only part of the problem. At the level of the firm, a new entrepreneur inevitably will try to formulate and implement a new vision and a new style of management, causing shifts in the balance of power at family level and firm level. Gersick (1997, p.214) points out that this is a process which will take time. Even when the succession has to happen suddenly (e.g. in case of sudden death or illness) a period of adjustment is necessary.

Problems arise not only because of the conflicts of interest (such as the setting of the right price) but also because of the emotional involvement of the members of the household and family. The leaving generation and the incoming generation not only have to deal with possible rejected candidates, they also have to clarify the future position of the leaving generation. Especially in agriculture, but also in other sectors (cf. Degadt en De Cock 2000) the leaving entrepreneur keeps involved intensively after the transition: emotionally, financially (very often he still keeps a share in the ownership) and spatially (his home is close to the firm and he keeps observing everything).

As Donckels (1987, p.22) points out, succession must be planned in all family businesses, whatever their dimension. A planning procedure implies formulating objectives, instruments and a timing, taking account of the aspirations of all stake-holders.

Table 5 shows that the majority of the respondents say that they want to stop at age between 60 and 70. Younger respondents have a tendency to give a lower optimal retirement age than older respondents.

*At which age do you want to stop your business?*

	Independent (%)	Agriculture (%)	Total (%)
Less than 40 years	0.6	0.0	0.3
40 to 49 years	6.0	2.3	4.2
50 to 54 years	12.5	8.5	10.5
55 to 59 years	22.3	12.4	17.4
60 to 64 years	27.9	36.8	32.3
65 to 69 years	26.3	34.5	30.4
70 ore more	4.4	5.5	5.5

*Table 5: Optimal age to leave business*

Who will succeed? As shown in table 6, about half of the respondents aged 50 or more declare that they have a candidate. In most cases it is one of their children. Larger firms and growing firms also have a bigger chance to have a potential successor.

*Is there a successor at hand? (only for business leaders 50 ore more)*

	Independent (%)	Agriculture (%)	Total (%)
	n = 149	n = 176	n = 325
One of the children	34.8	43.8	39.7
Somebody else	6.0	5.1	5.5
Nobody	51.7	45.5	48.3
Don't know (children are too young)	7.4	5.7	6.5

*Table 6: Availability of a successor*

## 6 Conclusions and policy recommendations

As we have seen, there are a lot of interactions between the entrepreneur, the members of his/her household, the extended family and the firm. These interactions can create positive effects, but there is a potential for tensions and conflict.

Making good decisions implies being capable of making a choice. So we have two policy recommendations for the entrepreneur and his/her family:

- Good decisions must be supported by a base of knowledge, even if the issue is highly emotional. Members of the household must recognize and discuss the problems and look for a solution together. If necessary professional assistance must be hired.
- Whatever decision, the competitiveness of the firm must be preserved. The family firm will always have to compete in a market environment.

### Literature

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