

# Strategic Planning and the Family Firm: An SBI Consulting Perspective

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## ABSTRACT

*Given the fact that approximately 90 percent of all businesses could be classified as family-owned or closely-held, it is becoming increasingly important that SBI student consulting teams are sensitive to the issues surrounding family and privately-held firms. Several issues regarding complexities of the family and business systems of family-owned firms are presented and discussed. It is posited that strategic management plays a role in the balancing and merging of the two sometimes discordant systems and can be used by the SBI teams in the consulting process. Finally, the need for research in the areas of 1) interest in ownership succession by family members; and 2) leadership succession in the family-owned firm is presented and discussed.*

## INTRODUCTION

Consider the following scenario: The first two meetings between the Small Business Institute (SBI) client and the student consulting team are smooth and very productive. Although the third meeting has started smoothly enough, the SBI team begins to feel increasingly uncomfortable, as they realize that tension between the owner of the firm and his son is surfacing. What has started as a typical consultation session to discuss new product development, has quickly evolved into a heated discussion between father and son as to the future direction of the company. The role of the SBI consulting team quickly shifts from student-consultants, to neutral third parties, to referees, and finally to stunned observers as the son uses the interruption of a phone call to bolt from the room.

As the above scenario suggests, it is becoming increasingly important that SBI teams are sensitive to the issues surrounding family and privately held firms. Given the fact that approximately 80 to 90 percent of all businesses could be classified as family owned (1) (15), there is a strong possibility that SBI teams will be working with a family-owned business. That is, SBI teams may be called upon to not only address issues pertinent to the business system of the client firm (management, marketing, sales, finance, accounting, etc.), but also may be faced with issues concerning the family system of the business as well (management succession, ownership succession, family squabbles, etc.)

In the past decade, there has been, and continues to be, a renewed and invigorated interest in the issues, problems, and solutions pertinent to family-owned businesses. In general, family-owned or closely-held firms are considered to be the backbone of the American economy:

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accounting for 90 percent of all U.S. companies; 45 percent of all U.S. jobs; and 40 percent of the nation's Gross National Product (GNP) (19) (2). Essentially, a family-owned business is one which is owned and managed by a single founder, siblings, other relatives, or a combination of family and non-family managers (20).

In addition, the roles of strategic planning, in general, and management and succession planning, in particular, need to be more fully considered by the SBI teams. For example, in a survey of 107 family owned firms, it is estimated that only 15 percent had formal written business plans; 37 percent had informal business plans; and 48 percent had no business plan at all. Furthermore, with regard to management succession, only 19 percent reported formal written plans; 23 percent reported informal plans; and 58 percent indicated that no management succession plan existed for the firm whatsoever. With regard to ownership succession, 23 percent indicated that a formal written plan existed; 20 percent indicated that an informal plan existed; and 57 percent reported that no ownership succession plan exists for the firm (15). SBI teams need to be sensitive to the interrelationship of strategic planning and succession planning in family/privately owned companies.

Considering these facts, several questions concerning the SBI client relationship emerge: 1) What are some of the characteristics of the business system and the family system with which the SBI team should be familiar? 2) How can strategic planning concepts be best utilized by the SBI team to acquaint the client with the need for formal planning, as well as for succession planning? and 3) What are some of the implications for future research in the area of strategic planning and the family firm that may advance our understanding of the complexities of managing a family-owned business.

## THE BUSINESS AND THE FAMILY SYSTEMS

Although there are several ways to view the family business, one approach which may be particularly beneficial for SBI teams, centers on the relationship between family concerns and business interests (13) (18). For example, Lon-genecker & Moore (13) note that although families and businesses may exist for separate reasons, there is an overlap of both family concerns (nurture, development) and business interests (profitability, survival) which needs to be considered in the operation of the business (p.118). In addition, Rosenblatt, Mik, Anderson, & Johnson (18) point out that there is often debilitating tension within the family business due to conflict between the family system and the business system. That is, there are two simultaneously operating systems (business and family) that have both harmonious and discordant values and goals. Furthermore, with regard to succession in family firms, Beckhard & Dyer (3) suggest that managing family-firm succession is often made more difficult by resistance to change by the leader. Clearly, this overlap between the family and business systems is one with which SBI teams must contend.

In order to better prepare the SBI team for dealing with the issues raised by the overlap of family and business interests, several characteristics of the business system and the family system can be summarized. While certainly not exhaustive, with regard to the business system, nine duties of the owner/manager can be identified. These include:

- 1) Self-assessment;
- 2) Preparation of the firm's description, mission, objectives, strategies and policies;
- 3) Analysis of the firm's strengths, weaknesses, opportunities, and threats (SWOT);

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- 4) Development of a management and organization plan, including personnel needs for the firm;
  - 5) Preparation of a production plan, if applicable;
  - 6) Defining a marketing strategy, including site selection, market research, niche identification, sales forecasts, and inventory needs;
  - 7) Preparation of a financial plan, including bookkeeping and financial statements;
  - 8) Setting timetable for implementation and feedback process; and
  - 9) Development of contingency plan(s).

While this is by no means the ultimate list of business functions of the owner/manager of the family firm, it does provide a basis for understanding the complexity of the business concerns for the family firm. In general, these nine duties are based on a combination of strategic planning and general business planning.

Similarly, with regard to the family system, seven issues for the owner/manager can be identified. These include:

- 1) Planning for ownership and management succession;
- 2) Managing personal and family conflicts arising from business demands and pressures;
- 3) Balancing and merging family and business objectives;
- 4) Maintaining business operations when a family member wishes to move on to new or different challenges;
- 5) Conducting financial planning to meet family and business objectives;
- 6) Managing firm growth, especially when the transition from an entrepreneurial endeavor to a professionally managed firm exceeds the family members available to fill the jobs; and
- 7) Using strategic planning to merge the needs of both systems.

Again, while not exhaustive, this list of issues regarding the family system of the business provides a basis for understanding the complexity of the overlap between the family and business systems. For example, attempts to balance and merge family and business objectives may not always be easily accomplished. There may be conflict between the amount of time one wishes to devote to the family and the amount of time that the "duties" the business system are taking. In addition, it could be argued that item seven, using strategic planning to merge the needs of both systems, really is a separate category not assignable to either the business or family systems. Given the strategic management foundation of the nine duties outlined above, however, it is suggested here that strategic planning may provide the overarching framework to blend the needs of both systems and needs to be considered within the context of the family system issues for the owner-manager.

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## THE ROLE OF STRATEGIC MANAGEMENT

While there is no easy solution to the complexities and potential conflicts which emerge from the overlap of the family and business systems, SBI teams need to be sensitive to both systems. This is especially important with regard to the role of strategic planning in the family firm. Strategic planning, especially in the corporate environment, is often viewed as an objective planning system. In the family-owned business, however, strategic planning needs to be extended to both the business system and the family system. That is, overall strategic planning needs to incorporate both the business and family systems. Ward (23) recommends the preparation of a family strategic plan which reflects the family's vision of the future. Clearly, there are both family and business dimensions of the strategic plan for the family-owned firm. For example, specific management and ownership succession issues need to be articulated, discussed and included in the strategic plan for the family-owned firm.

For the SBI team two points concerning the business and family systems and strategic planning are key: 1) While awareness of the duties and issues pertinent to the business and family systems is important, there will be tremendous variance with respect to how different family firms deal with the complexities of the two systems; and 2) the two systems must be represented in the firm's overall strategic plan, especially with regard to succession planning.

While the need for inclusion of succession issues is emphasized in the preparation of the family-firm strategic plan, other areas should likewise be considered for inclusion. These include, but are not limited to: 1) financial planning to meet family and business objectives; 2) contingency planning for growth that exceeds the capabilities, interests, and size of the family; and 3) operations planning in the event that a family member wishes to move on to new or different challenges.

## THE NEED FOR RESEARCH

Given the nature and complexity of the problems facing family firms and the need for a greater understanding of how the family and business systems overlap in family-owned firms, two areas of potential research are suggested: 1) interest in ownership succession by family members; and 2) leadership succession in the family-owned firm. Each is briefly discussed here.

### Interest in Ownership Succession

One of the dominant areas of interest surrounding family firms centers on the issue of management succession or managing continuity in the family business (14) (2) (1) (5). The issue of management succession is of importance to both practitioners and researchers because of the role it may play in the firm's ability to survive. Despite the fact the family owned businesses occupy a prominent position in the economic scheme of things (19) (2), it is estimated that only 30 percent of the family firms in the U.S. make it to the second generation (11). Ward (23) reports that in his study of 200 family-owned businesses which were five years old with a minimum of 20 employees in 1924, only 22 percent were still going concerns by 1984. In addition, Beckhard & Dyer (2) indicate that the average life expectancy of the family firm is 24 years, which coincides with the average tenure of the founders of the business. Ambrose (1) suggests that attempts to perpetuate family-owned business might prove more useful to the continuation of small businesses and thus the overall positive impact on the economy than, "... laborious attempts to create new businesses" (p. 49). This implies that it is both desirable and beneficial to examine factors which may influence the management succession process, particularly with regard to the second

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generation family members. One area of study which may shed some light on the management succession process concerns the effect role models have on influencing entrepreneurs.

While there has been some prior research into role models and family background of entrepreneurs influencing interest in entrepreneurship (21) (8), there has been little research into the possible connection between family background and interest in succession in the family firm. It is possible that some of the same role model factors that influence an interest in entrepreneurship may be operative in influencing an interest in firm succession. Previous studies suggest that there is a strong connection between the presence of role models and the emergence of entrepreneurs (22) (9) (8). Cooper (8) reports that in his search of the literature, there is evidence to support the fact that the firm founders were influenced by role models in their decision to become entrepreneurs. Also, Brockhaus & Horwitz conclude that, "from an environmental perspective, most entrepreneurs have a successful role model, either in their family or the work place" (6, p. 43). In addition, family members, particularly the mother and father, are considered key, "...in establishing the desirability and credibility of entrepreneurial action for an individual" (21, p. 83). By extension, this suggests that family background or exposure to small business by a close friend or relative may be instrumental in influencing a second generation family member's interest in taking over the family firm.

In addition, considerable attention has recently been focused on the role women play in the management succession of family owned firms. The cover of the August, 1987 issue of INC. magazine boldly proclaims, "Why daughters are better: Suddenly it's daddy's little girl who's taking over the family business." Hisrich & Brush (12) report that of 468 women entrepreneurs they interviewed, the majority stated that their fathers were self-employed. Also, the respondents reported that their spouses held predominately professional or technical jobs. Hisrich & Bush suggest that this background provided, "good role models as well as a supportive, financially sound environment in which to begin new business ventures" (12, p. 32). Add to this the fact that it is estimated that women are starting new enterprises at more than three times the rate of men and that women own approximately 25 percent of the nation's sole proprietorships (24) and two inescapable conclusions emerge: 1) role models may play an important part in women entrepreneurs' decision to start their own firms; and 2) women will continue to play an increasingly important role in the management succession of family-owned firms.

Given the importance that role models may play in influencing potential entrepreneurs, more specific research is needed which addresses the impact of family background on interest in owning or running one's own small business. In addition, because of the increasingly important role women will play in entrepreneurship and succession in family firms, research is needed which addresses what differences, if any, exist between males and females with respect to family background and interest in entrepreneurship.

### **Leadership Succession**

In an attempt to better understand the family-firm succession dilemma, Rutigliano suggests that two factors emerge which may shed some light on the relatively low survival rate: 1) The tendency to put the needs of the family before those of the business; and 2) the neglect of the issues and problems associated with ownership and management succession (19). Further, as mentioned earlier, Rosenblatt, et al. point out that there is often debilitating tension within the family business due to conflict between the family system and the business system (18). That is, there are two simultaneously operating systems (business and family) that have both

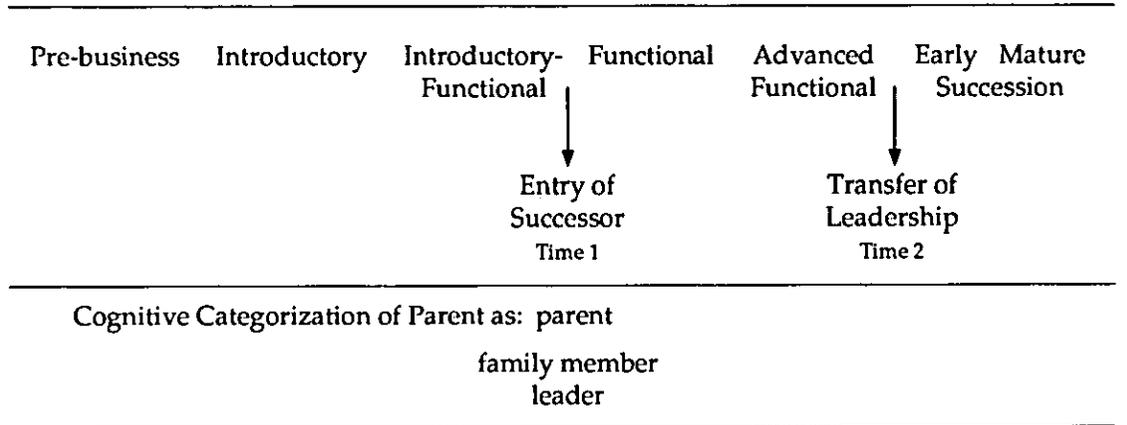
harmonious and discordant values and goals. In addition, Beckhard & Dyer suggest that managing family-firm succession is often made more difficult by resistance to change by the leader (3).

Longenecker & Schoen propose a model of the parent-child succession in the leadership of the family firm that involves a long-term, diachronic process of socialization through seven stages, beginning in childhood (14). The stages, however, are related to two important events in the family succession process: 1) the entry of the successor into the organization as a full-time employee; and 2) the transfer of the leadership position to the successor (14, p. 4). Birley notes that despite such a lengthy indoctrination, many firms still do not make it to the second generation (5). Her study, however, suggests that the successor's interest in taking over the family firm may play a role in the successful transition of the firm from one generation to the next.

Specifically, research is needed which addresses the successor's perception of parent as leader and the child's interest in firm succession in order to advance our understanding of the leadership succession in family-owned firms. In so doing, a clearer picture of the factors influencing leader succession will emerge. Research in the area of cognitive categorization and leadership (17) (7).(10) (16) may be instrumental in furthering an understanding of the relationship between entry of the successor into the firm, perception of parent as leader, and subsequent interest in taking over the family firm.

For example, in the Longenecker & Shoen (14) model of succession in the family firm there are two major points when the successor's perception of parent as leader may influence his/her interest in ultimately taking over the family firm: when the successor first enters the firm as a full-time employee (Time 1); and when the transfer of leadership from parent to child occurs (Time 2). (See figure 1.)

**Figure 1. Seven Stages Of Parent-Child Succession In The Family Firm**  
Adapted from Longnecker & Schoen (1978)



Cognitive categorization theory suggests that category consistent leader behavior from Time 1 to Time 2 should result in an automatic cognitive categorization process; whereas, inconsistent leader behavior will result in a controlled cognitive categorization process. Further, it is posited here that successor interest in assuming the leadership of the family firm will be

affected by the successor's perception of parent as leader at Time 1 and Time 2. These relationships are depicted in figure 2. Accordingly, two propositions are developed:

P1: At Time 2, when the parent exhibits prototypical leader behavior consistent with Time 1, successor categorization of parent as leader will be automatic and successor's interest in leadership of firm will be equal or greater relative to Time 1.

P2: At Time 2, when the parent exhibits prototypical leader behavior which is inconsistent with Time 1, successor categorization will be controlled and successor's interest in assuming firm leadership will be less relative to Time 1.

**Figure 2.**

ENTRY OF SUCCESSOR	TRANSFER OF LEADERSHIP ROLE
Time 1	Time 2
Parent exhibits leader behavior	Parent exhibits consistent or inconsistent leader behavior
Successor categorizes parent as leader according to prototype	Successor categorization of parent as leader auto. or controlled
Successor shows interest in succession	Successor interest in firm succession - maintained - increases - lessens

### CONCLUSION

Several conclusions emerge from the foregoing discussion of strategic planning and family-owned firms. First, although research interests in the issues facing family-owned firms are still in the early stages, there is a high probability the SBI teams will face the tension created by the co-existence of the family and business systems in the family-owned firm. Hopefully, an awareness of the various business and family systems' characteristics presented earlier will help the SBI team and client cope with these tensions.

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Second, the overall strategic planning process should include the various family system issues that will affect both the family and business system directly and indirectly. It is suggested here that although succession issues have a high priority for inclusion in the strategic management of the family-owned firm, there are other issues (e.g. family member departure from the firm; inclusion of non-family members in firm management) which merit attention.

Finally, research is needed which addresses the dimensions of both the family and business systems for family-owned firms. Two areas are suggested here for future research: interest in ownership succession with regard to the successor's family background and gender; and leadership succession in family-owned firms in relation to the successor's cognitive categorization of parent as leader. Hopefully, research in these and other areas of family owned firms will enhance our understanding of the ability of these firms to survive through successive generations, as well as provide insight into some of the sources of tension between the family and business systems of family owned firms.

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