BEST PRACTICE GUIDE

THE TEN WITTEN THESES CONCERNING GERMAN FAMILY BUSINESS

FAMILY BUSINESSES: CHANCES AND RISKS OF A PARTICULAR FORM OF BUSINESS

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INTRODUCTION

Family businesses have a considerable effect on the German economic landscape. Not only do they contribute to the prosperity and secure future of our society, but they also contribute to more than half of Germany's gross national product. Currently, family businesses make up more than 2/3 of all (German) jobs.

The value-centeredness of family businesses, their strong, long-term connection to a specific location, and their commitment to tradition on the one hand and to innovation on the other hand, fulfill functions crucial for prosperous development and formation of the economy – even and especially in the age of globalization.

It is no longer possible for anyone who takes a close look at family businesses to support the opinion often stated in the past that this form of businesses is "old-fashioned" or "anachronistic" and if anything a "transitional stage" on the way to entering the stock market as a large business. On the contrary and irrespective of whether one chooses the broader definition of family business, which says that a family must own the majority of the business, or a narrower one, that additionally, family members must assume key positions within the business for it to be an actual family business: from the USA to Indonesia, from Estland to Tierra del Fuego, family owned businesses are widespread and are usually the prevailing form of business.

But on the other hand it would be unrealistic to display family businesses on undifferentiated terms as a business model leading to success without fail. It is most fitting to assume the simultaneous existence of a higher chance of success and an increased probability of failure. This explains why one also speaks of family businesses as "Janus faced": many are successful and highly innovative over generations, often world leaders in their respective product niche and oriented toward the long term future when it comes to their strategies. Others fail either because they cling to old success strategies despite changing market conditions, or because of problems involving finding the right successor, or because of conflicts with stockholders, etc.

Critical voices stating that "the family company is dying"[1] or other voices accentuating the ineffectiveness of family businesses are only focusing on the negative side of the Janus face. In some cases these one-sided views even go so far as to suggest the implementation of tax laws to put family owned businesses out of their miseries which are not going under fast enough.[2] But these "solutions" are being countered by a growing pool of academic research which is making clear that family ventures, provided they are adequately run, and especially provided the relationship between family and business is managed competently, can attain recognizable competitive advantages. Then again this is not a given. Therefore we must appeal to research for a differentiated analysis of family businesses, an approach which will help us identify success patterns, thus enabling us to create out of them specific leadership principles.

In order to gain a better understanding of the "Janus face" phenomenon we must recognize its underlying structural principle, a principle which is made up of the coupling of business and (owner) family. The field of tension engendered by these highly distinct types of social systems is what causes the increased potential both of opportunity and risk involving family undertakings. Thus the conscious steering of business and family can be seen as the main challenge facing any and every family business.

THE TEN WITTEN THESES CONCERNING FAMILY BUSINESSES[3]

The "Ten Witten Theses concerning Family Businesses" were first presented at the 8th annual Congress for Family Businesses at the University of Witten/Herdecke. They where elaborated for the Department of Economics of North Rhine-Westphalia,[4] and represent a concise summary of our reference model of this type of business.

[1] Albach, H. & Freund, W. (1989).
[2] Bloom, N. (2006).
[3] http://www.uni-wh.de/wifu
[4] Schlippe, A. v., Buberti, C., Groth, T. & Plate, M. (2007).

1 | FAMILY BUSINESSES ARE DIFFERENT

They are defined by the decisive influence a family has on the development of its business. It is this influence that determines the special qualities of this type of business, and not a company's size.

Depending on the definition used, 70 to 85 % of all companies can be designated as "family businesses" and with an estimated total of 3.38 million small and middle sized businesses in Germany,[5] (last updated: 2003), this implies that well over 2 million are family businesses.[6] This considerable quantity underlines the fact that family companies whose ownership is held by one family member, by several family members of different degrees of relation, or by several families together, make up the often-quoted backbone of the German economy. A fact which makes an enormous difference not only on the business level, but also on the domestic one.

When can we actually speak of a family business? No exact definition exists (which also explains the varying estimates). Some research approaches help themselves by determining an ownership holding of at least 50 percent. But a more promising definition seems to be one proceeding on the assumption that a business must be in the ownership of a family or a family union, and which says that the family has a decisive influence on the development of the company: the authority to make key decisions in order to shape the business both on the inside and the outside. If this is the case, one can appropriately speak of a family business.

This definition makes it possible to look less at structure and more at the numerous and complex dynamics in family ventures. It directs one's attention to role definitions, interactive processes and the dialectics of relationships, one meets in families and companies and which define their "familyness",[7] meaning their specific situation relevant to their assets and threats. This distinctiveness – and here's why this thesis has priority over all the others – cannot be understood if one reduces family businesses to a specific size. Family businesses of different dimensions from craft enterprises to corporations are the result of an often productive, but sometimes destructive collaboration between business and family logic. The two poles created in this field of tension (between the priorities of business and family logic) can be characterized as follows:[8]

Within families, the individual person, with all his or her strengths and weaknesses, is at the center of interest. The person's value results purely from his or her status as a family member. Fairness in this context is mainly understood as a sense of equality of entitlement, rights, obligations and expectations. Family membership lasts a lifetime, since a blood tie cannot be terminated or dismissed. Giving and taking are often distributed asymmetrically (as between parents and children), no direct or later financial compensation is expected for any services rendered. The benefit derived from a relationship such as this is more emotional and ideal than material in nature. Communication mainly takes place verbally and more or less informally.

By contrast, in companies the main focus is primarily on the development, production and marketing of products and/or services. Individual persons are only important with regard to the rational functions they fulfill for the organization. As mere bearers of roles, they can be replaced or dismissed as a matter of principle. Their value results from their performance, which is directly and materially compensated through payment of wages. Fairness is here defined in terms of the match between performance and its material compensation. Communication is formalized, for the most part it is even set out in writing – contracts are entered on paper by signature, not by hand shake.

[5] Example: Böllhoff, C., Krüger, W. & Berni, M. (ed.)(2006).
[6] Thoben, C. (2007).
[7] Habbershon, T. G., Williams, M. L. (1999).
[8] Simon, F. B., Wimmer, R. & Groth, T. (2005).

These so strongly diverging functional standards influence one another and affect the characteristics of the family business. And just this coupling of standards is what leads to conflicts among business associates and carries dissatisfaction into a family of entrepreneurs, provokes generational conflicts, etc. And on the other hand precisely this conjunction can be a special competitive advantage for a company managed based on the principle of shareholder value. Since the entrepreneurial family often instills motivational values in a business that go beyond short-term prospects for financial gain.[9] "For family businesses there is no such thing as a choice between marketing or values. They say: we want both".[10] Contrary to the common notion, then, it is not advisable to seek as swift and sweeping a separation between family and business as possible. Rather, what is actually worth striving for – what can generate constructive synergies and the resulting competitive edge – is precisely a positive interaction between these two systems.

[9] Böllhoff, C., Krüger, W. & Berni, M. (ed.) (2006).
[10] Thoben, C. (2007).

2 | FAMILY BUSINESSES ARE MORE SUCCESSFUL

Because they have a family by their side! Trust, bonding, and loyalty are of enormous advantage for family businesses. It is crucial that the family be used as a resource for the business. When in doubt: "The business comes first!"

In many regards, family businesses are more successful than non-family businesses. The co-evolution of business and family intensifies the family's focus on the goal of a long-term, generation spanning, mutually ensured existence. The owners often see their business as the main focus of their lives, beyond the financial security of the individual family members to represent a challenge of continuously having to reorganize and find new sense or con-sensus, in the common effort. In the long run this challenge requires the family to get involved in the business, whether actively or passively.

In turn, the company can use the family in many aspects. For this singular bundle of resources and abilities which the connection of business, family and ownership offers, we use the term "family factor"; in other words, the total of family factors are what we call "familyness".[11] Family factors can play a part on very different levels within the business,[12] for example:

Values: Family values like trust, bond and loyalty can offer competition advantages; for example through strong personal ties to customers and contractors, closer customer orientation, strong motivation and the willingness on the part of the employees to work and make a contribution to the business.

Decisions: The much shorter path of decisions and the greater frequency of verbal decision making enable faster and more flexible decisions and with them lower transaction costs, that is, reduction of agency costs on account of the greater amount of trust involved.

Human Capital: The family disposes over a pool of specific knowledge and skill available exclusively to the company.

Finance Strategies: A conservative financial policy cultivates long-term finance strategies. As a rule, the profit expectations held by family shareholders are considerably lower than those dictated by common shareholder thinking. Moreover, in the case of a depression or crisis, family members are more willing to provide further financial support from their own private resources.

Networking: The relative permanency and bonding capacity of families also manifests in the quality of networks they tend to spawn, which oftentimes are of amicable character, and thus very sustainable.

Branding: Finally, the name of the company, inasmuch as it is identical with that of the family, is often an enormous identification symbol both for the product and for the employees: the very fact that one is a part of something has a high value in itself.

[11] Habbershon, T. G., Williams, M. L. (1999). Addressed in our text is only the positive and thus advantageous aspect of familyness. This can also, in a negative case, have a hindering effect.

[12] See for example Wimmer, R., Domayer, E., Oswald, M., & Vater, G. (2005) or Dyer W. G. (2006).

Given successful management of the overarching and complex connections between company, family and ownership and of the problems associated with them, family businesses clearly have a crucial advantage over non-family concerns. Thus it is not very surprising that the 30 largest family undertakings achieved almost twice the sales growth as the 30 DAX-businesses (+ 9.7 % as opposed to + 5.4 %). The difference in the increase in employment was even greater: the large family businesses hired 9.2 % more people than the DAX-representatives (1.6 %).[13]

It is the family which provides the company with the beneficial "familyness" factor, as shows for example in an identification with the business that can even get non-family members involved in any number of ways. But it takes very specific management forms to reach this level of quality, since every family business has its very individual set of priorities when it comes to family and business interests. To date, only little use has been made of the possibilities of drawing up a family constitution for the purpose of regulating mutual interest. This sort of regulation could arbitrate such things as the position of married-in family members or of other entry-level family members; it could define family conferences and de-escalation regulations in the event of family conflict; or it could formulate ethical principles.[14]

[13] Handelsblatt. Düsseldorf. Nov. 13th, 2006.
[14] Wieselhuber, N., Lohner, A. M. & Thum, G. F. (2006).

3 | FAMILY BUSINESSES ARE MORE VULNERABLE

Because they have a family by their side! Family conflicts, loss of trust, relationship disappointments, and feelings of betrayed loyalty can have a dramatic effect on the business; or it can become victim of family feuds. Simultaneous membership in a family and a company exposes a person to a field of tension marked by contradictions vulnerability on the part of those involved.

How conflict is managed is one of the key determinants of effective families and family businesses".[15] Family businesses not only dispose over potential competition advantages, but are also more highly jeopardized than other types of business. Thus "Familyness" turns out to not only be an advantage, but can also impede the business. The coupling of the two organizational principles of the business, family and ownership, establishes a paradoxical field of tension. A decision which could be right according to the logic of the one principle might be wrong for the other, and vice-versa. This is for instance true for the conceptual dyads "good for the family – proper for the business", "tradition – innovation", "people-oriented – objective", "owner – shareholder", and so on. It is this contrariness which makes those involved so vulnerable in a conflicting situation. Not only do family businesses have to deal with different "types of conflicts" and ranges of "conflict severity", but even more so with conflicts of fundamentally different sorts.

The bonds between family members are usually very strong, making conflicts within the family system so susceptible to acute escalation. Those who are effected can develop very intense feelings, if any of the individuals feels he has been disappointed in his sense of loyalty, trust or fairness, and ultimately in his relationships overall. If conflicts of this nature go beyond the family and enter the realm of the business, the latter can fall victim to the family dispute. This takes on an especially difficult form when conflicts that have been built up but not constructively dealt with over generations turn into family feuds between the sibling clans.

Another area in which the family business constellation shows itself from a very vulnerable side is that of the company succession. Quite irrespective of whether it is a matter of internal or external succession, that is, whether the successor is a family member or an outsider, the topic "absence of a willing successor" seems to be a volatile one to this day. Recent research results say that in about 43,000 companies in Germany 150,000 positions are endangered because of difficulties with company succession.[16] And despite many support offers (for instance through founder networks etc.), it is still problematic for many family businesses to manage the business-succession in a satisfying way. Although as a rule predecessors wish to keep their businesses in the hands of their own children and not see it pass over to an outsider, this option seems to be diminishing, a fact that could have to do with the complexly paradoxical situation in which all parties involved find themselves.[17] What is meant by a situation being "complexly paradoxical" is that it is an emotional situation in which no single right solution is possible and one every action one might take "is the wrong one". If for example a father expresses his wish for his son to choose his own profession and go his own way in life, while at the same time communicating to him how important it is that he – the father – not be disappointed, and have the son as the ideal successor for the family business, the son is likely to experience this as a predicament. "Decide out of your own free will to do as I wish." But the contrary situation can also be an aspect of hindering "familyness" if the aged owner is unable to find a suitable way of letting go of and handing over the company. This leaves the successor generation in a position that wears it down and demoralizes it.

[15] Lank, A. G. (1996).
[16] DIHK – Deutscher Industrie- und Handelskammertag (2007).
[17] Schlippe, A. v. & Groth, T. (2006), and Schlippe, A. v. (2007).

In critical situations, especially when there are no rules of governance, family and business are often confronted with two options: “family first” or “business first”. Studies on the longevity of family businesses show that the second option is the better guarantor for the sustainability of the business.[18] By taking it, the interests of the business are granted full priority, for example by not deferring solely to family standards when considering employment, salary, and promotion of family members. But under no circumstances is this a matter of neglecting one’s family or pushing anyone out of the business. That is why a “family business first” strategy is often advocated.[19] Its aim is to clarify the company interests to the family, to mediate priorities, and to get everyone aligned to them. The prudence of this approach lies in not playing the interests of the one side against those of the other, but much rather setting family interests aside while knowing that in the long run, the family can derive greater benefit from this way of thinking.

[18] Simon, F. B., Wimmer, R., Groth, T. (2005).
[19] Mühlebach, C. (2004).

4 | FAMILY BUSINESSES ARE (POTENTIALLY) MORE INTELLIGENT

It is easier for them than for stock market businesses to rid themselves of the logic aimed at short-term profit earning, which is often damaging to the entrepreneurial aspect of the business. They can also position themselves in a widely diversified manner, for which tactical move a large stock market business would have to suffer a "low" – despite the increase it would cause in the probability of its long-term survival.

Whereas few stock market businesses are able to withdraw from being short term profit-driven by their shareholders, family ventures can get free of this attitude much easier. And although this aspect alone does not automatically guarantee a higher rate of success, it does open a wider range of strategic options when it comes to time management, for example. The bottom line of a family's success is the perpetuation of its existence over generations. Family businesses often transfer this principle to their company. Investment in long-term, continual growth rather than focus on short-term profits is what matters; not so much the risky investments as those which promise security. For a family which owns most of its company's holdings the criteria for both the success and the evaluation of virtually all entrepreneurial decisions shift. The question asked time and time again is whether an impending decision can contribute to the company's long-term existence. An approach such as this one enables family undertakings to hold onto different fields of business for decades (assuming they dispose over the needed financial stability), even if they earn little or no profit over longer periods of time. If business in the field picks up once more for, having held on to it proves highly profitable after all. Thinking that goes beyond the current conjuncture cycle allows the company to cultivate its existing competencies, so that a crisis can in effect be used as an opportunity to expand one's marketing position rather than leading to bankruptcy.

This strategy of long-term thinking often goes along with one of diversification: family businesses position themselves on the market widely and thus attain a special form of risk-distribution. Conscious investment in more than one non-synergetic business sector is what enables the family business to survive the depressions of single-sector lows. In the long run, the business sectors that earn the most profits vary. The strategic approach taken by family businesses thus usually leads to a higher survival probability than stock market corporations.

Another aspect is noteworthy in this context: a family which puts effort into establishing long-term relationships influences attitudes with regard to other factors, as well. A company's interest in the long-term employment of its staff protects it against loss of knowledge. Both purely technical knowledge and invaluable know-how and experience can be passed on to internally promoted staff members and the next generation of executives, and thus parry the general shortage of workers. Furthermore, the emigration of valuable staff to competing businesses can be averted (cf. thesis 6 and 7). The development of secure, long-term perspectives for shareholders and associates frees the business from excessive return expectations on the part of shareholders and makes it capable of intelligent implementation of the aforementioned strategy.

5 | FAMILY BUSINESSES ARE DIFFERENTLY POSITIONED FINANCIALLY

Family companies are more careful about resorting to outside capital and have a greater interest in financial independence. When forced to generate outside capital, though, it is harder for them to do so than for large businesses. Furthermore, their successors are hit by inheritance taxes.

Financing is a core issue of business management. This is especially relevant with respect to family businesses, because in virtually all financing questions potential lenders' interest in information stands in conflict with the company's interest secrecy. A look at equity ratio statistics reveals that the average equity ratio for businesses is much lower in Germany than in any other European country or the USA. The central problem that this causes for small and mid-sized businesses in particular, though, is not the relatively low equity ratio itself, but rather the dependency on investors that comes with it. Inasmuch as it is not possible to finance growth through cash flow alone, family companies face the challenge of managing a contradiction between entrepreneurial autonomy and dependency on financiers. In the past, there were two means by which to resolve this contradiction: either companies had a bank of their confidence that financed growth and innovation, or they exercised caution in their dealings with lenders of capital and intentionally abstained from excessive growth.

Stockholders' equity regulations according to Basel II, which were suggested by state banking supervision and are now in force, coupled with the uncertain market situation in recent years, have led to a tendency on the part of many large banks to refuse financing mid-range businesses (that is, companies with annual sales of less than 50,000,000 Euros). It has been no seldom occurrence that this initial (over) reaction, from which many banks have meanwhile distanced themselves, placed family businesses in a lasting position of disadvantage and occasioned them – or rather forced them, in the beginning, at any rate – to seek new forms of financing, such as the private equity sphere. Multiple options are available here, whether through equity capital (equity investment, for instance), outside capital (such as bonding), or hybrid forms (so-called mezzanine capital).[20] As mentioned above, in this sector there are just as many chances as there are risks. Public debate tends to be highly suspicious of finance investors oriented strictly toward financial policy, who use loans to acquire family companies and then impose their debt on the acquired company. But there are also more and more examples of investment companies whose objectives of stabl creation of value and successful collaboration over a period of decades are demonstrations of their aims for permanency.

Moreover, in contrast to non-family businesses, family companies are (still) subject to inheritance taxes. But in the wake the 2007 inheritance tax reform, noticeable tax relief is expected by and for family businesses. The ablation model ("melt-away model") announced in the coalition agreement, which provides for postponement of inheritance or gift taxes on business assets for a period of ten years, along with a 10 % discharge of the taxes for each year the company continues to operate, is expected to create possibilities for small and mid-sized family companies to secure jobs and make new investments.

This step in tax policy is an attempt to establish competitive equality between publicly listed companies and family companies. Whether this legislative bridge succeeds or fails will be determined by the details of its concrete implementation.

[20] Lange, K. W. & Henkelmann, F. (2006).

6 | FAMILY BUSINESSES ARE BETTER SET FOR THE LONG TERM

They hold on (longer) to their foundation myths, to proven business principles and matured customer and supplier relationships, and above all to their employees, which has a positive effect on the development of core competencies and trust resources. This adherence can at the same time make it more difficult to react flexibly to new demands.

Family businesses sometimes adhere to foundation myths or decision-making precepts that have held and been passed on for generations. Tried and true business principles that have been handed down from one generation to the next are often applied by the new generation with continuing success.

The existing customer and supplier relationships, for instance, have grown for years in an environment of trust. This is no surprise, since such an environment is a function of this business type's long-term connection to a specific location. However, due to the steady loss of "half-life of knowledge", family businesses are also forced to make a stand in the face of pressure to innovate brought to bear by the market. Even though adhering to stable relationships is for the most part a competitive advantage for the continuing development of entrepreneurial core competencies, precisely such adherence can become a problem in a business environment that is becoming increasingly dynamic. What is important here is to find a balance in the stress ratio between continuity and re-orientation.

Stability in relationships also manifests in employee relations. For one, employees can trust the family company's foresight: they are "permanently employed" and hence not constantly plagued by lay-off anxiety. This aspect takes on considerable significance in an overall societal context, when one considers that 70 % of all employees and 80 % of all job trainees work in small to mid-sized companies.[21] But even here a potential dark side lurks; for this kind of behavior can lead to new employees – and with them "fresh knowledge" – only seldom if ever being brought into the business.

If the family name is used as the brand name of the product, not only is its recognition value for the public considerable, but its identification value for the employees as well. If the family manages authentically, through consistent thinking, words and actions, to impart its own values to all parties to the organization, and to create transparency for them, it gets back from the employees a special resource in return: their trust, and with this trust, the foundation for a culture of entrepreneurship based on it.

Long-term business management often has to do with a close connection to the region where a family company does its business, and this in turn influences the culture of entrepreneurship: "If you're really rooted in that community, it's going to have a big impact on the way you are."[22]

A company's embeddedness in a specific region is evident in the form of a special willingness to assume responsibility for social and societal affairs. Their value orientation occasions them to look acute social issues in the eye and strive to remedy them. Not infrequently, the same entrepreneurial energy can be observed that also characterizes them when they do business: opportunities are seen and made use of. Thus family businesses create a special kind of presence in the region where they have their origin and their roots.

[21] Burlingham, B. (2005).
[22] Burlingham, B. (2005).

7 | FAMILY BUSINESSES ARE MORE FAMILIAR

They transfer patterns of family relationships to behavior at executive and co-worker level, thus endowing it with higher meaning and heightening the degree to which personnel identify with the business. Everyone belongs! Business and employees alike profit from these "supplementary emotional dividends".

A strong sense of loyalty, gratitude, and love among the family members can be an enormous resource for the undertaking. In order for these values to be put into play, established over generations, and secured permanently, good family management is required. Part of such management involves taking into account the difference a business can make for a family, and organizing the family an entrepreneurial family. To be sure, in the first or second generation the close relationship among family members in the smaller and more intimate structure of a family business is more or less obvious. But it becomes less obvious at about the third generation, and needs to be actively cultivated and/or repeatedly re-established, especially if the business is set up as a "tribal organization". With each new generation, the "centrifugal force" increases on the part of each newly founded core family; the bonds in the "syndicate of cousins" decreases much more noticeably than among siblings, and care must be taken that even distant relatives develop a common identification with entrepreneurial family. Above all, though, no constellation must be allowed to come about, in which loyalty to the tribe is cherished more highly than loyalty to the business overall. For this reason, successful multigenerational family businesses treat the extended family in a very special manner, by always generating new small-family structures, which provide possibilities for contact and relationships at many levels and thereby preempt any lapse in family spirit. For the proprietors, this leads to concentration on communal interests (rather than on those of individual investors). Likewise, intelligent governance regulating prevents blockading of decisions or the sell-out of stockholder shares. By maintaining its family spirit, the business creates new innovative impetus for itself.

Although non-family member employees hold this family spirit and close bonding in high esteem, it can also have negative effects in the course of these outsiders' careers, in particular if it hampers their own professional ascent. This occurs whenever young family members or shareholders are heaved into management positions irrespective of the "competence factor". A proven way of countering this tendency is to accept family members into the business only under the conditions that they are at least as competent and well-suited for the position as outsiders.[23]

[23] Armbrüster, T. & Schiede, C. (2006).

8 | FAMILY BUSINESSES ARE MORE ENTERPRISING

Typical characteristics of family businesses are a special will to plan and implement, the striving to create something lasting, orientedness to customers, and the willingness to take risks. The less of these traits exist in a business, the more likely its development is to depend on the strong leadership, innovative impetus and entrepreneurial foresight of a single person — with all the advantages and disadvantages of such a situation: Short paths for decision-making, but at the same time radical rebuilding phases when this leadership changes, whether through retirement or sudden loss of the strong leader and his or her influence.

The smaller a family venture is, the more its leadership responsibility and strength, its innovative force and its entrepreneurial foresight are likely to be bundled in a single person. In this case, the proprietor is the soul of the business, and at the same time its driving force. Thus in many family businesses a culture of entrepreneurship can be found that even today is comparable to the image of the business pioneers during the foundation years of the modern German economy in the late 19th century.

It is a frequent occurrence that identification with a family business is particularly strong on the part of individual persons actively involved in that business, and this often results in increased work effort and the will to expand the enterprise. “Per aspera ad astra“ – “Only the rocky road leads to success“ could be the (somewhat liberally translated) fundamental precept of family entrepreneurship. Where in the case of non-family businesses there are limits to what and how much a person is willing to perform, family co-workers (but also non-family members in a family undertaking) have a disregard for such a limit.

In highly traditionally managed family businesses in particular, the position of the wife of an entrepreneur reveals the outstanding role she plays in balancing out internal and external orientation between her family and the business, thus in critical situations holding the “we” together. Most family ventures have realized in the process that the distinct patterns of logic in the family and the business require a very special way of coming to terms indeed. Thus in general women still tend to play a lesser role in business management than men; however, in their own position of leadership in family businesses they are highly successful. Furthermore, shallow hierarchies enable short paths of decision in such businesses and alleviate circuitous holding patterns. Clients in particular appreciate this advantage, but so do suppliers and employees. Nevertheless, the strong entrepreneurial orientation connected with a strong personality also displays a shadow side: this situation can become critical when situations of crisis arise. Every one of the advantages mentioned can be inverted into their respective opposites if, for example, the entrepreneur is suddenly put out of action whether through illness, accident or death; or in the event of inability to pay, impending insolvency, or if the transition process to a new successor fails, thereby making the business “headless”, as it were. Another thing that can be observed is that often a person who for years has exerted a strong influence on the family business and excelled in his reliable sense for the market, that this person loses this sense toward the end of his career. A company’s fate can be decided by whether the force of a business has been concentrated too intensely and for too long on the one central person, or if instead, as part and parcel of the business’s development, the fundamentals of its entrepreneurial action are consciously passed on and institutionalized.

9 | FAMILY BUSINESSES ARE MORE RESISTANT TO COUNSELING

Families are mindful of their boundaries: just as they do not readily open up their private sphere to outsiders, in the same way they also assume that entrepreneurial problems and questions involving their own business ought to be resolved within the family. To be sure, this explains their success in large part; but this attitude also has its own set of risks and side effects, in particular in situations where consultation from outside might be able to access new possibilities.

Similarly to the way that families draw their own borders and protect their privacy from publicity, entrepreneurial families likewise endeavor to solve problems involving their business within the family itself (cf. thesis number 3). The commingling of the family and the business playing fields is attributable to individuals' dual identity as family members and company employees. There are families in which strategies (= rules) are in place dictating when to bring in outside help in order to handle business problems appropriately, and this is yet another hallmark of successful family business management. Still, internally motivated resolution to resolve conflict within the family unfortunately does not always meet its purpose as a protective mechanism. It is no infrequent occurrence that business decisions which need to be made rationally are endangered by vehement emotional disputes with the potential to bring all involved persons to the end of their nerves. In the context of the above sketched field of tension between family and business, escalations of this kind are no seldom occurrence. They can play out within the family, between family clans, between successors and predecessors, between large shareholders and small ones, between owners and outsider executives, and cause immense emotional and economic damage. It is not without reason that that family quarrels within family businesses are designated as the "largest destroyer of values in the German economy".[24]

Despite in some cases even dramatic escalation and conflicts that can drag on for years, family ventures oftentimes hesitate for a long time before turning to outside support. "How things look inside is nobody's business." Whether it is a matter of business or banking consultation, caution and reservation are observed. Thus, as the analysis of a number of cases of insolvency in family businesses has shown, "weak signals" are ignored, states of crisis heightened, even ominous changes such as liquidity emergencies, are blinded out. While the outward façade is maintained, within the family the crisis captures everyone's attention. Once the crisis has become manifest, even the relationship between family and entrepreneurial interests loses its balance. Old conflicts are re-established, reproaches made concerning who is "actually" responsible. In short, a spiral is set in motion that from inside can be halted only with great difficulty. Shareholder conflicts handicap the development of the business, just as a tense business situation is an additional burden on the family. In a worst-case scenario, both the business and the family are left behind. In some cases, if the situation becomes especially threatening, an insolvency crisis can be warded off only by taking recourse to networks of friends and acquaintances, and/or the family's willingness to make sacrifices; and it is in cases like this that "familyness" once more proves to be the life-ring. Beyond this consideration, though, the tendency remains on the part of many a family business to surround themselves and their company with barriers that are too rigid, and to wait too long before summoning outside help – a downright critical aspect of this business form. Amid all this criticism of resistance to consultation from outside, though, one thing ought not to be forgotten: many family businesses are successful precisely because they have refused counseling, precisely because they didn't follow consultants' advice and stuck stubbornly to their own line of thought and action. So they were reinforced in the skeptical stance they have chosen to assume over against external advisors.

[24] Hennerkes, B.-H. (2004).

10 | FAMILY BUSINESSES HAVE GREATER LONGEVITY

Family businesses demonstrate greater competitiveness and longevity. They are a model for success, as long as they remain in a position to come to grips with the paradoxes resulting from the coupling of family and business. Again and again balance must be achieved in order not to serve either the interests of the family or the business venture one-sidedly. If a balance is found, the unique resources that lie within this business form can take full effect.

Initially, the notion of a successful and lasting family business contradicts all the expectations of traditional business administration.[25] It is a basic presumption of classic business management that family meddling in business matters can only lead to confusion and hence can only be a threat to entrepreneurial activity. However, it is just this unorthodox mode of procedure that distinguishes the family venture and determines its success or failure.

Family companies are successful whenever they succeed in managing specific contradictions. The notion of a paradox as a special form of contradiction has already been discussed above. Paradoxes are contradictory behavioral expectations that arise from members of a family business belonging to the family and at the same time to the business.[26] These two systems are not always clearly distinct; on the contrary, it occurs much more frequently that it is unclear who one actually is at any given moment: father or entrepreneur; daughter or successor. Simultaneous membership in a family and a business leads to a number of contradictions, for "in terms of their functions as social systems, there can be no greater difference than the one existing between a family and a business".[27]

One particular contradiction lies in the principle of equality, in the so-called "fairness paradox". According to the logic of the family, all members must be treated as equally and fairly as possible – even if everyone knows that ultimately this is not possible without compromise. If in the family equality is the guiding principle for fairness, in the logic of business there clearly exists a very different picture of the same notion. In business not equality, but rather competency, performance, responsibility have top priority. If according to family logic it is fair for every family member to have a position in the company, the logic of entrepreneurship dictates that selections be made based on performance in order to ensure the best choice and with it the continuity of the business. Here once more the significance of careful paradox administration becomes clear: it is important not only to be familiar with the respective stress ratio of each kind of logic, but also to be able to hold up under it, and then to find a solution that is both entrepreneurially sound and connects with the family. The paradoxes cannot be resolved; however, they can be neutralized if understood.

Family management actively undertaken, the quest for one's very own path of "de-paradoxication", exposing taboos, facing conflicts, and the entrepreneur's coming to grips with his or her fears, wishes, and goals generates advantages specific both to the company and the family. Multigenerational family ventures have convincingly demonstrated that by transferring certain patterns of decision-making and rituals of behavior to their successors it is possible to overcome the critical barrier to successful integration of the third generation. They show that it is possible constructively to shape the field of tension which is the family business, and thus to

[25] Simon, F. B., Wimmer, R. & Groth, T. (2005).
[26] Schlippe, A. v. & Groth, T. (2006).
[27] Baecker, D. (2003).

turn this special business form into a downright elemental source of strength – and that it is possible over many generations. Of course, whether a family undertaking will be successful for so long a time is a matter of sheer speculation; nevertheless, criteria do exist that can serve as points of orientation along the way to success, a few of which follow:

For instance, family businesses must subjugate their particular family and owner interests to the interest of the business's survival; the "Family Business first" precept holds here. Moreover, "professional ownership" ought to be observed, which means that the owner family needs to be consciously managed, as does the company. A high degree of identification with the company will be achieved if on an emotional level all members of the family and all shareholders are imparted an understanding of themselves as belonging to and accepted by the entrepreneurial family. This can be accomplished by such events as repeated family get-togethers. To be successful long-term, a top management must be in place that invests its authority in maintaining the general mindfulness of observing both written and hidden codes of behavior. Property disputes and their associated litigation must be avoided through mechanisms for conflict resolution that are well-established and acknowledged by all.

CONCLUSION

Family businesses are neither a phase-out model nor an automatic formula for success; rather, they are characterized by a specific Janus-head nature which has the potential to manifest "familyness" either as supporting or as hindering. Their wide distribution and the contrast between their performance and that of open corporations place academic research, including the Witten Institute for Family Business (WIFU) before the challenge of a continuing full-scale concentration on the special features of this form of economy and living. Our research seeks to take a special look at the entrepreneurial family and its relationship to its company (without neglecting the reciprocal aspect). One of the core premises of our research is that the family be seen as a potential company resource rather than as mere ballast that must be gotten rid of as soon a possible. So the question is how these resources, the totality of the familial factors which is "familyness", can be organized in a manner so that it is available to the business as ongoing quality. What is needed here is a carefully planned and implemented family strategy in order to sustain the family company over generations as an economic and familial organizational principle.

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WITTENER INSTITUT FOR FAMILY BUSINESS (WIFU)

Since its founding in 1998 as the first academic center for competency and research nationwide, the Witten Institute for Family Business (WIFU = Wittener Institut für Familienunternehmen) has concerned itself with the nature and distinctiveness of family businesses. It consolidates in its three professorships – Business Administration, Psychology/Sociology and Jurisprudence – the fields relevant to research involving family businesses. It has set itself the task of illuminating chances and risks of family businesses, as well as their future viability.

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