CHAPTER TWELVE
Family Companies

A: Main Teaching Points (by textbook section)

In general, this chapter examines the family company, and asks how far its structure and relationships with the environment are influenced by general, globalized factors; and how far by local factors (including national culture). This discussion develops aspects of the previous chapter. Examples focus on two models of family company, the Anglo and Chinese models. The main points to emphasize when introducing the chapter are that in both contexts, some family companies succeed and some fail. Neither model is intrinsically superior to the other. In many respects, family companies in all cultures share common features.

12.1 Introduction

The introductory case suggests that decision making in family companies may be influenced by family relationships, whatever the culture. Family companies everywhere share some characteristics.

12.2 The Anglo model: environment, culture, and management

This description of the Anglo model is based on prescriptive texts – arguing how the family company should be organized in order to operate at maximum efficiency. In practice, Anglo family companies approximate to this model in varying respects. Given that American business methods are increasingly globalized, this model is likely to influence family structures everywhere.

Make the point that this prescriptive model emphasizes the values of impersonal bureaucratic systems, discussed in chapter 8. The model applies formal and impersonal structures that reduce the influence of affective family relationships. For example, family members may have to meet stringent bureaucratic requirements in order to be employed in the company. But the Chinese model, to the contrary, tries to apply family relationships when these help build loyalty and commitment.

The Anglo entrepreneur is more likely to resort to public sources of financing than is his Chinese equivalent.

12.3 The Chinese model: environment and culture

This section explains the predominance of the Chinese model of the family company in Southeast Asia. It is based on data that emphasizes how Chinese family companies operate in practice. Networking in its local environment gives the Chinese family business immense advantages over, say, an Anglo MNC. But the same company is at a disadvantage when operating in the Anglo world, in which it cannot depend on personal contacts within the extended family and clan.

The traditional company bases its strategy on the culture of family values and pragmatism in relation to the environment. Make clear to students that a dependence on the loyalty of family members brings strength when the family is close-knit and members are prepared to give loyalty. It is a weakness when family ties are weakened.

Subsection 12.3.5 makes the point that the success of Chinese business has often been explained in terms of Confucianism. But this factor cannot be totally explanatory; Confucian influences were perhaps even stronger during the nineteenth and early twentieth centuries when the region was economically stagnant. And by mid-1998, the Asian slump was also being explained in terms of Confucianism. (See C: Class Discussion Questions, 1.)

12.4 The Chinese model: management

This section focuses on structural and recruitment issues. Students should be encouraged to compare and contrast the Chinese and Anglo models. In what significant respects do Chinese companies differ from the globalized Anglo model?

12.5 Changes in the Chinese model

This section deals with Chinese family business in a time of change. How can the company adapt to cultural and economic shift? If changing means drawing nearer to the globalized Anglo model, will the company lose the basis of competitive advantage that it has previously enjoyed in the local region?

B: Implications for the Business Student

(This section modifies the material on p. 286 of the textbook.)

How does national culture influence strategy within family companies in your context? Research a small family company that you know. (*Note*: some business schools are privately owned, by families. Is yours? And your business school may be supplied by small family companies that might be willing to assist your research.)

1. In the family company that you are investigating:
   - Are family members employed? (a) If you answer *yes*, in what positions are they employed? (b) What criteria are used in appointing them?
   - In what positions are non-family employed?
   - How do family relationships affect communication and decision-making processes?
   - What disputes arise between family and non-family employees?
   - Does the company belong to a small-business association? If so, how does the company benefit from its membership?
   - How do government policies influence growth?
2. What factors in the business and cultural environments might explain your answers above?
3. What lessons might the company usefully apply from the models discussed in this chapter (the Anglo family company; the Chinese family company)? If the company is typical of either one of these, what lessons might it learn from the other?
4. Successful Chinese companies benefit from:
   - Close interaction with the environment;
   - Use of informal networks;
   - Highly centralized decision making;
   - Focusing on low margin and high volume in order to penetrate markets.

   How can these lessons be applied in the company? How are they applied?

C: Class Discussion Questions

1. In the nineteenth and early twentieth centuries Asian economic stagnation was explained by Max Weber as an inevitable effect of Confucianism. By the early 1990s, many writers explained the Asian boom as an effect of Confucianism. In 1998, many writers explained the Asian economic collapse as an effect of "Asian values." How do you explain these apparent contradictions?
2. In what respects do family companies in your culture (and in other cultures that you know well) resemble the Anglo model and the Chinese model?
3. Review the discussion of how Anglo family companies should operate in section 12.2. In your country, how closely do typical family companies approximate to this model? In those respects that they do *not* approximate to the model, why not? Give examples. How might applying the model promote inefficiency rather than efficiency in your country?

D: Answers to the Exercise

This exercise asks participants to manipulate culture and industry type.

1. Family Company A uses little technology and depends upon cheap labor. Whether this company is in the United States or Hong Kong:
   – Family may be recruited at management levels
   – Labor at non-management levels is low skilled and poorly paid.

   In the United States labor may be recruited by both formal means (cheap newspaper advertising, notices) and by word of mouth on an informal basis. In Hong Kong, greater reliance may be made on recruiters able to control and hire out pools of unskilled labor.

   The workforce is taught only the basic skills needed for the job. When the labor market offers a wide pool of such labor, they are little valued and are poorly paid. Control is likely to be tight. In the Hong Kong case, there is little need for the family to develop patronage relationships with the low-skilled staff, who can be easily replaced, probably do not have access to family secrets, and have no significant skills to sell.

   Relations with the environment may be significantly affected by the status of the labor – whether legal or not. In neither case is the threat of the labor being poached of major importance.
2. Family Company B uses and produces advanced technology and depends upon highly skilled labor.

   The prescriptions on employing family members (unless particularly skilled) are more likely to apply in the United States. Experts are employed at both management and technical levels. They are recruited through formal channels (newspaper advertisements, agencies, head hunters).

   In Hong Kong, management hopes to supply as much management and technical talent as possible from family members. Younger family members are trained for their future roles. The family is worried about losing skilled non-family members (whether they move to competitors or start their own companies). Relationships are likely to be influenced by patronage – aimed at developing personal dependencies.

   In Hong Kong, the fear of losing this labor significantly affects relations with other firms in the environment.

E: Additional Exercise Material

Discuss this case.

The T L (Bangkok) Finance Company was founded 50 years ago by a Thai Chinese, Wilai, and was entirely owned and managed by his family members. On Wilai's death, his eldest son, Samit, became president. When he also died, 15 years later, his brother, Piti, succeeded. Piti was childless. Samit's son Krit was now next in line and enjoyed a close friendship with his uncle. But he too died. His only possible successor was Noi, the widow of Samit and mother of Krit. Noi had inherited 35 percent of the share capital, but neither she nor her two brothers had hitherto played any part in managing the company. She still mourned the loss of her husband and only child, and her relationships with Piti and her other in-laws worsened. She was beginning to show an interest in operations but they no longer considered her directly related to the family and, given the extent of her ownership, were increasingly concerned about her plans for the future. Both Piti and Noi expected to be treated with respect in their old age, as the senior members of the family. Then Piti moved to double the registered capital of the company. In retaliation against what seemed to her an attempt to reduce her status by reducing her percentage of the total stock issue, Noi formed a coalition with an outsider property developer, Atar. Noi and Atar proceeded to sue Piti for illegally issuing the further stock, most of which was acquired by a Hong Kong bank. The families and in-laws lived in adjoining houses in the same compound. As the conflict escalated, they erected fences between the various houses, and the precise positioning of the fencing provided a further opportunity for dispute. Communication between family members had totally broken down, and both sides feared losing face by making the first advance to repair the breach. A prominent Bangkok banker was invited to mediate a solution. At first it seemed that he had succeeded, but the Hong Kong bank began selling its stock in the company and the settlement broke down. Worried at losing further face, the banker withdrew. Eventually the Noi-Atar coalition acquired 58 percent of the total stock issue, and, with that, control of the board. Piti and his group were stripped of any authority in the company. They responded by encouraging the company's customers to take their business elsewhere. Atar brought his own relatives into the management, and persuaded Noi to sell him her stock.

Suggested response

The case demonstrates the weakness of the Chinese (type) family company when family relationships sour. When family members fall out over family and business matters – which are intertwined – both structures may be devastated.

Conflict over authority issues led to a situation in which outsiders were introduced as key players – one of them finally taking control of the company away from the family. The prominent banker asked to mediate risked losing face when the factions refused to accept his decision, and his withdrawal was entirely to be expected in these circumstances.

F: Test Bank

1. The American literature typically argues that family members should be employed in the family company:
   a. Never
   b. As soon as they have completed their MBA training
   c. Only when they are skilled at, or above, market levels
   d. Only when relations between family members are good.

(Answer, c: pp. 269–70)

2. This advice on employing family members reflects:
   a. Rational bureaucratic criteria in making appointments and promotions
   b. Low needs to avoid uncertainty
   c. Affection
   d. High needs to avoid uncertainty in the family.

(Answer, a: p. 270)

3. The American literature proposes that the board of directors be:
   a. Solely or primarily staffed by family members
   b. At least supplemented by outsider professionals
   c. Entirely staffed by outsiders
   d. Staffed by any persons (whether family members or outsiders) who are prepared to challenge the CEO/entrepreneur.

(Answer, b: pp. 270–71)

4. Overseas Chinese constitute:
   a. Less than 50 percent of the population in all Southeast Asian countries
   b. Less than 50 percent of the population in all Southeast Asian countries *except* Singapore
   c. More than 50 percent of the population in all Southeast Asian countries *except* Brunei, Myanmar, and Laos
   d. Less than 30 percent of the population in all Southeast Asian countries *except* Singapore.

(Answer, b: p. 273)

5. Successful Chinese family companies invest:
   a. Only in the country of headquarters
   b. Only in countries where at least 30 percent of the population are Chinese
   c. Only in countries where at least 80 percent of the population are Chinese
   d. Possibly in all continents.

(Answer, d: p. 274)

6. Research shows that multinational Chinese companies headquartered in Hong Kong tend to:
   a. Centralize control over their subsidiaries abroad
   b. Give subsidiaries considerable autonomy in running their affairs
   c. Exercise tight control through formal structures
   d. Differentiate control mechanisms, depending on the country of the subsidiary.

(Answer, b: p. 275)

7. The success of the Chinese is largely explained by their:
   a. Accessing new resources of capital
   b. Applying bureaucratic structures
   c. Moving into niche markets
   d. Applying American management models.

(Answer, c: p. 275)

8. The influence of Confucianism on the development of Chinese family businesses:
   a. Means that they are unlike family businesses anywhere else in the world
   b. Means that they are the same in all Chinese-dominated countries
   c. Means that they differ significantly in different Chinese-dominated countries
   d. Is limited – the major influences everywhere are commercial.

(Answer, b: p. 276)

9. A strategy typically adopted by the Chinese family company is to:
   a. Externalize the costs of services and other intangibles
   b. Depend on low volume sales earning high margins
   c. Arrange financing in non-Chinese banks
   d. Penetrate markets by high-volume sales earning low margins.

(Answer, d: p. 277)

10. Typically in the traditional Chinese family company, non-family members are:
    a. Appointed to the board, if they show intelligence
    b. Not employed as managers
    c. Employed as managers in non-critical functions, if they are skilled
    d. Employed only in Hong Kong companies.

(Answer, c: pp. 280–81)

11. When the owner of a Saudi Arabian family business dies:
    a. Succession usually leads to changes in the organizational culture
    b. Succession usually does not lead to changes in the organizational culture
    c. He is usually succeeded by his wife
    d. The business is usually sold.

(Answer, a: p. 282)

12. German family companies typically raise financing from:
    a. Internal sources
    b. Bank loans
    c. Government grants
    d. None of the above.

(Answer, a: p. 283)