Factors that influence positive succession outcomes and longevity in long-lasting Australian family enterprises

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Factors that influence positive succession outcomes and longevity in long-lasting Australian family enterprises

Anthony John Scotland

A thesis submitted to the Graduate College of Management, Southern Cross University, Australia, in partial fulfilment for the Degree of Doctor of Business Administration.
Abstract

Purpose: Fifteen per cent of Australian family firms survive beyond the third generation; a mere 4% survive beyond the fourth generation. The purpose of this research is to examine the success stories; four family firms that have survived beyond two generations and are thriving. What has allowed these companies to achieve positive succession outcomes and greater longevity?

Methodology: I conducted four case-oriented studies of third and fourth generation family firms, using semi-structured, in-depth interviews with one key person in each organisation. Due to the exhaustive nature of in-depth qualitative research, only four family firms were selected. All were chosen because they were third generation or beyond. The aim of the research is to explore the key factors that contribute to longevity in Australian family firms. One approach could have been to examine companies that had failed, and to explore why they had failed. I decided to focus on companies that had survived, and to explore how and why they had managed to do so. I chose to interview only one person in depth in each company, because my preliminary over-the-phone discussions suggested this would elicit more candid information.

Findings: Nine key factors have been identified that contribute to positive succession outcomes and greater longevity:

1. The ability of the outgoing owner to effectively pass the baton to the new leader(s) of the incoming generation.
2. The ability to adapt, innovate and seize opportunities.
3. The ability of parents to encourage teamwork rather than destructive sibling rivalry.
4. The wisdom of parents to leave their shares directly and equally to their children, regardless of whether they work in the family business or not.
5. The ability of the parents to recognise that equality is equity.
6. The ability of each successive generation to avoid the 20 classic warnings.
7. The ability of the parents to encourage positive psychological development in the children.
8. The ability to apply the principles of corporate governance.
9. The ability to adopt most if not all of Ward’s 50 lessons.

All of these key factors converge at the intersection of strong effective leadership and strong family values based on trust and fairness. I argue that strong family values are a subset of effective leadership. Thus, in the final analysis, effective leadership will aid survival in family firms more than luck or any other superstition that we might be tempted to add to the list.
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Abbreviations

FBA: Family Business Australia.
TMP: The Maria Principle
LQ: Longevity quotient

Statement of original authorship
The work contained in this dissertation has not been previously submitted for a degree or diploma at any other higher education institution.

I also certify that to the best of my knowledge, the dissertation contains no material previously published or written by another person except where references have been given, and any help received has been acknowledged.

Signed……………………………………………….......................
Date……………………..…

Anthony John Scotland
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Sue Booker: who sets an example in how to construct a beautiful sentence.

Josephine Truman: who understands the need to have a voice.

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To my father: who encouraged my academic interests by opposition.

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Chapter 1: Introduction

1.1 Background to the research

The Klynveld Peat Marwick Goerdeler (KPMG) survey (Glassop et al. 2005) makes some interesting observations regarding family firms:

Family firms comprise a significant part (approximately 80%) of the Australian and world economy and yet comparatively little research has been done to identify their needs and aspirations.

Only 17.7% of survey respondents have a succession plan.

Twenty nine point six per cent of the CEOs plan to retire in the next five years, and a further 26.7% plan to retire in the next 10 years.

As many as 33% plan to pass on their business to the next generation.

Succession planning is ranked only 11th on a list of business challenges considered important by the survey respondents.

Given these facts, it is no wonder that only 33% of family enterprises survive to the second generation, and only 15% to the third generation, with poor succession planning attributed as the primary source of the problem. (Le-Breton Miller et al. 2003).

By focussing on those enterprises that have survived beyond the second generation, this research will provide vital clues for those first and second generation enterprises on the verge of transfer. This will hopefully reduce emotional and financial pain for those enterprises, by maintaining both harmony and stability within the family, the business and society.

A preliminary review of the literature revealed the following challenges facing family businesses during the process of succession (See Figure 1.1)
The diversity of successions, based on the three circle model (Figure 2.1: Gersick et al. 1997). This model is a useful tool for pinpointing and understanding the source of interpersonal conflicts, role dilemmas and boundaries that lead to succession conflicts and challenges within the family. This research will investigate how post second generation family enterprises have negotiated this type of obstacle.

„Rough family justice“. Ayers (1990 p. 5) argues that when a family business is facing succession issues systematising will not work: rough family justice (defined as equity not equality, among members of the family system in a context designed to serve the best interests of the family business) is a more realistic goal, and new priorities are essential. This research will explore how certain enterprises have managed the equity v equality issue, in terms of positive succession outcomes.

„The founder’s trap“. Adizes (1998 p. 72) argues that a founder’s trap can develop into a family trap if a family member takes over on the basis of ownership and bloodline rather than competence and experience. Here the family business has failed to separate ownership from management. Where the transitional enterprise succeeds in negotiating a meritocracy over nepotism, it is possible to develop towards mature corporate governance and longer-term survival.

Based on this preliminary review of the literature, there are no case studies of post second generation Australian family enterprises which explore the critical factors that lead to positive succession outcomes.

This is “the gap” that this research addresses.

1.2 Research problem, research issues and contributions

The research problem is: “What are the key factors that lead to positive succession outcomes and longevity in Australian family enterprises?”
Essentially I argue that where transitional enterprises succeed in embracing corporate governance, supported by The Maria Principle (TMP) and cohesive family values, the probability of longer-term survival (LQ) will significantly increase.

The research issues are summarised in the conceptual model, Figure 3.1:
What factors lead to positive succession outcomes?

What factors lead to negative succession outcomes?

Does the ‘3-circle model’ illustrate the complexity of the obstacles to succession planning?

Will ‘rough family justice’ increase the probability of a positive succession outcome, or the reverse?

How significant is the separation of ownership and management (corporate governance) on the succession outcome?

The contribution to the body of knowledge in this area is a deeper understanding of why the following phenomena occur and how to avoid these ‘succession traps’:

The inability of business families, especially top management to understand and communicate the complexity of the 3-circle model (Figure 2.1)

The inability of business family members to understand the difference between ‘equity’ and ‘equality’ when it comes to succession.

Finally, and most importantly, the lack of understanding of the advantages offered by corporate governance to transitional organisations.

This research has conducted four case-oriented studies of post second-generation family firms in order to identify the factors that have allowed these firms to succeed where others have failed.
The result is a model for family enterprises hoping to beat the odds of extinction. Naturally, new firms will rise up to replace those that vanish; however, the key point here is to prevent the unnecessary waste of human and financial capital through lack of planning and knowledge.

Hence, this research has made an important contribution to the body of knowledge in the area of succession planning in family enterprises.

1.3 Justification for the research

According to Spoehr (2005), family firms in Australia employ around 3 million people or more than 50% of the private sector workforce. The combined wealth of Australian family enterprises was $3.6 trillion in 2002. This sector of the Australian economy is on the verge of an unprecedented rate of business transfer over the next 10 years as the baby boom generation approaches retirement. The odds are already stacked against successful succession: 33% of family enterprises survive to the second generation, 15% survive to the third and only 4% survive beyond the third generation. Wal Mart, BMW, Olivetti, Ferrari, News Corporation, PBL and the corner store have something in common: they are all family businesses. It is estimated that 40% of the Fortune 500 are family owned or controlled (Gersick et al. 1997).

The KPMG survey (Glassop et al. 2005) points to succession planning as one of the problems facing family firms. Under the section, „Succession Planning,“ the report recommends the protection of key roles within the family firm. One way to protect these roles, according to the KPMG report, is to ensure that a successor is ready at hand should the need arise.

The information that follows highlights why positive succession outcomes are the exception rather than the rule.
In doing so, the survey data supports the case for this research which aims to discover and examine the critical factors that enhance the possibility of a positive succession outcome.

The KPMG survey reveals that only 17.7% of survey respondents had a succession plan in place, although 53.9% have the intention of developing one. Over sixty-eight per cent said they had not selected a successor (see Table 1.1).

Table 1.1 Succession planning

<table>
<thead>
<tr>
<th></th>
<th>Have a succession plan</th>
<th>Intention to develop a plan</th>
<th>Chosen a successor</th>
<th>Designated successor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>17.7%</td>
<td>53.9%</td>
<td>30.5%</td>
<td>Family</td>
</tr>
<tr>
<td>No</td>
<td>33.5%</td>
<td>16.6%</td>
<td>68.2%</td>
<td>Non-family</td>
</tr>
<tr>
<td>No Response</td>
<td>48.8%</td>
<td>29.4%</td>
<td>1.3%</td>
<td>No response</td>
</tr>
</tbody>
</table>

Source: Glassop et al. (2005, p. 39). KPMG and Family Business Australia

The authors of the report make the salient point: _The lack of attention to Succession Planning is alarming given that 29.6% plan to retire in the next 5 years and a further 26.7% in the next 10 years_‘ (see Table 1.2)
Table 1.2 Succession planning- years to retirement

<table>
<thead>
<tr>
<th>Years to retirement</th>
<th>Survey respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 years</td>
<td>29.6%</td>
</tr>
<tr>
<td>5-10 years</td>
<td>26.7%</td>
</tr>
<tr>
<td>11-15 years</td>
<td>14.5%</td>
</tr>
<tr>
<td>15+ years</td>
<td>28.4%</td>
</tr>
<tr>
<td>No response</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

Source: Glassop et al. (2005, p. 39). KPMG and Family Business Australia

Survey respondents were also asked about ‘exit plans’. Given that only 17.7% have succession plans and that 29.6% plan to retire in the next five years, it is quite disturbing that 33% plan to pass on their businesses to the next generation (see Table 1.3).

Table 1.3 Succession planning- exit plans

<table>
<thead>
<tr>
<th>Exit plan</th>
<th>Survey respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pass on the business to the next Generation</td>
<td>33.0%</td>
</tr>
<tr>
<td>Undecided</td>
<td>27.5%</td>
</tr>
<tr>
<td>Sell the business on the open market</td>
<td>15.8%</td>
</tr>
<tr>
<td>Sell the business to employees or Management</td>
<td>7.0%</td>
</tr>
<tr>
<td>Pass on the business to other family Member(s)</td>
<td>6.0%</td>
</tr>
<tr>
<td>Close the business</td>
<td>1.5%</td>
</tr>
<tr>
<td>No response</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

Source: Glassop et al. (2005, p. 40). KPMG and Family Business Australia
Another disturbing factor revealed by the survey is that succession planning is regarded as a business challenge of lower priority than operational issues (see Table 1.4).

### Table 1.4 Business challenges considered important by family business (by generation, in %)

<table>
<thead>
<tr>
<th>Business challenge</th>
<th>Overall</th>
<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Fourth + generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increasing profits</td>
<td>6.09</td>
<td>6.11</td>
<td>6.08</td>
<td>5.93</td>
<td>6.26</td>
</tr>
<tr>
<td>2. Increasing customer base/sales turnover</td>
<td>5.97</td>
<td>6.12</td>
<td>5.84</td>
<td>5.92</td>
<td>5.89</td>
</tr>
<tr>
<td>3. Growth</td>
<td>5.72</td>
<td>5.76</td>
<td>5.82</td>
<td>5.65</td>
<td>5.48</td>
</tr>
<tr>
<td>4. Strategic planning</td>
<td>5.53</td>
<td>5.45</td>
<td>5.60</td>
<td>5.56</td>
<td>5.57</td>
</tr>
<tr>
<td>5. Balancing family and Business</td>
<td>5.01</td>
<td>4.94</td>
<td>5.24</td>
<td>4.96</td>
<td>4.61</td>
</tr>
<tr>
<td>6. Operational issues</td>
<td>4.83</td>
<td>4.71</td>
<td>4.98</td>
<td>4.81</td>
<td>4.77</td>
</tr>
<tr>
<td>7. Regulatory requirements</td>
<td>4.79</td>
<td>4.75</td>
<td>4.76</td>
<td>4.89</td>
<td>4.88</td>
</tr>
<tr>
<td>8. New markets</td>
<td>4.77</td>
<td>4.97</td>
<td>4.74</td>
<td>4.44</td>
<td>4.66</td>
</tr>
<tr>
<td>9. Tax issues</td>
<td>4.55</td>
<td>4.59</td>
<td>4.44</td>
<td>4.73</td>
<td>4.43</td>
</tr>
<tr>
<td>10. Retirement Planning</td>
<td>4.28</td>
<td>4.42</td>
<td>4.29</td>
<td>4.11</td>
<td>3.97</td>
</tr>
</tbody>
</table>
The mean reflects the degree to which the issue is relevant to the respondent's business and is scaled from 0–7, where 0 refers to ‘not applicable’ and 7 refers to ‘very important’. The authors' commentary on table 1.4 is telling:

Broadly, the results of this survey suggest that **family businesses are not aware of the need for succession planning** and formalising the business, but they are struggling with more fundamental issues such as profitability and growth (Glassop et al. 2005 p. 26).

Essentially, this research shows that second generation family enterprises are more likely to survive to the third generation and beyond if they imitate those post second-generation enterprises that have adopted sound principles of corporate governance.

In time, with more generations to study, future researchers will be able to confirm or refute the findings of this research.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>12. Family issues</td>
<td>3.91</td>
<td>3.59</td>
<td>4.34</td>
<td>4.19</td>
</tr>
<tr>
<td>14. Change direction</td>
<td>3.54</td>
<td>3.57</td>
<td>3.65</td>
<td>3.14</td>
</tr>
<tr>
<td>15. Transfer ownership</td>
<td>3.50</td>
<td>3.78</td>
<td>3.59</td>
<td>3.13</td>
</tr>
<tr>
<td>16. International competition</td>
<td>2.92</td>
<td>2.99</td>
<td>2.79</td>
<td>2.70</td>
</tr>
</tbody>
</table>

Source: Glassop et al. (2005, p. 26). KPMG and Family Business Australia
1.4 Methodology

Quantitative researchers regard themselves as objective, non-interactive, and value- and bias-free. Qualitative researchers freely admit they have personal values, beliefs and attitudes. Mellon (1990, p. 26) offers an interesting insight into the differences between these apparent opposites.

Attitude toward bias, particularly as introduced by the researcher, is affected by the underlying epistemic assumptions. Mellon states that objective researchers try to eliminate bias while subjective researchers recognize and acknowledge it. Total objectivity is impossible for researchers who are, after all, human beings. The difference between the two research traditions is not that one has and one lacks objectivity. The difference is that naturalistic researchers systematically acknowledge and document their biases rather than striving to rise above them.

This research has analysed four case studies, consisting of volunteers from the Family Business Association of Australia. In-depth interviews were conducted, and the feedback from the participants used to generate further questions. This has resulted in a rich, thick narrative that is characteristic of qualitative research.

Ragin (1994, p. 92) makes the point that qualitative and case study research are not identical, but ‘almost all qualitative research seeks to construct representations based on in-depth, detailed knowledge of cases.’

The key point here is that my research is qualitative research based on four case studies, and is not case study research per se. It will be a ‘case oriented approach [that] places cases, not variables, centre stage’ (Ragin 1992, p. 5). Neuman (2001, p. 301) points out that face-to-face interviews have ‘the highest response rates and permit the longest questionnaires.’ The interviewer can also observe the surroundings and can use non-verbal communication, ask complex questions and use extensive probes. Where time and cost make the face-to-face interview impracticable, telephone interviews were used as back-up.
1.5 Outline of the thesis

Chapter 1: introduction or overview of this thesis
Chapter 2: outlines the research issues
Chapter 3: outlines the methodology of data collection
Chapter 4: analyses the collected data
Chapter 5: conclusions and implications.

1.6 Definitions

Definitions adopted by researchers are often not uniform, hence key and controversial terms are defined to establish positions taken in this research.

**Action research**: Applied research in which the primary goal is to facilitate social change or bring about a value-orientated political-social goal.

**Family enterprise**: Shankar and Astrachan (1996) maintain that the criteria used to define a family business/firm can include:
- Percentage of ownership
- Voting control
- Power over strategic decisions
- Involvement of multiple generations
- Active management of family members

**Family business succession planning**: I have adopted Aronoff’s definition (2003) Essentially, Aronoff says that, narrowly speaking, succession means the transition of family business leadership and ownership from one generation to the next. Broadly speaking, he argues, succession is a lifelong process of planning and management that encompasses a wide range of steps aimed at ensuring the continuity of the business through generations.
Positive succession outcome: This is a ‘working definition’ (the final definition will be determined by the findings of this research). The controlling interest but not necessarily management of the business is transferred to the next generation of the family, and there is minimal disruption to the operations and value of the business. This is achieved by consultation within the family, and has received the broad approval of all family members.

Negative succession outcome: As above, a working definition. The business collapses or seriously declines due to: poor choice of successor, family in-fighting due to lack of consultation, inadequate grooming of the successor, inadequate tax and structural planning or lack of non-family mentors.

Stage I (Owner-Managed): This is the first stage in the life cycle of family business. Ownership control is vested in one family member who leads the business.

Stage II (Sibling Partnership): Ownership control is shared among two or more brothers and/or sisters.

Stage III (Cousin Collaboration): Ownership control is spread among many family members in the next or succeeding generations (Ward 2004, p. 31).

Primogeniture: 2. Law. The principle of inheritance or succession by the firstborn, especially the eldest son‘ (Macquarie Dictionary 1985).

Coparcenary: joint inheritance; joint ownership (Chau 1991).

Rough family justice: a succession outcome that best suits the business, based on equity (fairness) rather than equality (Ayers 1990).

The Maria principle: children should inherit equal shares in the family business, whether they work in the business or not. It emphasises the separation of ownership and management/employment. (Term developed for this research)
**Founder’s trap:** where a family member takes over on the basis of ownership and bloodline rather than competence and experience (Adizes 1998, p. 72).

**Three circle model:** A conceptual model illustrating the complexity of the independent and interdependent ownership, business and family spheres (Gersick et al. 1997).

**Corporate governance:** According to the Australian Securities Exchange (ASX) Corporate Governance Council (2007, p 3), corporate governance is ‘the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations’. It encompasses the mechanisms by which companies, and those in control, are held to account. Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.

Principles of corporate governance:

- **Principle 1:** Lay solid foundations for management and oversight
- **Principle 2:** Structure the board to add value
- **Principle 3:** Promote ethical and responsible decision-making
- **Principle 4:** Safeguard integrity in financial reporting
- **Principle 5:** Make timely and balanced disclosure
- **Principle 6:** Respect the rights of shareholders
- **Principle 7:** Recognise and manage risk
- **Principle 8:** Remunerate fairly and responsibly

**Agency theory:** Describes the relationship between the principal (the shareholders) and the agent (the CEO). Agency theory assumes that the CEO does not always have the shareholders' best interests at heart, and is more motivated by self-interest. The eight principles of corporate governance are based on the need to control and monitor the behaviour of CEOs.

**Stewardship theory:** Also describes the relationship between the shareholders and the CEO. However, the key difference is that here the interests of the CEO and the
shareholders are in alignment. The CEO implements corporate governance, rather than the shareholders imposing it on him/her.

**Psychodynamic theory:** Focuses on the individual in relation to the past.

**Family systems theory:** Focuses on family group relationships in relation to the present.

### 1.7 Delimitations of scope and key assumptions

The first delimitation is to narrow the scope to only Australian family enterprises. For the purposes of this research, the definition of ‘family enterprise’ does not restrict the size of the business. Hence, there is no limitation of scope in this area. Due to the exhaustive nature of qualitative research, the case studies have been limited to four, in order to set realistic targets for data collection and analysis.

### 1.8 Conclusion

This chapter laid the foundations for the thesis. It introduced the research problem and research issues. The research was then justified, definitions were presented, the methodology briefly described and justified, the thesis outlined chapter by chapter and the delimitations were given. On these foundations, the thesis can proceed with a detailed description of the research.
Chapter 2: Research issues

2.1 Introduction

This chapter aims to build a theoretical foundation for the research by reviewing the relevant literature to identify research issues or gaps that are worthy of research because they are problematic and/or have not been fully explored by previous researchers.

2.2 Parent theories and classification models

The concept map (Figure 2.1) demonstrates the systematic progression of the chapter. It moves from various definitions of family enterprise succession to a review of key parent theories relating to succession. It then homes in on the immediate research problem theory that attempts to bridge the gaps or research issues that are unresolved by the parent theories.
Immediate discipline
Characteristics of effective succession in family enterprises in Australia.

Research Proposal
“What are the key factors that have influenced positive succession outcomes in long-lasting Australian family enterprises?”

Definition of family enterprise succession

Parent Theory I
The diversity of successions

Parent Theory II
Equity versus equality

Parent Theory III
Lessons from failure

Parent Theory IV
Corporate governance

Parent Theory V
Lessons from success

Parent Theory VI
A psychological perspective

**Figure 2.1** Concept map of parent theories and research issues. Developed for this research.
Definitions of family enterprise succession

Handler (1994) defines family enterprise succession as ‘the passing of the leadership baton from the founder-owner to a successor who will either be a family member or a non-family member.’ The implication here is that ownership will remain in the family. Barry (1975) divides succession into two parts, ownership and management, which suggests there may be a variety of combinations of ownership and management available to the enterprise in transition. Alcorn (1982) maintains that succession refers specifically to changes in the ‘boss position’. Essentially, Aronoff (2003) says that, narrowly speaking, succession means the transition of family business leadership and ownership from one generation to the next. Broadly speaking, he argues, succession is a lifelong process of planning and management that encompasses a wide range of steps aimed at ensuring the continuity of the business through generations.

Handler (1994) also maintains that succession has been viewed as a process (Farquhar, 1989; Friedman, 1987; Gabarro, 1979; Gilmore and McCann, 1983; Gordon and Rosen, 1981; Vancil, 1987).

None of the above definitions are contradictory and together they provide a useful background for the research that follows.

Parent theory I: the diversity of successions

One way to approach this theory is to start with concept maps of the three circle model and its companion, the three-dimensional development model (Figures 2.2 and 2.3).
Figure 2.2 three-circle model of family business

Source: Gersick, K. et al. (1997).
Figure 2.3
Three dimensional development model

Gersick et al. (1997, p. 193) say that succession is not a single event but a process that occurs over many years. It is about ‘adjustment and adaptation’. They make the point that succession is not as rational and planned as described in most of the family business literature.

Gersick et al. also say that succession presents a ‘formidable obstacle course’ for members of all three circles (see Figure 2.2). It is a complex process in which the owners must ‘formulate a vision of a future governance structure’. The challenge is for the ageing owners to train potential management successors and establish a process for selecting the most qualified new leaders. It is interesting to note the use of the plural ‘leaders’, suggesting that a leadership team may be more appropriate than a single leader.

In reference to Figure 2.2, a successor could, in theory, be chosen from any of the seven sectors within the three circle model. In practice, the successor is more likely to be selected from sector five or six, especially sector five (a family member working within the business). It is easy to imagine tensions arising if there is more than one capable successor to choose from.

In 1996, tensions arose in a well-known Australian company, Transfield. Franco Belgiorno-Nettis and Carlo Salteri decided to split the business, with Franco retaining the construction arm and the Transfield name. Marco (Franco's eldest son) then became the company's sole managing director. Franco, the controlling owner (see Figure 2.2) should have passed the baton to Marco, to signal the commencement of the sibling partnership phase, or a repetition of the controlling owner phase. Unfortunately, this did not occur, and what followed was a long and bitter family feud.

This research will explore whether this inability of the controlling owner to pass on the baton, to invest real authority in his successor, is a critical factor in influencing positive succession.
I invite you to look at the business axis of Figure 2.3 above, and focus on the "maturity phase." Gersick et al. (1997, p. 186) see this as a potential "danger zone." They say that mature companies can begin to see their success as inevitable, rather than fragile. This can cause them to stop listening to customers and to resist innovation.

This research will investigate whether there is any relationship between continuous innovation and longevity.

Gersick et al (1997, p. 194) point to the great diversity of successions that are adopted by contemporary family enterprises: collective ownership, shared management responsibilities and multifamily succession. In spite of this, they say the family business literature has mostly focused on a single type of generational transfer: a father passes his business to his son, often the eldest son.

There are some weaknesses in this theory, or at least the presentation of it.

First, the various types of succession options are not defined. For example, what is "collective ownership"? We can guess that it means ownership by the workers, based on the allusion to communism, but this would imply that the owners of the previous generation have sold out to the workers, and that the business is therefore no longer a family business. What are "shared management responsibilities"? Surely every mature business has shared management responsibilities? What differentiates this from other succession models? There is also a lack of hard data to substantiate the assertions. For example if 90% of family enterprises are passed on from father to son, it is not surprising that the classic literature in this field has focused on primogeniture rather than the diversity of successions put forward by Gersick et al. What is "multifamily succession"? Gersick et al. offer no definition against which we can benchmark this proposed redefinition of family business. The boundaries of the definition need to be elastic to reflect a range of possibilities, but not so elastic that they become meaningless.
Ivan Lansberg is one of the co-authors of *Generation to Generation* (Gersick et al. 1997). He has identified two core concepts that expand the traditional view of the succession process. The first involves the range of post-succession options available to a business family and the different processes involved in the transitions to each of these options. Some leadership transitions involve only a change in the people who are running the company, but others involve a fundamental change in the structure and culture of the company. Unfortunately, Lansberg does not provide any examples of a fundamental change in the structure and culture.

This research helps to fill this gap.

Lansberg maintains that the planning process can be compared to a journey that is shaped at every stage by the vision of the family. Given the evidence cited earlier from the KPMG survey (Glassop et al: 2005) of the high percentage of family business failures, there is an unstated assumption here that Lansberg is only referring to positive succession outcomes.

The second concept grows out of the first, and states that the choice of one structure over another is driven by a ‘shared dream’, in which the aspirations of individual family members become woven together in a ‘collective vision of the future’. Lansberg proceeds to differentiate between the dreams and fantasies of the senior and junior generations, and concludes: the ideal process of succession planning is the gradual uncovering of these individual dreams, and their integration into one goal and one course of action.

The notion of a collective vision is explored in this research.

Gersick et al. then proceed to outline a case study of Lombardi Enterprises to illustrate the succession process. To understand the theory of the diversity of successions, it is useful to note the differences in the nature of the successions from first to second generation and from second to third.
Paul Lombardi Snr built the company from nothing and ruled it as a controlling owner for 25 years. For the past 20 years, the company has been run by his five children. The eldest, Paul Jnr has filled the role of first among equals in their sibling partnership. Over those 20 years the management style and culture have been transformed. During Paul Snr’s long tenure, ‘power and authority radiated from a single source.’ Under the sibling partnership, major decisions are made by consensus. The next point is crucial. The authors maintain that this degree of cooperation between the siblings did not occur by accident. The parents, Paul and Anna had always envisioned that the five children would one day take charge of the company and manage it as a team. In the early years, the parents ‘tried to dampen their offspring’s natural competitiveness’ and encourage them to cooperate and share, with the idea that teamwork would eventually be essential to their future partnership. When stock was transferred to the second generation, each sibling received an equal amount. In 1997, at the time this case study was recorded, the Lombardi family business was turning over US$900 million. This information is included because there can be an assumption that once the profits are substantial, greed takes over and the family business starts to disintegrate.

This case study from the parent literature is useful in that it throws up questions for this research to confirm or refute:

1. Is the lack of sibling rivalry, or cooperation among siblings, a key factor in influencing positive succession outcomes? It certainly was in the Lombardi case, but how widespread is this experience?
2. How important is upbringing or parental influence, in determining a positive succession outcome?

Le Breton-Miller et al. (2004) examine more than 40 articles and seven books on FOB (family owned business) succession, and identify ‘common predictors of successful succession’, with family upbringing and relationships being paramount. They identify the following categories of attributes among the incumbents: job motivation and willingness, quality of the relationship with the successor, and personality and needs.” Another equally key category is that of Successor, where again, relationships with the incumbent, motivation, interest and commitment, and management ability were found
to be important. A somewhat less researched but still focal category (mentioned in 12 to 18 studies) is that of Nurturing and Development of the successor(s). Variables or dimensions such as career development, outside work experience, apprenticeship, formal education, and training programs are often mentioned (26% to 38% of the time) as being critical to successful succession. So are the qualities of relationships inside the family, collaboration, accommodation, team approaches, harmony, and sibling relationships. Another often mentioned but thinly characterised category is the establishment of ground rules for succession planning. Incumbent phase-out and Successor phase-in are also often discussed, as is board of directors and its composition.

Gersick et al. (1997, p. 40) provide another excellent case study of „Fashion Imports‘. This is a great example of how a parent‘s passionate belief in equality amongst the children regardless of whether they work in the business or not, can result in a positive succession outcome for the second generation. The example is so important to this research that I have coined the term, „The Maria Principle‘ (TMP), to evoke this type of succession solution. Maria‘s husband Joseph had drafted an estate plan that gave the bulk of the company stock to Joe Jnr, with smaller shareholdings to Franco and Sophie (the other two children working in the business). The other brother and sister not working in the business would get other assets. Joe Snr's plan had the advantage that it gave the business a strong leader who had ownership control. Maria, however, was adamant that all five children should inherit equal portions of the company and benefit equally as co-owners, even if only some of them worked in the company. The quote from Maria is instructive:

We have spent our whole lives building this company for one reason- to have something of substance to leave to all of our children. They have been wonderful together all of their lives. I will not separate them out now and give some more than others (Gersick et al: 1997, p. 41).

With the assistance of a family business consultant, the siblings had several meetings without the parents present and resolved the following:

All the siblings had confidence in Joe Jnr as the future leader of the business
Each of them wanted to remain as an owner of the company, to honour their connection to the family (Gersick et al: 1997, p. 41)

They would find other ways, through salary and other benefits, to reward siblings that worked in the company.

This is a good example of where equality and equity are synonymous.

In Parent Theory II, we look at examples where equality and equity may not be the same.

**Parent Theory II: equity versus equality**

Ayers (1990) defines ‘rough family justice’ as being where equity (fairness) is more important than equality among family members because equity serves the best interests of the business which, in turn, serves the best interests of the family. Ayers says the honest adviser (as opposed to the typical adviser) will tell you that absolute economic equality among your children is virtually impossible to achieve. He also says that to achieve equity in estate planning for a family business is as unique as the client’s own family system and as complex as anything the client has done in the past.

Ayers argues that one needs to put the business first because the business is the engine that drives the whole process. One objection to this argument is that putting the business first does not automatically mean treating the children unequally. Ayers then proceeds to argue that because it is impossible to treat children equally when they are growing up, they are quite tolerant of the idea that estate planning can also be based on inequality. This theory is tested in this research.

Ayers then raises an interesting point: if the profits of the business are paid out in salaries and perks, rather than dividends, what is the point of giving shares to children who are not working in the business? One objection to this is that parents may decide that they want their children to own the business equally, whether they work in the business or not (The Maria Principle). Where the children own the business equally, and the business is sold, they all get equal amounts. While the business remained active, the working shareholders received more money by way of salaries, bonuses
and perks. Surely a system can be arrived at which is both equal and equitable? Surely rough family justice is a rationalisation of inequality by those who are in a more powerful position in the business and in the family hierarchy?

Ayers then creates a scenario where minority shareholders are seen as a pest in the family business structure. It is almost as if he becomes a spokesman for the powerful, arguing that there is no point in giving children a minority interest in non-dividend paying stock, when they do not have the power to influence the destiny of the business. He seems to fall into the trap of not separating ownership and management, which is explored in greater depth in Parent Theory III.

Gersick et al (1997:177) provide a case study which suggests that Ayers has not considered that complex family structures, which include minority shareholders, are workable.

The Hartwall Group Ltd is a $400 million fifth generation brewer and bottler located in Helsinki, Finland. Since 1989 they have held a steady 67% of the Finnish beverage market, and they currently employ around 2,500 people. In the past, some minority shareholders were bought out to check the expansion of the ownership group, but there are no immediate plans to further prune the tree. Contrary to Ayers assertions, the Hartwall family have overcome the problem of minority shareholders by having three classes of stock: one non-voting class and two voting classes: a _strong_ voting class (20 votes per share) and a _regular_ voting class (one vote per share). About 10% of the company is publicly owned, as non-voting stock, which has provided the company with important capital for growth, but has not diluted family control of the enterprise. There are buy-sell agreements among the family shareholders, which control the distribution of the strong voting shares. Relatives are free to sell the regular voting shares. Here is an example of a complex, successful fifth generation family enterprise that has solved the problem of minority shareholders by intelligent structure (different voting classes) rather than Ayers’ more black and white solution of prevention or excision. It is possible to argue that the different voting classes are an example of Ayers’ rough family justice, but on closer analysis, it is the application of justice without the rough.
In fairness to Ayers, he does float the idea of a fixed cumulative dividend on a special class of stock owned by minority shareholders, but the general principle of rough family justice is you don't have minority, non-working shareholders in the first place. If rough family justice is weak on ownership issues, it is stronger on management issues. Ayers makes the point well:

Sons do not necessarily make better managers than daughters. The eldest son will not necessarily make a better manager than a younger sibling. Your children (bloodline) do not necessarily make better managers than non-bloodline managers (Ayers: 1990, p. 20).

Ayers maintains that rough family justice does not involve setting up a son or daughter to fail, or putting in place a division of assets and responsibilities that pits siblings against each other. He recommends input from senior non-family employees that may result in greater objectivity. In the absence of this resource, Ayers recommends input from valued suppliers and customers, who should have a less family-tainted perspective on the prospects of the children. The obvious danger of this is that the suppliers and customers may only say what they think the owner wants to hear, and hence reinforce his or her own prejudices.

Ayers also suggests using an outside professional such as an industrial psychologist or family business adviser to help get more objective data and develop a follow-up training program to nurture the new heir apparent. By speaking in terms of a ‘training program’, rather than the all-or-nothing ‘promotion or no promotion’, the task does not get confused with the family issues of love and recognition. The counter-argument is that it merely delays the inevitable: sooner or later one child will either succeed as leader, disappointing other children with leadership ambitions, or fail and have to carry the burden of letting down the (usually) founding father, the family and himself. Ayers is quite empathetic with other siblings who work in the business but do not make president.

One of the problems with Ayers is that it sounds like he is describing chess pieces rather than real people.
It is a good reality check to look at actual case studies of failed family businesses as in *Family Wars* (Gordon & Nicholson 2008, p.141).

As background to the collapse of the Steinberg dynasty, Sam is described as the second born, but he _œclipsed all his other siblings in terms of competence and maturity … this consolidated his status as the undisputed family leader and entrepreneur._ In defence of Ayers, it must be pointed out that Sam’s father had left the family home when the kids were infants and the business was carried on by his wife Ida. Nevertheless, it is quite clear that Sam selected himself; he did not wait to be anointed.

Ayers is adamant that the borders between family and business must be carefully managed. The problem is he gets confused in his explanation of the transitional process. On the one hand he says that everyone from both generations should have the opportunity to participate in the business. However, in the very next sentence he says _œhaving the family business should not mean that you intend to leave the family._‘ He also says the process should have no predetermined outcome, but then adds that the whole process needs to be carefully planned. While predetermination and planning are not exactly the same thing, there is a great deal of overlap between the two. Ayers fails to appreciate this subtlety. Nonetheless, Ayers then makes an important point: the transition process can be greatly enhanced if it involves the participation of respected and qualified outsiders. The next section looks at what happens when both equality and equity are ignored.

**Parent theory III: Lessons from failure**

The publication of *Family Wars* (Gordon & Nicholson 2008) was very timely for this research. In the opening chapter (p. 2), they make several salient points on the importance and the dangers of family business. _œFamily firms have the capacity to outperform non-family comparators, but at the same time they are at risk to family hazards that can overspill and engulf them._‘ A recent study of S&P 500 firms found those with family ownership outperformed those without it (Anderson & Reeb 2003).
Other studies in European research have confirmed the trend (Sraer & Thesmar 2004) and (Poutziouris 2006).

Some of the world’s oldest companies are those that have stayed in family ownership. They include a 40th generation Japanese business that repairs temples (founded in 578) an Italian vintner (founded in 1141) and a French paper maker (founded in 1326). There is a big clutch of family enterprises that have survived intact the entire 20th century and that are still turning in world beating performances in the 21st century.

Many of the world’s largest and most successful companies retain a strong family identity: Cargill in the United States, Samsung in Korea, LVMH in France, BMW in Germany, Clarks shoes in the United Kingdom, H&M in Sweden, and so on.

All of these examples constitute a solid vote of confidence in the basis of this research. If we can reveal the ‘secrets’ of the successful, we can help those on the verge of earlier transitions.

Interestingly, Family Wars takes the opposite tack. It offers brief case histories of 24 family enterprises that have either failed or have experienced major rifts in the family that could have destroyed the enterprise. Rather than learning from success (the basis of this research), they aim to learn from failure, an equally valid approach. Their approach is speculative: they want to ‘diagnose, analyse and prescribe’ (p. 4); to point out how things could have turned out differently. By contrast, my research is more of a fact-finding mission; it develops theory based on success not failure. Gordon and Nicholson (2008) ask the question: how could this failure have been avoided?

My research asks the question: can we replicate these examples of successful third (and post third) generation enterprises? Gordon and Nicholson look at warning signs and symptoms of failure; this research reflects on success and extrapolates theory from there. One is about prevention, the other about replication.

Despite the differences in approach, it is interesting to compare the findings. Gordon and Nicholson list the 20 classic warnings that should set an alarm bell ringing in any
family business. Most of them indicate that an issue has the capacity to arouse strong and potentially negative emotion. They may be visible in structures or processes; but what marks them out is their capacity to arouse conflict.

**Behaviour change:** any sudden and inexplicable change in the behaviour of a family member. This is likely to indicate some change of heart and mind, and you need to know whether it concerns the family or the business.

**Perceived unfairness:** complaints about fairness, from whatever quarter. Remember, if something is perceived as real it is real in its consequences.

**Errors:** frequent errors from any party, however minor. They signify distraction, role overload or some other source of stress.

**Communication gaps:** failures to connect frequently between people who have a shared responsibility, task or ownership interest.

**Procrastination:** taking a lengthy time to reach any decisions; putting off making choices that are important.

**Process disagreement:** failure to agree by whom and how decisions are to be taken in both the family and business context.

**No consensus:** inability of the group to reach a consensus even over relatively minor decisions.

**Unclear goals:** an absence of clarity of vision on the part of the owners about the goals and direction that they want the family firm to pursue.

**Disconnection:** family members starting to drift away from the business, finding themselves lacking emotional and financial attachment.

**Privilege:** perceptions that family members are in privileged positions, receiving unfair advantage by virtue of their status.

**Hanging on:** the senior generation overstaying their normal tenure/agreed retirement age and blocking new leaders from exercising effective authority.

**Nepotism:** hiring policies that are unfairly biased in favour of family members, leading to a mismatch of skills in the firm and demotivation of non-family employees.

**Role ambiguity:** family managers unclear regarding their roles and responsibilities.
Ivory tower: an absence of independent voices and individuals on the board, or a lack of any open discussion that holds the management and owners to account.

Inequity: individuals or groups taking disproportionate benefits in relation to their contribution.

Lack of planning: especially around generational transitions, a reluctance or inability on the part of family and board to agree to succession plans.

Absence of open dialogue: meetings where everyone is in agreement and no fundamental issues of purpose and feeling are ever discussed.

Executive instability: finding non-family managers, particularly those in key roles, hard to attract and harder to retain.

Bad gossip: prevalence of alarmist rumours. Bad gossip suggests a problem culture.

Factionalism: formation of subgroups, especially around family members, where there is little interaction or open exchange among them (Gordon and Nicholson (2008: 238)).

By contrast, my research emphasises the lack of conflict. Based on interviews conducted so far, all the families are holding regular family council meetings that include the working and non-working shareholders (NWS). The aim is to discuss the family business in an informal setting, to keep the NWS in the loop and to allow any underlying tensions to surface and be dealt with in a constructive rather than destructive way.

If the CEO is alert and competent, he or she will not allow perceived unfairness to persist. Problems arise when the CEO him/herself is the perpetrator.

This can be overcome if the CEO is answerable to a board controlled by the owners, but not where the CEO has ultimate control. This solution is part of good corporate governance.

Virtually every example points towards the importance of corporate governance and the family council, which is part of good family/corporate governance. The deeper issue is human nature and the fact that conflict is endemic to human existence. The
resolution suggested by Gordon and Nicholson is conflict resolution or mediation. The problem is that once parties are enraged it is virtually impossible to get them to come to the mediation table. Thus, the answer is in prevention. How do we see the warning signs and prevent them developing into catastrophes?

Gordon and Nicholson list the risk factors and suggested remedies for them:

1. Nepotism
2. Establish a written hiring policy for family members
3. Develop career plans for family members
4. Institute appraisals, regular feedback on work output and mentoring for family members
5. Complement working family members with highest-calibre non-family talent
6. Create an ownership continuity plan that defines how shares will be passed on to, sold, divided among and owned by the next generation, if at all
7. Create a leadership continuity plan that includes a process, with agreed triggers and timetable, for selecting new business and family leaders
8. Agree a policy for objective third-party oversight of the leadership selection process by independent directors, trustees and/or close advisors
9. Appoint skilled non-family professionals to fill business leadership roles
10. Establish a family liquidity policy (for dividends and possible share buybacks) to balance owner and business needs
11. Create an exit policy (for sale of shares): to enable family members to access capital and to allow for a natural pruning of the tree (do not assume family shareholders are on board forever)
12. Remunerate working family members at market rates
13. Clarify roles of all working family members
14. Establish regular communications between the siblings
15. Appoint a neutral ‘ombudsman‘ as co-mentor for a sibling team
16. Encourage siblings to enjoy time out from the business on occasions for fraternising
17. Set an enforceable normal retirement age from the board, enshrined in the company by-laws
18. Keep the retiring senior generation involved when they leave their business role in an honorary capacity as 'wise men'.
19. Assist seniors in planning a third career
20. Give them a hero's send-off to applaud and recognise all they have achieved (2008: 242).

My research will investigate whether these 'remedies' have been adopted by the four family firms studied in this research.

**Parent theory IV: corporate governance**

To explore the nature of positive succession in family firms, it is necessary to give some attention to corporate governance and to see if family firms have any inherent advantages that can be replicated and exploited. Shea (2006) draws attention to Chandler's (2004) position.

Chandler argues that modern corporations with professional management teams, separation of ownership and management, and emphasis on scale and scope economies are more innovative and efficient than family firms. Chandler concludes that 'personal capitalism' in the form of family ownership is dysfunctional and is barely maintainable in the modern business environment. Theories of company valuation creation also argue that concentration of family ownership extracts a control premium at the expense of minority shareholders (Filatotchev & Mickiewicz 2001; Carney 2005). Organisational theorists tend to criticise family firms as ephemeral, nepotistic and autocratic (Kets de Vries 1993) (Shea: 2006, p. 2). Despite these criticisms, there is considerable evidence that family firms are still playing a significant role in emerging and developed economies, both in terms of generating new employment and GDP growth. Miller and Le Breton Miller (2005) list the following highly successful firms: Michelin, Armani, Wal-Mart, Fidelity, Home-Depot and IKEA. In Britain, the USA and Australia family firms make up around 75% of all enterprises, according to Gersick et al. (1997). In Asia, family firms continue to represent a powerful force in Australia, Taiwan, Hong Kong, Singapore and mainland China (Chen 2001; La Porta, Filatotchev, Lien & Piesse 2005; Lopez-De-Silanes & Shleifer 1999; SCMP 2006; Spoehr 2005) (Shea: 2006, p. 2)
Following the Enron collapse, both government and business in the Western world have become more focussed on corporate governance issues, such as protection of minority shareholders and the separation of ownership and management. (Marnet 2005). Shea (2006) makes the point that for decades, family firms have been widely criticised by management researchers as the worst organisational form because of ownership concentration and the unification of ownership and management. Without vigilance, Faccio, Lang and Young (2001) say that high levels of ownership concentration lead to expropriation of minority shareholder interests in listed family firms. DeAngelo and DeAngelo (2000) and Anderson and Reeb (2004) argue that families in listed family firms are likely to wield substantial control by extracting "private benefits of control" through extraordinary dividend payouts, risk avoidance, excessive compensation schemes and related-party transactions. It is quite apparent how all of these practices may be harmful and offensive to minority shareholders. But Shea (2006) does not make it clear how this disadvantage is any worse than lack of corporate governance in non-family firm debacles such as Enron.

Shea (2006) also mentions several emerging empirical studies in agency and stewardship theory. These studies say that ownership concentration and the unification of ownership and management in family firms creates agency costs because of management entrenchment. Management entrenchment motivates family members to capitalise on their concentrated shareholding to expropriate the interests of minority shareholders. For example, dominant families are reluctant to retain a fair proportion of independent directors on their boards, which is contrary to the principles of arms-length corporate governance (Anderson & Reeb 2003; Morck, Wolfenson & Yeung 2004; Hiller & McColgan 2004; De Holan & Sanz 2006; Bartholomeuz & Tanewski 2006).

By contrast, Jensen and Meckling (1976) say that concentration of ownership can reduce agency costs (for example, excessive bonuses paid by managers to themselves) and the "free rider" problem (management acting in its own self-interest over and above the wider interests of all shareholders). The opposite of the free rider problem is good stewardship, which is a by-product of good corporate governance. Miller and Le Breton-Miller (2006) say that the free rider problem is common in non-family firms.
with widely held ownership because managers possess superior information that can allow them to pursue their own interests and act not for the best interests of their owners. Shea (2006) points out that other stewardship theorists say that family firms are different to non-family firms because owners of family firms are not purely driven by economic self-interest. Gersick et al. (1997) and Miller and Le Breton-Miller (2006) suggest that owner-managers in family firms are more likely to accumulate wealth in the business as part of a long term plan to pass on the business from generation to generation. If this theory is correct, this would reduce agency costs and increase the incentive for diligence and self-discipline. In contrast to CEOs in non-family firms in the US, Anderson and Reeb (2003) and Bartholomeusz and Tanewski (2006) say that owner-managers in family firms seldom adhere to ‘utility maximisation’ for their own short-term, opportunistic gain. In order to sustain the family business for generations, owner-managers act more altruistically. As a critical comment, if the family is seen as an extension of the owner-manager’s attempt to achieve immortality through perpetual succession (the dynasty), then one might question whether altruism is an appropriate word. In terms of corporate disclosure, Ali, Chen and Radhakrishnan (2006) say that Standard and Poors (S&P) family firms are better than non-family firms in terms of the accurate forecasting of earnings. They conclude that family firms have less ‘opportunistic behaviour’ in relation to withholding bad corporate news.

Shea (2006) says the performance of family firms can be viewed from two perspectives – financial and market competitiveness. From the perspective of financial competitiveness, the performance variables can be identified with returns on assets (ROA) or return on equity (ROE) through dividends or stock market returns. (Miller & Le Breton-Miller 2006) Market competitiveness means distinctive competencies that strengthen competitiveness in the marketplace. Fama and Jensen (1985) suggest that owner-managers in family firms tend to choose current over future consumption because they place personal interests ahead of expected corporate profits. As a result of choosing current consumption, expected future corporate profits will be taken away so that family firms cannot be valued higher than non-family firms. Based on data from 500 Italian companies, Capaldo and Raffa (1999) find that family firms lack
investment capital and innovation. This makes them less competitive in non-traditional economic sectors such as high technology.

On the other hand, Shea (2006) remarks that another stream of family firm literature is filled with positive views that family firms perform better than non-family firms. Resource-based theorists attempt to identify the competitive advantage of family firms (Habbershon & Williams 1999). From this theoretical perspective, family firms possess and accumulate unique resources that enable them to outperform other competitors. Carney (2005) highlights three important propensities including parsimony, personalism, and particularism that offer competitive advantages to family firms in terms of social capital creation and opportunistic investment in emerging economies. In addition, Poza (2006) highlights unique capabilities and resources that family firms have including speed to market, agility and flexibility and market niches. In terms of financial competitiveness, Mcvey and Draho (2005) find that S&P family firms can produce more attractive stock market returns than non-family firms. Based on data from S&P 500 firms between 1992 and 1999, Anderson and Reeb (2003) find that family firms perform better than non-family firms in terms of ROI (6.65% higher than non-family firms) and they are valued 10% higher by stock market analysts. Analysing data on Fortune 500 firms between 1994 and 2000, Villalonga and Amit (2004) also find that family firms deliver higher ROA (11.6%) and sales growth (19.6%) than non-family firms (10.9% and 13.8% respectively). Besides, the additional evidence from a longitudinal study of 150 Spanish listed firms has also revealed that family firms do not financially underperform relative to non-family firms (Gorriz & Fumas 2005).

Shea (2006) mentions a large body of literature that has highlighted the problems associated with family ownership, control, and succession. In terms of management structure, Chandler (1988) and his disciples argue that family firms cannot compete with modern corporations like Du Pont that place great emphasis on scale and scope economies and decentralised decision-making through divisionalisation. Daily and Dollinger (1993), Dyer (1994), Reid and Adams (2001), and Schulze, Lubatkin and Dino (2003) suggest that family firms are often plagued by a high level of control concentration by founding members and persistent internal relationship discord such
as sibling rivalry that impede good decision making and business growth. Because of
the need to maintain _kith-and-kin involvement_ (Cadbury 2000) and the need to
find that family members usually play significant management roles regardless of
their performance and professional qualifications. Since qualified family members for
key management positions are sparse, less capable and qualified ones are employed. It
also becomes a deterrent to non-family employees for career development and
growth.

Shea (2006) outlines two empirical studies of family firms in Britain undertaken by
Hiller and McColgan (2004) and Bloom (2006) germane to succession and
management problems within family firms. Based on a sample of 683 firms in Britain,
Hiller and McColgan conclude that family CEOs are less capable of achieving growth
in sales and stability in employment than non-family CEOs. Another study conducted
by Bloom also reveals that in most of the family firms, the position of CEO is
occupied by family members. The management practices tend to be poor due to lack
of persistent control, dysfunctional business targets, and limited resources and
incentives for non-family employees.

However, there are conflicting research findings about the impact of family ownership
on management. Andersen and Reeb (2003) state that compared to non-family firms,
family firms typically have longer investment horizons that can cultivate employment
stability and employee insurance. Lee (2006) also finds that family firms create a
higher level of employment stability and loyalty than non-family firms. Based on a
10-year longitudinal study of S&P 500 firms, Lee finds that family firms can create
better and more stable relationships with non-family employees. Levels of trust,
commitment, and loyalty between family owners and non-family employees remain
that founding families have a high concern for their family reputation and a high sense
of commitment to their family and non-family employees. They often have a strong
emotional attachment to their businesses. They are sources of corporate vision and
inspiration that enhance employee motivation and morale (Chrisman, Chua, & Zahra
2003).
It is apparent that there are many controversies germane to the study of corporate governance, performance, and management of family firms. Some family firms can survive for many generations whereas others can only make the transition to the second or third. Some might do well and others badly in terms of corporate governance, performance, and management. Shea’s (2006) review suggests three key issues.

First, Shea (2006) makes the point that family firms are a heterogeneous not an homogenous group. On this basis, it would be an error to give too much weight to any of the comparisons between family and non-family firms.

Second, management researchers tend to formulate different theories to examine corporate governance, performance, and management of family firms but most theories are formulated from a Western, particularly European and US, perspective. It is not surprising that no single theory from the West can explain multifaceted attributes of family firms in different institutional and cultural settings, particularly in the non-Western hemisphere. For instance, Chandler’s studies of scale and scope economies and Bartholomeuz and Tanewski’s studies of independent boards of directors cannot explain why many family firms in Asia can sustain their competitive advantages (Bruton, Ahlstrom, & Wan 2003) while few tend to appoint external boards of directors (Corbetta & Salvato 2004). Shea’s review suggests that cultural determinants and other contingency variables that are lacking in the extant literature should be incorporated for further family firm research in order to establish a fine-grained understanding of the corporate governance-performance-management links in family firms.

Third, most of the literature under review is conceptual, quantitative and rigorous; qualitative research is sparse. Quantitative research lacks empirical analysis about the activities of family and non-family members in family firms in terms of how they behave differently from employees in non-family firms. Agency and resource-based theory literature takes an outsider stance to analyse family firms and there is a shortage of an insider stance based on observations of members of family firms germane to corporate governance and management. By shifting the research lens to qualitative analysis, management researchers can obtain further understandings of the
depth and complexity of corporate governance, performance and management in family firms.

Shea’s (2006) article represents a further step in family firm research. The study of family firms is only 40 years old and as a distinct research discipline, family firms and family firm research are undergoing a metamorphosis. This research aims to address the gap in qualitative research on family firms. It will provide an ‘insider stance’ on which aspects of corporate governance, performance and management contribute to corporate longevity of family firms.

**Parent theory V: Lessons from success**

Having looked at lessons from failure, it is useful to look at what the literature contains about lessons from success. Ward (2004) has compiled 50 lessons learnt from long-lasting successful family firms. Ward’s research has laid the foundation and the impetus for this research due to the similarity of his approach. This research aims to confirm or refute his findings in relation to Australian family firms. Due to the importance of Ward’s research, it is necessary to examine it in more detail than any other aspect of the literature. The reader will need to refer to Stages I, II, III in the definitions’, to make sense of the lesson groupings.

**Stage I: Lessons 1–11**

**Lesson 1: Social entrepreneurs**

Ward (2004) defines a social entrepreneur as a family firm leader who is capable of leading the business through two or three or four waves of strategic renewal during the 20- or 30-year period that he or she is in charge. This concept is based on the premise that the pace of business is so fast today that a new kind of leader is needed for family firms. Ward asserts that the classic pattern of a family business that is able to perpetuate itself from generation to generation, is that each leader creates and grows one strategic success, and then the business stagnates; the next generation leader comes along and repeats the pattern. It follows that each generation brings about its own strategic renewal. Ward (2004, p. 46) says that this pattern no longer
represents a viable model. This research will investigate whether this theory can be applied to the practice of Australian family firms.

**Lesson 2: Irrevocable retirement**

Ward (2004, p. 48) asserts that successful family firms often have a fixed retirement age for everyone in the company, especially family members. The advantages are several:

It addresses the delicate issue of the leader letting go.

It creates the opportunity for more changes in the leadership in the later stages of the business. If a younger member of a sibling partnership knows it is possible for him to be CEO when an older brother or sister has retired, he will be motivated and the sibling partnership is more likely to stay together.

A set retirement age acts as a catalyst in the succession planning process. When a 60 year old CEO knows he must leave the company in 5 years, he starts to plan for that date. He starts to ask questions like: "how do we prepare people for leadership...how do we evaluate them...how do we test them...how do we present them to our board?" By announcing his retirement date to the organisation, or at least to an independent board of directors, the incumbent CEO is making himself accountable for implementing his plans and is much more likely to live up to his commitments. A set date for retirement also raises the issue of setting a date for the transfer of ownership control.

According to Ward (2004 p. 50) there are three things that the senior generation should pass on to the next generation: responsibility, authority and ownership control. If you, as the incumbent CEO, pass on only the responsibility, you are essentially saying: "I'll be the CEO, but you do the job'. If you pass on authority, you're saying: "You're the CEO. You do the job. But I really am in control and I can change my mind or influence you any time I want to.' Ward is adamant that no succession is complete until ownership control has transferred to the successor generation.

This research will investigate whether compulsory retirement dates and transfer of ownership control are key factors in positive succession outcomes.
Lesson 3: Voluntary accountability

Ward (2004) says that the best family business leaders feel they perform better if they are accountable, and they volunteer to do so. One way to be accountable is to put in place a truly independent board of directors and take it seriously. This board would include highly qualified outsiders, such as other CEOs, that the leader is willing to share sensitive information with and listen to. Ward has a rigorous definition of an independent board: It will have some family members and perhaps key non-family employees on it. It will also have a minimum of three independent, non-family directors who have no vested interest in the business or the family; their only interest is the welfare of both. Typically they are respected CEOs of other companies. They are not suppliers, customers, consultants, or friends; nor are they the firm's or family's bankers, lawyers or accountants. They are truly independent, and they are available to help you work on the future of your business. Ward gives the example of Al. Neyer Inc., a fifth generation real estate developer, who wrote in their annual report: ‘By putting outsiders in this influential position, the accountability of the management team has been raised and a more professional standard has been established.’

Ward (2004 p. 16) has studied the link between independent boards and family business success, using a database of 7,000 family companies in research sponsored by MassMutual and Arthur Andersen in 1997 and 2000. He found that family firms that have independent boards grow faster. They are more likely to be international and have succession plans. They are also more likely to have family business policies in place to guide and govern decision making. Ward makes the comment that we do not know whether independent boards cause these results or whether there is simply a correlation between these success factors and having a board. One positive side effect of having an independent board is that outsiders may see your children in the business more objectively than you do, or at least in a different light. This may prove quite useful in the succession planning process. One of the goals of this research is to examine whether voluntary accountability and independent boards contribute to positive succession outcomes.
Lesson 4: Principle of merit
Ward’s (2004) research shows that successful family firms operate on principles of merit rather than principles of paternalism and nepotism. Merit is involved at all levels of the company: it will determine who is qualified for employment or promotion, how people are paid, how a successor will be selected, who will serve on the board, titles and responsibilities and incentives. Ward found that operating the business on merit works best for the business and the family. For example, caring parents might say to their children: ‘We want you to feel that what you have achieved is truly the result of your own contribution and effort, and not something given to you because you are our son or daughter.’ Children in family firms must earn the privilege.

Lesson 5: Attract the most competent family members
According to Ward (2004), successful family firms are better at attracting the best family talent in the next generation. It is especially difficult in the transition from Stage I (owner-manager) to Stage II (sibling partnership) or repeat of Stage I.

Competent children know they have opportunities outside the business, and may not want to live in the shadow of a Stage I leader. They may also sense that Mum or Dad will be reluctant to let go, and they will be waiting in the wings beyond their patience. If the family does not follow the Principle of Merit, the family members most likely to enter the family firm are the ones who are least competent. If the business is not run in a professional way, the competent members will not want to shoulder the burden of carrying incompetent family members. Ward (2004, p. 53) comments that the sad result is that the business loses the very people it needs to keep it healthy and thriving. Wise parents can make fairly accurate assessments of their children’s business acumen and interest in the business. They should foster that acumen and interest from a young age. One way is to give exciting and attractive opportunities to the children that have aptitude and interest.

Lesson 6: Many non-family executives
Ward (2004, p. 54) says that a family firm not only needs competent family members in the business but also a cadre of strong, non-family managers who can bring fresh
thinking, challenge, and a diversity of style and perspective to the organisation. He contends that smart business families create opportunities and space for talented outsiders. He points to Cargill, in the 1920s, initiating a policy of aggressively recruiting potential managers from college graduates. The policy paid off three decades later when three family members in top management roles died in rapid succession. The younger family members were not ready for major roles, but fortunately Cargill had three non-family managers to fill the gap. Cargill has 97,000 employees and is recognised as the largest privately owned company in the world.

It is worth emphasising that we are talking about family firms that have survived at least three generations, and are often substantial in size. Some of the firms stipulate that there will be more departments in the company than there are family members to head them. This creates opportunities for non-family managers to run profit centres of the business. These families want their excellent non-family people to aspire to the highest ranks in the organisation without the fear of being obstructed by a glut of family members. They structure their businesses to make room for both groups, and design their family employment policies to accommodate both. This may be achieved by raising the bar for family members in a large family group, so that only the best of the best can join. This will leave space for talented outsiders. Ward refers to the company, Cordoníu, which in the year 2000 had 144 family shareholders, but only 7 working in the business. Cordoníu tries to keep family members limited to about 1% of its total employees to make room for talented non-family executives to rise to the highest levels.

This research will examine whether the ability to attract and retain talented non-family executives is important to positive succession outcomes in Australia.

Lesson 7: Opportunities for wealth

To attract and retain talented non-family executives, a successful firm must provide good career paths and also adequate compensation. They must provide opportunities for these executives to create wealth: Ward (2004, p. 56) defines wealth as a sizeable nest egg – one million Euros or more in 2004 values. Allowing for conversion and inflation, this would represent about A$ 2 million. Family firms usually do not want to distribute shares outside of the family because they do not want to dilute family
ownership and control. However, there are other ways to create wealth for the most valuable non-family executives. They may be offered a 1 million Euro bonus after 10 years or a lifetime annuity for an executive who stays until the age of 62. Other alternatives are long-term bonuses linked to company performance or phantom stock, which acts like real stock without conferring rights of ownership. Other options include giving non-family executives equity in another of the family's investments such as real estate or a side venture.

This research will investigate if there is any correlation between wealth creation for non-family executives and the ongoing success of the business.

Lesson 8: Family first environment
Ward (2004, p. 57) maintains that successful family firms understand that the family is more important than the business. It means recognising that the business is not the family; the family is the family. He cites the example of Cordoniu. In 1983, one branch of the family sold its shares back to the business, because it disagreed with the direction the business was heading. The current president, Maria del Mar Raventos, experienced some criticism because she maintained friendly relations with the dissident branch. She argued that she has known her relations all her life, and played with some of them as a child. ‘I think it’s a nice thing – to be able to make the distinction between what is the job or what is the company and what is the family’, she said. ‘I think they are quite different things.’

Ward (2004, p. 58) says that to put the family first is especially difficult to do in Stage I, because the business is all consuming. However, Ward's research suggests that the family firms that persist from generation to generation have found a way to preserve family time when the business is off limits. He observes that fragmentation of the next generation occurs when some of the kids try to please their parents by accepting the business-centric model, while their siblings reject that model because they find it so oppressive. This research will aim to verify whether these observations align with Australian family firms.
Lesson 9: Family business student

Ward (2004, p. 58) says that in many of the most successful family firms, the leaders and other family members go to great lengths to be students of family business. Sam Johnson of S.C. Johnson & Son Inc. took a sabbatical to gain insight on how to handle ownership in the next generation. Some families join with other families in family business forums, run by organisations such as ‘Family Business Australia’ (FBA). Some families invite members of other successful family firms to come and speak at their family meetings. Others invite outside experts to speak at family and board meetings to educate family and board members about family business. Another option is to send out family members in teams to visit other family firms and share what they have learnt with the rest of the family. Members may also pass around articles on family business, or one member may be asked to give a review of a family business book at a family meeting. Ward (2004, p. 59) cites an example of one family who became motivated to learn when a son did an independent research project on family business as part of his MBA, and then challenged the whole family to start learning about the subject. Ward says that families that are committed to the continuity of their firms are among the most likely to respect the need to educate themselves about what it takes to meet their goal.

Lesson 10: Understated wealth

Ward (2004, p. 59) says that family firms have two choices as to how they live with their ascending wealth: they can live lavishly and ostentatiously, or they can be understated. By understated, he means family members don’t focus on consuming their wealth as fast as they can create it. As an example, he says that others of your means may have a chauffeur, while you are content with a very nice BMW. You don’t have to drive a used Fiat to be understated. Ward warns that if you do not practise the concept of understated wealth, the salaries of family members in the business might begin to escalate at a very rapid rate, which may eventually compromise the business. Money might be taken out of the business to pay for luxuries, when the business could have retained it to grow and develop. Alternatively, if money is taken out of the business by the founders, it might be used to provide for their own retirement. This makes it easier for them to let go of control and ownership at an appropriate time. Ward’s (2004, p. 60) research also shows that children from families of understated
wealth tend to be better owners and workers. They don’t see money or wealth as the goal; they see it as a means to broader goals and they see it as the scorecard.

**Lesson 11: Wealth is neutral**

Ward (2004, p. 60) says that long-lasting family firms do not deny or hide their wealth, even though they may understate it. Problems occur when families regard their wealth as the source of all evil. Some families obsessively believe that if your children know that the family is wealthy, they will never work a day in their lives, or they will be targets for kidnappers, or people will marry them for their money or take advantage of them in other ways.

When you regard wealth as a problem, you create guilt and paranoia about it. Ward (2004, p. 61) says if you hide wealth, you increase the possibility of reclusiveness and low self-esteem among members of the next generation. The secret is to treat wealth in a neutral, balanced way, neither reacting against it, nor being enthralled with it. The longer information is withheld, the greater the shock. If your parents do not tell you that the family is wealthy, you will know that your parents do not trust you. By hiding their wealth, the senior generation creates distrust, diminished self-esteem and all sorts of psychological contamination in the next generation. For a healthy family firm, wealth is merely the result of effort and good fortune. This research will examine if understating wealth and treating it in a neutral manner, are contributing factors to longevity in Australian family firms.

*Stage II: Lessons 12–26*

**Lesson 12: Graceful pruning**

Ward (2004, p. 69) says that family firms often mistakenly try to protect the business by making it exceedingly difficult and painful for family members to sell their shares. Shares are given a very low value and payments are offered over a very long period of time, to make selling unattractive. Or, if family members do sell, they are made to feel as if they are no longer part of the family. Their argument is that discouraging buybacks is good for the business because it can use that money for growth. Ward has
found, ironically, that the more freedom of exit is available, the less family members want to sell.

Stage II families make it easier for siblings to sell their shares for a few reasons. They know that a firm with fewer owners is easier to manage than a firm with many owners in the long run. They also realise that if you make it difficult for members to sell, you may end up with a disgruntled and discordant family. There is then the possibility of litigation and the unpleasant publicity that may go with it. It is also less costly to buy back shares today than at some stage in the future (assuming the business tends to grow in value). According to Ward, smart families engage in what he calls ‘graceful pruning’. They not only make it easy for family members to sell, but they are gracious about it. The sellers understand there is no pressure to sell and they will not be ostracised by the family for doing so. They are not made to feel guilty about selling. These families, says Ward, recognise that the sellers will be less aggressive in their negotiations if they are treated fairly and pleasantly. In fact, perceptive families may pay 10–20% more than the stock is worth to make it attractive for someone to leave, confident that the company will grow, especially without the distraction of disgruntled owners. The ultimate goal, says Ward, is to concentrate the ownership in the hands of people who can move the company forward because they share common interests, goals and values.

Lesson 13: Leverage strengths of being private

Ward (2004, p. 70) says that privately held family firms have distinct competitive disadvantages: an inability to raise as much capital as public firms due to lack of access to capital markets, or a difficulty in attracting the best talent because they are unable to offer stock option plans as lucrative as their public counterparts. Even in a family-controlled publicly held company, the family may resist the influx of too much capital for fear of diluting their ownership-control position.

However, Ward is quick to establish that successful, long-lasting family firms are very good at exploiting their unique advantages as private family firms. One advantage is long-term orientation. Family firms do not have to gear their management practices to meet the quarterly expectations of shareholders and stock
market analysts. They can make decisions today that may not pay off for many years. Family firms can also make decisions and commitments more quickly, enabling them to exploit opportunities that may be missed by more bureaucratic companies. Another advantage is risk-comfort. Owner-managers know the business well and have developed an intuitive feel for the risks involved and how to control them. Another strength is trust. Owner managers seek to create trust within the firm and in their dealings outside the business. Ward calls this a ‘unique strength’, but it could be argued that all successful business depends on trust. Perhaps the unstated assumption is that family firms are often smaller in size than their public counterparts, and hence are more reliant on trust.

Lesson 14: Invest in social capital
Ward (2004, p. 72) defines this as investing in the larger community, whether it is local, regional or national. Ward has found that long-lasting firms tend to be open about their community contributions. Ward argues that this goodwill helps protect and sustain companies through external changes, such as a change in government. These companies also develop a positive reputation that comes back to them in terms of being able to attract employees and customers.

Ward (2004, p. 73) cites the example of the Freudenberg Group, a diversified family company headquartered in Weinheim, Germany. In 1999, it launched a unique program for young people to mark its 150th anniversary. The program is called TANNER, which stands for ‘Travel And Navigate New Exciting Roads’. Freudenberg is owned by 284 family shareholders and employs 28,000 people in 43 countries. Its business activities range from seals and vibration control technology to household products. The TANNER program is part of Freudenberg’s tradition of social responsibility, which has included construction of a kindergarten, the donation of municipal public baths, funds for building an indoor public swimming pool, and more.

Ward says the family needs to be understated as a family, but to promote fully the company’s interests as a company. He says (2004, p. 74) the business needs support and deserves it.
Lesson 15: ‘Business bias’
Ward (2004, p. 74) maintains that most successful family firms synthesise the concepts of family and business and proceed on the notion that what is good for the business also serves the best interests of the family. What happens when family and business priorities are in conflict? Ward says that in a deadlock, long-lasting family firms would turn to a non-family CEO or to the non-family directors on the board to break the tie. This puts the decision into the hands of people who have an orientation toward the best interests and welfare of the business. Ward argues that, ultimately, business-biased decisions best serve the long term interests of the family.

Lesson 16: Selective family employment
Ward (2004, p. 77) cites the example of the Ayala Corporation in the Philippines. Ayala is partly publicly owned, and only three family members are involved in managing it. Jaime Zobel, CEO and family member explains: ‘We are always tightening the rules for a family member’s right to be involved. What are the professional skills needed? Does the family member have a proven track record?’ Ward points out that the CEOs of Ayala’s subsidiaries are non-family executives chosen for their ability and rewarded and promoted based on performance. To do otherwise, Zobel observes, would make it impossible to attract top talent and would limit the growth potential of the business.’

Lesson 17: Open disclosure/transparency
Ward (2004, p. 77) says that the secrecy with which an owner-manager runs a business in Stage I becomes counterproductive and dangerous in a Stage II business owned and operated by brothers and sisters. It can foster mistrust among the partners and their spouses and can sow the seeds for enmity between different branches of the family that can last into the third generation and beyond. Ward says to build trust, members of long-lasting family firms practise the difficult art of full and open disclosure with one another. This occurs in three major areas:

- compensation, perks and benefits
- outside investment opportunities
- personal estate plans.
Lesson 18: Aggressive gifting
This lesson is not applicable to Australian family firms, because we do not pay death taxes in Australia.

Lesson 19: Next generation: early education
Ward (2004, p. 83) points out that in long-lasting family firms, some family members don’t even live in the community where the business is located. In successful firms, parents devise ways of children understanding and valuing their heritage. Ward cites an example of a newspaper-owning family arranging a tour of the business for a dozen children from the youngest generation. All were under 12 and they came from all branches of the family. In the press room, one child, whose name was drawn out of a hat, got to push the button that started the printing press. The end result was a four-page private edition of the newspaper, complete with pictures of the children and a story about their visit to the plant. Ward concludes that, paradoxically, the earlier the exposure coupled with no pressure to join, the more likely they will join one day.

Lesson 20: Family code
Ward (2004, p. 84) says that if the family has not developed a family code in Stage I, it is essential to do so in Stage II. In Stage II, family members have to grapple with the issue of how they are going to work together without leaning on parental authority to guide their behaviour. An effective family code will help increase the family’s appreciation of individuality. This helps the family express respect for the individual and to protect one another’s dignity and rights. It also helps ensure that behaviour is something that is mutually agreed upon rather than imposed by more powerful people. It empowers the family to take responsibility for itself. It also promotes effective communication and safety. Ward (2004, p. 85) says the safety issue is crucial because family meetings are often ‘very emotional, very challenging, very trying and very fatiguing.’ A family code provides guidelines for more constructive and productive interactions between family members.

Lesson 21: Communication skills
Ward (2004, p. 86) says that the most successful family firms invest a great amount of time and effort into learning communication skills, and they find it ‘very, very
powerful to learn these skills together. These skills include effective listening, effective presentation of ideas and conflict resolution skills.

**Lesson 22: Financial nest eggs**

This is one of the surprising lessons Ward (2004, p. 88) has learnt from successful family firms: these companies make sure that key members of the business and the family have a sense of financial independence and security by early middle age. This frees them from being dependent on the paternalism of the senior generation and the business. It also gives them the freedom to choose whether to stay in the business or not. Ward outlines three categories of individuals whose independent financial security strengthens the family and the business:

- spouses
- next-generation business leaders
- family members who are shareholders but who are not involved in the business.

The nest eggs are provided by the business by way of special dividends or distributions.

**Lesson 23: Shared investments**

Ward (2004, p. 90) says that sharing investment opportunities is so prevalent among strong sibling teams that "it seems almost instinctive". This lesson echoes some of the points in Lesson 17 (Open disclosure). Disclosing investment opportunities to one another demonstrates commitment to the sibling group. Strong sibling teams also know that by investing together, they increase the chance of achieving financial parity amongst themselves. This parity then enhances the harmony of the team. The converse is also the case. The greater the financial differences, the greater the potential for disharmony and demise. There is also a trust dimension. If one sibling tells the rest of the team about an excellent investment opportunity she is aware of, she displays a "generosity of spirit".

**Lesson 24: Educate in-laws**

Ward (2004, p. 91) says that successful family firms "thoughtfully and sensitively" educate in-laws as they enter the family. This "education" comprises three main areas:
understanding the history and traditions of the family and how the family thinks; understanding the nature of the business: what makes the business ‘tick’, how to read financial statements, what a director does, and how estate plans are handled; and involving in-laws in family meetings

Ward (2004, p. 92) makes the point that ‘in-laws are not just extra family members’. He cites the Wendel family business in France, established in 1704. At various points in its ongoing 300 year history, in-laws, including women, have stepped in to run the business.

**Lesson 25: Legacy of values**

The idea of passing on a value system is ‘fundamental to the most successful business-owning families’ (Ward 2004, p. 92). These firms recognise that the business is a concrete, tangible, real-world arena where the family’s values are tested and are proven to have worth.’ Values include integrity, persistence, openness, respect for and caring about people, trust with customers and suppliers, and a belief in entrepreneurial spirit’ (Ward 2004, p. 92)

**Lesson 26: Successor to Mum**

Mum, in this context, refers to the role of the person who plays the family leader. Ward (2004, p. 94) says that this very important role usually falls to the mother in the founding generation; in subsequent generations the position is gender-free. The functions that family leaders perform include:

- keeping channels of communication open
- nurturing people
- making sure everyone in the family is treated fairly
- making sure traditions and ceremonies are given respect
- reinforcing family values
- explaining the culture of the family and the business to new in-laws
- educating younger family members about the business
- providing moral cohesion
- serving as a mediator.
In the first generation, Mum or someone else is providing ‘fantastic but subtle family leadership’ that may be invisible to family members ‘dazzled by the business leader – that powerful, dynamic, charismatic, popular, bigger-than-life personality’ (Ward 2004, p. 95).

The problem arises when the family leader dies, families begin to drift apart and conflict, especially sibling rivalry, erupts. When Ward asked strong sibling teams what made them successful, a number of them reported that their parents, sometimes on their deathbed, begged the siblings to imagine themselves as a bundle of sticks in one of Aesop’s fables. Together, they are unbreakable, separated they snap.

*Stage III: Lessons 27–50*

**Lesson 27: Tradition of change; flexible culture**
If the role of the sibling generation is to lead a strategic and organisational renewal, it is the responsibility of the cousins in Stage III to reshape the company culture to accommodate continuous adaptation and change (Ward: 2004, p. 104). Ward cites the example of the Y.B.A. Kanoo Group. ‘As history has proved to us’, says Khalid Kanoo, ‘we cannot expect to remain in the same markets forever because change will take place. If we don’t change to meet the future, the future will change us’ (Ward 2004, p. 105).

**Lesson 28: Spirit of enterprise**
In keeping with the previous lesson, long-lasting family firms do not lock themselves into defining their business as the business of origin. Instead, they maintain the entrepreneurial spirit that characterised the founding generation (Ward 2004, p. 106). Ward cites the LEGO Group in Denmark, which began as a carpentry company building homes, but it quickly changed course because of the Great Depression and made its mark as a toymaker.

**Lesson 29: Creative capital**
Successful family firms know that one day they will need more capital than they have had access to through their traditional sources (Ward 2004, p. 109). In 1985, nearly
100 years after it was founded, the Henkel family business in Germany, went public in order to meet the needs of the growing business and family. By 2002, the company employed more than 46,000 people in more than 75 countries with annual sales of nearly 10 billion Euros. Going public does not mean you lose control of the business. Family control can be maintained by using different classes of shares.

**Lesson 30: Flexible dividend policies**
Most successful family firms recognise that dividends need to be treated as tied to profits and therefore, flexible (Ward 2004, p. 110). They also know that family members often expect and rely on dividends, so that a balanced approach is required. To achieve this balance, they stipulate a base dividend will be paid, even when the company has a bad year. Shareholders, in turn, need to appreciate that if it pays excessive dividends, the company will be deprived of funds required for expansion.

**Lesson 31: Infinite time horizon**
Successful families display a very long-term approach to business and investment decisions (Ward 2004, p. 111). The renowned French company, Hermes SA, was founded in 1837 by Thierry Hermes. The current 5th generation leader sums up the long-term approach: “You are more proud thinking that the fruit of your labours will be harvested by your grandchildren.” An infinite time horizon leads to a very different approach.

**Lesson 32: Fair, facilitated redemption freedom**
Lesson 12 (Graceful pruning) applies to Stage II siblings, whereas Lesson 32 applies more to Stage III cousins. Redemption refers to the ability of family members to sell or redeem their shares (Ward 2004, p. 111).

An interesting model for this process is provided by the Cordoníu Group, where transparency and balance are emphasised. While selling outside the Raventos family is forbidden, a family member can sell shares to another branch of the family or to a holding company set up for the purpose of buying shares. As part of a system of checks and balances to ensure that no one individual or branch becomes too powerful, the family has a rule that no shareholder may own more than 10% of Cordoníu. The
aim is to have an equilibrium of power among the branches. When a family develops a good redemption policy, family members know what to expect and know they will be treated fairly.

**Lesson 33: Impersonal ownership**

When a family adopts an attitude of impersonal ownership, family members are less interested in redeeming shares because they don't feel like they own them. Impersonal ownership means that even though you and other family members individually own shares in the business, you detach yourself from thinking of the shares as your personal, physical asset (Ward 2004, p. 113). What they own is the privilege of passing on the business to the next generation.

**Lesson 34: Family meetings**

Family meetings feature prominently in the lives of successful family firms (Ward 2004, p. 114). Family meetings focus on the family, and are different from management meetings and shareholder meetings, which focus on the business. Ward says that by Stage III, family meetings are essential. A successful family meeting should encompass the following:

- articulate the meaning and mission of the family
- encourage the education and development of the younger family members
- a means of sharing experiences
- acculturating new family members, such as in-laws
- discussing the family's welfare
- sharing the joys and spirit of family philanthropy
- having fun.

_Almost nothing brings a family together as much as fun_ (Ward 2004, p. 114).

**Lesson 35: Education for responsible ownership**

Successful business families take the rights and responsibilities of ownership very seriously (Ward 2004, p. 115). Therefore, they put a lot of effort into educating family
members about these matters. They may invite a lawyer to talk about directors’ duties; an accountant to teach family members to understand financial statements; and an independent director on the board to speak about corporate governance. This exploration helps unite family members in their commitment to the business and its future.

**Lesson 36: Active, involved leadership**

Active ownership encompasses three things:

- knowing and supporting the business strategy. When this occurs, management will support the strategy. They also know if the strategy is not working, owners are well informed and will take corrective action.
- serving as a ‘cultural ambassador’ to the business on behalf of the family. Involved owners represent the values of the family through the way they conduct themselves in the business.
- being wise and educated governors. Governance centres on the relationship between management, ownership and the board. Ward says that his research has comprehensively demonstrated that companies with good governance perform better (Ward 2004, p. 118).

**Lesson 37: ‘Nose in, fingers out’**

Wise families recognise and accept the boundaries between management, ownership and the board. They know, for example, that it is not acceptable for owners to ask the business for personal favours; or to express opinions about an employee to management instead of expressing it through their representation on the board. ‘Nose in, fingers out’ means owners should be informed and involved without meddling.

**Lesson 38: Respect managers and managing**

An important part of being an educated owner/family member is to ‘truly believe and understand that managing a business is a very complex and demanding challenge’ (Ward 2004, p. 119). Successful family firms have a profound respect for the array of skills that excellent managers bring to the task. This becomes especially critical by Stage III and beyond. It is very difficult to find outstanding managers to lead the often large, sophisticated firms at this point. At this stage, the top managers, the CEO and
other senior executives are often recruited from outside the family. The larger the company, the more likely this will be the case. These family firms change their orientation from hands-on management to hands-on governance.

**Lesson 39: Family education**

In large, older, successful family firms, education is often very broad, and occurs in a variety of ways:

- **Interpersonal skills.** Successful families devote a lot of time and attention to nurturing the family as a group and individually. For example, young people are taught how to run a good meeting. They also might be asked to plan the next family reunion.

- **Personal growth and development.** Some families enhance personal growth in a very big picture, visionary way (Ward 2004, p. 121). They might invite exceptionally distinguished speakers to make presentations at family meetings. Guest speakers might cover such topics as climate change and its impact on the global economy, the impact of technology on our lives or understanding and addressing poverty.

- **Family culture.** Successful families are good at passing on the culture, values and history of the family and the business to the next generation. The very best create a council of elders that look after the welfare of individual members and the group.

**Lesson 40: Family member development program**

This is exemplified in the following quote:

> We want family members who can be successful in the business—for their sake as well as for the business’s sake…we want our young people to have an opportunity to know themselves well enough that they can make a good career decision about whether or not to come into the business and what role they play in it if they do (Ward 2004, p. 123).

This approach may lead to a program of career counselling, vocational aptitude testing and coaching for young people who are considering careers in the family firm. Some families, to avoid favouritism, offer these services to all of its young people,
regardless of their ultimate career destiny. Again, to avoid favouritism or promote egalitarianism, services might be offered to all family members, regardless of age.

Lesson 41: Family leadership succession
In Stage III, the distinction between the business leader and the family leader is a very important one (Ward 2004, p. 124). The business leader guides the business and, in an equally critical role, the family leader guides all the family activities: family meetings, family education, and acculturation of in-laws, the council of elders, family reunions, and so on. The two functions are generally not performed by the same person. If they were, the message during a family retreat would be read as: we are doing this primarily for the business, not primarily the family. Family leadership is nearly always an unremunerated, voluntary position. However, Ward cites a case where the business pays the family leader the same salary as the CEO. This makes an important symbolic point: “We value the person who leads the family every bit as much as we value the person who leads the business” (Ward 2004. p. 124).

Lesson 42: Provide for family members in need
Some examples of personal problems or special needs include family members with substance abuse, depression, health problems, legal problems, or disabilities (Ward 2004, p. 125). Families respond quite differently to these issues. Some adopt a policy that responsibility for attending to problems lies with the nuclear family of the needy individual. Others take the position that every adult has to take personal responsibility for his or her own affairs. Still others, especially in Mediterranean and Eastern cultures, subscribe to the philosophy that it is the role and responsibility of the extended family to help family members in need. The point is that successful families are good at communicating their stance throughout the family, so that everyone knows what to expect.

Lesson 43: Roles for all in family association
By this time (Stage III), the business is no longer the centre of the universe. (Ward 2004, p. 126) The family is much more the centre, and the business is just one of its interests. Successful families deliberately discourage the dangerous assumption, so common to family firms, that the most valuable people in the family are those who are
working in the business. Smart family firms deliberately create meaningful roles that offer talented and giving members, who are not in the business, a chance to shine.

**Lesson 44: Family philanthropy**
Successful families often develop an increasing interest in philanthropy at this stage (Ward 2004, p. 128). These families want to demonstrate appreciation for the privilege and abundance they have enjoyed. A foundation or some other form of collective philanthropy brings many strengths to a family. It creates more opportunities for family members to identify with the family, as well as appreciate and acknowledge their good fortune. Individuals born into business families committed to philanthropy grow up knowing they are not only the great grandchildren of the founder of a nationally known tile company, but also come from a family that is a leader in supporting cancer research or providing shelters for victims of domestic violence (Ward 2004, p. 129).

**Lesson 45: One family**
Brothers and sisters in the sibling stage typically harbour some unresolved negative feelings toward one another: a brother may be sure the parents favoured his sister, or a sister may feel her brother got all the lucky breaks in the business (Ward 2004, p. 130).

Even though they are joint owners, they begin to see themselves as separate branches. Rivalries are passed onto the next generation: “Your grandma and grandpa thought your uncle Harold walked on water. That’s why he’s running the company today” (Ward 2004, p. 130). For the business to continue harmoniously, one of the cousins or second cousins often says: “Let’s bury the hatchet.” Some of them begin to discover they actually like one another – they are actually closer to their second cousins than they are to their own siblings. The attitude of “one family” has begun to prevail.

**Lesson 46: Family mission statement**
Many of the lessons suggest that the good of the business comes first. Family members should be professional; they should respect managers and managing; they should prepare themselves if they want to join the business; the family should operate on a principle of merit, and so on (Ward 2004, p. 132). Yet, in one of the many
paradoxes of family business, when successful families put together their family mission statement, the family must come first. Most family members in the third or fourth generation do not work in the company and are not interested in it as a business. The purpose of the family mission statement is to help them to see that holding onto and supporting the business is in the best interests of the extended family.

**Lesson 47: Synthesis of values**

As the family grows larger and there are more branches, greater diversity evolves. In-laws bring new values into the family, and cousins are brought up in different families with different values. The family's original value system diffuses, and there may be the risk (or advantage) of contradictory credos (Ward 2004, p. 135). Successful families, consciously and continuously, work at the value system, discussing it at family meetings, communicating it to the business, communicating it from the business back to the family, and refining it as appropriate. In this way, they are able to reduce and shape the diffusion that occurs. This is well illustrated in Figure 2.4.

Lesson 14: ‘graceful pruning‘ encourages people with incompatible values to sell their shares without feeling they have been excommunicated from the family. The family that owns Barcelona-based Corporación Puig has developed a family handbook that shows how values flow from family to business and back again – on an international scale (Ward 2004, p. 136). The company is famous for such brands as Nina Ricci and Paco Rabanne and has holdings throughout the world. For employees all over the world, the handbook sets out the family’s ethical and professional principles. On one occasion, managers rejected a proposal for a purported weight-reducing product because selling products that make false claims would be a violation of the Puig family ethics. The decision of one business unit can influence the decisions of others, and collectively reinforce the values of the family.

At the Ermenegildo Zegna Group, a world leader in fine textiles and menswear based in Trivero, Italy, the 4th generation family members have been strongly influenced by the values of the 2nd generation leader, Ermenegildo Zegna. He was concerned about ecology long before it became fashionable. One of his philanthropic projects included
reforesting the mountains near Trivero. Following his example, the 4th generation Zegnas have created a reserve of forest and meadows. Anna Zegna expresses it well:

For the Zegnas, it all started with a social commitment to the small community and the people of Trivero. We pass these values on to our children from generation to generation, and it is the duty of the family to bring these values to the company (Ward 2004, p. 136).
Family’s values are communicated to the business.

Business puts values into action.

The values have a beneficial impact on relationships with stakeholders and the bottom line.

The results of the values are shared with family members.

Family sees that its values make a difference. It recommits to the values and takes new pride in the business.

Family meetings and discussions

- Customers
- Suppliers
- Community

Figure 2.4 Reinforcing values between family and business
Lesson 48: Social purpose
Many successful families believe that the company’s reason for being is not just to maximise profits; its deepest purpose is to do something good for people (Ward 2004, p. 138). Some families find social purpose in creating jobs in their local community. In small countries, extended families know that their companies make a significant contribution to the national economy. Khalid Kanoo of the YBA Kanoo group in Bahrain and Jaime Zobel of the Ayala Corporation in the Philippines recognise this fact.

Lesson 49: Process is end, not means
Long-lasting successful family firms develop a variety of policies: employment policies and mission statements, family codes, exit-redemptions, and so on. They create education programs and estate plans, and hold family retreats, family reunions and family council meetings (Ward 2004, p. 138). However, the most successful families recognise that the process is actually more important than the results. Understanding the process means that they gain skills in working together; they talk together, learn together, struggle together; get to know one another better, grow more tolerant of one another, and learn about consensus.

Lesson 50: Family business advocate
Many successful families are willing to share their enthusiasm for and knowledge about family business with other families at home and abroad (Ward 2004, p. 139). Some welcome other families to visit them, and share stories openly. Others become proponents of legislation that will benefit family business and acknowledge its importance in society. The largest, oldest, most successful family companies in Spain brought about changes in the estate-tax laws to support family business continuity in their country. When family members ‘go public‘ with the lessons they have learnt, it helps strengthen or revitalise their commitment to what they have focused on for so long: the family and the business.
Brief summary
Having looked at lessons from failure (Parent theory III), it was then useful to look at what the literature has to say about the lessons that can be learned from successful family firms.

Ward (2004) has compiled 50 lessons learnt from long-lasting successful family firms. Ward's research has laid the foundation and the impetus for this research due to the similarity of his approach. This research aims to confirm or refute his findings in relation to Australian family firms.

Parent Theory VI: A psychological perspective

Kets de Vries et al. (2007) start with a powerful premise: the most intractable family business issues are not the business problems the organisation faces, but the emotional issues that compound them. This research will explore whether the ways these issues are dealt with contribute to positive succession outcomes in Australian family firms.

Examples of the psychological issues that many family firms face include:

1. Deciphering roles and responsibilities within the family and business systems
2. Exploring the motivations of individual protagonists and their family
3. Developing organisational structures and processes that support decision-making processes in the larger family business system (Kets de Vries et al: 2007, p. xix)

Kets de Vries comments on the current state of family business literature and research: differences in personality are ignored; very little attention is given to the unique aspects of an individual's character (specific motives, needs, defences, fantasies, symptoms, fears and anxieties). Totally absent, he contends, is any consideration of the family system's influence on individual behaviour, a critical element in family firms (Kets de Vries 2007, p. xix).

First, it is important to understand what Kets de Vries means by 'family system' and 'business system'. The two systems are interdependent: the family's values and behaviour affect the company's policies and decisions; and the company influences family members' careers, relationships and finances. The mingling of family and
business systems in a family enterprise explains why drawing on both psychodynamic and family systems concepts has proved to be extremely helpful in addressing family business issues that fall outside the boundary of traditional management theory (Kets de Vries 2007, p. xvii).

Second, it is important to understand what Kets de Vries means by the _psychodynamic model_ and the _family systemic model_.

**The psychodynamic model**
This perspective focuses on how present individual thinking and behaviour are shaped by experience and past events. The individual works toward answering some basic questions: How do I see myself? How do I see the world around me? Is it a safe or threatening place? How can I build on my past experience to create a better future? How can I avoid repeating past mistakes? (Kets de Vries 2007, p. xviii).

**The family systemic model**
This approach looks at how the family interacts now, and emphasises the process of changing behaviour to create more effective relationships. It recognises the importance of past experiences, but targets its intervention more on the requirements of the present situation, paying great attention to all the significant players.

In summary, the psychodynamic model focuses on the individual in relation to the past, whereas family systems theory focuses on family group relationships in relation to the present.

**Gaps in perception**
Consider the case of a father and son working together in a family business that the father started and owns (Kets de Vries 2007, p. 26). When the father considers management and succession, he probably thinks first of his son. He may have been fantasising about the two of them running the business together from the day the boy was born, and is looking forward to his son succeeding him as CEO. He loved showing his little boy around the factory. As his son matured, he ensured that his son got a lot of experience working in different areas of the company.
Now let’s consider the son’s perspective (Kets de Vries 2007, p. 26). While his friends played sport with their fathers, he had to stack boxes or sweep the floor. He feels that every moment he spends with his father is diluted by some aspect of the business. Consequently, the son sees the business as the father’s first love. It would not be surprising to learn that the son has very ambivalent feelings about the business. Kets de Vries (2007, p. 33) also refers to examples where children end up wanting to destroy the business because they believe their father and mother loved the business more than they loved the children.

Less common, but equally destructive, are multi-generation family firms driven by the family-first principle. Family members in such organisations expect to be given work in the firm however incompetent they may be; sometimes they insist on prioritising steady dividend income over strategic investments, thereby placing unreasonable financial restraints on management.

These are good examples of the complex interface between the family and business systems. This research demonstrates how successful family firms have dealt with this type of conflict successfully.

**Overcoming nepotism**

Kets de Vries (2007, p. 28) relates another father and son story where the younger son, a university ‘dropout’, asked to join his father’s company and failed to meet the performance criteria. The manager asked the father’s advice on how to handle the situation. The father said to treat him like any other employee: if he doesn’t make the grade, tell me and I’ll deal with it. After further negative reports from the manager, the father invited his son to call in on his way home from work. The father then told his son that his performance was unsatisfactory, and that he was fired. He then threw a large towel to his son, saying, ‘Son, I heard you just lost your job. Let’s go out to the hot tub and talk about your life and career. I really want to hear your ideas, and I want to know what I can do to help.’

This father had a successful business and strong family relationships because he treated the family like a family and the business like a business. The greatest challenge for committed and high-performing siblings is having to work with a
brother or sister who has no emotional investment in the business and is only there to collect dividends or a pay cheque (Kets de Vries 2007, p. 29).

**Sibling rivalry**

The Reliance case study (Kets de Vries 2007, p. 35) provides a detailed case study of the breakup of a US$ 22.5 billion family company, caused primarily by sibling rivalry between two brothers, Anil and Mukesh Ambani. The details of the case are intriguing, but the psychological analysis of the rivalry is more pertinent here. The brothers had been at loggerheads since the death of their father, Dhirubai, in 2002. According to Kets de Vries (2007, p. 37), conflict erupted because the father did not articulate clear guidelines or family agreements on how shareholder disputes should be settled. The deeper cause may have been the absence of a safe ‘holding environment‘ provided by the parents, resulting in feelings of not getting enough attention from one or both of them. The rivalry was suppressed while the father was alive. On his death, the ‘containment‘ provided by the father was removed, and the submerged rivalry surfaced.

**The trust equation**

If an individual sees the world as a threatening place (as a result of early life experiences), it may be harder for him or her to fully trust his or her brothers and sisters, let alone non-family members (Kets de Vries 2007, p. 40). If some of his siblings have the same world view, the family as a whole will be low on the trust equation. As a consequence, it is highly likely they will feel that in business, you cannot trust other people. These beliefs might be expressed in behaviours such as requiring a family member to personally open and close the warehouse every day. It will also have a direct impact on the organisational culture, as employees sense that the family’s managers and owners do not trust them.
Family practice and business practice

Family practice and business practice are often interrelated because they are shaped by the same psychological influences (Kets de Vries 2007, p. 41). Family business advisers often recommend that next generation family members work for several years outside the family firm to gain knowledge and experience. Many older generation family members will argue that outside experience is not really necessary, since the family firm offers unique opportunities for younger adults. The core issue is not the merit of outside work experience, but rather a young adult's basic need to become autonomous.

Kets de Vries (2007, p. 42) has identified five dimensions that relate to the interface between family and business practice:

- **Networking:** Deep information sharing and strong relationships developed within the family and business systems. Kets de Vries (2007, p. 43) gives an example of an Asian real estate developer who has kept in touch with individuals who made deals with his grandfather. He still speaks to them in their dialect.

- **Goal alignment:** Balancing individual and collective goals. Furniture manufacturer, Herman Miller, has repeatedly been listed as one of the best-managed companies in America. The company has a long-standing reward system that entitles workers to a share of financial gains resulting from their suggestions for improving design, customer service, quality and productivity. Because employees feel like part of the family, even production workers have no difficulty knocking on Max De Pree’s door (Kets de Vries 2007, p. 46).

- **Control:** Defining family power in the company, board and ownership group. Kets de Vries (2007, p. 50) says there are advantages and disadvantages created by a controlling family shareholder group. In non-family companies, the goals of management are often in conflict with the goals of shareholders, resulting in value expropriation by the management group to the disadvantage of the ownership group. The disadvantage with dominant family shareholders, especially in publicly-traded companies, is that a powerful individual may not represent the other shareholders, and may propose strategies that are based
more on his personal motives than on creating shareholder value. Another issue related to control is the identification of the next generation of senior management. Family firms often have greater certainty than public companies about leadership. It is often clear, quite early on, who is next in line. In this case, there is less political in-fighting and more stability than in the public counterpart.

- **Time frame**: Long-term commitment to family investment and business strategy. The CEO of a leading family-controlled Hong Kong bank described the competitive advantage that Asian family firms have over Western public companies doing business in Asia (Kets de Vries 2007, p. 52). He commented wryly that Asian family firms recognise 5–10 year cycles of economic growth and decline. Despite this well-known fact, Western firms often sell their plants or freighters at a hefty discount during business downturns simply to reduce their exposure to the contracting Asian market. The banker explained that this has always been a great wealth-creation opportunity for Asians, who simply buy the assets during distress periods and hold them until the economic cycle improves. The danger inherent in the long-term time frame is that a perceived lack of urgency may lead to entrenched, paternalistic or autocratic leadership, especially if there are few non-family executives or truly independent directors at the top of the organisation. Resistance to change within the family is likely to encourage a lack of innovation in the business. In a strongly patriarchal family, where the grandfather remains the undisputed head until he dies, the older generation may be strongly opposed to business transitions that bring in the younger generations, leading to a concentration of authority and blocked careers for promising family and non-family executives.

- **Organising structures**: Using flexible controls to support a clear family business philosophy. Informal organisational structures, and the sharing of roles and responsibilities, improve the timing of decision making in family firms. One family owner-director attending an INSEAD (Institut Européen d’Administration des Affaires) family business executive program closed the acquisition of a major competitor during a family training session. Hardly the typical Wall Street approach (Kets de Vries 2007, p. 55).
Reactive Narcissism

This psychological term derives from the Greek myth of Narcissus, a youth who falls in love with his own reflection and pines to death. Constructive narcissistic development implies that a child has established a special caring bond within the family and has experienced ‘age-appropriate’ frustration (Kets de Vries 2007, p. 86). Age-appropriate means that the child/young adult has learnt that that their needs cannot always be satisfied instantly.

The reality, however, is that not everyone receives constructive development. Children who have been exposed to inadequate or dysfunctional parenting may later believe they cannot depend on anyone’s love or loyalty. These are people who, despite their claims to self-sufficiency, are troubled in the depth of their being by a sense of deprivation, anger and emptiness. In order to cope with these feelings, and perhaps as a cover for their insecurity, some allow their narcissistic needs to turn into obsessions, becoming fixated on issues of power, beauty, status, prestige and superiority. They can end up with a grandiose sense of self-importance (exaggerating their achievements and talents), require excessive admiration, have an unrealistic sense of entitlement, can be interpersonally exploitive, and may be unable to recognise or identify with the feelings of others. Furthermore, their attempts to manoeuvre others into strengthening their shaky sense of self-esteem makes them appear manipulative and arrogant. In many instances, people with narcissistic disorders are preoccupied with thoughts of getting even for the injuries (real or imagined) that they experienced while growing up, and they can be extremely envious. This reactive narcissism is one of the most common causes of defective leadership. Parallels can also be drawn between the individual pathology of reactive narcissism and the neurotic organisation (Kets de Vries 2007, p. 90).

Irrational characteristics exhibited by the principal decision makers can seriously affect the company as a whole. There is an old adage: ‘Fish rot from the head’. At the top of a neurotic, toxic organisation (especially one in which power is highly centralised, as is usually the case in family firms), one is likely to find a top executive whose rigid neurotic style is strongly mirrored in the inappropriate strategies, structure and organisational culture of his or her firm. If this situation continues for
too long, the leader’s toxic actions may sow the seeds for the organisation’s decline or even self-destruction.

2.3 Conclusion: Summary list of the research issues

This chapter has built a theoretical foundation for this research by reviewing the relevant literature to identify research issues or gaps that are worthy of research because they are problematic and have not been fully explored by previous researchers.

The theoretical foundation was based on six key areas (parent theories) relating to family business research:

- the diversity of successions
- equity versus equality
- lessons from failure
- corporate governance
- lessons from success
- a psychological perspective.

The gaps or research issues are as follows:

1. The diversity of successions:

**Gap 1:** To explore whether the ability of the controlling owner to pass on the baton, to invest real authority in his successor, is a critical factor in influencing positive succession in Australian family enterprises.

**Gap 2:** To examine the ability of long-lasting family firms to successfully undergo fundamental changes in the structure and culture of the organisation. Does this apply in the Australian context?

**Gap 3:** To evaluate the role of parents in encouraging teamwork rather than competition in their offspring, in its impact on positive succession outcomes.

**Gap 4:** To evaluate the impact of The Maria Principle on positive succession outcomes.
2. Equity versus equality:

**Gap:** This research explores whether a business-first approach, a family-first approach or a combination of the two, have any influence on positive succession outcomes.

3. Lessons from failure

Gordon and Nicholson (2008) focus on lessons learnt from failure. This research focuses on lessons learnt from success. However, the two may be closely connected.

**Gap:** This research explores whether the 20 warning signs of failure are also 20 factors that have been avoided or overcome by the successful family firms in Australia.

4. Corporate governance

**Gap:** To establish whether the application of the principles of corporate governance has an impact on positive succession outcomes in Australian family firms.

5. Lessons from success

**Gap:** To explore if the 50 lessons (Ward 2004) gleaned from long-lasting family firms apply to Australian family enterprises.

6. A psychological perspective

**Gap:** To examine whether the absence of negative psychological qualities in the family help to deliver positive succession outcomes. These dysfunctional qualities include reactive narcissism, sibling rivalry, scapegoating, nepotism and greed.

The next chapter will look at the methodology employed to collect the data.
Chapter 3: Methodology

3.1 Introduction

Chapter 3 describes the methodology used to collect the data. This chapter is written so that it shows a clear understanding of the body of knowledge in relation to the chosen methodology.

3.2 Justification for the paradigm and methodology

It is essential to understand what is meant by ‘paradigm’ and ‘methodology’ in this context.

Paradigm or worldview: A general organising framework for theory and research that includes basic assumptions, key issues, models of quality research and methods for seeking answers. (Neuman 2006, p. 81) Examples of paradigms in social science are the postpositivist and constructivist approaches (Creswell 2007, p. 22).

Methodology: Methodology is broader than methods, and encompasses methods. It is understanding the social-organisational context, philosophical assumptions, ethical principles and political issues of social researchers who use methods. Examples of methodologies are qualitative and quantitative (Neuman 2006, p. 2).

Methods: Methods are sets of specific techniques for selecting cases, measuring and observing aspects of social life, gathering and refining data, analysing the data, and reporting the results. Examples of methods are surveys and interviews (Neuman 2006, p. 2).

Justification

Creswell prefers to use the term ‘worldview’ rather than paradigm, to discuss the assumptions underlying the different approaches to research (Creswell 2007, p. 23). In order to understand the selection process, it is necessary to see the range of choices, so that you can see what has been selected in the context of what has been rejected. Table 3.1 is a useful overview:
Constructivism or interpretivism, typically associated with qualitative approaches, works from a different worldview to the other paradigms. The understanding or meaning of phenomena, formed through participants and their subjective views, make up this worldview. When participants provide their understandings, they speak from their meanings shaped by social interaction with others and from their own personal histories. In this form of enquiry, research is shaped ‘from the bottom up’: from individual perspectives to broad patterns and, ultimately, to theory (Creswell 2007, p. 22).

Table 3.1 Four worldviews (paradigms)

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<thead>
<tr>
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<th>Postpositivism (Quantitative)*</th>
<th>Constructivism (Qualitative)*</th>
<th>Advocacy and participatory (Qualitative)*</th>
<th>Pragmatism (Mixed Methods)*</th>
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<td>Determination</td>
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<td>Political</td>
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<td>Reductionism</td>
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<td>Multiple participant meanings</td>
<td>Empowerment and issue oriented</td>
<td>Problem centred</td>
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<td>Empirical observation and measurement</td>
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<td>Theory verification</td>
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<td>Theory generation</td>
<td>Change oriented</td>
<td>Real-world practice oriented</td>
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Source: Creswell (2003). *added for the purposes of this research.
This chapter is indebted to Kohlbacher (2006) for his summary of the tensions between qualitative and quantitative methodologies.

Kohlbacher refers to an ongoing debate on the appropriateness of different approaches and methods in social research. Many authors point to the heated discussions, sometimes called ‘the paradigm war’ between the adherents of quantitative research (so-called ‘QUANs’) and qualitative research (so-called ‘QUALs’): Brannen (1992, p. 3); Bryman (2004, p. 452); Hammersley (1992, p. 39); Kelle (2001, p. 1) and Tashakkori and Teddlie (1998, p. 3). One main characteristic of this dispute seems to be the dichotomous way in which qualitative and quantitative research (methods) are presented as well as the resulting strict opposition of the two (Bryman 1992, p. 57). Cassell and Symon (1994, p. 7) give the following list of defining characteristics for qualitative research:

- a focus on interpretation rather than quantification; an emphasis on subjectivity rather than objectivity; flexibility in the process of conducting research; an orientation towards process rather than outcome; a concern with context—regarding behaviour and situation as inextricably linked in forming experience; and finally, an explicit recognition of the impact of the research process on the research situation.

Neuman (2006, p. 149) says that quantitative researchers are more concerned about issues of design, measurement and sampling because their deductive approach emphasises detailed planning prior to data collection and analysis. Qualitative researchers are more concerned about issues of the richness, texture and feeling of raw data because their inductive approach emphasises developing insights and generalisations out of the data collected. Creswell (2007, p. 6) refers to ‘mixed methods research’ which involves collecting and analysing both quantitative and qualitative data. Creswell points out that quantitative data includes closed-ended information such as that found on attitude, behaviour or performance instruments. Sometimes, he says, information is found in documents such as census or attendance records. The analysis consists of statistically analysing scores collected on instruments, checklists, or public documents to answer research questions or to test hypotheses. In contrast, Creswell continues, qualitative data consists of open-ended
information that the researcher gathers through interviews with participants. The general, open-ended questions asked during these interviews allow the participants to supply answers in their own words. Also, qualitative data may be collected by observing participants or sites of research, gathering documents from a private source (such as a diary) or a public source (such as minutes of meetings), or collecting audiovisual materials such as videotapes or artefacts. The analysis of the qualitative data (words or texts or images) typically follows the path of aggregating the words or images into categories of information and presenting the diversity of ideas gathered during data collection. The open- versus closed-ended nature of the data differentiates between the two types (Qual and Quan) better than the sources of the data (Creswell 2007, p. 6).

If we review the research issues, the evidence leads to the following approach. An exploration of all the issues, by its very nature, is highly subjective and hence suited to a qualitative rather than quantitative approach. Fourth generation incumbents will have an opinion on whether their father or mother was able to ‘invest real authority‘ in them and whether this contributed to a positive succession outcome. They will also have an opinion on their chances of repeating this smooth transition with the next generation. There is no hard data available on these kinds of issues that could be collected and analysed quantitatively, with any degree of objectivity or confidence.

If a quantitative approach is not appropriate, then clearly, the mixed methods approach is also not appropriate. The disadvantage of this approach is that there is no obvious triangulation of method, as there is with the mixed methods approach. However, this research has compensated for this loss by ensuring that other avenues of triangulation have been incorporated into the research design. For example: Triangulation of measures: the interview questions (Appendix B) have been supplemented and cross-referenced with the ‘Family business check list‘ (Appendix C). Confidence in the data is increased if the responses correlate. If they do not correlate, that also provides interesting and informative data. Where they do not correlate, the qualitative approach offers the opportunity to go back to the participants and ask more questions for clarification (Neuman 2006, p. 150).
Triangulation of theory: This occurs when a researcher uses multiple theoretical perspectives in the research design and when interpreting the data. For example, the researcher plans the study using the concepts and assumptions of both conflict theory and exchange theory, or looks at the data coming from each theoretical perspective (Neuman 2006, p. 150).

Qualitative research deals with matters that cannot be meaningfully quantified. It is generally characterised by small, non-projectable samples and 'messy' data from an analytic standpoint. It is often viewed as 'soft' research, implying that it has little value to the business community. Quite to the contrary, qualitative research is an integral part of the researcher's arsenal of tools to answer management's questions (Davis 2005, p. 306). It often involves in-depth investigations of an unstructured nature, using a very limited sample. The analyses make no attempt to be representative of the entire population; they are frequently meant to be impressionistic rather than definitively analytical. The goal is to understand the nature of the phenomenon in a holistic sense, rather than to numerically measure and analyse a predetermined set of variables (Davis 2005, p. 307).

The two main qualitative research methods are individual in-depth interviews and group in-depth interviews, also known as focus groups. Each approach generally uses an unstructured, undisguised format and can produce extremely valuable data if conducted correctly. The in-depth interview is an intensive, unstructured personal conversation in which the interviewer attempts to get the respondent to talk freely about the subject of interest (Davis 2005, p. 312).

By contrast, quantitative surveys aim to achieve standardisation by asking the same questions of all the respondents in the same sequence, thereby placing boundaries on possible answers. Qualitative interviews are interactive and open-ended, encouraging the interviewee to reveal the situation as they really see and feel it, to understand the context of the issues. Replicability is replaced by explanation.
Qaglia (2006) says that quantitative questionnaires often comprise closed questions that only allow predefined responses. Qualitative techniques, by contrast, reveal the attitudes, behaviour and reasoning of the individuals being interviewed.

If we begin with the end in mind, the final choice must be able to deliver sensible responses to the research question: "What are the key factors that have influenced positive succession outcomes in long-lasting Australian family enterprises?"

The nature of this research lends itself to qualitative research. Family business is, primarily, a highly personal and private domain. Focus groups are unlikely to yield the best data, because many family members will not discuss their personal feelings, opinions and aspirations openly and honestly in front of their grandparents, parents, spouses, siblings, nieces, nephews and cousins. Surveys will not provide the depth that the probes of a one-on-one interview can provide. In the final analysis, the qualitative approach and in particular, the in-depth interview, stand out as very suitable methods for this particular research.

Finally, something should be said about my own personal biases. As discussed in Section 1.4 Mellon states that:

objective researchers try to eliminate bias while subjective researchers recognize and acknowledge it. Total objectivity is impossible for researchers who are, after all, human beings. The difference between the two research traditions is not that one has and one lacks objectivity. The difference is that naturalistic researchers systematically acknowledge and document their biases rather than striving to rise above them (Mellon 1990, p. 26).

I have been involved in family business at management level for nearly 30 years. The particular event that led to this research occurred in November, 2000. Prior to this, from 1966–2000 (34 years) the shareholding structure in my wife’s family business had been absolutely equal, in terms of the five children. The children (including my wife) owned approximately 10% each, the mother owned approx 50%, the father owned a small but controlling share, and an uncle and aunt owned a minority interest. Besides the father, who had retired in 1983, one of the brothers and I were the only
long-serving (greater than 10 years) family members active in the business. The brother was Managing Director (MD), and I was Sales Manager at the time the crisis erupted. After 15 years of working in this business, we were advised by my wife’s parents that the MD/son would be gifted a significant parcel of shares in response to his request for acknowledgement for his contribution to the business. My father-in-law, who was 82 at the time, did not help the situation: he said his son had ‘badgered him into it.’ Needless to say, I was incredulous that my wife was offered nothing (initially) for my contribution, and that the four siblings were offered nothing in the form of compensation for their loss from the parents’ future estate. There was no communication leading up to the decision. My wife’s sister described it as a ‘bombshell’. From 1979–2000 (21 years), my wife and I had shared over 200 dinners with the brother in question and his family. We were the godparents of his daughter. How was it possible that such a major shift in family business politics could occur, without any warning or discussion between the parents and the five children? Surely this problem was not unique to my wife’s family. It begged the question: How have long-lasting family firms solved or avoided these kinds of problems? When I read Ward’s research (Ward 2004), I was relieved to find that the power brokers in successful long-lasting family firms would not have dealt with succession in this blatantly exclusive, non-communicative manner. However, I am careful not to allow my personal bias to colour the process and results of this research. As Mellon says (1990, p. 26) it is important to document your biases.

The primary defence against dishonesty and sloppiness (lack of rigour, validity and reliability) is the researcher’s own integrity or trustworthiness. Trustworthiness in qualitative research is parallel to ‘objective standards’ in quantitative research design (Neuman 2006, p. 153). What constitutes ‘a positive succession outcome’ in a family business is a complex question. What checks and balances can we apply (to attain trust and credibility) in answer to the following questions:

1) Is harmony created or enhanced by a strong, dominant parent(s) who maintain(s) harmony by suppressing conflict?

2) Is harmony created or enhanced where only one sibling enters the family business, so that sibling rivalry is avoided or minimised?
3) Is harmony created or enhanced where the parent(s) have the wisdom to introduce non-family members onto the board, so that conflict resolution can be managed by more detached parties?

If the researcher forms his own opinion on any of these questions, this will constitute a bias. (As a qualitative researcher, the bias will be openly stated and incorporated, unlike quantitative research.) If the researcher relies on the opinion of the parent(s), or on the opinion of the children, or on the opinion of the non-family employees, or on non-family members outside the business, each opinion by itself constitutes a bias or a limited perspective on the problem. Clearly, the best approach is to incorporate as many perspectives or viewpoints as possible. This multi-dimensional approach is a cross-check on dishonesty, invalidity and sloppiness. Neuman (2006, p. 150) refers to this process as a ‘triangulation of observers’.

What constitutes discord for one family may not constitute discord for another. Cultural diversity may be an important measuring stick. It may be culturally acceptable, for example, for Italian partners to settle their differences through vigorous ‘debate’. To an observer of Anglo-Saxon origin, this may appear as if the partnership is dissolving. Where do cultural taboos and mores start and finish? At what point does ‘getting something off your chest’ disintegrate into ‘irreconcilable differences’?

Personality differences can be another measuring device and qualifier. One observer may be a peacemaker, another a confrontationalist, another a perfectionist and so on. The bias of personality type needs to be considered when evaluating the input of the interviewees. These cultural and personality filters may constitute a ‘triangulation of measures’ (Neuman 2006, p. 149). They could be seen as the equivalent of multiple testing in quantitative research. It may also be useful to look at the concepts and assumptions of exchange theory and conflict theory, and to see what data emanates from both theoretical perspectives.

Take an example where only one sibling works in the family business, and has equal shares to his other siblings. According to the exchange theory, this sibling may be
perceived by the parents to have accrued credits by working in the family business. This can create balance and harmony providing all shareholders accept the status quo. It can also create imbalance in the sense that the ‘accredited’ sibling may attempt to dominate the other non-accredited siblings.

According to conflict theory, the family is made up of individuals or groups with opposing interests. It is to be expected that certain individuals will use coercion in their attempts to maintain or gain power. Those in power may try to maintain their power base by maligning others or using violence if necessary. In the example above, the working sibling may frustrate other siblings who try to enter the family business by limiting the scope of their opportunities, by continual criticism or bullying, by games of brinksmanship, or by manipulating the parent’s (or parents’) opinion against the ‘intruder’. This contrast between exchange and conflict theory is an example of ‘triangulation of theory’ (Neuman 2006, p. 150).

The qualitative researcher has other tools besides triangulation in his tool box. Context or ‘intimate first-hand knowledge of the research setting’ (Neuman 2006, p. 153) is paramount. Qualitative researchers do not attempt to distance themselves from the people or events they are researching. Just as prima facie evidence is important in a court of law, first-hand observation is important in qualitative research. It does not suggest the personal opinion of the researcher dominates (lack of validity), or that data collection is haphazard (lack of rigour), or that the evidence is used selectively to support the personal prejudices of the researcher (lack of reliability).

Omur (2006) realised that the subjects of a study he was conducting had more to say beyond answering predefined questions. The participants' stories and 'tangents’ made the interviews and the research even more interesting. Riessman (2002) states: ‘subsequently I realized that participants were resisting our efforts to fragment their experiences into thematic (codable) categories; our attempts, in effect, to control meaning.’

After the first interview experience in his study, Omur changed the interview questions when new issues emerged. Bogdan and Biklen (1998, p. 94) addresses this
issue by saying that even when an interview guide is employed, qualitative interviews offer the interviewer considerable latitude to pursue a range of topics and offer the participant a chance to shape the content of the interview. In the case of my own research, it will mean I can take advantage of my own insights into family business, based on 30 years working in that environment. The most exciting part of this research is that it gives me the opportunity to position my experience within the broader context of the literature review and the data that will flow from the firms selected, or the units of analysis.

It is impossible to do this kind of research without a discussion of to what degree, if at all, it has employed the ‘case study’ as a research strategy.

According to Kohlbacher (2005) case studies are widely used in organisational studies and across the social sciences, and there is some suggestion that the case study method is increasingly being used and with a growing confidence as a rigorous research strategy in its own right (Hartley1994, p. 208; Hartley 2004, p. 323). Stake (2000) concurs, suggesting that case studies have become one of the most common ways to do qualitative inquiry, ‘but at the same time concedes that they are neither new nor essentially qualitative’ (p.435). Already there is a point of departure: this research is essentially and exclusively qualitative.

According to Yin (2003a, p. 2) ‘the distinctive need for case studies arises out of the desire to understand complex social phenomena‘ because ‘the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events,’ such as organisational and managerial processes. This comment would certainly apply to this research. In fact, case studies seem to be the preferred strategy when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin 1981, p.59; 2003a, pp 2, 5–10). In such a setting, a case study would be an explanatory one. Depending on the type of research question posed, the extent of control an investigator has over actual behavioural events, and the degree of focus on contemporary as opposed to historical events, there are also exploratory and descriptive case studies (Yin: 2003a: 1, 3-10).
The research question here is: _What_ are the key factors that have influenced positive succession outcomes in long-lasting Australian family enterprises?* (Exploratory)

However, the research question could also have been posed as a _How_ question without altering the meaning or results significantly: _How_ have long-lasting Australian family firms managed to achieve positive succession outcomes, against the odds?* (Explanatory) Hence, it could be argued that for this research, the distinction between exploratory and explanatory is artificial and irrelevant.

In contrast to this, Stake (2000) identifies three types of case studies—intrinsic, instrumental, and collective— with the distinction between intrinsic and instrumental (a collective case study is an instrumental study extended to several cases) addressing the degree to which the focus is on the unique or the generalisable features of the case research (Stake 2000, p. 437; Hartley 2004, p. 326). As a matter of interest, a common concern about case studies put forward by their critics is that they provide little basis for scientific generalisation. Yin’s answer to this (Yin 2003a, p. 10):

> Case studies are generalizable to theoretical propositions and not to populations or universes. In this sense, the case study does not represent a _sample_, and in doing a case study, your goal will be to generalize theories (analytical generalization) and not to enumerate frequencies (statistical generalization).

Kohlbacher (2005) cites Hartley’s (2004, p. 323) definition of a case study: _[a case study] consists of a detailed investigation, often with data collected over a period of time, of phenomena, within their context,‘ with the aim being _to provide an analysis of the context and processes which illuminate the theoretical issues being studied._‘ In this respect, it is important to note that case studies have an important function in generating hypotheses and building theory (Eisenhardt 1989; Hartley 1994, p. 211; Hartley 2004, p. 325). Take one example from the summary of research issues on page 46 of this research:
1. The diversity of successions:

**Gap 1:** To explore whether the ability of the controlling owner to pass on the baton, to invest real authority in his successor, is a critical factor in influencing positive succession in Australian family enterprises.

If we were to go down the quantitative path (which we will not), we could develop a hypothesis based on a possible causal connection between ‘investing real authority in a successor’ (the independent variable) and ‘a positive succession outcome’ (the dependent variable) (Neuman 2006, p. 161). The null or disconfirming hypothesis would be that there is no connection between these two variables. The problem with this approach is that 96% of family firms do not survive from the third to the fourth generation, and for a complex range of reasons. Hence it is virtually impossible to establish a causal link between these and many other attributes that may lead to positive succession outcomes. The only realistic approach is the non-linear, exploratory path of qualitative research. New theories about long-lasting firms will emerge from the data analysis.

Finally, Yin (2003, pp. 13–14) offers a more detailed and technical definition of case studies:

A case study is an empirical inquiry that:

1) investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident

2) the case study inquiry

   a) copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result

   b) relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result

   c) benefits from the prior development of theoretical propositions to guide data collection and analysis.
There is nothing in Hartley’s or Yin’s definitions that could not apply to the approach used in this research.

3.3 Designing case studies

According to Hartley (2004) research design is ‘the argument for the logical steps which will be taken to link the research question(s) and issues to data collection, analysis and interpretation in a coherent way’ (p. 326; cf. also Yin 2003a, pp. 19–21). Yin (2003a, p. 21–28) identifies the following five components of research design as especially important for case studies:

- a study's questions;
- its propositions, if any;
- its unit(s) of analysis;
- the logic linking of the data to the propositions;
- the criteria for interpreting the findings.

Subsequently, it will be helpful to consider whether the case study will be exploratory, descriptive or explanatory and a key decision to be made is whether the research will be based on a single case study or on multiple cases (Hartley 2004, p. 326). Furthermore, for case studies, theory development as part of the design phase is essential, whether the ensuing case study's purpose is to develop or test theory, with theory development taking place prior to the collection of any case study data being an essential step in doing case studies (Yin, 2003a, pp. 28–29). However, depending on the depth and range of the extant literature, the initial focus of the case study may be quite focused or broad and open-ended.

Therefore the case study strategy is ideally suited to exploration of issues in depth and following leads into new areas of new constructions of theory.

This means that the theoretical framework at the beginning may not be the same one that survives to the end (Hartley 2004, p. 328). Besides, theory development does not only facilitate the data collection phase of the ensuing case study; the appropriately
developed theory also is the level at which the generalisation of the case study results will occur. This role of theory has been characterised by Yin (2003) as ‘analytic generalization’ and has been contrasted with a different way of generalising results, known as ‘statistical generalisation’ (pp.31–32; cf. also above, Section 3.1, and also Hartley 2004, p. 331).

Last but not least, a major issue in designing case study research is the maximisation of conditions related to design quality, that is, the criteria for judging the quality of research designs. According to Yin (2003a, pp. 19, 33–39) the four conditions or tests are:

- construct validity
- internal validity
- external validity
- reliability.

A detailed explanation of these concepts can be found in numerous textbooks on social science methods (for example Atteslander 2003; Bryman 2004; Creswell 2003; Diekmann 2003).

This section will give a short overview of the main steps in undertaking case studies, drawing mainly from Yin’s (2003a) seminal work on case study research.

**Collecting evidence**

According to Yin (2003a) there are six possible sources of evidence for case studies: documents, archival records, interviews, direct observation, participant observation, and physical artefacts (pp. 83, 85–96). Indeed, the case study's unique strength is ‘its ability to deal with a full variety of evidence—documents, artefacts, interviews, and observations’ (Yin 2003a, p. 8). Case studies do not imply the use of a particular type of evidence and they can be done using either qualitative or quantitative evidence (or both) (Eisenhardt 1989, pp. 534–535; Yin 1981, p. 58; see also above, Section 3.1). Nevertheless, while quantitative data often appears in case studies, qualitative data usually predominates (Patton & Appelbaum 2003, p. 60). Yin (2003a, pp. 83, 97–
105) contends that the benefits from these six sources can be maximised if three principles are followed:

- use of multiple sources of evidence
- creation of a case study database
- maintaining a chain of evidence.

Finally, Yin (2003a, p. 78–80) recommends conducting a pilot case study as a final preparation for data collection. This will help to refine the data collection plans with respect to both the content of the data and the procedures to be followed. Gillham (2000) also sees the use of multiple sources of evidence as ‘key characteristics of case study research’ (p. 2) because ‘all evidence is of some use to the case study researcher: nothing is turned away’ (p. 20). As another fundamental characteristic he puts forth that ‘you do not start out with a priori theoretical notions’ (p. 20 original emphasis).

Based on the fact that this research primarily uses interviews as its source of data, it is necessary to take a definite position: this research does not use the case study as a research strategy. It is preferable to say that this research uses a case-oriented approach that places cases, not variables, centre stage (Ragin 1992, p. 5).

This qualitative research examines a wide variety of aspects of a few cases. Explanations or interpretations are complex and take the form of a narrative story about particular people and particular events. Rich detail and insights into the cases replace the sophisticated statistical analysis of precise measures across a huge number of units or cases found in quantitative research (Neuman 2006, p. 158). This research does not use variables or test hypotheses, or convert social life into numbers (Neuman 2006, p. 157).

The collection of this qualitative data has involved documenting real events through the recording of in-depth interviews with key family members of long-lasting family firms. These memories and reflections are all concrete aspects of the world we operate in. This evidence is just as ‘hard’ and physical as that used by quantitative researchers to measure attitudes, social pressure, intelligence, and the like (Neuman 2006, p. 157).
This research is not grounded theory.

According to Neuman (2006, p. 60), grounded theory (GT) must be “capable of replication, and generalizable”. No such claims are made about this research. This research can only provide a snapshot of the situation at the time of interview. The interview itself may cause the interviewee to reconsider their own assessment of family business, of how they believe they have succeeded. Another researcher may follow one month or one year later, and get a very different response, which may lead to a different set of explanations.

This research is not field research.

The researcher did not observe and interact in the field setting for a period from a few months to a few years (Neuman 2006, p. 46).

This research is not historical-comparative research.

The researcher did not focus on one or more historical periods, or compare one or more cultures (Neuman: 2006: 46).

The primary method used in this research is focused or semi-structured interviews. The strengths and weaknesses are summarised in the following:

**Brief outline of method**

This technique is used to collect qualitative data by setting up a situation (the interview) that allows a respondent the time and scope to talk about their opinions on a particular subject. The focus of the interview is decided by the researcher and there may be areas the researcher is interested in exploring.

The objective is to understand the respondent's point of view rather than make generalisations about behaviour. It uses open-ended questions, some suggested by the researcher (“tell me about…’’) and some which arise naturally during the interview (“you said a moment ago…can you tell me more?’’). The researcher tries to build a rapport with the respondent and the interview is like a conversation. Questions are
asked when the interviewer feels it is appropriate to ask them. The wording of questions will not necessarily be the same for all respondents. The strengths and weaknesses of **semi-structured interviews** are summarised in the following table:

<table>
<thead>
<tr>
<th>Strengths / Uses of Method</th>
<th>Weaknesses / Limitations of Method</th>
</tr>
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<tbody>
<tr>
<td><strong>1. Positive rapport</strong> between interviewer and interviewee. Very simple, efficient and practical way of getting data about things that can’t be easily observed (feelings and emotions, for example).</td>
<td>1. Depends on the <strong>skill</strong> of the interviewer (the ability to think of questions during the interview, for example) and articulacy of respondent.</td>
</tr>
<tr>
<td><strong>2. High Validity.</strong> People are able to talk about something in detail and depth. The meanings behind an action may be revealed as the interviewee is able to speak for themselves with little direction from interviewer.</td>
<td>2. Interviewer may give out <strong>unconscious signals</strong> / cues that guide respondent to give answers expected by interviewer.</td>
</tr>
<tr>
<td>3. Complex questions and issues can be discussed / clarified. The interviewer can probe areas suggested by the respondent's answers, picking up information that had either not occurred to the interviewer or of which the interviewer had no prior knowledge.</td>
<td>3. Time Consuming / expensive</td>
</tr>
<tr>
<td><strong>4. Pre-Judgement:</strong> Problem of researcher predetermining what will or will not be discussed in the interview, for example.</td>
<td>4. <strong>Not very reliable</strong> - difficult to exactly repeat a focused interview. Respondents may be asked different questions (non-standardised). Samples tend to be small.</td>
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<tr>
<td></td>
<td>5. Depth of qualitative information may be difficult to analyse (for example, deciding what is and is not relevant).</td>
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<td></td>
<td>6. Personal nature of interview may make findings difficult to generalise (respondents may effectively be answering different questions).</td>
</tr>
<tr>
<td></td>
<td>8. Validity: a. The researcher has no real way of knowing if</td>
</tr>
</tbody>
</table>
interview is resolved. With few pre-set questions’ involved, the interviewer is not pre-judging what is and is not important information

5. Easy to record interview (video / audio tapes). Digital (my addition).

<table>
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<tr>
<th><strong>Table 3.2</strong> Strengths and weaknesses of semi-structured interviews</th>
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<tr>
<td>the respondent is lying</td>
</tr>
<tr>
<td>b. The respondent may not consciously lie but may have imperfect recall. If you were being asked to remember things that happened days, weeks or months ago it’s likely that you would actually remember very little about what happened…</td>
</tr>
<tr>
<td>c. An interview can sometimes be a ‘second chance’ to do something; having been given the time to reflect on something they did, the respondent tries to make sense of their behaviour by rationalising their actions. They are not consciously lying (since they will believe what they are saying is true), but their explanation for their behaviour, with hindsight, may be very different from what they actually felt at the time. Criminals, for example, frequently express feelings of guilt and remorse for what they have done (which they may genuinely feel) and this may be taken as evidence they accept the values of the society in which they live. On the other hand, this remorse may simply be an expression of what the respondent believes the researcher wants to hear…</td>
</tr>
</tbody>
</table>

Source: http://www.sociology.org.uk/methfi.pdf
A useful overview of interviews is provided by Grobler (2005). She says qualitative interviews are characterised by the following:

- They use open-ended questions
- They are mainly single interviews (one person questioned at a time)
- Questions are not structured in a fixed, rigid manner, allowing questions to be asked in a different order, and allowing the addition of new questions
- Interviewers have greater freedom when presenting questions, altering wording and adjusting the interview to meet the goals of the study (Sarantakos 1998, p. 255).

Grobler (2005) mentions that the two main functions of interviews are description and exploration (Champion 2000, p. 269). Description refers to information gained from interviews that is pertinent in describing various elements of social reality. ‘No other type of research tool performs this descriptive function as well’ (Champion 2000, p. 269). Interviews enable the researcher to obtain a ‘gut-level’ understanding of how individuals think and behave as well as their social reality, more so than a survey questionnaire could. Grobler (2005) says that interviews allow the researcher to explore the previously unexplored aspects of a specific topic. ‘Interviews invite more in-depth probing and detailed descriptions of people’s feelings and attitudes. (Champion 2000, p. 270). Grobler (2005) explains that in qualitative interviewing, the interview takes the form of a discussion rather than a question and answer format, but within a framework the researcher has drawn up. The interview is not totally controlled by the interviewer’s questions, with input welcomed from both the interviewer and the respondent (Baker 1999, p. 247). Grobler (2005, p. 241) mentions the ‘life-world interview, which aims to obtain descriptions of the life-world of the interviewee’ (Baker 1999, p. 247). The interviewer determines and controls the interview, and by probing receives many responses, some of which may be contradictory. For Baker this is not a problem because the aim of a qualitative interview is to capture the range of a subject’s views of a theme, to understand the respondent’s complex social world. Baker mentions 12 points which constitute the ‘mode of understanding’ of the qualitative interview:
1. The interview topic pertains to the important themes in the life world of the interviewee. The analysis of the interview can focus on themes or on the meaning of the life world of the individual.

2. The aim of the interview is to understand the meaning of these themes and of the individual's life world. Qualitative interviewing does not constitute only factual information but also looks at the subjective and emotional meaning offered by respondents. Therefore body language, facial expressions as well as spoken words must be observed.

3. The interviewer looks for qualitative meanings in descriptions. These should be precise, but not as precise as quantitative research demands.

4. The qualitative interview is descriptive; it should not be limited to fixed categories. A diagnosis is reached by employing less focused questions.

5. The qualitative interview develops specificity about certain situations and actions that have happened in the respondent's life world.

6. The interviewer must maintain a certain naivety, to encourage the respondent to explain and describe more of his/her life world.

7. The interview must focus on the themes of the research topic.

8. Ambiguities that arise during interviews must be determined by the researcher to be either objective contradictions in situations being described or communication problems during the interview.

9. Real change in the ideas of interviewees may occur during the interview. This is indicative of either a re-evaluation or a better understanding of a situation.

10. An interviewer must be sensitive to the comments of the interviewee.

11. The qualitative interview is an interpersonal situation because it constitutes a genuine social interaction between two individuals and it may have emotional and anxious qualities, as well as cognitive ones.

12. A qualitative interview must be a positive experience (Baker 1999, p. 247).

The interviews conducted for this research were primarily of a semi-structured nature. Grobler (2005, p. 242) points out the research topic and goal, resources, methodological choices and the type of information required will determine the degree of structure in an interview (Sarantakos 1998, p. 247). The research topic and goal are exploratory in nature, resources are limited, the methodology is qualitative and the information required is open-ended but must be capable of comparison from
one case to another. Hence, the semi-structured interview is ideal: it is exploratory; the cases have been carefully selected to accommodate a limited budget; they are qualitative (lending themselves to descriptive rather than numerical outcomes) and the questions are flexible enough to elicit new information, but consistent enough to enable the researcher to compare responses. Grobler (2005, p. 242) also refers to ‘neutral probes’ used to gain additional information from the interviewee. Neuman (1997, p. 257) defines a probe as ‘a neutral request to clarify an ambiguous answer, to complete an incomplete answer, or to obtain a relevant response.’ Grobler (2005, p. 242) says that researchers choose to use semi-structured interviews in order to acquire detailed information about an interviewee’s beliefs concerning the research topic. With semi-structured interviews the researcher will have a set of predetermined questions on an interview schedule, but the interview will be guided by the schedule rather than dictated by it’ (De Vos et al. 2002, p. 302).

Grobler (2005, p. 243) says that questions are almost always open-ended and interviewees can introduce issues the researcher may not have thought of. The interviewee should be perceived as the expert on the research topic and should be permitted the opportunity to provide as much information as possible. Grobler (2005, p. 243) also refers to ‘guided interviews’. They are a subgroup of semi-structured interviews. Here, the interviewer has plenty of freedom to formulate questions and change their order, even though an interview guide is used (Sarantakos 1998, p. 251). ‘Interview guide’ is taken to mean a set of questions, prepared prior to the interview that will act as a guide for the interviewer and the interviewee.


A written or memorised interview guide provides a checklist of topics that the interviewer wants to cover. These checklists include reminders about the categories of interest to the researcher, in an order that seems likely to promote rapport.

De Vos et al. (2002, p. 302) say that an interview guide ‘provides the researcher with a set of predetermined questions that might be used as an appropriate instrument to engage the participant and designate the negative terrain.’ Grobler (2005, p. 243) says
the researcher must think about the most pertinent themes to be covered in an interview, and these must be arranged in a logical sequence.

The interview guide used in this research (see Appendix B) contains pertinent themes relating to a wide variety of succession issues in family business.

Grobler (2005, p. 243) also refers to ‗focus interviews‘ which are relevant to this research. These interviews focus on a specific topic – in this case, the key factors that influence positive succession outcomes in long-lasting family firms. Respondents are requested by the interviewer to discuss the topic, thereby offering their views and opinions on the research question. The discussion is free and open, and the interviewer guides the respondent rather than leading or restricting him/her. Focused interviews are aimed at:

- maximising the potential of the study, in at least two ways; namely by allowing the discussion to go beyond the originally planned themes and topics, and by encouraging the respondents to discuss as many issues of the themes as possible‘(Sarantakos 1998, p. 253).

Thus, according to Grobler (2005, p. 243), focused interviews allow for the gathering of increased information and more specific information. This is possible because the respondent is allowed more freedom when sharing information.

Grobler (2005, p. 244) also refers to ‗unique and personal interviews.‘ By definition, unique interviews occur once only. The interviewer approaches the respondent, gathers the information and concludes the interview. Polit and Tatano Beck (2007, p. 70) say that data saturation occurs when themes and categories in the data become repetitive and redundant, such that no new information is likely to be gleaned through further data collection. Personal interviews are conducted in a face-to-face situation, with the interviewer asking questions and the respondent replying (Sarantakos 1998, p. 249).

For this research, all the interviews were conducted face to face except one which was by telephone, due to time, distance and cost constraints. Grobler (2005, p. 244) refers to ‗in-depth interviews‘. These relate to the use of intensive and personalised
questions put to respondents in order to discover intimate knowledge of the research topic and the respondent. In-depth interviews are essential for understanding social phenomena (Champion 2000, p. 263).

Nedlin (2003, p. 51) offers further justification for the use of a qualitative rather than a quantitative approach. Secrecy and privacy are principles that family firms maintain. Quantitative research instruments used to collect data, such as questionnaires (for example Arthur Anderson / Mass Mutual 1997), did not permit responses that would allow for a comprehensive understanding of the relationships between the various family members. Qualitative research manifests an interest in understanding how people make sense of their world and their experiences in it. It strives for a depth of understanding as an end in itself, not as an attempt to predict what may happen in the future (Patton 1990) or to generalise to a larger population (Stake 1995).

Miller and Crabtree (1992, p. 6) point out: Qualitative methods usually are used for identification, description and explanation-generation; whereas quantitative methods are used most commonly for explanation-test and control. Denzin and Lincoln (1994, p. 4) explain: Qualitative researchers stress the socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape inquiry. Such researchers emphasise the value-laden nature of enquiry. They seek answers to questions that stress how social experience is created and given meaning (Nedlin 2003, p. 52). Nedlin continues:

although one can never perceive another person's reality as one perceives one's own, the aim was to be subjectively cognizant of participants' experiences. Reducing those experiences to statistical measures would have reduced the participants' descriptions to numerical statements rather than rich, contextual narratives that might help generate new ideas regarding relationships between the various family members (Nedlin 2003, p. 53).

Merriam (1988) indicates qualitative researchers want to understand how individuals make sense of their experiences and give meaning to their lives. Nedlin (2003, p. 53) refers to the underlying social constructionist frame that informed her research and her desire to co-create with research participants new understandings and meanings.
She justifies a qualitative design on this basis, and backs it up with a quote from Steier (1991, p. 2):

If researchers and scholars are to take seriously principles of constructionism, these very same principles must be applied by researchers to themselves and to the research. That is, the research process must be seen as socially constructing a world or worlds with the researchers included in, rather than outside, the body of their own research.

Nedlin (2003, p. 57) continues: the social constructionist researcher believes that worlds are constructed, or even autonomously invented, by "scientific" inquirers who are, simultaneously, participants in their own worlds (Steier: 1991:1). Nedlin says "this requires the researcher to become a co-constructor of the data, and therefore a primary instrument of the research" (Rafuls & Moon 1996).

### 3.4 Research procedures

Qualitative researchers focus less on a sample's representativeness than on how the sample or small collection of cases, units or activities illuminates social life. The primary purpose of sampling is to collect specific cases, events or actions that can clarify and deepen understanding (Neuman 2006, p. 219). A researcher may use "purposive sampling" to select members of a difficult-to-reach, specialised population (Neuman 2006, p. 222).

It is fortunate that "Family Business Australia" exists at all, and has a thriving membership. It is even more providential that FBA offers awards for categories such as: "best 4th generation family business" and that these family firms appear on their website. The assumption is that these firms are self-celebrating and hence are more likely to be open to academic research. Six firms were contacted from this source, and four agreed to a one hour in-depth interview, after reading "the introductory letter" (see Appendix A). Once appointments had been confirmed, "the information sheet" and "the informed consent" (see Appendix A) were emailed to the prospective participants. An iPod was used to make digital recordings of the interviews. The recordings were then downloaded and compressed using "Audiograbber" so that they
could be emailed, with guaranteed confidentiality, to a high-speed typist (see Appendix C for the full transcripts).

3.5 Ethical considerations

There are five ethical issues that need to be addressed in qualitative research:

- voluntary participation
- informed consent
- privacy
- confidentiality and anonymity
- deception.

All of these concerns have been catered for in the research design, as follows:

Voluntary participation
All of the participants signed a document (see Appendix A) acknowledging that their participation is voluntary – that is, free from coercion from superiors, free from coercion relating to remuneration or other incentives, and free from any risk of any demotion or penalty (Neuman 2006, p. 135).

Informed consent
The researcher obtained written informed consent from all research participants before the research commenced. This is evidence that the participants were informed about the nature and purpose of the research and their role in it.

Privacy
This is a particularly sensitive area in family business research. The information and the identity of the participants must be protected at all costs to avoid family rifts, potential divorces, defamation lawsuits and exclusion from wills.
Confidentiality and anonymity

Confidentiality means that any reader of the research will be unable to deduce the identity of any of the participants. Pseudonyms, and industry and event camouflage will be employed to disguise the true identity of the participants and the organisations.

Deception

This occurs if the researcher deliberately misinforms the participants about the nature of the research, thereby exposing them to potentially painful experiences. The solution is to be completely upfront about the nature and purpose of the research, and for all participants to sign off on this basis. A researcher’s personal moral code is the best defence against unethical behaviour (Neuman 2006, p. 130). Konza (1998) quotes Holbrook (1997) as saying that in any research endeavour, researchers are expected to employ high standards of academic rigour, and to behave with honesty and integrity.

By its very nature, qualitative research is immersed in a 'messy, chaotic reality of on-the-spot personal interaction ... sensitivity and experience' (Holbrook 1997, p. 49).

Rather than the objectivity and distance which characterise the more positivistic approaches, qualitative research brings with it a greater likelihood that ethical issues, such as those associated with informed consent and confidentiality, will arise. Some difficulties emerge precisely because a high level of rapport, so essential for many aspects of qualitative research, has been established between investigator and participant. That which is required for the research to be valid can also be the catalyst for a complex array of highly charged interpersonal issues to emerge. Konza (1998) says that informed consent is seen to be one of the most critical issues in qualitative research; indeed, it is regarded by some (Bogdan 1992; Evans 1996) as the 'key issue' in research with human beings.

Covert research is claimed to have some validity if it is used to expose malpractice or corruption (Punch 1986) and if there is no risk to the participants (Fine, 1992). However, cover research is largely rejected by researchers and is seen by many as being intrinsically unethical. Kiegelmann (1996) stresses that the foremost consideration in research should be given to the dignity of the research participants,
and that on these grounds alone, deception in research can never be condoned. Konza (1998) points out that the issue of confidentiality is one which underpins all qualitative research (Fraenkel 1990; Raffe 1989).

This research has succeeded in maintaining confidentiality and anonymity in the following ways:

At all interviews only two people were present: the researcher and the participant. This eliminated the possibility of third parties passing on the content of these meetings.

The participants received a written promise for the identities of their companies and the personnel to be disguised in such a way as to make it extremely difficult for anyone other than the researcher and participants to decipher the true identity of the family firm and its members or staff.

The only potential issue was the offer to send all of the participants the results of the research. Naturally, if a brother read that a sister had told the researcher that she found his methods underhand, the brother may not be happy about this being stated to someone outside the family, whether he agreed with it or not. In spite of the researcher's best efforts to disguise the identities of the participants and the people they referred to, there may have been some unintended clue that a perceptive reader could home in on. The solution to this potential problem was to generalise a section of the results of the research to a degree where there was no possibility of inferring the correct identities. In terms of the sensitivities of family business research, the issues of confidentiality and informed consent are paramount. If these issues are ignored, there is the potential to destroy families as well as businesses.

3.6 Conclusion

Chapter 3 commenced with definitions of paradigm/worldview, methodology and methods. It explained and justified why a constructivist worldview was selected rather
than a postpositivist, participatory or pragmatic paradigm. The constructivist paradigm is compatible with a qualitative methodology. There was considerable discussion on the merits of qualitative over quantitative and mixed methods approaches. The principal justification for a constructivist / qualitative approach to family business research is that it lends itself to exploration and interpretation of meaning. These are both fundamental concepts to the constructivist paradigm and qualitative methodology.

Once the paradigm and the methodology are in place, it is necessary to adopt a research design / strategy and to employ specific methods to collect the data. It is also essential to establish strong ethical guidelines for the process of data collection.

There are a number of elements that this research has in common with case study research. Therefore, it was deemed necessary to look at exactly what these elements are, then to examine the points of difference. The conclusion on this particular point is that this research adopts a case-oriented approach or research strategy, rather than being a case study, in the strict and narrow definition of that term. Due to the exhaustive nature of in-depth qualitative research, only four family firms were selected. All were chosen because they were third generation or beyond. The aim of the research is to explore the key factors that contribute to longevity in Australian family firms. One approach could have been to examine companies that had failed, and to explore why they had failed. I decided to focus on companies that had survived, and to explore how and why they had managed to do so. I chose to interview only one person in depth in each company, because my preliminary over-the-phone chats suggested this would elicit more candid information.

In terms of methods, the primary method employed is the semi-structured interview (SSI). The interviews may also have been in-depth, focussed, personal and unique, but they were always semi-structured in nature. The great advantage of the SSI for this research is that it provided a basis for discussion and comparison (the structure), while allowing for a great degree of flexibility to adapt new questions based on the responses and input of the interviewees (the non-structure). One could argue that this kind of flexibility is in itself a kind of structure and discipline.
Finally, ethics are of paramount importance. Due to the sensitivities and privacy issues relating to family business, informed consent, confidentiality and anonymity are bedrock tenets in this research design.

In Chapter 3, I have described the methodology used to collect the data.

In Chapter 4 the task is to analyse and make sense of the data that emerged.
Chapter 4: Analysis

4.1 Introduction

It is a tradition in scientific research to separate the findings from a discussion of their significance. Hence, Chapter 4 will present the findings (data analysis) and Chapter 5 will discuss the implications and conclusions gleaned from the data analysis.

As background, it is useful to look at the similarities and differences between qualitative and quantitative data analysis. Neuman (2006, p. 458) points out that both types anchor statements about the social world in an enquiry that has adequacy (that is, the enquiry is faithful to the data). Neuman (1994, p. 230) quotes Mors: ‘In qualitative research, adequacy refers to the amount of data collected, rather than to the number of subjects as in quantitative research. Adequacy is attained when sufficient data has been collected that saturation occurs.’

Neuman says that comparison is a central process to all data analysis, qualitative and quantitative. All social researchers compare the evidence they have gathered internally or with related evidence. Neuman quotes Ragin (1994, p. 107):

[Qualitative] researchers examine patterns of similarities and differences across cases and try to come to terms with their diversity…Quantitative researchers also examine differences among cases but with a different emphasis; the goal is to explain the covariation of one variable with another, usually across many cases…The quantitative researcher typically has only broad familiarity with the cases.

Finally, as Neuman says, both qualitative and quantitative researchers strive to avoid false conclusions and misleading inferences. They are also alert for possible fallacies or illusions. They sort through various explanations, discussions and descriptions. And evaluate merits of rivals, seeking the more authentic valid, true, or worthy among them.
Neuman (2006, p. 458) says that quantitative researchers choose from a specialised, standardised set of data analysis techniques. Hypothesis testing and statistical methods are similar across different social research projects or across the natural and social research sciences.

Quantitative analysis is highly developed and builds on applied mathematics. By contrast, Neuman says, qualitative data analysis is less standardised. The wide variety in qualitative research is matched by the many approaches to data analysis.

Qualitative research is often inductive. Researchers rarely know the specifics of data analysis when they begin a project. Neuman quotes Schatzman and Strauss (1973, p. 108):

Qualitative analysts do not often enjoy the operational advantages of their quantitative cousins in being able to predict their own analytic processes; consequently, they cannot refine and order their raw data by operations built initially into the design of research.

A second difference, says Neuman, is that quantitative researchers do not begin data analysis until they have collected all of the data and condensed them into numbers. They then manipulate the numbers in order to see patterns or relationships. Qualitative researchers look for patterns or relationships early in a research project, while they are still collecting data. The results of early data analysis guide subsequent data collection.

Another difference, according to Neuman, is the relation to social theory. Quantitative researchers manipulate numbers that represent empirical ‘facts’ in order to test an abstract hypothesis with variable constructs. By contrast, qualitative researchers create new concepts and theory by blending together empirical evidence and abstract concepts. Instead of testing a hypothesis, a qualitative analyst may illustrate or colour in evidence showing that a theory, generalisation or interpretation is plausible.

The final difference, says Neuman, is the degree of abstraction or distance from the details of social life. In all data analysis, a researcher places raw data into categories
that he or she manipulates in order to identify patterns. In quantitative analysis, this process is dressed in statistics, hypotheses and variables. Quantitative researchers assume that social life can be measured by using numbers. They manipulate the numbers with statistics to reveal features of social life. Qualitative analysis does not draw on a large, well established body of formal knowledge from mathematics and statistics. The data are relatively imprecise, diffuse, and context-based, and can have more than one meaning. This is not seen as a disadvantage.

Neuman (1984, p. 353) quotes Collins:

Words are not only more fundamental intellectually; one may also say that they are necessarily superior to mathematics in the social structure of the discipline. For words are a mode of expression with greater open-endedness, more capacity for connecting various realms of argument and experience, and more capacity for reaching intellectual audiences.

Neuman says that qualitative researchers (Qual Rs) develop explanations or generalisations that are close to concrete data and contexts. Qual Rs use a lower level, less abstract theory, which is grounded in concrete detail. Qual Rs build new theory to create a realistic picture of social life and stimulate understanding more than to test causal hypotheses. Explanations tend to be rich in detail, sensitive to context, and capable of showing the complex processes of social life.

4.2 Subjects

For ethical reasons, the confidentiality, anonymity and privacy of the participants and their companies remain paramount. The subjects agreed to participate only on this basis. The decision to examine only four cases was intentional and ‘purposive’, with no claim for statistical representation (Patton 1992). This was partly due to time constraints. Each of the four interviews lasted about 1.5 hours and generated about 64,000 words which took about 3 months to transcribe, annotate and code into themes ready for analysis. In addition to the interviews, the writer referred to a considerable volume of archival material generously offered by the participants.
The decision to examine only four cases was also partly due to ‘saturation of the data’ (Morse 1994). It became apparent after coding the first three interviews that there was considerable overlap in the data. The fourth case presented no significant new data; hence data saturation was deemed to have occurred.

The companies can be identified by quotes from the archival material, material that is on the public record. Permission has been granted to publish this material. Anything of a private or personal nature has been camouflaged to protect the participants.

4.3 Patterns of data for each research issue

According to Neuman (2006, p. 460) a qualitative researcher organises the raw data into conceptual categories, and creates themes or concepts. These themes and a key to assist understanding are included in Appendix D. Neuman says that qualitative coding is an integral part of data analysis, not just a clerical data management task. The coding is guided by the research question and leads to new questions. According to Miles and Huberman (1994, p. 58), a more inductive researcher may not want to precode any datum until he or she has collected it, seen how it functions or nests in its context, and determined how many varieties of it there are. This, say Miles and Huberman, is essentially the ‘grounded’ approach originally advocated by Glaser and Strauss (1967).

Strauss (1987) defines three kinds of qualitative coding, summarised by Neuman:

Open coding: A first coding of qualitative data in which a researcher examines the data to condense them into preliminary analytic categories or codes.
Axial coding: A second stage of coding of qualitative data in which a researcher organises the codes, links them, and discovers key analytic categories.
Selective coding: A last stage in coding qualitative data in which a researcher examines previous codes to identify and select data that will support the conceptual coding categories that were developed (Neuman 2006, p. 461)
It should be noted that open, axial and selective coding are tools widely used by many types of qualitative analysts, and that these tools are not the exclusive property of grounded theory (GT) analysis.

The next step is to look at the research issues, one by one, and see how the data (both interview coded and archival) addresses the gaps between the extant literature and the research issues.

**Research Issue # 1**

*To explore whether the ability of the controlling owner to pass on the baton, to invest real authority (both ownership and management) in his/her successor, is a key factor in influencing positive succession in Australian family firms.*

**Data response**

One company is controlled by two family groups; each family group has a 50% shareholding by shareholder agreement attached to the current company constitution. One could argue that ownership authority (in this case) is effectively enshrined in the constitution and has been a key factor in ensuring the longevity of this family business. This will be explored in Chapter 5. The board elects the CEO of the operating company and the Chairman of the controlling family board. Real authority is vested in the board, which subsequently makes executive appointments. In fact, all four companies are controlled by boards which then make executive appointments by a show of hands and a 50% majority.

The following code is extracted from Appendix D: 4IRA=invest real authority (from the outgoing to the incoming) L

By using the key in Appendix D, it is easy to see that all four family firms have invested real authority in the next or current generation.

The precursor to investing real authority is to implement a succession plan.

A further extract from Appendix D: 4SPI=succession plan implemented (or making good progress) L
Again, the evidence says that all four companies have satisfied the longevity prerequisite indicated in the literature, but not previously explored in the Australian context.

In one case, there are only two majority shareholders; if they disagree, they will talk through the issue until they reach agreement. Based on feedback from one of the next generation, the failure to have authority vested in one clear leader in the current generation has ‘created confusion and poor business practices.’ He/she says that ‘adaptation, luck, hard work and a strong sense of fairness have been the key in our continuity.’

This raises the question of whether ‘one clear leader’ is essential to effective leadership. It also raises the question of whether ‘adaptation, hard work and a strong sense of fairness’ are important aspects of effective leadership. Finally, it raises the question of the nature of ‘luck’. These questions will be pursued in Chapter 5.

**Research Issue #2**

To examine the ability of long-lasting family firms to successfully adapt, innovate and seize opportunities. Does this apply in the Australian context?

**Data response**

The following is included with the permission of the board of Thomas Pidcock and Sons, the owners of Big River Timbers. It provides a comprehensive and detailed response to Research Issue #2. This archival report will be discussed in more detail in Chapter Five.

1. **Nymboida mill**

   **Problem:** The need for a cheap source of power for an automated sawmill

   **Innovative solution:** Establishment in 1928 of the first hydroelectric powered sawmill on the Australian mainland. The decision to invest in this modern equipment was made by the 3rd generation of owners, and required the movement of the business and
the families from Casino to Nymboida (a remote bush town 25 miles from Grafton) and to Grafton.

2. Flood-proof hardware store in Prince Street, Grafton

**Problem:** The Clarence River, which is the largest river on the east coast of Australia, regularly flooded into the town of Grafton, damaging property and stock, particularly in the shops located on the main street, Prince Street.

**Innovative solution:** The company employed the services of a Sydney architect to develop a system to floodproof the shop by making the shell of the building resemble a dry dock, reinforcing the floor and walls to a height of eight and a half feet with water proof concrete. Wooden watertight bulkheads were dropped across the front and rear of the building, keeping the store dry. This meant that all stock could be left on the shop floor, damage was nil, lost trading days were restricted to the time when the floodwaters were in the town (not extended for weeks later as businesses mopped up and sold damaged stock at greatly discounted prices), and staff were not required at the business to help pack and lift stock above flood levels. They were thus free to attend to other businesses and to help other people secure their homes (if in flood level). This innovation caused an absolute sensation in the town the first time it was (successfully) put to the test.

3. Development of Big River Timbers ‘Formply’

**Problem:** Withdrawal of government contracts giving access to harvest rainforest softwood timbers

**Innovative solution:** Development of plywood using regrowth eucalyptus hardwoods. Late in 1982, the NSW government put a ban on rainforest timbers which were the source of raw materials for the veneer mill. The company still had 20 years left on a 30-year logging agreement with the NSW Government. The alternative offer, to log selected eucalypt hardwoods, was a non-commercial solution. The company, led by the MD, Kerry Pidcock, looked for alternative business solutions. The decision was made to produce plywood using eucalyptus timbers instead of the now protected brushwood. Many businesses withdrew from the timber industry at this time. BRT went close. However, through trial, error, experimentation, determination and commitment to the company, (no dividends paid to shareholders), the business
survived. Hardwood logs were steamed under tarpaulins in the log yards (making them softer and reducing damage the rotary peeler blades). Then additions were made to the driers, to achieve correct moisture content for the veneer. Because of the molecular composition of the hardwoods, glues used successfully with rainforest timbers to create structural ply with A Bond rating, were unsatisfactory. The company formed a strategic alliance with CSIRO and provided research funds so that a glue could be developed which would be effective on the coarse hardwood veneer. This took several years. The result was Big River Timbers Plywood. The first sheet of Formply was made in 1983. It is now a world class product, with the highest structural rating from the Plywood Association of Australia, used for major infrastructure projects in Australia and the world, demanded for its quality, stability and durability. It is the raw material for Big River Timbers Flooring, a fully manufactured Australian hardwood floor. And as in previous generations, improvisation and innovation were the hallmarks of the company's response to a challenging external environment.

4. Big River Timbers manufactured flooring

**Problem:** Market restrictions and variations in quality with manufactured flooring finished on site

**Innovative solution:** Establishment of factory-finished flooring line. BRT had produced raw manufactured timber flooring since 1988. Initially, the whole plywood sheets were used, then ‘finished’ (by application of up to 4 coats of lacquer) on site. The market was primarily sports stadiums. Production then moved on to cutting the sheets into boards, machining a groove along the sides of the boards and inserting a plastic tongue for installation on site. Because of the rotary peeling of the timber, (which ‘opens it up’, makes it thirsty for lacquer and gives a somewhat uneven finish), and the shortage of high quality face veneers, a solution to was needed to ensure consistent quality and to remove the need to finish the product on site (which limited its commercial application, especially in big residential projects). The factory-finished line came into production in 2006. Demand is already outstripping capacity to supply. Finished boards are vacuum packed into plastic, are both side- and end-matched with timber tongue and grooves, and can be ‘clipped’ into place on site, including onto concrete floors (floating floors), opening up the market for commercial projects. The factory finishing has the added advantage of being able to ‘upgrade’ a
wider range of timbers to ‘face quality’ veneer, with clear increases in productivity. The company has been advised by one of the technical consultants from Germany, employed during the development and commissioning of this flooring line, that BRT manufactured timber flooring is the best product in the world, because of the innovative application of technology to Australian regrowth hardwood eucalypt timber."

5. Construction of co-generation plant

Problem(s): Significant increases in energy consumption and associated costs, excess waste (as by-product of production) which has to be transported off-site, with associated costs and traffic disruption on-site, environmental issues associated with contamination caused by large wood residue storage dump on-site.

Innovative solution: The construction of a Co-generation plant at the Big River Timbers factory. Co-generation is a process that optimises the use of high pressure steam, already being produced for another process. Energy efficiency is gained through using the same steam for two different processes. The process has no net increased impact on the environment. Thus, steam generated from the boiler, which burns waste by-products, is used to generate power and solve the problems detailed above. The plant significantly reduces the environmental problems by using the waste as it is produced, reducing resultant impacts on water flows and also reducing visual environmental impact. Despite the financially marginal nature of the project, the board supported the recommendation of management presented through a capital expenditure proposal, to proceed, on environmental, social and political grounds. The plant has now been installed and fully commissioned by the company’s engineers.

Another company emphasised the importance of up-to-date equipment to the success of their business: ‘It was state of the art then, but it’s not now … that’s another subject for the Board of Directors to discuss…the upgrading of the electronic system on the scenic railway to bring it into a Sizig system to be in line with everything else.’

This could be seen as innovation, or the continuous improvement of technology. Innovation and/or entrepreneurship is evidenced in the next quote which reveals the
origins of this same company (note that in this and subsequent excerpts from interviews, _I_ is the interviewee and _R_ is the researcher):

I: It was a disused coal mine and Harry was running a transport company and they would come down and get the slack, like they were still mining a little bit in the early '40s ...

R: Right.

I: ... and he would come down and take the coal up to the Carrington which was a hotel/power station at that stage and some Americans... the story goes... American sailors rocked up one day during the week when he was down loading the truck with coal and said is that steep train thing going today oh no it’s not open on weekdays and we’ve come all the way from Sydney to go on it. Oh have you then oh okay. So he finds out ...

R: eyes light up ...

I: ... eyes light up yeah sick of driving trucks for a living... find some people who own it... at that stage it’s nothing but a disused coalmine to them. They were happy to get rid of it really.

Another company began with similar innovation and entrepreneurship:

I: Well it was interesting because my grandfather and his older brothers and three of their cousins ...all bought a hundred acres each up here; there’s eight of them.

R: Right.

I: And part of their approval was you had to build a structure on each property.

R: Yeah.

I: So they built them over the boundaries; they built one house but it was located over two boundaries.

R: Oh okay.
I: So they only needed to build half the number of houses but they still ah passed the ... ah the approval.
R: Yeah, yeah.
I: Because they generally all lived in the main big house and they had these other spare houses.
R: Right.
I: And when the rest of the land was, originally it was going to be for sale ...
R: Yeah.
I: was then ... um pulled by the Government and made a National Park. And people said oh let’s go up and see it and they sort of just turned up and said oh can we stay and they said yeah we’ve got this, these old houses here. So people wanted to stay in these old houses so ...
R: Amazing.
I: over a period of time, it ended up ah ... ah that people kept coming and staying with them ...
R: Right.
I: and in the end they decided well this is a, a damn sight easier than milking cows!

A fourth company also exhibited a great ability to adapt and innovate. Here are some key quotes from 100 Not Out (McFarlane 2002):

Fortuitously, the SS Coniston on which he (George Frederick Earp: founder born 1858) was a passenger, was delayed for a few days at Albany in Western Australia…By the time he left Albany he had decided to accept an offer from W.J. Gillam to be the shipping agent in Newcastle for King George’s Sound Coal Co…On arrival in Newcastle on 4th October 1883, Earp quickly noted the town was an active port and presented good business opportunities.

Without pre-empting Chapter 5, one could make the following passing remark: good business opportunities are invariably present; but who has the ability to pick the good/excellent opportunities from the others, and who has the vision and courage to seize those opportunities, and adapt to new opportunities as they arise?

Here is another quote from McFarlane (2002):
By 1885, George Earp recognised that there was limited scope in the shipping agency business and that he could do better by establishing himself as a merchant, with emphasis on importing. He was alert to a demand for imported products, especially those marked 'Made in England'. (Emphasis added)

In referring to Appendix D (the coded data) we observe: 4ASC=adaptable structure and culture L

Supported by the archival data, this essentially answers research issue #2. All of the family firms exhibited an 'adaptable structure and culture'.

Research Issue # 3

Evaluate the role of parents in encouraging teamwork and conflict resolution rather than unhealthy competition in their offspring, in relation to its impact on positive succession outcomes in the Australian context.

Data response

I: The family has a strong sense of being members of a 'clan'. The current shareholders grew up together in Grafton, lived very close to each other in homes built by their fathers, went to school together and took part in regular family parties and get-togethers.

It does not look as though the parents were 'playing one off against another'.

I: The practice of holding family meetings to discuss and sort out issues of contention and to celebrate success has been a long-standing tradition. As would be expected, these meetings have often aroused passionate differences of opinion, openly expressed. However, our family has a deep understanding of, and commitment to, the principle that a way through will be negotiated, with reference to the company constitution and written shareholders’ agreements and that once agreement has been reached, the focus will be on the future, not the past. [Emphasis added in bold]
It would certainly appear that goodwill predominates, as opposed to destructive competition. This theme will be developed in relation to the *Family Wars* literature in Chapter 5.

‘…and we are committed to act in a spirit of goodwill’ TL Pidcock MD, Chairman (standard final statement of letters of contract and agreement)

This seems to encapsulate the family and company approach of this family business.

Other companies showed similar characteristics and attitudes:

*I: She and I have been madly emailing each other today with the release of the latest inflation figures’. [Older brother referring to a younger sister]*

Once again, sounds like teamwork or healthy cooperation.

*I: She’s turning into a money nerd like me. So, yeah, it’s quite good. [This refers to the fact that they now have more in common: same brother and sister as above].

*I: First class honours...you don’t get much better than that. (The interviewee is now referring to another sister, with obvious pride in her achievements.)*

*I: You’d go a long way to get yourself ostracised from a pretty nice family*

Once again, this seems to be an endorsement for teamwork and cooperation, as opposed to destructive conflict.

A third company had the following approach to teamwork: ‘We took responsibility for different areas of guest house management and had the autonomy to make decisions in our areas and we didn’t compete with each other’ (O’Reilly 2008, p. 128).

The fourth company shared a family motto: ‘United we stand, divided we fall’.
It may be a cliché, but it is also a strong indicator of a company with a high LQ (longevity quotient: a term normally used in relation to individuals, not companies)

Finally to the interview themes (Appendix D): 4TVC=teamwork versus competition (includes sibling/ cousin rivalry) L

All four family firms displayed a high incidence of teamwork as opposed to destructively competitive behaviour.

Research Issue # 4

Evaluate the presence or absence of the Maria Principle on positive succession outcomes. The Maria Principle (TMP) says that the children should inherit equal shares, regardless of whether they work in the family firm or not.

Data response

TMP: The Maria Principle
LQ: Longevity Quotient

In the case of one company, the shareholder agreement ensures that the two family shareholding groups both have 50% of the voting shares. There is no example of a family member who works in the business, or who acts as a board member, gaining an ownership advantage over non-working family members, through their labour contributions to the business. Differences in ownership percentages at the individual level have only arisen where the company has raised equity through a share issue. If some choose not to take up the share issue, differences will result. The point here is that everyone is given the opportunity equally, so TMP, by the standards of this research, has been observed. We can only speculate on the impact of TMP on the LQ of the business, but we must note its existence and its prevalence amongst the other firms.
In another firm, the family constitution states that all family members will have an equal share of the family trust that controls the business. Again, TMP enshrined in the constitution. This raises the question: why bother to formalise equality, if it is not important to the longevity of the business?

The following is a paraphrased extract from my interview with the last company referred to:

R: How will you feel if you and your sister work in the business for another 20 years, hypothetically adding great value to the business, and your non-working siblings retain the same shareholding, and hence get an equal dividend from the company?
I: I have absolutely no problem with this whatsoever. My sister and I get paid market rates for the job we do. If the company does well, we can pay ourselves bonuses. Ownership and management are two separate issues. Mum and Dad intended the five of us to be equal shareholders; that’s the way it is. If I don’t like it, I can leave.

There is no doubt that TMP is strongly endorsed, and is a guiding family value and principle.

In the fourth case, one of the owners has four children, and one has no children. The owner plans to leave his share of the business equally to his four nephews, regardless of whether they work in the business or not. Once again, TMP prevails.

An earlier participant remarked: whether a family member works in the family business or not is irrelevant to ownership.

Not surprisingly, all four companies endorsed TMP and the separation of ownership and management in the code categories. Here is an extract from the results in Appendix D: 4TMP=The Maria Principle (all children are equal shareholders, regardless of whether they work in the business or not; the working shareholders often get an advantage through performance bonuses and perks; this motivates the working shareholders and keeps the family united) L 4SOM=separation of ownership and management (critical) L 4C1: SRE=separate remuneration and equity (don’t muddy the waters; ownership is ownership; a job is a job)
Research Issue # 5

Equity versus equality: This is essentially a business-first versus family-first argument. This research explores whether either approach, or a combination, has any influence on positive succession outcomes.

Data response

There was a general consensus amongst the four cases that a hybrid approach works best. The hybrid is a logical extension of TMP.

Based on my own thirty years experience in family business, successful business people are pragmatic; they do what works. TMP is a good example of pragmatism; these firms want equality in ownership not because of lofty idealism; they know from experience or observation that inequality causes dissent, which leads to breakdowns in communication and cooperation, both of which are essential to the smooth operation of any business, family or non-family. The assumption here is that when we talk about family in family business, we are only talking about family members who are shareholders in the family business. The pattern that emerged from the data is that respect for family members flowed through to respect for the business. If family members are respected, then there is a greater chance that family members will want to contribute to the business. The greater the contribution, the greater the LQ, or chances of ongoing survival.

Codes which supported these assertions are as follows: 3FCO=family council operating L

Three out of four companies had family councils formally operating. The fourth company had informal family meetings; essentially the role was covered without the formality. The general consensus on the role of the family council is that it helps to bridge the gap between the business and the family.

4BVF=business versus family (replace with business first mentality for the benefit of the family: refer Ward) L
In Lesson 15, (Ward 2004, p. 74) summarises the synthesis of family and business priorities as follows:

The most successful family firms synthesise the concepts of family and business and proceed on the notion that what is good for the business also serves the best interests of the family. What happens when family and business priorities are in conflict? Ward says that in a deadlock, long-lasting family firms would turn to a non-family CEO or to the non-family directors on the board to break the tie. This puts the decision into the hands of people who have an orientation toward the best interests and welfare of the business. Ward argues that, ultimately, business-biased decisions best serve the long term interests of the family.

4TMP=the Maria Principle (all children remain equal shareholders, regardless of whether they work in the business or not; the working shareholders get an advantage through performance bonuses and perks; motivates the working shareholders and keeps the family united) L

Research Issue # 6

Gordon and Nicholson (2008, p. 238) list the 20 classic warnings that should set alarm bells ringing in any family business. Most of them indicate that an issue has the capacity to arouse strong and potentially negative emotion. They may be visible in structures or processes, but what marks them out is their capacity to arouse conflict. The purpose here is to scan the data in search of evidence that confirms or refutes the accuracy of these alarm bells. The data response appears in red at the end of each section, to make it easier to see the correlations.

1. Behaviour change: any sudden and inexplicable change in the behaviour of a family member. This is likely to indicate some change of heart and mind, and you need to know whether it concerns the family or the business.
   There is no evidence of this kind of behaviour in any of the four cases.
2. **Perceived unfairness**: complaints about fairness, from whatever quarter. Remember, if something is perceived as real it is real in its consequences. (Not supported by the data.)

3. **Errors**: frequent errors from any party, however minor. They signify distraction, role overload or some other source of stress. (Not supported by the data.)

4. **Communication gaps**: failures to connect frequently between people who have a shared responsibility, task or ownership interest. Not supported by the data. (Not supported by the data.)

5. **Procrastination**: taking a lengthy time to reach any decisions; putting off making choices that are important. (Not supported by the data.)

6. **Process disagreement**: failure to agree by whom and how decisions are to be taken in both the family and business context. (Not supported by the data.)

7. **No consensus**: inability of the group to reach a consensus even over relatively minor decisions. (Not supported by the data.)

8. **Unclear goals**: an absence of clarity of vision on the part of the owners about the goals and direction that they want the family firm to pursue. (Not supported by the data.)

9. **Disconnection**: family members starting to drift away from the business, finding themselves lacking emotional and financial attachment. (Not supported by the data.)

10. **Privilege**: perceptions that family members are in privileged positions, receiving unfair advantage by virtue of their status. (Not supported by the data.)

11. **Hanging on**: the senior generation overstaying their normal tenure/agreed retirement age and blocking new leaders from exercising effective authority. (Not supported by the data.)

12. **Nepotism**: hiring policies that are unfairly biased in favour of family members, leading to a mismatch of skills in the firm and demotivation of non-family employees. (Not supported by the data.)

13. **Role ambiguity**: family managers unclear regarding their roles and responsibilities. (Not supported by the data.)

14. **Ivory tower**: an absence of independent voices and individuals on the board, or a lack of any open discussion that holds the management and owners to account. (Not supported by the data.)
15. **Inequity**: individuals or groups taking disproportionate benefits in relation to their contribution. (Not supported by the data.)

16. **Lack of planning**: especially around generational transitions, a reluctance or inability on the part of family and board to agree to succession plans. (Not supported by the data.)

17. **Absence of open dialogue**: meetings where everyone is in agreement and no fundamental issues of purpose and feeling are ever discussed. (Not supported by the data.)

18. **Executive instability**: finding non-family managers, particularly those in key roles, hard to attract and harder to retain. (Not supported by the data.)

19. **Bad gossip**: prevalence of alarmist rumours. Bad gossip suggests a problem culture. (Not supported by the data.)

20. **Factionalism**: formation of subgroups, especially around family members, where there is little interaction or open exchange among them. (Not supported by the data.)

The fact that *none* of the 20 alarm bells are present in the four firms under review is a very strong indicator of business and family success/harmony. This suggests all four firms have a very high LQ (longevity quotient).

**Research Issue # 7**

The task is to examine whether an absence of negative psychological qualities in the family helps deliver positive succession outcomes. These dysfunctional qualities include reactive narcissism, sibling rivalry, scapegoating, nepotism and greed.

**Data Response**

The presence of these dysfunctional qualities was not supported by the data. The converse of these qualities, positive psychological qualities, have effectively been covered in the data responses under Research Issues 3, 4, 5 and 6. The absence of these dysfunctional qualities may well be a strong indicator of a high LQ.
Research Issue # 8

Does the application of the principles of corporate governance have an impact on positive succession outcomes in long-lasting Australian family firms?

Data Response

It is useful to be reminded of the 8 principles of corporate governance:

Principle 1: Lay solid foundations for management and oversight
Principle 2: Structure the board to add value
Principle 3: Promote ethical and responsible decision-making
Principle 4: Safeguard integrity in financial reporting
Principle 5: Make timely and balanced disclosure
Principle 6: Respect the rights of shareholders
Principle 7: Recognise and manage risk
Principle 8: Remunerate fairly and responsibly

Based on the interviews, all four companies are observing all of the eight principles, with the exception of some aspects of Principle 2. Consequently, it is worthwhile to have a closer look at Principle 2. Comments are added in red at the end of each subsection, to make it easier to correlate to the data.

According to Principle 2 _Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties_. This applies to all four companies.

**Recommendation 2.1:** A majority of the board should be independent directors. This does not apply to any of the companies. Two of the companies have independent directors, but they do not comprise a majority. A third company is in the process of considering independent directors. The fourth company indicated no interest in independent directors.
**Recommendation 2.2:** The chair should be an independent director. This does *not* apply to either of the companies with independent directors. It probably indicates that the family has elected to engage independent directors mainly to offer fresh, ‘independent’ advice, untrammelled by family politics and its limitations. It may also indicate that the family views the Chairman’s role as a position of key influence, which it wants to use to maintain the family’s ‘grip’ on the business.

**Recommendation 2.3:** The roles of chair and chief executive officer should not be exercised by the same individual. These roles are separate in two out of four firms.

**Recommendation 2.4:** The board should establish a nomination committee. This applies to all.

**Recommendation 2.5:** Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. This applies to all.

**Recommendation 2.6:** Companies should provide the information indicated in the Guide to reporting on Principle 2. ‘This applies to all. (ASX Corporate Governance Council 2007)

For the sake of accuracy, coding references are now added in support of the assertion that all four companies have adopted all of the eight principles, except Principle 2 as discussed above. Please refer to Appendix D for a list of all codes.

3C1: SBS=strong business stewardship (responsibility; corporate governance)
3C1: PCG=principles of corporate governance
3C2: SBS=strong business stewardship (responsibility; corporate governance) L
4C3: PTB=professionalising the business L
2C3: PBS= *preservation by structure* (the board makes the decisions/majority rules)
   (so individuals can’t sell their shares unless the board agrees; so if the board disagrees, the capital stays within the business) good for transitional periods, but not for ongoing relations) L
C3: ID=independent directors
C3: CGH=corporate governance high priority
Research Issue # 9

To explore if the 50 lessons (Ward 2004) apply to Australian family firms.

Data Response

Ward’s 50 lessons are so comprehensive, that a detailed response is not possible in a thesis of this length. In summary, most of the companies were in broad agreement with the vast majority of Ward’s 50 lessons. Here is some specific evidence from the data to support this claim. The corresponding lesson number and heading is recorded immediately before the code references:

Lesson 1: Social entrepreneurs
All four firms have solid examples of a leader or leaders who have taken each company through several waves of strategic renewal.

Lesson 2: Irrevocable retirement
Three out of the four companies have a retirement age as a guideline; but it is not irrevocable. The revocability has the advantage that the leader can carry on in the event that a successor has not been identified. All the leaders speak humbly about their ‘use-by date’ and claim they would only carry on in an extreme situation.

Lesson 3: Voluntary accountability
This lesson is mainly concerned with independent boards, which is covered under Research Issue # 8 (corporate governance) above.

Lesson 4: Principle of merit
This principle is very strong in all four family firms. All the participants are very conscious of ‘earning the privilege’.

Lesson 5: Attract the most competent family members
All four companies have competent family members inside and outside the business. It seems pointless to debate whether the _most_ competent are in the business. The advantage of having some outside the business is that if circumstances change, there is a pool of family talent to draw from.

**Lesson 6: Many non-family executives**
Ward (2004, p. 54) says that a family firm not only needs competent family members in the business but also _a cadre of strong, non-family managers who can bring fresh thinking, challenge, and a diversity of style and perspective to the organisation._ He contends that smart business families creating opportunities and space for talented outsiders. All four firms in this research have adopted a policy of recruiting talented outsiders to key management positions.

**Lesson 7: Opportunities for wealth**
To attract and retain talented non-family executives, a successful firm must provide good career paths and also adequate compensation. All four firms have successfully retained senior non-family executives with attractive salary packages.

**Lesson 8: Family first environment**
Ward (2004, p. 57) maintains that successful family firms understand that the family is more important than the business. Based on the interview responses, this applies to all four family firms.

**Lesson 9: Family business student**
Ward (2004, p. 58) says that in many of the most successful family firms, the leaders and other family members go to great lengths to be students of family business. Three of the four firms are actively involved in Family Business Australia, which provides an excellent forum for continuous learning in the family business sphere. The CEO of the fourth company has attended lectures by John L. Ward, the author of the fifty lessons under current discussion.
Lesson 10: Understated wealth
Ward (2004, p. 59) says that family firms have two choices as to how they live with their ascending wealth: they can live lavishly and ostentatiously, or they can be understated. The data responses from all four firms indicate a strong preference for a modest and disciplined family business culture.

Lesson 11: Wealth is neutral
If your parents do not tell you that the family is wealthy, you will know that your parents do not trust you. By hiding their wealth, the senior generation creates distrust, diminished self-esteem and all sorts of psychological contamination in the next generation. There was no evidence in the data to suggest that wealth is hidden from the next generation. Success is aligned with good decisions and good follow through, and wealth is regarded in a neutral manner.

Lesson 12: Graceful pruning
According to Ward, smart families engage in what he calls 'graceful pruning'. They not only make it easy for family members to sell, but they are gracious about it. The sellers understand there is no pressure to sell and they will not be ostracised by the family for doing so. They are not made to feel guilty about selling. Generally, the data supports Ward's notion of 'graceful pruning' with some subtle company-to-company variations. Only one company has buy-sell agreements in place, but there is insufficient 'activity' to evaluate whether the pruning is graceful or otherwise. Another company has the attitude that the company is worth so much that none of the siblings could afford to buy another sibling out. The third company is in the process of reverting the corporate structure from a trust to individual shareholdings with buy-sell agreements. It would be premature to evaluate the outcome of this transition. The fourth company is in the process of the two sons active in the business buying out their father and uncle. This is an excellent example of graceful pruning. Willing sellers have successfully negotiated with willing buyers.

Lesson 13: Leverage strengths of being private
Ward is quick to establish that successful, long-lasting family firms are very good at exploiting their unique advantages as private family firms. One advantage is long-
term orientation. Family firms do not have to gear their management practices to meet the quarterly expectations of shareholders and stock market analysts. They can make decisions today that may not pay off for many years. All four firms take a long term approach. They are all active in ploughing profits back into the business to support infrastructure and new developments, rather than raking off large bonuses to support lavish lifestyles.

Lesson 14: Invest in social capital

Ward (2004, p. 72) defines this as investing in the larger community, whether it is local, regional or national. Ward has found that long-lasting firms tend to be open about their community contributions.

The following archival data from a submission to FBA is included with permission of the board of Thomas Pidcock & Sons (TPS):

Section 4 – Good Corporate Citizenship

Details of Community or industry involvement & philanthropic or charitable activities

Members of our family business throughout history have always served in an honorary capacity on the executive of relevant industry associations. Thomas Louis Pidcock and Charlie Pidcock (3rd generation) served on the executive of The Plywood Association of Australia and the NSW Forest Products Association. More recently, Kerry Pidcock (4th generation) served as President of the Plywood Association of Australia, President of NSW Forest Products Association and as member and chairman of the (NSW Government appointed) Northern Rivers Regional Development Board.

The company has provided funds for various scholarships and prizes. In 1954–58, the family supported a student Len Smith, at Woodlawn College, in Lismore, and also provided funds for capital appeal for this college in 1990’s. The company was a regular supporter of Cowper Orphanage, run by the Sisters of Mercy, and our families always hosted children from the orphanage who lived with us during the school holidays. More recently funds have been
provided, both at undergraduate and post graduate level, for students studying forestry at Australian National University in Canberra and Southern Cross University in Lismore. Specifically, the company provided a 3 year scholarship for a PhD at SCU to study _Economic Breeding Objectives of Hardwoods_, which was part of ongoing support provided by the company to Grafton Agricultural Research and Advisory Station. The board has not developed a policy in relation to corporate philanthropy, but BRT is a supporter of various local sporting and cultural events, and of the Yamba Surf Lifesaving Club. The company also responded to the Tsunami Appeal with a cash donation. The **Beaufort Group** of shareholders has committed to an investment of capital with the Sydney Conservatorium of Music. Interest earned from this investment provides for an annual violin scholarship, named after the Beaufort Group members’ parents _The Jean (Giles) and Thomas Louis Pidcock Violin Scholarship which is clearly linked to our family heritage. The Kamlysa Family Trust (associated with Mary Lynne Pidcock) is a patron of the Bush Heritage Fund [www.bushheritage.org.au](http://www.bushheritage.org.au) a not-for-profit organization committed to the protection of the natural bush of Australia. Other shareholders engage in a wide range of community and philanthropic works, at their own discretion. The **Marian Group** has contributed to memorials named for their parents, Charlie and Rene, with the Catholic Church. Kerry Pidcock and his wife Trish Pidcock, together with another family, support an Aboriginal secondary student through _Yalari_, which is committed to the empowerment, motivation and support of indigenous communities throughout Australia through the creation of a national network of educational communities. [www.yalari.org.au](http://www.yalari.org.au). Other organizations supported by members of the family include, Surf Life Saving Australia, The Smith Family, The Salvation Army, Rural Fire Service Association, Youth Off The Streets, Sydney Symphony Orchestra, Brandenburg Orchestra, and UTS Alumni Foundation.

In summary, all four firms are active and generous in community support.

**Lesson 15: „Business bias”**
Ward (2004, p. 74) maintains that most successful family firms synthesise the concepts of family and business and proceed on the notion that what is good for the business also serves the best interests of the family. Based on the overall ‘results’ of this research, my only qualifier would be: provided that The Maria Principle is not violated. The danger here is that the working shareholders (usually the CEO, and usually the eldest son) abuse their position of power within the business to foster their own self-interest in the guise of ‘the best interests of the business‘. All four firms have followed the principle of ‘business bias‘ without sacrificing The Maria Principle.

**Lesson 16: Selective family employment**
Ward (2004, p. 77) cites the example of the Ayala Corporation in the Philippines. Ayala is partly publicly owned, and only three family members are involved in managing it. Jaime Zobel, CEO and family member explains: ‘We are always tightening the rules for a family member’s right to be involved. What are the professional skills needed? Does the family member have a proven track record?’ All four firms insist on recruiting only family members with proven track records outside the business.

**Lesson 17: Open disclosure/ transparency**
Ward (2004, p. 77) says that the secrecy with which an owner-manager runs a business in Stage I becomes counterproductive and dangerous in a Stage II business owned and operated by brothers and sisters. It can foster mistrust among the partners and their spouses and can sow the seeds for enmity between different branches of the family that can last into the third generation and beyond. Ward says that to build trust, members of long-lasting family firms practise the difficult art of full and open disclosure with one another. All four firms are in favour of full and open disclosure with one another.

**Lesson 18: Aggressive gifting**
This lesson is not applicable to Australian family firms, because we do not pay death taxes in Australia.
Lesson 19: Next generation: early education

Ward (2004, p. 83) points out that in long-lasting family firms, some family members don’t even live in the community where the business is located. In successful firms, parents devise ways of children understanding and valuing their heritage. This applies to three out of the four firms. In these three cases, regular family council meetings are often accompanied by family gatherings where young family members are introduced, formally or informally, to the family business culture. In contrast to the American literature, this tends to be more informal in Australia.

Lesson 20: Family code

Ward (2004, p. 84) says that if the family has not developed a family code in Stage I, it is essential to do so in Stage II. In Stage II, family members have to grapple with the issue of how they are going to work together without leaning on parental authority to guide their behaviour. In the context of this research, the data suggests that none of the four firms have a formal ‘family code’. It appears that Australian long-lasting firms are less formal than their American counterparts.

Lesson 21: Communication skills

Ward (2004, p. 86) says that the most successful family firms invest a great amount of time and effort into learning communication skills, and they find it ‘very, very powerful to learn these skills together.’ These skills include effective listening, effective presentation of ideas and conflict resolution skills. Again, the data from this research indicates that Australian long-lasting firms have not formalised this process.

Lesson 22: Financial ‘nest eggs’

This is one of the surprising lessons Ward (2004, p. 88) has learnt from successful family firms: these companies make sure that key members of the business and the family have a sense of financial independence and security by early middle age. This applies to all four firms.

Lesson 23: Shared investments

Ward (2004, p. 90) says that sharing investment opportunities is so prevalent among strong sibling teams that ‘it seems almost instinctive’. This lesson echoes some of the
points in Lesson 17: Open disclosure: disclosing investment opportunities to one another demonstrates commitment to the sibling group. Strong sibling teams also know that the more they invest together, the greater the chance of achieving financial parity amongst themselves. This parity then enhances the harmony of the team. The converse is also the case. The greater the financial differences, the greater the potential for disharmony and demise. There is also a trust dimension. If one sibling tells the rest of the team about an excellent investment opportunity she is aware of, she displays a ‘generosity of spirit’. The data indicates that the family members of all four firms have a strong degree of financial parity. There was no indication that this had been achieved through joint investments outside the business.

Lesson 24: Educate in-laws

Ward (2004, p. 91) says that successful family firms ‘thoughtfully and sensitively‘ educate in-laws as they enter the family. This ‘education’ comprises 3 main areas:
1. Understanding the history and traditions of the family and how the family thinks
2. Understanding the nature of the business: what makes the business ‘tick‘, how to read financial statements, what a director does, and how estate plans are handled
3. Involving in-laws in family meetings.

Ward makes the point (2004, p. 92) that ‘in-laws are not just extra family members‘. One participant said that in-laws were encouraged to attend family business meetings because they usually had better ideas about strategic direction. He maintained that in-laws were more detached. In three out of four cases, the attitude towards in-laws was very positive.

Lesson 25: Legacy of values

The idea of passing on a value system is ‘fundamental to the most successful business-owning families’ (Ward 2004, p. 92). These firms recognise that the business is ‘a concrete, tangible, real-world arena where the family’s values are tested and are proven to have worth.’ Values include ‘integrity, persistence, openness, respect for and caring about people, trust with customers and suppliers, and a belief in entrepreneurial spirit.’ All of these attitudes are endorsed by all four firms.
Lesson 26: Successor to mum
Mum, in this context, refers to the role of the person who plays the family leader. Ward (2004, p. 94) says that this very important role usually falls to the mother in the founding generation; in subsequent generations the position is gender-free. The functions that family leaders perform include:
1. Keeping channels of communication open
2. Nurturing people
3. Making sure everyone in the family is treated fairly
4. Making sure traditions and ceremonies are given respect
5. Reinforcing family values
6. Explaining the culture of the family and the business to new in-laws
7. Educating younger family members about the business
8. Providing moral cohesion
9. Serving as a mediator

Based on the interviews, my impression is that in each case, the person that I interviewed was performing the role of ‘mum‘ in the current generation. They are all endorsing and inculcating values 1–9 above.

Lesson 27: Tradition of change; flexible culture
If the role of the sibling generation is to lead a strategic and organisational renewal, it is the responsibility of the cousins in Stage III to reshape the company culture to accommodate continuous adaptation and change (Ward: 2004, p. 104) Ward cites the example of the Y.B.A. Kanoo Group. ‘As history has proved to us‘, says Khalid Kanoo, ‘we cannot expect to remain in the same markets forever because change will take place. If we don’t change to meet the future, the future will change us.’ (Ward 2004, p. 105) This point is covered in Research Issue # 2 above, in relation to innovation and adaptation.

Lesson 28: Spirit of enterprise
In keeping with the previous lesson, long-lasting family firms do not lock themselves into defining their business as the business of origin. Instead, they maintain the entrepreneurial spirit that characterised the founding generation (Ward 2004, p.106)
Ward cites the LEGO Group in Denmark, which began as a carpentry company building homes, but it quickly changed course because of the Great Depression and made its mark as a toymaker. This lesson is also covered under Research Issue (RI) # 2 above.

**Lesson 29: Creative capital**
Successful family firms know that one day they will need more capital than they have had access to through their traditional sources (Ward 2004, p. 109). In 1985, nearly 100 years after it was founded, the Henkel family business in Germany went public in order to meet the needs of the growing business and family. By 2002, the company employed more than 46,000 people in more than 75 countries with annual sales of nearly 10 billion Euros. Going public does not mean you lose control of the business. Family control can be maintained by using different classes of shares.

In all cases, growth has been self-funded, but two of the four companies would at least consider private equity, without going as far as going public.

**Lesson 30: Flexible dividend policies**
Most successful family firms recognise that dividends need to be treated as tied to profits and therefore, flexible. (Ward 2004, p. 110). They also know that family members often expect and rely on dividends, so that a balanced approach is required. To achieve this balance, they stipulate a base dividend will be paid, even when the company has a bad year. Shareholders, in turn, need to appreciate that by paying excessive dividends, the company will be deprived of funds required for expansion. All four firms have endorsed this approach.

**Lesson 31: Infinite time horizon**
Successful families display a very long-term approach to business and investment decisions. (Ward 2004, p. 111). The renowned French company, Hermes SA, was founded in 1837 by Thierry Hermes. The current 5th generation leader sums up the long-term approach: “You are more proud thinking that the fruit of your labours will be harvested by your grandchildren.” An infinite time horizon leads to a very different approach. All four family firms echo this approach.
Lesson 32: Fair, facilitated redemption freedom
Lesson 12 (Graceful pruning) applies to Stage II siblings, whereas Lesson 32 applies more to Stage III cousins. Redemption refers to the ability of family members to sell or redeem their shares (Ward 2004, p. 111). An interesting model for this process is provided by the Cordoníu Group, where transparency and balance are emphasised. While selling outside the Raventos family is forbidden, a family member can sell shares to another branch of the family or to a holding company set up for the purpose of buying shares.

As part of a system of checks and balances to ensure that no one individual or branch becomes too powerful, the family has a rule that no shareholder may own more than 10% of Cordoníu. The aim is to have equilibrium of power among the branches. When a family develops a good redemption policy, people know what to expect and know they will be treated fairly. Two of the firms under research have strict ceilings on share ownership, partly due to historical reasons, but partly in deference to the spirit behind Lesson 32. The third company has five shareholders with equality ‘set in stone’. They also recognise the importance of Lesson 32. The fourth company now has only two shareholders, with the intention of keeping all on a 50:50 basis.

Lesson 33: Impersonal ownership
When a family adopts an attitude of impersonal ownership, people are less interested in redeeming shares because they don't feel like they own them. Impersonal ownership means that even though you and other family members individually own shares in the business, you detach yourself from thinking of the shares as your personal, physical asset (Ward 2004, p. 113). What they own is the privilege of passing on the business to the next generation.

Based on the data, all four companies share an attitude of ‘impersonal ownership’.

Lesson 34: Family meetings
Family meetings feature prominently in the lives of successful family firms. (Ward 2004, p. 114) Family meetings focus on the family, and are different from
management meetings and shareholder meetings, which focus on the business. All four firms have regular family gatherings.

**Lesson 35: Education for responsible ownership**
Successful business families take the rights and responsibilities of ownership very seriously. (Ward 2004, p. 115). Therefore, they put a lot of effort into educating family members about these matters. They may invite a lawyer to talk about directors' duties; an accountant to teach family members to understand financial statements; an independent director on the board to speak about corporate governance. This exploration helps unite family members in their commitment to the business and its future.

Based on this research, only one company is serious about educating family members outside the business, as well as family members within the business. All four firms are interested in educating family members within the business.

**Lesson 36: Active, involved leadership**
Active ownership encompasses three things:
1. Knowing and supporting the business strategy. When this occurs, management will support the strategy. They also know if the strategy is not working, owners are well informed and will take corrective action.
2. Serving as a ‘cultural ambassador’ to the business on behalf of the family. Involved owners represent the values of the family through the way they conduct themselves in the business.
3. Being wise and educated governors. Governance centres on the relationship between management, ownership and the board. Ward says that his research has comprehensively demonstrated that companies with good governance perform better (Ward 2004, p.118). All four firms display ‘active, involved leadership.’

**Lesson 37: ‘Nose in, fingers out’**
Wise families recognise and accept the boundaries between management, ownership and the board. They know, for example, that it is not acceptable for owners to ask the business for personal favours; or to express opinions about an employee to management instead of expressing it through their representation on the board. **Nose**
in, fingers out’ means owners should be informed and involved without meddling. All four firms observe this principle.

**Lesson 38: Respect for managers and managing**

An important part of being an educated owner/family member is to ‘truly believe and understand that managing a business is a very complex and demanding challenge’ (Ward 2004, p. 119). Successful family firms have a profound respect for the array of skills that excellent managers bring to the task. This becomes especially critical by Stage III and beyond. It is very difficult to find outstanding managers to lead the often large, sophisticated firms at this point. At this stage, the top managers, the CEO and other senior executives are often recruited from outside the family. The larger the company, the more likely this will be the case. These family firms change their orientation from hands-on management to hands-on governance. All four firms are mindful and observant of this principle.

**Lesson 39: Family education**

This is covered by Lesson 35.

**Lesson 40: Family member development program**

This is exemplified in the following quote:

> We want family members who can be successful in the business for their sake as well as for the business’s sake…we want our young people to have an opportunity to know themselves well enough that they can make a good career decision about whether or not to come into the business and what role they play in it if they do (Ward 2004, p. 123).

This approach may lead to a program of career counselling, vocational aptitude testing and coaching for young people who are considering careers in the family firm. Some families, to avoid favouritism, offer these services to all of its young people, regardless of their ultimate career destiny. Again, to avoid favouritism or promote egalitarianism, services might be offered to all family members, regardless of age.

There was no evidence of these vocational training programmes in this research.
Lesson 41: Family leadership succession
This is covered under Lesson 26.

Lesson 42: Provide for family members in need
Some examples of personal problems or special needs include family members with substance abuse, depression, health problems, legal problems, or disabilities (Ward 2004, p. 125). Families respond quite differently to these issues. Some adopt a policy that responsibility for attending to problems lies with the nuclear family of the needy individual. Others take the position that every adult has to take personal responsibility for his or her own affairs. Still others, especially in Mediterranean and Eastern cultures, subscribe to the philosophy that it is the role and responsibility of the extended family to help family members in need. The point is that successful families are good at communicating their stance throughout the family, so that everyone knows what to expect. Based on the data, all four firms take the attitude that ‘every adult has to take personal responsibility for his or her own affairs.’

Lesson 43: Roles for all in family association
By this time (Stage III), the business is no longer the centre of the universe (Ward 2004, p. 126). The family is much more the centre, and the business is just one of its interests. Successful families deliberately discourage the dangerous assumption, so common to family firms, that the most valuable people in the family are those who are working in the business. Smart family firms deliberately create meaningful roles that offer talented and giving members, who are not in the business, a chance to shine. Based on the data, there is a general recognition in all four firms that the family has talented people within and beyond the business.

Lesson 44: Family philanthropy
This is covered under Lesson 14.

Lesson 45: One family
Brothers and sisters in the sibling stage typically harbour some unresolved negative feelings toward one another: a brother may be sure the parents favoured his sister, or a sister may feel her brother got all the lucky breaks in the business (Ward 2004, p.130).
Even though they are joint owners, they begin to see themselves as separate branches. Rivalries are passed onto the next generation: ‘Your grandma and grandpa thought your uncle Harold walked on water. That’s why he’s running the company today’ (Ward 2004, p. 130). For the business to continue harmoniously, one of the cousins or second cousins often says: ‘Let’s bury the hatchet.’ Some of them begin to discover they actually like one another—they are actually closer to their second cousins than they are to their own siblings. The attitude of ‘one family’ has begun to prevail. Based on this research, only two of the companies have cousin shareholders. In both cases, the situation appears to be stable and harmonious.

Lesson 46: Family mission statement
Many of the lessons suggest that the good of the business comes first. Family members should be professional; they should respect managers and managing; they should prepare themselves if they want to join the business; the family should operate on a principle of merit, and so on (Ward 2004, p. 132).

Yet, in one of the many paradoxes of family business, when successful families put together their family mission statement, the family must come first. Most family members in the third or fourth generation do not work in the company and are not interested in it as a business. The purpose of the family mission statement is to help them to see that holding onto and supporting the business, is in the best interests of the extended family.

This principle is covered under Lessons 8 and 15 above.

Lesson 47: Synthesis of values
As the family grows larger and there are more branches, greater diversity evolves. In-laws bring new values into the family, and cousins are brought up in different families with different values. The family’s original value system diffuses, and there may be the risk (or advantage) of contradictory credos (Ward 2004, p. 135). Successful families, consciously and continuously, work at the value system, discussing it at family meetings, communicating it to the business, communicating it from the business back to the family, and refining it as appropriate. In this way, they are able to
reduce and shape the diffusion that occurs. This is well illustrated in Figure 4.1 (see below). All four family firms can relate to Figure 4.1.

Figure 4.1 Reinforcing values between family and business

Lesson 48: Social purpose
This lesson is covered under lesson 14.

Lesson 49: Process is end, not means
Long-lasting successful family firms develop a variety of policies: employment, mission statement, family code, exit-redemption, and so on. They create education programs and estate plans, and hold family retreats, family reunions and family council meetings (Ward 2004, p. 138). However, the most successful families recognise that the process is actually more important than the results. Understanding the process means that they gain skills in working together; they talk together, learn together, struggle together; get to know one another better, grow more tolerant of one another, and learn about consensus. This applies to all four family firms.

Lesson 50: Family business advocate
Many successful families are willing to share their enthusiasm for and knowledge about family business with other families at home and abroad (Ward 2004, p. 139). When family members ‘go public‘ with the lessons they have learnt, it helps strengthen or revitalise their commitment to what they have focused on for so long: the family and the business.

Three out of four firms belong to Family Business Australia. FBA provides an excellent forum for these long-lasting family firms to share the benefits of their success with other, less experienced family firms.

4.4 Conclusion
The conclusion to Chapter 4 consists of a series of mini-conclusions, on an issue-by-issue basis.

Research Issue # 1
To explore whether the ability of the controlling owner to pass on the baton, to invest real authority (both ownership and management) in his/her successor, is a key factor in influencing positive succession in Australian family firms.

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**Conclusion**

In three out of four cases, there is a high correlation between the investment of real authority in the successor and a positive succession outcome.

**Research Issue # 2**

To examine the ability of long-lasting family firms to successfully adapt, innovate and seize opportunities. Does this apply in the Australian context?

**Conclusion**

In all cases, these Australian family firms have demonstrated a remarkable capacity to adapt, innovate and seize opportunities.

**Research Issue # 3**

Evaluate the role of parents in encouraging teamwork and conflict resolution rather than unhealthy competition in their offspring, in relation to its impact on positive succession outcomes in the Australian context.

**Conclusion**

In all four cases, teamwork has been emphasised over destructive sibling/cousin rivalry, and is perhaps best summed up in the phrase _we will find a way_. Hence, there is a high correlation between teamwork and longevity in this context.

**Research Issue # 4**

Evaluate the presence or absence of the Maria Principle on positive succession outcomes. The Maria Principal (TMP) says that the children should inherit equal shares, regardless of whether they work in the family firm or not.

**Conclusion**

TMP is present in all four cases, suggesting a strong correlation between TMP and a high LQ (longevity quotient).
Research Issue # 5
Equity versus equality: This is essentially a business-first versus family-first argument. This research explores whether either approach, or a combination, has any influence on positive succession outcomes.

Conclusion
All four companies would subscribe to Ward’s notion (2004) that ultimately, business-biased decisions best serve the long term interests of the family. Hence, this research concludes that there is a strong link between business-biased decisions and longevity.

Research Issue # 6
Gordon and Nicholson (Family Wars: 238) list the 20 classic warnings that should set alarm bells ringing in any family business. Most of them indicate that an issue has the capacity to arouse strong and potentially negative emotion. They may be visible in structures or processes; but what marks them out is their capacity to arouse conflict.

Conclusion
None of the 20 alarm bells are supported by the data, suggesting a strong link between the absence of these warning symptoms and longevity.

Research Issue # 7
The task is to examine whether an absence of negative psychological qualities in the family helps deliver positive succession outcomes. These dysfunctional qualities include reactive narcissism, sibling rivalry, scapegoating, nepotism and greed.

Conclusion
The absence of these dysfunctional qualities is a strong indicator of a high LQ.
Research Issue # 8
Does the application of the principles of corporate governance have an impact on positive succession outcomes in long-lasting Australian family firms?

Conclusion
The four family firms largely observe the 8 principles of corporate governance. There appears to be a strong correlation between this behaviour and a high LQ.

Research Issue # 9
To explore if the 50 lessons (Ward: 2004) apply to Australian family firms.

Conclusion
As we can see above from the point by point analysis, most Ward’s 50 lessons correlate quite strongly with our four long-lasting Australian firms. On this basis, there is a high correlation between the 50 lessons and a high LQ.
Chapter 5: Conclusions and Implications

5.1 Introduction

The jigsaw puzzle analogy (Perry 1998) is useful for understanding what Chapter 5 (the final chapter) is about. The research began with a question, and a number of pieces/ideas that offered to provide answers, if they could be pieced together in a satisfactory manner. The literature review (Chapter 2) started to assemble a fragment of the final picture, but revealed that some pieces were missing. Extant knowledge could only partially solve the puzzle; the missing pieces were necessary to complete the research. Chapter 3 (methodology) and Chapter 4 (data analysis) described the hunt for the missing pieces. Finally, Chapter 5 returns to the puzzle, briefly summarising what the picture looked like at the end of Chapter 2, and then explaining how the new and the old pieces fit to make the whole picture clear. The ‘new pieces’ are the pieces constructed through data collection and analysis. The ‘old pieces’ are the pieces that emerged during the literature review.

Table 5.1 below is a brief summary of what the picture looked like at the end of Chapter 2, listing each research issue and noting the degree to which the extant literature has addressed these issues.
<table>
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<th>Research issues</th>
<th>Degree to which the extant literature has addressed the research issues.</th>
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| **Research issue # 1**                                                         | Globally: to some extent.  
In Australia: none                                                                 |
| To explore whether the ability of the controlling owner to pass on the baton,  | To invest real authority (both ownership and management) in his/her     |
| successor, is a key factor in influencing positive succession in Australian     | successor, is a key factor in influencing positive succession in         |
| family firms.                                                                  | Australian family firms.                                                  |
| **Research issue # 2**                                                         | Globally: some  
In Australia: some                                                                 |
| To examine the ability of long-lasting family firms to successfully adapt,     | innovate and seize opportunities. Does this apply in the Australian     |
| innovate and seize opportunities. Does this apply in the Australian context?  | context?                                                                  |
| **Research issue # 3**                                                         | Globally: to some extent  
In Australia: none                                                                 |
| Evaluate the role of parents in encouraging teamwork and conflict resolution   | in their offspring. Does this impact on positive succession outcomes in  |
| in their offspring. Does this impact on positive succession outcomes in the   | the Australian context?                                                   |
| Australian context?                                                            | **Research issue # 4**                                                    | Globally: none  
Australia: none                                                                 |
| Evaluate the presence or absence of the Maria Principle on positive            | succession outcomes. The Maria Principal (TMP) says that the children    |
| succession outcomes. The Maria Principal (TMP) says that the children should   | should inherit equal shares, regardless of whether they work in the      |
| inherit equal shares, regardless of whether they work in the family firm or    | family firm or not.                                                       |
| not.                                                                           |                                                                          |
| Research issue # 5 |  
| --- | --- |
| Equity versus equality: This is essentially a business-first versus family-first argument. This research explores whether either approach, or a combination, has any influence on positive succession outcomes. | Globally: to some extent  
Australia: none |

| Research issue # 6 |  
| --- | --- |
| Gordon and Nicholson (Family Wars: 238) list the 20 classic warnings that should set alarm bells ringing in any family business. Most of them indicate that an issue has the capacity to arouse strong and potentially negative emotion. They may be visible in structures or processes; but what marks them out is their capacity to arouse conflict. | Globally: considerable  
Australia: none |

| Research issue # 7 |  
| --- | --- |
| The task is to examine whether the lack of negative psychological qualities in the family help deliver positive succession outcomes. These dysfunctional qualities include reactive narcissism, sibling rivalry, scapegoating, nepotism and greed. | Globally: to some extent  
Australia: none |

| Research issue # 8 |  
| --- | --- |
| Does the application of the principles of corporate governance have an impact on positive succession outcomes in long-lasting Australian family firms? | Globally: to some extent  
Australia: nil |
Research issue # 9
To explore if the 50 lessons (Ward: 2004) apply to Australian family firms.

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<td>Australia: limited until this research</td>
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Some of this research’s findings confirm expectations from the extant literature. The high degree of cross-correlation between Ward’s findings, summarised in his fifty lessons (Ward 2004), and the findings of this research amply illustrate the point. It is the first time such a correlation has been established for long-lasting Australian companies. This can be considered as an advance on previous research.

However, the main focus of Chapter 5 is the contribution of my research to the body of knowledge, arising from:

1. Confirmations or refutations of expectations derived in Chapter 2 from the literature
2. Areas about which there was some speculation in the literature, but no in-depth research
3. New areas which had not been raised in the previous literature

5.2 Conclusions about research issues

5.2.1 Research Issue # 1
To explore whether the ability of the controlling owner to pass on the baton, to invest real authority (both ownership and management) in his/her successor, is a key factor in influencing positive succession in Australian family firms.

1. Confirmations or refutations of expectations derived in Chapter 2 from the literature:
In Chapter 2, we noted that Gersick et al. (1997) say that succession presents a formidable obstacle course for members of all three circles (see Figure 2.2). It is a complex process in which the owners must formulate a vision of a future governance structure. They say that the challenge is for the ageing owners to train potential management successors and establish a process for selecting the most qualified new leaders. It is interesting to note the use of the plural leaders, suggesting that a leadership team may be more appropriate than a single leader. In three of the four cases in this research, leadership teams have proven to be successful in leading the current generation. This can be taken as a confirmation of findings in the extant literature.

In reference to Figure 2.2, a successor could, in theory, be chosen from any of the seven sectors within the three circle model. In practice, the successor is more likely to be selected from sector five or sector six, especially sector five (a family member working within the business). It is easy to imagine tensions arising if there is more than one capable successor to choose from.

Tensions arose in Transfield (Australia) in 1996, after Franco Belgiorno-Nettis and Carlo Salteri decided to split the business, with Franco retaining the construction arm and the Transfield name. Marco (Franco’s eldest son) then became the company’s sole managing director. Franco, the controlling owner (see Figure 2.2) should have passed the baton to Marco, to signal the commencement of the sibling partnership phase, or a repetition of the controlling owner phase. Unfortunately, this did not occur, and what followed was a long and bitter family feud. This research confirms that long-lasting family firms are very good at passing the baton effectively.

2. Areas about which there were some speculations in the literature, but no in-depth research:
Ivan Lansberg is one of the co-authors of Generation to Generation Gersick et al. (1997). He identifies two core concepts that expand the traditional view of the succession process. The first involves the range of post-succession options available to a business family and the different processes involved in the transitions to each of these options. Some leadership transitions involve only a change in the people who
are running the company, but others involve a fundamental change in the structure and culture of the company.

Unfortunately, Lansberg does not provide any examples of a fundamental change in the structure and culture. One of the ‘case studies‘ in this research provides a good example of a fundamental change in the structure and culture. In the previous generation, there was a major dispute between two siblings. One has now bought out the other. In the current generation, a trust structure has been implemented, and all the siblings have harmonious relations. The current generation is acutely aware of the pain in the previous generation, and is keen to avoid a recurrence. My observation is that disharmony in the previous generation has served as a catalyst for harmony and longevity in the current and possibly next generation.

3. New areas which had not been raised in the previous literature:
One of the families has appointed a non-family CEO. The baton has been transferred in terms of management, but not ownership. This can also be seen as a refutation of the extant literature. Based on this successful transfer, one could argue that a transfer of ownership is unrelated to a positive succession outcome. This area can be further explored by future researchers.

5.2.2 Research Issue # 2
To examine the ability of long-lasting family firms to successfully adapt, innovate and seize opportunities. Does this apply in the Australian context?

1. Confirmations or refutations of expectations derived in Chapter 2 from the literature:
In Chapter 2 we looked at the business axis of Figure 2.3, in particular at the ‘maturity phase.’ Gersick et al. (1997, p. 186) see this as a potential ‘danger zone.’ They say that mature companies can begin to see their success as inevitable, rather than fragile. This can cause them to stop listening to customers and to resist innovation.

This research has confirmed a strong correlation between continuous innovation and longevity.
2. Areas about which there were some speculations in the literature, but no in-depth research:
McFarlane (2002, p. 23) says that one of the benefits of creating an environment in which all members of the organisation feel free and are encouraged to contribute ideas is the increased likelihood that innovations will emerge.

This research has shown categorically that McFarlane is correct. It also shows a high correlation between an innovative culture and longevity.

3. New areas which had not been raised in the previous literature:
There is considerable discussion in the extant literature of product innovation, but no discussion of relationship innovation. One family has the motto ‘we will find a way’. This epitomises a deep understanding that tribal adaptability, cooperation and innovation are key factors in continuously restoring family relations, and hence, family business success. This needs to be further explored in future research.

5.2.3 Research Issue # 3

Evaluate the role of parents in encouraging teamwork and conflict resolution rather than unhealthy competition in their offspring, in relation to its impact on positive succession outcomes in the Australian context.

1. Confirmations or refutations of expectations derived in Chapter 2 from the literature:
In Chapter 2, we saw how Paul Lombardi Snr built the company from nothing and ruled it as a controlling owner for 25 years. For the past 20 years, the company has been run by his five children. The eldest, Paul Jnr has filled the role of first among equals in their sibling partnership. Over those 20 years the management style and culture have been transformed. During Paul Snr’s long tenure, ‘power and authority radiated from a single source.’ Under the sibling partnership, major decisions are made by consensus. The next point is crucial. The authors maintain that this degree of cooperation between the siblings did not occur by accident. The parents, Paul and Anna, had always envisioned that the five children would one day take charge of the
company and manage it as a team. In the early years, the parents tried to dampen their offspring’s natural competitiveness and encourage them to cooperate and share, with the idea that teamwork would eventually be essential to their future partnership. When stock was transferred to the second generation, each sibling received an equal amount. In 1997, at the time this case study was recorded, the Lombardi family business was turning over US$ 900 million. This information is included because there can be an assumption that once the profits are substantial, greed takes over and the family business starts to disintegrate.

All four Australian family firms in this research also have substantial turnover. It can also be said that the degree of cooperation between the siblings has not occurred by accident. Based on this research there is a high correlation between sibling and/or cousin cooperation and longevity.

2. Areas about which there were some speculations in the literature, but no in-depth research:
Gersick et al. (1997, p. 77) say that in some business families, the company is always central to the sibling relationships, because the business dominates all aspects of family life. The more successful you are in the company, the more successful you are in the parents’ eyes. In other families the parents protect time away from the business to spend with the children individually and together. As a result, the sibling bond develops separate to work. These siblings are more likely to view working in the business as a career option, not as a criterion for membership in the family.

All the companies in this research have shown a lack of connection between status in the business and status in the family.

3. New areas which had not been raised in the previous literature:
In one case, siblings appeared to be especially close, partly because their father had fallen out with his sibling. This positive response to discord in the previous generation is a topic for future research.
5.2.4 Research Issues # 4 and #5

I propose to cover Research Issues 4 and 5 together because they are inherently inter-related.

Research issue # 4
Evaluate the presence or absence of The Maria Principle (TMP) on positive succession outcomes. The Maria Principle says that the children should inherit equal shares, regardless of whether they work in the family firm or not.

Research Issue # 5
Equity versus equality: This is essentially a business-first versus family-first argument. This research explores whether either approach, or a combination, has any influence on positive succession outcomes.

1. Confirmations or refutation of expectations derived in Chapter 2 from the literature. As discussed in Chapter 2 of this thesis, Ayers (1990) defines ‘rough family justice’ as being a situation in which equity (fairness) is more important than equality (TMP) among family members because equity serves the best interests of the business which, in turn, serves the best interests of the family. Based on the data of my four case-oriented studies, equality (TMP) is valued above equity. More accurately, equality is regarded as equity. Any conception of equity that does not involve equality is a rationalisation by a working family member who aims to devalue and dilute the ownership of the non-working shareholders. This research confirms the ability of TMP to enhance LQ (longevity quotient).

2. Areas about which there were some speculations in the literature, but no in-depth research: Gersick et al. (1997, p. 177) provide a case study which suggests that Ayers has not considered that complex family structures, which include minority shareholders, are workable. The Hartwall Group Ltd is a $400 million fifth generation brewer and bottler located in Helsinki, Finland. Since 1989 they have held a steady 67% of the Finnish beverage market, and they currently employ around 2,500 people. In the past,
some minority shareholders were bought out to check the expansion of the ownership
group, but there are no immediate plans to further prune the tree. Contrary to Ayers
assertions, the Hartwall family have overcome the problem of minority shareholders
by having three classes of stock: one non-voting class and two voting classes – a
_strong' voting class (20 votes per share) and a _regular' voting class (one vote per
share). About 10% of the company is publicly owned, as non-voting stock, which has
provided the company with important capital for growth, but has not diluted family
control of the enterprise. There are buy-sell agreements among the family
shareholders, which control the distribution of the strong voting shares. Relatives are
free to sell the regular voting shares. This is an example of a complex, successful fifth
generation family enterprise that has solved the problem of minority shareholders by
intelligent structure (different voting classes) rather than by using Ayers‘ more black
and white solution of prevention or excision. It is possible to argue that the different
voting classes are an example of Ayers‘ rough family justice, but on closer analysis, it
is the application of justice without the rough.

In fairness to Ayers, he does float the idea of a fixed cumulative dividend on a special
class of stock owned by minority shareholders, but the general principle of rough
family justice is you don‘t have minority, non-working shareholders in the first place.

At first sight, it appears that the Hartwall example is a contradiction of TMP, in that
there is a system to accommodate minority shareholders. However, TMP is only
concerned with how the _parents_ leave their inheritance. If you want longevity, based
on this research, leave your shares in the business equally to your children, regardless
of whether they work in the business or not. The fact that the children can then make
buy/sell agreements, which then create differences in ownership proportions, has no
bearing on LQ (longevity quotient), based on this research. Two of the companies that
participated in this research are in the process of implementing buy-sell agreements.
These agreements are being implemented in an open and cordial atmosphere, so that
no negative fallout is anticipated.

3. New areas which had not been raised in the previous literature:
It would be interesting to conduct research on the relationship, if any, between buy-sell agreements and longevity, especially if they are influenced by the level of harmony within the family group.

**5.2.6 Research Issue # 6**

Gordon and Nicholson (2008, p. 238) list the 20 classic warnings that should set alarm bells ringing in any family business. Most of them indicate that an issue has the capacity to arouse strong and potentially negative emotion. These alarm bells may be visible in structures or processes; but what marks them out is their capacity to arouse conflict.

1. Confirmations or refutations of expectations derived in Chapter 2 from the literature:
   There was no evidence of any of the classic warning signs in any of the four firms covered in this research. This confirms the expectations outlined in the relevant section of Chapter 2.

2. Areas about which there were some speculations in the literature, but no in-depth research:
   Gordon and Nicholson deal comprehensively with the issue of warning signs for family firms, with 25 in-depth case studies to substantiate their claims.

3. New areas which had not been raised in the previous literature:
   TMP (The Maria Principle) indirectly raises the issue of _what happens when parents leave their shares unequally to their children and/or, leave their shares in trust to their grandchildren, effectively bypassing their children._ This would be an interesting area of research to pursue.

**5.2.7 Research Issue # 7**

The task is to examine whether an absence of negative psychological qualities in the family helps deliver positive succession outcomes. These dysfunctional
qualities include reactive narcissism, sibling rivalry, scapegoating, nepotism and greed.

1. Confirmations or disconfirmations of expectations derived from Chapter 2 from the literature:
This research resoundingly confirmed the notion that positive psychological qualities encourage longevity, through the absence of dysfunctional qualities.

2. Areas about which there were some speculations in the literature, but no in-depth research:
News Corporation is a family dynasty, but it is only in its third generation, and Rupert (second generation) is still firmly in control. Murdoch's ex-wife said that divorcing Rupert was like being released from a mental asylum! Bitterness of divorce aside, it is interesting to speculate about whether Rupert’s negative psychological qualities will have a negative impact on the future of the empire. The same question can be asked about the impact of Kerry Packer's fathering of James.

3. New areas which had not been raised in the previous literature
The nature of parent-child relationships, and the consequences on the longevity of the family dynasty, would be an interesting area to research.

5.2.8 Research Issue # 8

Does the application of the principles of corporate governance have an impact on positive succession outcomes in long-lasting Australian family firms?

1. Confirmations or disconfirmations of expectations derived from Chapter 2 from the literature:
As discussed in Chapter 2 of this thesis, Shea (2006) points out that other stewardship theorists say that family firms are different to non-family firms because owners of family firms are not purely driven by economic self-interest. Gersick et al. (1997) and Miller and Le Breton-Miller (2006) suggest that owner-managers in family firms are more likely to accumulate wealth in the business as part of a long term plan to pass on
the business from generation to generation. If this theory is correct, this would reduce agency costs and increase the incentive for diligence and self-discipline.

This observation is confirmed by all of the four family firms interviewed for this research.

2. Areas about which there were some speculations in the literature, but no in-depth research:
As shown in Chapter 2 of this thesis, Shea points out that management researchers tend to formulate different theories to examine corporate governance, performance, and management of family firms from a Western, particularly European and US, perspective. It is not surprising that no single theory from the West can explain the multifaceted attributes of family firms in different institutional and cultural settings, particularly in the non-Western hemisphere. For instance, Chandler’s scale and scope economies and Bartholomeuz and Tanewski’s independent board of directors cannot explain why many family firms in Asia can sustain their competitive advantages (Bruton, Ahlstrom & Wan 2003) despite the fact that few tend to appoint external boards of directors (Corbetta & Salvato 2004). Shea’s literature review suggests that cultural determinants and other contingency variables that are lacking in the extant literature should be incorporated for further family firm research in order to establish a fine-grained understanding of the corporate governance-performance-management link in family firms.

3. New areas which had not been raised in the previous literature:
Corporate governance emphasises the necessity of independent directors. The four family firms in this research have all reached their position prior to this current generation without the aid of independent directors. Independent directors may be useful, but are they really necessary in family firms? This would be an interesting area for future study.
5.2.9 Research Issue # 9

To explore if the 50 lessons (Ward 2004) apply to Australian family firms.

1. Confirmations or refutations of expectations derived in Chapter 2 from the literature.
   As stated in the conclusion of Chapter 4, most of the 50 lessons are being observed by the four family firms in this research.

2. Areas about which there were some speculations in the literature, but no in-depth research:
   In Chapter 2 above, it is shown that Ward is adamant that no succession is complete until ownership control has transferred to the successor generation. The implication here is that ownership control must be transferred prior to the death of the parent(s). This is not supported by this research. Based on this research, so long as management control is transferred, and the parents make it clear that their shares will be left equally to the children, the children are happy to take on the mantle of quasi-owners in the absence of the final ownership transfer.

3. New areas which had not been raised in the previous literature:
   It would be interesting to explore if there is any relationship between complete ownership transfer before the death of the parent(s), and the increased probability of longevity.

5.3 Conclusions about each research issue

5.3.1 Research Issue # 1

To explore whether the ability of the controlling owner to pass on the baton, to invest real authority (both ownership and management) in his/her successor, is a key factor in influencing positive succession in Australian family firms.
Based on this research, I conclude that effective management transfer is essential to a positive succession outcome. However, ownership transfer, prior to the death of the parent(s) is not critical to longevity.

5.3.2 Research Issue # 2

To examine the ability of long-lasting family firms to successfully adapt, innovate and seize opportunities. Does this apply in the Australian context?

Based on this research, I conclude that Australian family firms examined in this research have demonstrated a strong ability to ‘adapt, innovate and seize opportunities’. This ability has enhanced their ability to survive from generation to generation.

5.3.3 Research Issue # 3

Evaluate the role of parents in encouraging teamwork and conflict resolution rather than unhealthy competition in their offspring, in relation to its impact on positive succession outcomes in the Australian context.

Based on this research, I conclude that the role of parents in ‘encouraging teamwork and conflict resolution’ in their children has enhanced positive succession outcomes.

5.3.4 Research Issue # 4

Evaluate the presence or absence of The Maria Principle (TMP) on positive succession outcomes. The Maria Principle says that the children should inherit equal shares, regardless of whether they work in the family firm or not.

Based on this research, I conclude that TMP has played a critical role in achieving positive succession outcomes.
5.3.5 Research Issue # 5

Equity versus equality: This is essentially a business-first versus family-first argument. This research explores whether either approach, or a combination, has any influence on positive succession outcomes.

In the final analysis, this research confirms that equality is equity. Anything other than equality is an attempt to shift the ownership balance from the non-working shareholders to the working shareholders.

5.3.6 Research Issue # 6

Gordon and Nicholson (2008, p. 238) list the 20 classic warnings that should set alarm bells ringing in any family business. Most of them indicate that an issue has the capacity to arouse strong and potentially negative emotion. They may be visible in structures or processes; but what marks them out is their capacity to arouse conflict.

This research has established that there is a high correlation between an absence of the 20 classic warnings, and a high LQ (longevity quotient).

5.3.7 Research Issue # 7

The task is to examine whether the absence of negative psychological qualities in the family helps deliver positive succession outcomes. These dysfunctional qualities include reactive narcissism, sibling rivalry, scapegoating, nepotism and greed.

This research concludes that there is a strong correlation between an absence of negative psychological qualities, and positive succession outcomes (high LQ).
5.3.8 Research Issue # 8

Does the application of the principles of corporate governance have an impact on positive succession outcomes in long-lasting Australian family firms?

Here are the eight principles of corporate governance:
Principle 1: Lay solid foundations for management and oversight
Principle 2: Structure the board to add value
Principle 3: Promote ethical and responsible decision-making
Principle 4: Safeguard integrity in financial reporting
Principle 5: Make timely and balanced disclosure
Principle 6: Respect the rights of shareholders
Principle 7: Recognise and manage risk
Principle 8: Remunerate fairly and responsibly.

Based on this research, I conclude that an adherence to the eight principles above is essential to positive succession outcomes.

5.3.9 Research Issue # 9

To explore if the 50 lessons (Ward 2004) apply to Australian family firms.

Based on this research, the application of the 50 lessons has made, and is making, a great contribution to the longevity of these Australian family firms.

5.4 Conclusions about the research problem

„What are the key factors that have influenced positive succession outcomes in long-lasting Australian family enterprises?‟
Nine key factors or principles have been identified. They are:

1. The ability of the outgoing owner to effectively pass the baton to the new leader(s) of the incoming generation.
2. The ability to adapt, innovate and seize opportunities.
3. The ability of parents to encourage teamwork rather than destructive sibling rivalry.
4. The wisdom of parents to leave their shares directly and equally to their children, regardless of whether they work in the family business or not.
5. The ability of the parents to recognise that equality is equity.
6. The ability of each successive generation to avoid the 20 classic warnings.
7. The ability of the parents to encourage positive psychological development in the children.
8. The ability to apply the principles of corporate governance.
9. The ability to adopt most, if not all, of Ward’s 50 lessons.

All of these principles converge at the intersection of strong effective leadership and strong family values based on trust and fairness. I would argue that strong family values are a subset of effective leadership. Thus, in the final analysis, effective leadership will aid survival in family business more than luck or any other superstition that we might be tempted to add to the list.

5.5 Implications for theory

Here is a snapshot of the parent theories outlined in Chapter 2 of this thesis:

![Figure 5.2 Parent theories discussed in Chapter 2](image-url)
Based on the findings of this research, the new principles available to a new researcher are: Table 5.3 New principles (Developed from this research)

<table>
<thead>
<tr>
<th>Principle I</th>
<th>Principle II</th>
<th>Principle III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to pass the baton</td>
<td>Ability to adapt, innovate and seize opportunities</td>
<td>Ability of parents to encourage teamwork</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principle IV</th>
<th>Principle V</th>
<th>Principle VI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to adhere to The Maria Principle (TMP)</td>
<td>Ability of parents to recognise that equality is equity</td>
<td>Ability to avoid the 20 classic warnings</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principle VII</th>
<th>Principle VIII</th>
<th>Principle IX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability of parents to encourage positive psychological development</td>
<td>Ability to apply the 8 principles of corporate governance</td>
<td>Ability to adopt Ward’s 50 lessons</td>
</tr>
</tbody>
</table>

The progression from the 6 parent theories to the 9 principles encapsulates the contribution of this research to the body of knowledge.

5.6 Implications for policy and practice

Any family business that desires a smooth transition from one generation to the next is advised to study closely the nine new theories outlined above. I strongly recommend to the Federal Minister for Small Business that these guidelines for
success enhancement are attached to the Articles of Association for all new companies.

5.7 Implications for further research

This research has adopted a case-oriented qualitative methodology. I would strongly recommend to anyone intending to add to this research, to develop a quantitative survey methodology. The purpose here is to attempt to generalise the findings.

Finally, the extant literature presented a range of explanations in relation to the research question. The literature reviewed did not, however, focus on the key role of effective leadership in achieving positive succession outcomes. This research has highlighted the role of leadership in effective succession, and laid the foundation for further research in this area.
Reference list


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Poza, E. J. (2006) *Family business*, New Jersey, South-Western/Thomson Learning,


Smyrnios, K.X., Walker, R.H., Le, H., Phan, M., Vuong, T., & Young, P. (2003), The Boyd Partners Australian family and private business survey 2003, RMIT University, Melbourne.


APPENDIX A

The letter below was sent to prospective participants in my research.

INTRODUCTORY LETTER

15th April, 2008

PO Box 6051
Dural DC
NSW 2158
Mobile: 0407-466-488

Email: tony.scotland@live.com.au

Dear participant,

I would like to introduce myself. I am currently doing a doctorate in business administration at Southern Cross University. My research topic is as follows: ‘What are the key factors that lead to positive succession outcomes in Australian family enterprises?’

My interest in [XYZ] is simply that I regard it as one of the great family businesses in Australia; an achievement of which you must be immensely proud.

I would be honoured if you would permit me to include your company as part of my research, because I believe it provides an excellent example of positive succession.

If other companies can learn from your succession planning, I believe it will make my research quite valuable to the business community and society at large.

Let me make it absolutely crystal clear: I am not interested in any personal financial or structural issues, or to discuss anything that you are uncomfortable with. I am only interested in your ongoing succession plan or those aspects of it that you are willing to discuss.

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My research will NOT divulge either the name of your company, the names of any company personnel or even your industry.

All that I require is one hour of your time for an interview by telephone or email if you prefer.

I have attached some background data from my research proposal that may be of interest to you.

Kind Regards,

Tony Scotland MBA

The information sheet below was sent to all those who agreed to participate in the research.

SOUTHERN CROSS UNIVERSITY
INFORMATION SHEET

_What are the key factors that lead to positive succession outcomes in Australian family enterprises?_

My name is Tony Scotland. I am conducting research on succession in family business through Southern Cross University. I obtained your name from the website of _Family Business Australia_.

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Procedures to be followed:

Interviews should take roughly 60 minutes in total to complete. Some examples of topics to be covered in the interview are as follows:

1. Does your organisation have a succession plan?
2. Do you consider a succession plan important?
3. Is the CEO a family or non family member?
4. How was the current CEO appointed?
5. How was the CEO appointed in the previous generations?
6. Does the CEO answer to a board of Directors?
7. What is the composition of the board (how many family members, any independent professional non-executive directors?
8. What do you understand by the separation of management and ownership?
9. What do you understand by ‘corporate governance’?

Participation is purely voluntary and no financial remuneration or incentive will be offered for taking part in this research. There are no travel expenses, nor are there any costs associated with participation in this research. There is no cost to you apart from your time.

**Possible Discomforts and Risks**

There are no foreseeable risks or discomforts associated with this research.

**Responsibilities of the Researcher**

It is our duty to make sure that any information given by you is protected. Your name and other identifying information will not be attached to data collected. Your name will only be used to facilitate an appointment for the interview. Any identifying information will be destroyed after your participation in the study.

It is essential that you sign a consent form before you participate in this research. Due to this necessity, a procedure has been set in place to ensure that your personal details
can at no time be matched, identified or tracked back to the data collected in this project.

All signed consent forms will be held in safe storage at the University for a period of five years before being destroyed. The information will be presented as overall data. The research findings may be submitted for publication.

**Responsibilities of the Participant**

If there is anything that might impact upon the interview such as health problems, you are asked not to participate. You may leave the interview voluntarily without explanation of such factors. If you feel there are any safety concerns or legal issues, please let me know.

**Freedom of Consent**

If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time. However, we would appreciate you letting us know your decision.

**Inquiries**

This form is yours to keep for future reference. If you have any questions, we expect you to ask us. If you have any additional questions at any time please ask:

Researcher: Tony Scotland  
Supervisor: Dr Douglas Long  
Graduate College of Management  
Southern Cross University  
PO Box 157  
Lismore NSW 2480

Email: tonyscotland@optusnet.com.au  
Phone: 0407 466 488

Email: dglong@bigpond.net.au  
Phone: 0412 029 754
The ethical aspects of this study have been approved by the Southern Cross University Human Research Ethics Committee. The Approval Number is ECN-08-023. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Ethics Complaints Officer:

Ms Sue Kelly  
Ethics Complaints Officer and Secretary  
HREC  
Southern Cross University  
PO Box 157  
Lismore, NSW, 2480  
Telephone (02) 6626-9139 or fax (02) 6626-9145  
Email: sue.kelly@scu.edu.au

All complaints, in the first instance, should be in writing to the above address. All complaints are investigated fully and according to due process under the National Statement and this University. Any complaint you make will be treated in confidence and you will be informed of the outcome.

The following consent form was signed by all participants prior to their being interviewed.

This consent form is based on Guidelines from the National Statement on Ethical Conduct Involving Human Participants as issued by the NHMRC.
**Name of Project:** “What are the key factors that lead to positive succession outcomes in Australian family enterprises?”

**Researchers:**
Anthony John Scotland  
Mobile: 0407 466 488  
Email: tony.scotland@live.com.au)

**Supervisor:** Dr Douglas Long  
Mobile: 0412 029 754  
Email: dglong@bigpond.net.au)

I have been provided with information at my level of comprehension about the purpose, methods, demands, risks, inconveniences, and possible outcomes of this research (including any likelihood and form of publication of results).

I agree to participate in the above research project. I have read and understand the details contained in the Information Sheet. I have had the opportunity to ask questions about the study and I am satisfied with the answers received.

I agree to an interview and to my interview being recorded on audiotape.

OR

I do not agree to my interview being audio-taped and prefer the researcher to take hand written notes.

I understand that if I withdraw from participation in this research, that any tapes or handwritten notes about my contribution will be destroyed.

I understand that participation in this research will be confidential.

I understand that neither my name nor any identifying information will be disclosed or published, except with my permission.
I understand that all information gathered in this research is confidential. It is kept securely and confidentially for 5 years, at the University.

I understand that I am free to discontinue participation at any time. I have been informed that prior to data analysis, any data that has been gathered before withdrawal of this consent will be destroyed.

I am aware that I can contact the Supervisor or other researchers at any time with further inquiries, if necessary.

The ethical aspects of this study have been approved by the Southern Cross University Human Research Ethics Committee (HREC). The Approval Number is (Insert when approved)

If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Ethics Complaints Officer:
Ms Sue Kelly
Ethics Complaints Officer and Secretary
HREC
Southern Cross University
PO Box 157
Lismore, NSW, 2480
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Email: sue.kelly@scu.edu.au

All complaints, in the first instance, should be in writing to the above address. All complaints are investigated fully and according to due process under the National Statement on Ethical Conduct in Research Involving Humans and this University. Any complaint you make will be treated in confidence and you will be informed of the outcome.
I understand that I will be given a copy of this consent form for my records. The researcher will also keep a copy in safe storage at the University.

I would like to receive the results of the research on completion. Please forward the results to my email address…………………………………………………………………………………………………………………………..

I have read the information above and agree to participate in this study. I am over the age of 18 years.

Name of Participant: ..

Signature of Participant: .......

Date: ..

I certify that the terms of the Consent Form have been verbally explained to the participant and that the participant appears to understand the terms prior to signing the form. Proper arrangements have been made for an interpreter where English is not the participant's first language.

Name & Contact Detail of Witness:

Signature of Witness:

Date:

NOTE:
The witness should be independent of the research, where possible. If this is not possible at the place of consent, please inform the researcher and state a reason below.
Reason: ...........................................................................................................................

Name and signature of the researcher...........................................................................

Date:..........................
Appendix B

Topics to be covered in interviews

1. Does your organisation have a succession plan?
2. Do you consider a succession plan important?
3. Is the CEO a family or non family member?
4. How was the current CEO appointed?
5. How was the CEO appointed in the previous generations?
6. Does the CEO answer to a board of Directors?
7. What is the composition of the board (how many family members, any independent professional non-executive directors)?
8. What do you understand by the separation of management and ownership?
9. What do you understand by ‘corporate governance’?
10. Has ‘sibling rivalry’ been an issue in your family business?
11. Please refer to the attached copy of ‘Maria’s story’. Was Maria correct?
12. Do you think it is fair that non-working shareholders have the same number of shares as working shareholders? Why?
13. What are the 3 main reasons you believe your family business has survived, against the odds, into the 3rd or 4th generation?
14. What are the 3 main reasons other family businesses fail?
15. Do you think managers, family and non- family should be able to sacrifice salary for equity in the business.
16. What is the best way for companies to retain their best people, to prevent them leaving and becoming competitors?
17. What proportion of nett profit after tax should be retained in the business and what proportion should be distributed as dividends?
18. How important is corporate governance in terms of attracting lenders (to fund acquisitions, for example) and in terms of attracting buyers if you wish to sell the business?
19. Should the CEO decide their own bonus or should it be established by the Board? Why?
20. How important is bloodline versus competence in terms of senior management?
21. Do you consider working in-laws to be family or non-family?
22. How important is the relationship between, typically, father and son, working in the business, in terms of succession outcomes?
23. If a father (typically) leaves a business in trust, is it likely to cause problems?
24. How would you rank the following business challenges in order of priority?

25. Transfield is a well publicised example of a family feud in a family business. How have you managed to avoid this type of problem?
26. What should Transfield have done differently?
26. Take a look at the diagram below:

Where do you think your organisation is on the chart? Why?
(You may choose to take the test at this point to verify your hunch)
27. Should professional corporate governance be compulsory for all private companies with turnovers above, say, $20 million (indexed based on 2008 dollars)? Should this be part of the Articles of Association?
Appendix C

The check list below was sent to all participants to align their responses more accurately with Ward‘s 50 lessons.

Family Business Check List

Please indicate Y (yes) or N (no) on the list below. You are encouraged to add notes or explanations of your answers under each question.

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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<td>12.</td>
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</tbody>
</table>
13. ----- Are owners aggressively gifting or distributing shares to the youngest generations?
14. ----- Are there easy, graceful ways for family members to redeem their ownership if they wish to do so, thereby facilitating pruning of the ownership tree?
15. ----- Is the business strategy enhanced with special competitive advantages from being a private, family-owned company; for example, long-term orientation, trusted relationships etc?
16. ----- Does the family generously give back to the community to build social goodwill?
17. ----- Does the family accept that the business must be run as an excellent business?
18. ----- Is the family selective about which family members are qualified to work in the business?
19. ----- Is the family providing business education and exposure to the youngest members of the family?
20. ----- Does the family have a _Code of Conduct_ to strengthen interpersonal relations and expectations?
21. ----- Does the family study and practice communication skills?
22. ----- Do family members have independent security beyond their ownership shares in the family business?
23. ----- Do family members share information about investment opportunities outside the business?
   Yes No
24. ----- Does the family have a process to welcome and acculturate new in-laws to the family?
25. ----- Does the family have a statement of family values that it hopes to perpetuate?
26. ----- Does the family have an identified family leader?
27. ----- Is there a process for the selection of family (not business) leadership?
28. ----- Does the culture of the business encourage quick responsiveness and change?
29. ----- Is the family committed to being in the best businesses for the future; even if that means leaving its business of origin?
30. ----- ----- Is the business able to use ‘other people’s money’ to fund growth and liquidity?
31. ----- ----- Does the company have a formal dividend policy that pays out according to profitability?
32. ----- ----- Do the family owners have a commitment to each other for the long, long term?
33. ----- ----- Do family members have opportunities to serve as ambassadors on behalf of the business?
34. ----- ----- Do the family owners feel they own their shares for the purpose of passing it on to future generations?
35. ----- ----- Does the owning family have regular family meetings?
36. ----- ----- Does the owning family provide education to the next generation on the rights and responsibilities of ownership?
37. ----- ----- Are the family owners closely monitoring the firm’s strategy, culture and board of directors?
38. ----- ----- Do non-employed family owners avoid meddling in management’s operating responsibilities?
39. ----- ----- Does the owning family have respect for managers and the challenge of managing?
40. ----- ----- Is the owning family active in educational programs on such topics as interpersonal relations and understanding business?
41. ----- ----- Is the owning family committed to helping all family members in their professional development, regardless of their interests?
42. ----- ----- Does the family have a policy on how best to address family members who may be in financial need?
43. ----- ----- Are there many different roles family owners can play in the family council or other family interests?
44. ----- ----- Does the family have a philanthropic activity?
45. ----- ----- Are family branch politics and representation avoided in favour of everyone seeing themselves as members of one extended family?
46. ----- ----- Has the owning family articulated a mission for the family?
47. ----- ----- Has the family articulated how its values are important to the family business?
48. ----- ----- Does the owning family feel that the family business has a social purpose?

49. ----- ----- Does the owning family believe in having a family-continuity planning process?

50. ----- ----- Is the family active in promoting and supporting the concept of family business in its community?
Appendix D

The coding system is much simpler than it first appears. Each company C1, C2 et cetera is assigned a colour, as you see below. Themes such as ‘AFL‘ (absent family leader) are recorded as the data is scanned. These recorded themes (data) are then grouped under each family firm. The number that is recorded after the * indicates how many firms elicited or expressed this theme.

KEY: Open and axial coding

C1= Company 1
C2= Company 2
C3= Company 3
C4= Company 4
Blue= themes that arose from the literature review

Example: *1C1: AFL=absent family leader #L

C1= Company 1

*1= only 1 company elicited this theme (sic)
2= two companies shared this theme
3= three companies shared this theme
4= four companies shared this theme

LFS= axial or second stage coding:
#L= Leadership
F= Family related
S= something beyond family and leadership

Example: C1: VPB=a very profitable business (helps continuity)
The green colour indicates that the theme first emerged in C2 but that it still applied to C1 on a second scan. To determine how many companies shared this theme, go to “C2 Open Coding”:

*3C2: VPB=a very profitable business (helps continuity)

*3 companies shared this theme

If concurrence across cases adds weight to the theme, then the investigation would be given the following priority:

4’s: top priority; should be the strongest indicator of longevity
3”s: high priority; should be a very strong indicator, especially if a longitudinal study bears out that the family firm that did not align with the other three, collapsed in or before the next generation.
2’s: medium priority; still worth taking seriously as the other 2 companies could collapse into the near future.
1’s: low priority; while it may be the → factor” that allows this company to achieve the greatest longevity, it is more likely to be an aberration based on a digression in the interview. The fact is that all four companies have survived up to and beyond 3 generations, and have therefore already defied the odds of longevity.

**Code categories (theory-driven)**
- 4IRA=invest real authority (from the outgoing leader to the incoming leader) L
- 4SPI=succession plan implemented (or making good progress) L
- 4CGH=corporate governance high priority, especially independent directors on the board, accountability to the board (in smaller companies, professional management eg regular board meetings could be the equivalent) L
- 0CGL=corporate governance low priority L (lack of)
- 4SOM=separation of ownership and management (critical) L
- 4FCO=family council operating L
- 4DOS=diversity of succession (has to work for the business AND the family) L
- 4ASC=adaptable structure and culture L
4TVC=teamwork versus competition (includes sibling and cousin rivalry) L
4TMP=the Maria Principle (all children remain equal shareholders, regardless of whether they work in the business or not; the working shareholders get an advantage through performance bonuses and perks; motivates the working shareholders and keeps the family united) L
4BVF=business versus family (replace with business first mentality for the benefit of the family: refer Ward) L
LFF=lessons from failure L
PCG=principles of corporate governance (replace with High or Low priority on corporate governance: CGH or CGL) L
WFL=Ward’s fifty lessons (MFL, CSV, FAM, SOC etc are sub categories) FL
PPQ=positive psychological qualities (too vague) L
1DFI=dysfunctional family influence L (lack of)
4MFL=maintaining the family legacy FL
4FAM=frugality and modesty FL
4SOC=support of community (real or token) L
4BFL= binding family values (see COG/condemnation of greed) FL

C1 Open and axial coding
1C1: AFL=absent family leader L
2C1: EFL=emerging family leader L
2C1: WOB=women on the board L
2C1: EPB=effective power broker (mediator, facilitator) L
1C1: NBS=non bloodline shareholder L
3C1: EPA=external professional advice L
3C1: ID=independent directors L
2C1: SSL=strong staff loyalty L
1C1: ECIC=external capital, internal control L
2C1: FOG=focus on growth L
3C1: VAC=vision and courage (leadership) L
4C1: SOG=sprit of generosity L
1C1: ANB=ability to neutralize bullies L
4C1: PFP=passionate family participants LF

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1C1: BOI = birth order influence  
2C1: ANS = ability to neutralize sexism  
1C1: MWI = manipulation with integrity (is it possible?)  
C1: VPB = a very profitable business (helps continuity)  
C1: CIT = continuous improvement of technology  
C1: WRB = a well run business  
C1: VVB = very valuable business  
C1: HNC = harmony not critical (to the ongoing success of the business)  
C1: COG = condemnation of greed  
C1: PMR = pay market rates (to family members to avoid resentment and compensation claims)  
C1: ANC = acceptance of non-family CEO  
C1: FFB = family first business  
C1: DFB = democratisation of the family business; a meritocracy  
C1: LTV = long term vision  
C1: NFB = nurturing the family business  
C1: SBS = strong business stewardship (responsibility; corporate governance)  
C1: ATS = acknowledging the talents of your siblings  
C1: AYW = acknowledging your own weaknesses  
C1: SGP = strongly grounded pragmatism  
C1: GFM = grooming family members  
C1: MDF = motivated by debt to the father  
4C1: ACP = acknowledging contribution of previous generations (especially the founder and previous managing directors)  
C1: ASO = ability to seize opportunities (entrepreneurial)  
C1: SFH = sense of family history  
C1: AMN = attempts to minimise nepotism  
C1: LTC = long term commitment (dedication and hard work)  
C1: PTB = professionalising the business  
C1: PFG = planning for future generations  
4C1: PFH = pride in family history (not quite same as SFH/sense of family history)  
4C1: EFP = encourage family participation in the business
4C1: BFM = business first mentality
4C1: RPRJ = right people for the right job
4C1: EOE = encourage outside experience
4C1: FBR = family business research
4C1: LAL = luck & leadership (what proportions) (you need both to succeed)
4C1: SRE = separate remuneration and equity (don’t muddy the waters; ownership is ownership; a job is a job)
4C1: HPR = high profit retention (keeps business viable) (e.g. retain 2/3 pay out 1/3 in bonuses & dividends)
4C1: KPE = kids perceive they have been treated fairly and equally by the parents
4C1: LAC = leadership and communication
4C1: DOS = diversity of succession (has to work for the business AND the family)
4C1: IRA = invest real authority (from the outgoing to the incoming)
4C1: ASC = adaptable structure and culture
4C1: TVC = teamwork versus competition (includes sibling and cousin rivalry)
1C1: LFF = lessons from failure
3C1: PPQ = positive psychological qualities (too vague)
3C1: PCG = principles of corporate governance (replace with High or Low priority on corporate governance: CGH or CGL)
1C1: DFI = dysfunctional family influence
3C1: WFL (MFL) = Ward’s fifty lessons (MFL, CSV, FAM, SOC etc are sub categories)
4C1: TMP = the Maria Principle
3C1: FAM = frugality and modesty
4C1: SOC = support of community (real or token)
1C1: MFL and ASC tension (1663)

C2 Open Coding
4C2: GFR = good family relations (varies from family to family, according to the family’s cultural values) F
4C2: SAC = separate areas of control L
4C2: RFM = respect for other family members F
3C2: VPB = a very profitable business (helps continuity) L
2C2: BBQ=a balance of business qualifications L
4C2: KTI=knowledge transfer implementation (part of successful succession) L
1C2: KMI=key management insurance L
1C2: MPG=mistakes in previous generations (the ability to learn from) L
3C2: SFM=sound financial management L
1C2: GPS=graceful pruning of shareholders L
4C2: MAA=major areas of agreement=lack of conflict (between the shareholders) L
2C2: SEE=size encourages equality (the bigger the company, the more difficult buyouts become) (same as VVB?) S
2C2: SEFG=systematised equality for future generations (TMP enshrined!) L
4C2: FC=family constitution (governs the family council) L
4C2: FTR=fear of tribal rejection, or, more positively, pressure to maintain family unity, whether harmonious or not) F
4C2: MFU=maintaining family unity FL
1C2: LOC=lack of competition (increases the odds of success, with or without exceptional leadership) S
2C2: CIT=continuous improvement of technology L
4C2: ARD=ability to remain detached or philosophical L
3C2: WRB=a well run business L
4C2: LSC=lack of successor competition (in previous generation) L
2C2: VVB=very valuable business (more difficult to effect buy-sell agreements between shareholders; could result in more harmony or more tension; maybe continuity related if it avoids expensive buy-backs which drain the company’s capital) L
1C2: HNC=harmony not critical (to the ongoing success of the business) L
4C2: COG=condemnation of greed (strong family value/ see BFL) FL
4C2: PMR=pay market rates (to family members to avoid resentment and compensation claims) L
4C2: ICG=Incumbent must lay down Clear Guidelines (incumbent will usually be the father, who has the authority of boss and parent to say “you are being paid market rates to do a job”) TMP L
4C2: ANC=acceptance of non-family CEO L
4C2: FFB=family first business FL
4C2: DFB=democratisation of the family business; a meritocracy L
3C2: LTV=long term vision L
3C2: NFB=nurturing the family business L
3C2: SBS=strong business stewardship (responsibility; corporate governance) L
4C2: ATS=acknowledging the talents of your siblings L
4C2: AYW=acknowledging your own weaknesses L
4C2: SGP=strongly grounded pragmatism L
4C2: GFM=grooming family members L
4C2: ENP=“enlightened” nepotism present L
1C2: MSR=motivation of sibling rivalry (transferred to the children of the “new branch” L
4C2: MDF=motivated by debt to the father FL
2C2: CBA=competitive business advantage L
4C2: ACP=acknowledging contribution of previous generations (especially the founder and previous managing directors) L
4C2: ASO=ability to seize opportunities (entrepreneurial) L
4C2: SFH=sense of family history FL
0C2: DSR=destructive sibling rivalry (power struggles, ego battles detrimental to the family AND the business) L (lack of: refer “Family Wars”)
4C2: PFD=prepared for downturns L
4C2: AMN=attempts to minimise nepotism L
C2: FCO=family council operating
C2: ID=independent directors (absent in this case)
C2: TVC=teamwork versus competition (includes sibling and cousin rivalry)
C2: SPI=succeesion plan implemented (or making good progress)
C2: IRA=invest real authority (from the outgoing to the incoming)
C2: MFL=maintaining the family legacy
C2: TMP=the Maria Principle
C2: EPA=external professional advice
C2: SOG=spirit of generosity
C2: SOM=separation of ownership and management (critical)
C2: CGH=corporate governance high priority
C2: **SSL=strong staff loyalty**

C2: **DFI=dysfunctional family influence**

C2: **LAL=luck & leadership (what proportions) (you need both to succeed)**

C2: **SRE=separate remuneration and equity (don’t muddy the waters; ownership is ownership; a job is a job)**

C2: **HPR=high profit retention (keeps business viable) (e.g. retain 2/3 pay out 1/3 in bonuses & dividends)**

C2: **KPE=kids perceive they have been treated fairly and equally by the parents**

C2: **LAC=leadership and communication**

C2: **LTC=long term commitment (dedication and hard work)**

C2: **PTB=professionalising the business**

C2: **PFG=planning for future generations**

C2: **PFH=pride in family history (not quite same as SFH/sense of family history)**

C2: **PBS= preservation by structure**

C2: **EFP=encourage family participation in the business**

C2: **BFM=business first mentality**

C2: **RPRJ=right people for the right job**

C2: **EOE=encourage outside experience**

C2: **FCP=flexibility on company policy (pragmatism before ideology)**

**C3 Open Coding**

4C3: **LTC=long term commitment (dedication and hard work) L**

1C3: **HERS=harmonious elimination of rival successors (own decision to leave) S**

4C3: **PTB=professionalising the business L**

3C3: **PFR=provision for retirement (increases chance of continuity because it obviates the need to sell) (part of leadership if you assume that planning is essential to exceptional leadership) (can also facilitate smooth succession, if, as in this case, the old perceive the young/the incumbent perceive the new generation as doing something for them that they had not done for themselves i.e. provide for their retirement L**

3C3: **PFG=planning for future generations L**

4C3: **PFH=pride in family history (not quite same as SFH/sense of family history) FL**

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2C3: PBS= preservation by structure (the board makes the decisions/majority rules) (so individuals can't sell their shares unless the board agrees; so if the board disagrees, the capital stays within the business) good for transitional periods, but not for ongoing relations) L
4C3: EFP=encourage family participation in the business L
1C3: VCI=value the contribution of in-laws L
0C3: LOD=lack of detachment (can impede the progress of the business) L (lack of)
4C3: ATW=the ability to see the weaknesses of the family and/or business, and to address them sensitively and constructively L
4C3: BFM=business first mentality L
1C3: IMD=in-laws more detached than bloodline family members L
4C3: RPRJ=right people for the right job L
4C3: PRB=power and responsibility of bloodline FL
4C3: EOE=encourage outside experience L
2C3: FCP=flexibility on company policy (pragmatism before ideology) L
C3: ASO=ability to seize opportunities (entrepreneurial)
C3: VAC=vision and courage (leadership)
C3: ENP=“enlightened” nepotism present
C3: BBQ=a balance of business qualifications
C3: RFM=respect for other family members
C3: SFH=sense of family history
C3: TVC=teamwork versus competition (includes sibling and cousin rivalry)
C3: ID=independent directors
C3: CGH=corporate governance high priority
C3: SOG=spirit of generosity
C3: EPA=external professional advice
C3: ID=independent directors
C3: GPS=graceful pruning of shareholders
C3: FFB=family first business
C3: FCO=family council operating
C3: ANC= acceptance of non-family CEO
C4 Open coding

4C4: FBR=family business research L

4C4: LAL=luck & leadership (what proportions) (you need both to succeed) L

2C4: LLM=long-lasting marriages (help preserve stability and keep equity within the business e.g. no expensive divorce settlements F

4C4: VOU=value of unity (united we stand, divided we fall) L

4C4: SRE=separate remuneration and equity (don’t muddy the waters; ownership is ownership; a job is a job) L

4C4: HPR=high profit retention (keeps business viable) (e.g. retain 2/3 pay out 1/3 in bonuses & dividends) L

4C4: KPE=kids perceive they have been treated fairly and equally by the parents L

4C4: LAC=leadership and communication L

C4: CGH=corporate governance high priority

C4: PTB=professionalising the business

C4: COG=condemnation of greed (strong family value/ see BFL)

C4: TMP=the Maria Principle

C4: ASC=adaptable structure and culture

C4: ANC= acceptance of non-family CEO

C4: SAC=separate areas of control

C4: PMR= pay market rates (to family members to avoid resentment and compensation claims)

C4: BFL= binding family values (see COG/condemnation of greed)

C4: TVC=teamwork versus competition (includes sibling and cousin rivalry)