Why Are Family Owned Businesses Unable to Sustain Beyond the Second Generation

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Abstract

The main aim of this research is to investigate the causes of lack of sustainability in fob i.e. family owned businesses. The research has been carried out in Pakistan and therefore, the businesses included are from Pakistan. The research will help in addressing the pain points of FOBs in Pakistan. Other than financial reasons, there are serious issues which sometimes leads these FOBs to a situation of closure. The research study is qualitative in nature as the scope for his research suggests that we need to determine the causes for the failure of FOBs in Pakistan. Data was collected through interviews from people who work in family businesses and had been working in FOBs for more than 15 years. The Findings from the research suggest that, the variables i.e. Responsibility, Authority & Power, Effective Communication, Honesty &Trust, Succession Planning are main reasons for the lack of sustainability of FOBs. There are other variables too that impact on the sustainability of FOBs but, the research has shown only the above variables are more talked about. In conclusion, succession planning has been the major bone of contention between the FOB's and their future however, other issues are also important. The firms that mutually plan the succession and made an agreement at the time of inception, are able to survive longer. However, a need for a proper conflict management system among the family members was also frequently talked about.

Keywords: Succession Planning, Conflict Management, FOB (Family Owned Business)

1. Introduction

Family owned businesses (FOBs) are a cornerstone to the world's economy. Some estimates suggest that as many as 38% of all businesses are family owned. These same sources attribute 64% of the U.S. GDP to FOBs (Astrachan & Shanker, 2003). Additionally, depending on how one defines "family owned", FOBs employ somewhere between 27% and 42% of all U.S. employees (Astrakhan & Shanker, 2003). Due to the prevalence of FOBs, many social, family, and organizational researchers and theorists began studying them in the 1980s. The conclusion from these early studies showed that FOBs have numerous strengths which help them outperform nonfamily businesses, but these businesses also struggle to maintain the complex balance among the hindrances which causes damages to the future of FOB's (Aronoff, 1998).

As defined by Astvachan (2010), the family-owned business is one in which there is family ownership of more than 50 percent of the business in private firms or more than 10 percent of the stock in public companies. One or more of the following is also true: more than one family member works in the business, the owner anticipates passing the business along to the next generation of family members, or the owner identifies the firm as a family business. Also using the multiple conditions dimension as a basis of definition, Winter & Danes (2004) define the family-owned business as any business in which majority ownership lies within a single family and in which two or more family members are, or at some time were, directly involved in the business (Winter & Danes, 2004). Lambrecht, (2005) noted that the majority of businesses are family-controlled, from unsung millions of modest firms to commercial giants such as Hyundai, Wal-Mart, Ford, or Samsung. For example, the Woodruff family at Coca-Cola and the Agnelli family at Fiat still control the majority of the shares in these companies. However, fewer than 30% of family businesses pass on to the second generation and only 10% make it to the third generation (Lambrecht, 2005).

As addressed in the introduction, FOBs are prevalent. Nearly 55-70% of businesses in the Pakistan are family owned, and these businesses together are the largest source of employment and the largest contributor to the Gross Domestic Product in Pakistan (Haseeb, 2016). While this population, and its influence on communities and families has been mostly overlooked in business and family science fields, it is gaining attention with an increasing flow of service providers and other investments coming to Pakistan as well as, growing awareness in the field of Entrepreneurship (Entrepreneur, 2008).

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A family business without profit will not survive in the long-run. Profitability provides a measure of success for the business, as well as a source of capital to help expand the business. The profitability of a family business also helps attract new investors who will help them finance future projects and production. The longevity of the business is dependent on profitability because it allows the business to adapt to changes, and it also provides a cushion for future heirs to continue its growth. Profitability being the main motive of any business can be dismantled by various issues causing unsustainability to the business. These issues mainly includes: Roles in business, Business goals, Vision and values, Family first VS Business first, business succession planning, management strategies, other factors that affects business, family tensions (e.g., whether the respondent reported confusion about members' duties in the business, lack of management strategies, confusion over authority unequal ownership, unfair compensation, failure of conflict resolving, unfair workloads, and competition for resources within family business) were negatively related to both business achievements (Chrisman & Chua, 2003).

Problem arises when members of family come side by side in terms of managerial roles. Gersick (1997) presented a developmental model of family business. He described family business as three independent but overlapping subsystems: family, business and ownership (See Figure 1). For example, in Figure 1 all family members in family business are in the bottom left circle, all owners, no matter partners or shareholders, are within the top circle, and all employees are in the bottom right circle. Any individual in the family business will have only one position in one of the seven sectors defined by the overlapping cycles of the subsystems; for example major business managers who own the business will occupy sector 7. People in different positions assume different responsibilities in the family business, which implies that positions with more overlapping roles would bear more complex duties problem arises when family members try to grab this complex and decision making positions. Mostly, clash arises when experienced and aged members who are influential grab the position. These are some of the issues which lead an FOB in jeopardy; the literature review chapter will put light to the different aspects that disturb the sustainability of such businesses (Gersick, 1997).

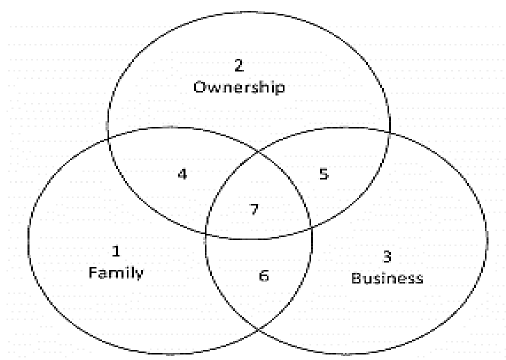


Figure 1: The FOB Circle Model

The pain area is these issues will not only disturb the business position of the family but it creates a major effect on the employment as well as, it hurts the national GDP as well. There are examples in Pakistan that, successful FOB's will convert into bankruptcies after the third generation takes lead especially in textile and manufacturing sector. Family businesses find it really difficult to cross the threshold of the second generation. 70% of family owned businesses fail going into the third generation. Only, fewer than 30% of family businesses pass on to the second generation and only 10% make it to the third generation (Lambrecht, 2005). My research is focused on trying to find out the reasons why family owned businesses fail before the third generation. Therefore my problem statement is: To determine the reasons that why family owned businesses are unable to move from the second generation into the third generation.

1.1 Research Questions

- What are the determinants of success in family own business?
- What are the main obstacles in FOBs?
- How these obstacles disrupts the sustainability of an FOB
- What are the main recommendations that ensure family business succession?

1.2 Research Objectives

- To identify the causes of lack of sustainability in family own businesses and how these factors are created
- To identify the reasons behind all these factors that leads to failure in sustainability of business
- To provide a list of factors that can be controlled to create an FOB that sustains across multiple generations.

1.3 Limitations & Delimitations

The research is conducted in Karachi, however, Lahore and other cities of Punjab also dominates in Family owned businesses. However, the sample taken for this research represents selected people who have their business setup in Karachi only. Since it is a qualitative study and it mainly involves those respondents who are conducting businesses therefore, time needs to be taken from them and therefore, it becomes quite difficult to close these interviews within a limited time. One another limitation is that, there seems to be less data from previous research that is specifically Pakistani based. However, international literature has widely been available and used for this research.

2. Literature Review

Coleman and Carsky (1999) simply defined FOBs as any business that has an owning family with a 50 percent or larger stakeholder position. Family businesses provide a benefit to both the family and the business systems (Anderson & Reeb, 2003; Stafford et al., 1999), especially when combined in the right way. For example, FOBs often use valuable resources from the family to outperform other businesses, and FOBs provide greater employment and wealth opportunities to owning families in comparison to other non-FOB families (Gersick et al., 1997, Sharma, 2004). Unfortunately, it is also clear that if the family and the business do not function well together, serious problems can develop. There are many anecdotal stories of the business system tearing the family system apart and the family destroying the business (Fleming, 2000; Gersick, et al., 1997; Lansberg, 1992). The question that has driven the field for the last three decades is, "How do the family and the business function in a way that optimizes the benefits for each system?" (Sharma & Nordqvist, 2008)

2.1 Structure of FOB

The first problem which creates the lack of sustainability in an FOB is basically the structure of that FOB. It was illustrated in the introduction (Figure 1.1) the Three Circle Model (Taguiri, & Davis, 1982), is made up of three larger systems that overlap within an FOB, (the ownership, family, and business systems). This model allows seven distinct options for subgroup membership, meaning that individuals can be a member of multiple systems. For example an individual can be a member of the family and business systems (e.g. a teenage son of the owning family who is employed in the business), a member of the ownership and family system (e.g. a mother in the owning family system who is also the CEO), a member of the business and ownership systems (e.g. an employee who also holds a minority share), and a member of all three systems (e.g. an entrepreneur who is the father of the owning family, works as an employee but holds the majority of ownership). Each one of these individuals has a distinct role in their FOB and each position influences the FOB in different ways.

The question that has yet to be answered in the literature is how individuals and groups influence FOB structure, and conversely, how does FOB structure affect individuals within FOB systems. This study proposes that FOB structure is a moderating variable, meaning that individual independent variables (in this case, perceived FOB value orientation and individual satisfaction) are influenced by the owning family dynamics (e.g. adaptation, cohesion). Therefore the chosen FOB structure is influenced by the family system dynamics, and the FOB structure influences the individuals within the FOB. For example, a family system which is enmeshed (high in cohesion) and rigid (low in adaptability), may produce a FOB structure with a rigid boundary between the family and the business systems. This structure is likely to create a situation where family members have a higher level of satisfaction than non-family members.

2.2 Family First VS Business First:

According to Amarapurkar & Danes, (2005) a problem develops in FOBs when the owning family begins to feel taxed by their relationship to a business, or when they feel that the business has taken over their family (in other words there is diffuse boundary between the two systems). In cases like these, stress develops in the family and that stress easily flows through the diffuse boundary into the business system. Strong dedication towards business has been shown an increased business performance while on the other hand; it also creates high levels of dissatisfaction, anxiety, and conflict within the family system.

According to Thomas (2008) FOB's structure are important and plays a significant role when businesses start growing. During the initial days of business no one considers the importance of the structure however after having some growth, problems arises on structure and placement of family members on different positions. Mostly the head of family or the one who has 50% stake in business chooses the placement on key position. The placement of these positions can be conflicting because mostly, these positions in an FOB depend upon favoritism rather than on merit. This is where the problem starts and an FOB turns into independent businesses.

2.3 Factors Leading Towards Failure of FOBs

From the previous researches, some factors that leads towards failure of Family owned business are discussed below.

2.3.1 Open Communication

According to Thomas (2008) one major reason for failure in an FOB is communication which then leads into development of family politics. A study of 34 FOB around the world shows that, they become independent because of lack of open communication which leads to differences among the members and developed an essence of dishonesty and governance. Family businesses face a lot of problems of communication as the head is not able to communicate his desires to the younger generation (Fleming, 1997).

Reasons for poor communication among family businesses members are accountability, compensation, lack of trust, and feelings of unfairness (Astrachan& McMillan, 2003). Individual responsibility for creating a positive climate for improved communication requires that multiple family members be willing to have more skillful communication. Training with professionals, professional interventions, organizing more skillfully managed meetings, and simply creating the time and space for dialogue can create a positive climate for better communication. Two situations in which communication failures are likely to persist are when an important individual simply will not change or where two generations simply cannot find a way to bridge the gap between them (Astrachan& McMillan, 2003).

The National Association of Corporate Directors (2004) discussed the top 10 questions facing family business boards as follows: Why should my family business have a board? What are the critical issues that my board must address? What techniques can you suggest for developing a more professional board? How do I manage communications between the board and the family? Should I let my outside directors push for ideas that are not supported by the family? What role should my board play in transitioning the company to the next generation? Should my board be led by a nonexecutive, nonfamily chairperson? How can I get my board to work together when they represent different interests? The National Association of Corporate Directors (2004) concluded the most important word in governance is communication. If communication is not open, smooth, and unrestricted between owners and directors and between directors and management, failure is just around the corner. Another critical factor is the importance of councils: how they are structured, their leadership, and their relationship to the directors who represent their interests. When a company knows where it is headed with respect to generational transition, management transition, and initial public offering, the answers to questions such as those listed above become much easier (National Association of Corporate Directors, 2004)

Top management professionals who are not related to the family must understand family dynamics and try to have open communication with the shareholders of the family business. Galagan (1985) discussed problems commonly encountered by human resource development (HRD) professionals in working with the family firm, which is a meeting place and often a battleground for two major social systems: the business and the family. What happens when these two systems overlap and compete often determines whether the business survives. Survival can be facilitated when the HRD people working with a family firm understand family dynamics. The HRD professionals can help in succession planning and in objectifying the reward system and can also help employees deal with negative feelings from having to work for a family member appointed for reasons of kinship rather than competence (Galagan, 1985).

Misunderstanding can arise from poor communication. An efficient communication network within the organization can be helpful to overcome the resistance of creating a new model in organizations (Axley, 2000). He raised some insightful questions to consider while communicating change, such as, "Why is the change needed? Why is the change needed in this way? Why is the change needed at this time and place? What preparation is needed for the change? Who will be affected by the change? How will the change proceed and in what sequence? And when will key changes take place and within what time frame?" The questions raised here can help family business leaders to develop an effective communication network to overcome conflict of interest among family members and top management.

2.3.2 Honesty, Trust, and Mutual Respect

Balshaw (2004) stressed alternative ways to diminish disagreements and mistrusts by establishing better communication in the family business. Trust, in the early stages has a competitive advantage for family businesses but often deteriorates as the firm grows (Sundaramurthy, 2008). Trust is dynamic and different dimensions of trust need to be developed through structures and processes to sustain interpersonal trust inherent in the early stages (Sundaramurthy, 2008). In family business literature, issues of trust, justice, fairness, and integrity are widely discussed as they relate to family member and non-family employees. However, psychological contracts such as individual beliefs, the acceptance of exchanges, valued payments, and perceived promises between non-family members and the family business need a further research (Ward, Envick, & Langford, 2007). Morris, Williams, and Nel (1996) contended in successful transitions heirs are reasonably well-prepared, family relationships tend to be positive, and succession planning and related control activities are relatively informal. Of the three variables, trust and communication in family relationships appear to have the most significant impact on transition of members into the business.

Communicaid global communication (2005) provided information about Asian culture, key concepts, and values. The most essential social unit in Asian culture is the family. A Turk's personal life depends on and revolves around family, friends, and other community groups. Family loyalty is a vital aspect of Asian society and has a major impact on Asian business practices. Many businesses in Asia are still family owned and run and the concept of family connections and influence is apparent during business exchanges in Asia (Communicaid global communication, 2005). Handler (2002) investigated two interpersonal relationships that are central to the next-generation family member's experience of succession: the level of mutual respect and understanding between the next-generation family member or members and the founder or owner and the importance of sibling accommodation between the next generation family member and siblings or relatives from the same generation.

2.3.3 Conflict Resolution

The family company is a combination of two completely different systems: families and businesses. The system family is built on emotion, loyalty and care for the welfare of family members. The company pursues results based on the effective fulfillment of the set tasks and in it there is no room for emotions that are the foundation of family relationships. These two systems interacting too often lead to conflicts, which are also reflected in the deterioration of family businesses. In the US, the passage in the second generation spends only one-third of family businesses, less than 10% of them survive in Third generation (Wallace, 2010).

There are all sizes of family businesses, most of them can be classified as small and medium sized enterprises. This is the conclusion that can be found in many studies of family businesses. For most people, the most important two things namely, their families and their work. Thus, we can understand the invincible power of organizations that combine both. Family companies are so specific form of organization, which is their "specialty" so positive and negative consequences and are an important factor in economic development. During development each company has its necessity, Existence Company, its performance and the growth and development while serve the increasing prosperity of both internal and external participants of the company (Ghost, 2003). For entrepreneurs to avoid any problems that arise with the transfer of succession, they should from the outset educate their future successors in the right direction, so that from outset they know that they will take over the function of the company (Aronoff, 2001; p. 34).For within business and family, the succession is the most critical point in which appears the most conflicts

(Churchill & Hatten, 1997). Succession is always complex and complicated because it involves a number of changes. After a succession the transition is to re-establish family relationships and traditional structures and there is a need to structure management and ownership (Lansberg, 1996). In order to prevent conflicts of companies that are tied to the issue of succession is important that you draw up a plan of acquisition. The plan must be drafted carefully in the light of the future needs of families and businesses (Lansberg, 1996). Berry (2004) concluded that people who are brothers or sisters have experienced great difficulty separating family issues from establishing an effective work environment. A successful business requires assessment of any sibling relationships. Siblings must acknowledge each other's skill, try to understand and respond to each other's' viewpoints and control their negative feelings to solve related problems (Berry, 2004).

When the working relationship between generations is problematic, next-generation family members likely feel anger, frustration, and lack of recognition while involved in the family business (Handler, 1991). Lambrecht (2005) presented an explanatory model for the transfer of family businesses to subsequent generations. Fogel and Powell (1997) recognize the necessity of a constitution to deal with common problems in family-business relationships. The constitution is a group of standards designed to lead the firm when they face chaos and experience alteration. The structure of the constitution should be designed precisely and meticulously at the very beginning as it must determine and encapsulate any potential problems or topics. A key advantage of such constitutions is that they can resolve issues related to succession in advance of any crises that take place (Fogel& Powell, 1997). As the family grows and matures, planning is crucial to accommodating changing family relationships/dynamics and circumstances and keeping the family unified. Trust is vital to all organizational relationships; the establishment of a clear and fair set of rules and applying them consistently is fundamental to the building of trust amongst family members (Sonfield&Lussier, 2004) Kozan et al. (2006) indicated that family business require further study. The ability to improve relationships, knowledge creation and sharing, and coherence among family members are primary objectives for increasing the success of family businesses. Poor leadership within family businesses exacerbates other problems. Leaders who are involved with family- owned businesses must know how to be effective change agents who can cope with technological and cultural changes and try to motivate members of the family to that direction at all times.

2.3.4 Succession

It is a weakness that is present only in family businesses. During the most important interests of the company's long-term physical security to which It applies merely to the transfer of a family owned business to further next generations successfully. This represents the major problems in the family business. Transferring the family owned business is a complex process because it is necessary to coordinate and combine the ownership, organizational, financial, legal and tax aspect, which additionally enrich the emotional effects. When the founder of the company starts to think about its withdrawal, must think carefully who will leave his office. The problem occurs if the founder of several children. In the case of a wrong decision can lead to family conflict, which of course then also transferred to the company, which then also can be fatal for company. Once the transition is completed, it happens in a big company turnaround. Company under the new owners begins to live and act differently but change the culture of the organization. Necessary again establish trust with existing partners, which take some precious time. To entrepreneurs avoid any problems that arise with the transfer of succession, however, some from the outset educate their future successors in this direction, so that from outset knows who will take over the function in which the company (Aronoff, 2001; p. 34).

For business and family is the most critical point in which appears the most conflict, the issue of succession (Churchill &Hatten, 1997, p. 57). Succession is always complex and complicated because it involves the company a number of changes. After a succession the transition is to be re-established family relationships and traditional structures Impact on new, however, also need to structure management and ownership (Lansberg, 1996 p. 71). In order to prevent conflicts of companies that are tied to the issue of succession is important that you draw up a plan of acquisition. Succession planning is important, therefore, that families can harmony and continuity of companies carried forward to the next generation. The plan must be drafted carefully in the light of the future needs of families and businesses (Lansberg, 1996, pp. 70-71).

The Other research has focused on formal kin involvement in the Generational differences among family-owned businesses that must be resolved for succession efforts to be successful. A main objective for most family businesses is to run successful family businesses that outlive generations of individual family members. Consulting and training activities for intergenerational family members can be both beneficial to their business and help the global economy be more efficient and effective. In spite of the need, only limited prior research has investigated the nature of generational differences among family businesses and how consulting can help with these differences (Sonfield &Lussier, 2004). It is very important succession plan in advance. Namely, if the company is do not have a composite plan of acquisition, it is very important to do it as soon as possible plan. They assume they will be of great help in the transfer of family harmony and continuity of the company in the next younger generation. One of the major errors that occur in both companies, it is also subjectivity to the family of employees, or sympathizing people who are more like them. If this occurs too often and employees feel the selection between them, this can lead to poor sentiment in the company due to employee dissatisfaction, which then reach the small business efficiency. Behavior in the company must be professional and to all alike, without differences of doing. Given that these errors both founders of the two companies are aware of, are already halfway the way that it also successfully eliminated.

Studies have determined that first-generation family businesses do less succession planning than second- and third-generation family firms. First-generation 33 family-owned businesses have the highest use of equity versus debt financing (Sonfield&Lussier, 2004). Siblings who know the vision of their organization can work well together without bringing family issues to their business environment. Berry (2004) concluded that people who are brothers or sisters have experienced great difficulty separating family issues from establishing an effective work environment. A successful business requires assessment of any sibling relationships. Siblings must acknowledge each other’s skill, try to understand and respond to each other’s’ viewpoints and control their negative feelings to solve related problems (Berry, 2004).

Handler (2002) investigated two interpersonal relationships that are central to the experience of next generation about succession. the level of shared respect and understanding among the next generation family member or members and the owner or ceo and the importance of sibling accommodation among the family member and relatives of next generation from the same generation. When the work life among generations becomes challenging, than it affects family member of next-generation. They probably feel annoyance, disappointment, and lack of appreciation while concerned in the family business (Handler, 1991). Lambrecht (2005) presented an explanatory representation for the reassign of family owned businesses to subsequent generations. Ten case studies demonstrated that family owned a business transferring is an enduring, incessant process, where the family must attend and encourage the procedure of transfer, entrepreneurship, autonomy, morals, experience, knowledge and education.

Fogel and Powell (1997) recognize the necessity of a constitution to deal with common problems in family-business relationships. The constitution is a group of standards designed to lead the firm when they face chaos and experience alteration. The structure of the constitution should be designed precisely and meticulously at the very beginning as it must determine and encapsulate any potential problems or topics. A key advantage of such constitutions is that they can resolve issues related to succession in advance of any crises that take place (Fogel& Powell, 1997).

The benefits to be obtained from doing so are immeasurable and include improved business performance, managing family relationships and expectations as well as sustaining trust and communication. To remain viable, businesses must continually grow and develop, changing and adapting to external environmental factors. Consideration of the family business governance frameworks and regular planning provide opportunities to take stock and gain perspective. Considering changes in association among family member, planning plays a very important part in keeping the family united. Trust is vital to all organizational relationships; the establishment of a clear and fair set of regulations and applying them constantly is fundamental for the building of trust amongst family members (Sonfield & Lussier, 2004)

2.3.5 Responsibility& Authority

Responsibility and Authority is another issue that causes lack of sustainability in family owned businesses. The roles and clear recognition of personnel’s authority should be define that will lower the risk of conflicts among family members. As (Northern, 2009) added that responsibilities are a key conflict incurs in family owned business where individual is not assigned by any responsibility that leads towards conflicts which can affect the performance of Family owned businesses.

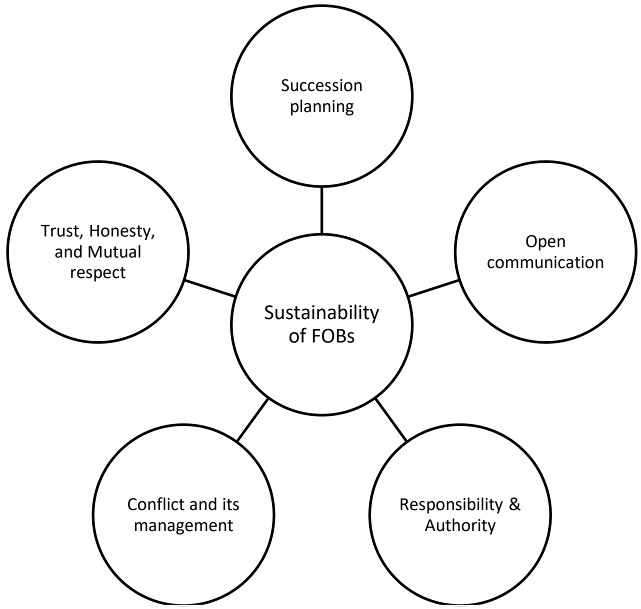
The Authority is defined as the person who has power to take company decisions and make rest of others to obey and follow them. In family owned business the owner has a right to perform all business activities whereas he make decisions and have control over others. (Stafford, Duncan, Dane, & Winter, 1999). Family owned businesses develop clear functions, responsibilities and a strong level of accountability. There is a understandable organizational structure, and family members follow the outline on the organization chart to a realistic amount. Family members and non-family members' employees concur and follow policies and procedures that are defined, and they don't hinder in places outside their part of responsibility. Authorize person make agreements and admire them thereby making a vigorous reliance environment. In business setup the more the structure of family owned business is proper, the less conflicts occur. The concept of Authority and responsibility further added by (Chrisman & Chua, 2003), when the perception becomes in individual family member mind that only the authorize person or who have the authority is responsible for every step, that can cause conflict among family owned business. The roles and responsibilities are not only for the authorize person, but individual have particular responsibilities that play a part in growth of family owned business.

Table 1: Factors leading towards failure of FOBs

Factors	Description	Author/Source
Lack of Succession planning	Succession planning should be carefully planned well in advance. Succession planning is at the root of most conflicts in FOBs. Focused on the transfer of power from one generation to the next.	(Aronoff, 2001) (Handler, 1991) (Churchill & Hatten, 1997) (Lambrecht, 2005) (Fogel& Powell, 1997)
Family conflicts and conflict resolution	Conflicts maybe based on historical issues. Families mostly select improper and inappropriate ways of managing conflict. Family conflicts are complex and require special attention to be dealt with effectively and are counter effective.	(Kaye, 1991) (Sorenson, 1999) (Liebowitz, 1986)
Honesty, Trust, and Mutual respect	Disagreements and mistrust have to be diminished in the FOB. Trust deteriorates as the business expands. Siblings must give respect to each other as they have different skills. Very little research has been done on psychological contracts between family members and their expectations towards each other.	(Balshaw, 2004) (Sundaramurthy, 2008) (Berry, 2004) (Ward, Envick, & Langford, 2007)
Open communication	Lack of communication leads to family politics. Effective change management model can reduce resistance within the organization. Non-family member managers must understand the family system and communicate effectively with family members. Concluded that the most important word in governance is communication. Open, smooth, and unrestricted communication between owners and directors, owners and owners, and directors and directors and within management.	(Thomas, 2008) (Axley, 2000) (Galagan, 1985) (National Association of Corporate Directors, 2004)
Responsibility& Authority	If responsibilities are not assigned initially and clearly, it will lead to role conflicts. Confusion over authority and responsibility is a major cause of clash amongst family members. The head of the family owned business keeps the authority towards himself and prefers control over others.	(Northern, 2009) (Chrisman & Chua, 2003) (Stafford, Duncan, Dane, & Winter, 1999)

From the above literature review, the following theoretical framework can be established. Literature review has shown that the following variables are necessary for the sustainability of family owned businesses. Therefore, the lack of application of these variables should result in the failure of the FOB.

2.4 Theoretical Framework



3. Research Methodology

The research approach used for this thesis is exploratory since the reasons behind the failure of family owned businesses will be determined. The methodology for this study is qualitative. Exploratory research provides more thorough investigation of the research questions than any other research approach could (Creswell & Plano, 2006).

The research population selected for this study are family owned businesses operating for more than 15 years. In addition, the respondents are part of the family and have been working in the management of the company. The sample size for this research includes 15 Family owned businesses. All the respondents were interviewed, and semi-structured open-ended questions were asked in order to gather the desired responses. The sample is selected on the basis of the following structure:

- The respondents are those who have family owned businesses and are managing them as CEO or Managing Directors.
- The FOB's operators have been working in their businesses for at least 15 years.

The research instrument used for this study is interview questions. The questions were semi-structured open-ended questions. Data was collected through interviews conducted with respondents. The research targeted 15 respondents and since their responses were similar only ten were needed. The interviews were analyzed using content analysis. The interviews are used to examine the elements that influenced the lack of sustainability in FOB's. The data for this research is collected from primary sources i.e. interviews.

4. Analysis

The participants under investigation consisted of all family business members who work for the businesses in the top management, who have been involved in the family business for at least 15 years. Selected family businesses were composed of similar characteristics, such as being in business for at least 15 years and employing a minimum of 25 workers. The profiles of the company's involved were as follows:

- The company 1 was one of the oldest companies among 5 family businesses which participated in this study. Company was founded in 1991 in Karachi by three brothers to provide pharmaceuticals as distributors. The older brother runs the company. In addition to the distribution business the company provides transport services. The business employees around 37 employees altogether and is currently working as a stable logistics and distribution company.
- The company 2 was also an older company registered with textile business carrying out for the last 25 years. The textile business includes brokerage services and manufacturing of textile goods, initially the

business has been started in Lahore and after that, they operates now in 3 different regions. Currently the business owns a network of 103 employees all around Pakistan. The business has started with two owners who are Brothers but, now the business involves 5 sons and Nephews.

- The company 3 was involved in Chips & other manufacturing business from the last 18 years. The business was a started by 5 family members and now the business has taken grip and started manufacturing plants in two cities having a sales force of more than 35 people having an annual turnover in billions annually. Initially the business was started with an investment all five members but, now the business has gain significant and 4 Sons and 2 daughters have been involved and taking care of all business operations. With the passage of time the business has faced some significant challenges however coping and learning from such lessons make business successful.
- Company 4 has been in business for last 22 years and is involved in making and selling of Jewelry. Two brothers have started this business from brokerage of gold at Sarafa market while now the business has its own outlet at Tariq road and Hyderi. The business was started with 500 RS and now the turnover reaches up to millions bi-annually. We have owned our shops at Tariq road and Hyderi and is now manufacturing own gold having a client portfolio based on families. Now our business has new partners i.e. 4 sons. Out of these 4, one is involved in making the second is involved in purchasing, 3rd and 4th looks after sales counter timing wise. We have faced some conflicts as well as, serious issues therefore we have assigned some responsibilities and distribution of shops too.
- The company 5 is selected having a business of confectionary manufacturing items with a history of 38 years. They had started the business from small stall selling bread and confectionary items. The business was then owned by four brothers worked as labors, delivery men, manufacturer and purchaser. Initially there is no concept of distribution of wealth and assignment of roles and responsibility as they all share equally and sometimes unequally without any kind of issue. They had started from a stall and now have a brand name having a branch network of 8 bakeries and one Factory manufacturing confectionary items. Now 6 more Sons have come forward to run the business so they have divided the responsibility and the bakery setup as well after having some conflicts among the members 1 of the Son has left the business because of such conflicts. They have defined a legal pathway of distribution and ownerships as well.

The interviews were conducted at businesses personally after getting an appointment by phone. Most of the participants were friendly and willing to understand and get some insights about their family business dynamics for improvement. The analysis of data is done by Content analysis. Using qualitative, group response formats allowed family business members to share their opinions and concerns in their own words in an open environment.

4.1 Key Factors

The participants engaged in brainstorming about problems and needs with regard to that theme in order to come up with possible solutions. The researcher observed behaviors and took notes during the intensive and brief consultations. The participants were insured of anonymity and confidentiality. The researcher maintained a professional attitude towards the interview.

4.1.1 Interview Results

Through thematic analysis, the following factors were identified as the causes of lack of sustainability of family owned businesses.

1. <u>Lack of Succession Planning:</u>

The questions about succession planning produced the following themes during the interview. Lackof succession planning included:

(a) Lack of structure:

Company 1: “When our grandfather passed away, we faced a lot of problems in deciding who would take the place as the head of the family. All the family members got involved in the business and this created many conflicts”.

Company 2: “A time came when all the brothers decided to sell the company and operate their own businesses. But after that a senior took the initiative and decided to plan for succession”.

Company 4: “We had to sell some stakes of our business in order to survive as there were no planning for succession and we needed the money”.

Company 5: “All in place, roles clearly defined”.

This lack of planning and the admittance by the members shows that 4 out of the 5 companies faced hardships because of the lack of planning of succession to the extent that they were about to falter. As stated, one company had to sell a portion of the equity, another company was about to break the business and go their separate ways. The only company that had a succession plan in place, was the only company that had no problems and everything was going well for them.

(b) Communication Gap:

Company 1: "My grandfather never talked to anyone related to issues of business and thought that he will live forever and will control the business".

Company 2: "We seldom talked to each other about business issues, most of us just focused on what tasks we had to do and when the time came to nominate a successor, there was nothing".

Company 4: "We had to break a lot of barriers in order to communicate with each other as even in our house, we never expressed our feelings to each other and that gave us a lot of problems to talk with each other.

The communication gap also shows that members were not comfortable talking to each other and wanted to continue with their daily tasks. They lacked the confidence to communicate and hence found it difficult to be assertive. This lack of communication lead to the incapability of the family members to do succession planning.

(c) Nepotism:

Company 1: "My elder brother was my grandfather's favorite. Whenever he wanted something done, my grandfather would always ask him to do the task. We always thought he would be the next one to lead us, but there was no confirmation from my grandfather".

Company 3: "We are five brothers who are managing this company collectively. We all have our opinions about who to give leadership position in the company after we retire. We have not streamlined a process for the purpose".

Only two of the five companies had the problem of nepotism, others didn't have the same problem and therefore this is the third theme of the findings of lack of succession planning in FOBs and its effect on the sustainability of Family Owned Businesses.

2. **<u>Family Conflicts and Management Strategies</u>**:

The questions on family conflicts and conflict management produced the following themes.

(a) Generation Gap:

Company 1: "My grandfather belonged to the generation of the era of Ayub Khan, when Pakistan was a different country and had different norms and values. He frowned about corruption and bribe. He didn't understand that in today's business environment corruption was a must. Whenever we had conflicts with him, he simply used to say that this new generation is not following the right path and they need to have morals and ethics. He used to tell us to keep quiet and we didn't like that".

Company 2: "We had a strategy in place to manage conflicts but was rarely seen. Mostly the manager would try to avoid clashing with other managers and employees".

Company 3: "The conflict resolution policy was in place but it is mostly managed by me. The managers tend to become very dominating and some employees have also left because of them, which is unhealthy for the business".

Company 4: Similar to that of company 3.

Company 5: "A conflict management strategy is at place and is functioning smoothly. We always focus on a collaborative style of handling conflict. We believe that conflicts are necessary for healthy growth".

Generation gap is a big issue when it comes to conflict and conflict resolutions. The older members think that they have more knowledge and the way they used to do things is much better than the modern way of doing things. They just don't realize that times have changed".

(b) Level of Education:

Company 1: "I believe that the one of the major reasons for conflicts within our family members is the difference of educational backgrounds. Those of us who had the education from Cambridge level schools and those of us who had education from Matriculation system think differently and therefore have differences in opinions. This leads to many conflicts. In addition to this, there are different ways in which we deal with conflict. My brother who is form the matriculation system lacks empathy and doesn't understand the perspective of those who had Cambridge education".

Company 2: “I have taken education from abroad, I am a US graduate and think in the manner in which US managers think but my elder brother has never left Pakistan and has never worked anywhere but at our own business so he doesn’t understand the world as I do”.
Level of education does make a difference when it comes to decision making. The better the educational standard, the better the results. Family members from different educational backgrounds tend to disagree with each other more than those that belong to the same educational background.

(c) Gender Biasness:
Company 3: “Our main source of conflicts are because of the female members, my sisters think differently. They think everything is like a family and everyone should be treated like that, but we, the men, disagree and we say that this is a business and not a family. Emotions should not play a role in this. We do talk it out so that no one gets angry on the other person”.
Gender Biasness is mostly linked with just one company, other companies didn’t have much difference in educational standards and/or gender.

3. Honesty, Trust, and Mutual Respect:
The questions on Honesty, trust, and mutual respect gave the following themes to the findings.

(a) Legal Framework:
Company 3 and Company 4: “We don’t have any legal framework defined for trust or honesty. We just don’t lie to each other. We don’t need to announce to each other that we are telling the truth”.
Company 1 and 2: We have built a code of conduct of business ethics that we adhere to. My father makes sure that we follow the code of conduct to the last letter”.

Family owned businesses don’t realize the importance of a code of conduct. This is a legal framework that allows businesses to operate with honesty and integrity, without jeopardizing the relationships within the family owned business.

(b) Ego:
Company 1: “My elder brother doesn’t think much of me as he never allows me to do the important work and that really hurts me”.
Company 3: “My brother thinks that my sister and I are girls and that we don’t know how to do business. He doesn’t understand that we have a different perspective about business that doesn’t mean that we don’t know anything”.
Ego and self-righteousness create bitterness in relationships and should be avoided at all costs. Family businesses where one member shows ego and believes himself to be better than the others tend to move towards decline and destruction.

4. Responsibility:
Company 1: “Initially, there were no responsibilities, and we did what we wanted, this attitude was creating a lot of chaos and needed to be reined in. My grandfather, during his lifetime, organized the members and gave us tasks and responsibilities”.
Company 2: “We have clear responsibilities set out but the problem is that they are not equally divided and some have more responsibility than others and because of this there are clashes”.
Company 5: “We have clear set of responsibilities and authorities and there are no clashes as we do not interfere in each other’s business”.

Responsibility was considered as an optional item and only when chaos was evident, did the elders of the family try to define the responsibilities of the members. Once the responsibilities have been clearly defined, the operation of the business became smoother, except in company 2, where the problems were there because of unequal distribution of responsibility.

5. Authority and Power:
Company 1: “The power is centralized to the CEO. The CEO is responsible for the growth of the business and therefore he has to take care of the tasks and see that they have been accomplished. If I distribute power, then someone might abuse that power and use it unwisely and will cause damage to the business”.

Company 3: “We share authority and power. As mentioned earlier, we talk things out and therefore there are very few chances that a clash would arise because of this. This is our strength”.
Company 4: “We have a matrix in place for the power of each of the members, but there is no implementation as the power is centered on the CEO. He doesn’t delegate power to other members. It seems that he doesn’t trust us”.

Pakistan is a nation with high power distance and therefore people tend to respect power more than other nations. Since, the people are culturally inclined to recognize power as superior to them, centralization of power exists in our society. As we can see through the interviews that in most cases, the power is centralized and therefore it flows from top to bottom. In today’s dynamic environment that is a cause of concern and will result in breaking of the family owned business.

Responses against Factors

Factors	C1	C2	C3	C4	C5
Succession Planning	Initially not defined had to face challenge.	Initially not defined had to face challenge.	Initially not defined had to face challenge.	Initially not defined had to face challenge and sold some stake from the family business	Purely defined initially, Branches are assigned accordingly.
Responsibility	Initially not defined as business in initial stage	Defined and assigned but, clashes arises due to un-equal and wring distribution	Not defined. All members are working to support business but, it hampers cost	Defined and assigned but, clashes arises due to un-equal and wring distribution	Defined branch wise and function wise.
Honesty Trust & Respect	Legal Framework has been defined and oath to defend honesty and trust.	Individual Respect and Honesty are defined along with consequences	No legal framework is defined	No legal framework is defined	Taken dinner daily at one place where respect and importance of trust is defined to all members.
Conflict Management Strategy	Possess conflict management strategy but, rarely exercised up on it.	Mangers are practicing it based on the CEO instructions	Possess strategy but, not properly structured usually managers are doing it	The administration is looking for it on the instructions of DCEO	Proper structure, defined retention plan for employees.
Authority & Power	There is not defined power and authority matrix	All power and authority directly related to CEO	Family members have the total power for exercise.	Defined structure but not implemented as structured	Power and authority matrix of all departments are defined

4.2 Discussion

The findings from the interviews suggest that, the organizations have faced the challenge after the death of grandparents, and this hurts their business growth. All the family members get involved in business and conflict arises in the meantime the assignments of clients got late and in the end had to have to face the serious consequences leading to losing the clientele. The problem arises when the business owners and grandparents have not planned for any successor. This hurts operations for more than a year but after that, the business again gains heights of success. There is a point when family decides these options of succession else serious challenges would be faced. Literature review also speaks about the need for succession planning and that it plays a major role in the failure of family owned businesses as described by the following studies (Aronoff, 2001), (Handler, 1991), (Churchill & Hatten, 1997), (Lambrecht, 2005), (Fogel& Powell, 1997)
For Example:

- The company 2 & 1 face serious problems of succession and time comes when the family decides to sell the business and share the money among all successors equally but, after that the senior members involved in and plan a business succession based on efforts and seniority and the family business goes on without selling.
- Company 4 in the same manner has sold some of its stake to others in order to mutualize the disagreement in the next generation kids as; grandfather didn’t have planned for succession. The sold stake includes the manufacturing plant major avenue to save cost

The findings from the research determine that, honesty and trust are the core values of a business. The legal framework of business should be defined clearly in order to avoid any kind of miss-trust and Dishonesty. Firm needs to have defined the authority matrix and current ownership structure along with proper policies regarding honesty in all manners. Internal Audit department should be independent and directly reporting to the company president. The researcher has identified that, Two of the five businesses have faced higher loss 5 years back just due to miss representation and honesty and trust matters. These points have further been reinforced by literature review. The following studies also indicate that the significance of honesty and trust needs to understood by the members of the FOBs so that they could be sustained for longer than the second generation (Balshaw, 2004), (Sundaramurthy, 2008), (Berry, 2004), (Ward, Envick, & Langford, 2007).

Initially the business was set up all the members are working as workers without any kind of specific responsibility. However, after the expansion of business and development in family leads to assignment of different responsibilities. Literature further strengthens this finding as has been mentioned in the research done by the following writers (Northern, 2009), (Stafford, Duncan, Dane, & Winter, 1999), (Chrisman & Chua, 2003).

The findings from the interviews suggest that, businesses has not defined the responsibilities properly which ultimately become the reason of conflict among the working members.

- Company 5 was initially facing the problem of management and therefore they are incurring losses. All the family members would then be assigned according responsibility with respect to timings and shifts.
- C-1 has not defined responsibilities as clear as C-2, therefore, their cost of operations kept on increasing and deliveries become late. There has been time when C2 has closed its one unit because, of not clear responsibility and increasing cost however after 3 years, the C2 has resumed this unit after clear responsibility assignment.

The findings from the interviews suggest that, authority should be clear and communicated to all. It has been witnessed that Successful FOB have clear line of authority and Power. The findings from the interviews suggest that, Authority and power issues would ultimately become the major bone of contention among the working members. The literature review also shows evidence suggesting that other researchers have also found that there is evidence that a lack of communication causes a lot of issues in FOBs as shown in the following articles (Thomas, 2008), (Axley, 2000), (Galagan, 1985).

- The C5 in this case is a good example. In C5 all the authority related to financials are with the family head while all other responsibilities of decision-making lies with the unit heads i.e. other than financial decisions. New supplier, new business, expansion, marketing Supply chain etc
- C3 has face challenges because, all the decision-making lies with one central person the family head. All the units report to him and the authority is not centralized. The model was famous in previous times however, now centralization has gain pace however, in C4 the model is successfully running.

The findings from the interviews suggest that, Firms define this strategy to avoid any kind of conflict. However, initially the firms didn’t take this seriously but after expansion in family and business the need for a clear strategy has come to front. The absence of resolution strategy will lead to closures and well as, high turnovers.

- The C4, C1, C2 has face this problem of not having a clear conflict management strategy among the family members.
- C5 & C3 have defined a clear conflict management strategy to avoid any conflict all the family members are invited on dinner every night at ne place where older and juniors all sit together to resolve any conflict in presence of all.
- C4 when expands his business conflict arises and in the absence of a strong strategy the firm losses a huge stake.

The literature review further strengthens the findings as these writers also suggest that conflict management/handling of conflicts creates problems for FOBs and usually lead to the failure of FOBs. The studies that give strength to the arguments include (Kaye, 1991), (Sorenson, 1999), (Liebowitz, 1986).

5. Conclusion

In conclusion, the research is carried out in order to determine the lack sustainability and its causes in an FOB. The research is important because it highlights the causes and lack of sustainability in Pakistani perspective. Although the FOB’s and nature of business they are carrying out is different from the one in

Pakistan and the others present and working internationally but, at the same time the problems and causes are similar. In this regard the literature review has been drafted based on such factors. The literature review suggest that, FOB are the most successful business model all around the world because, they incur less cost, better efficiency, holding of power, low cost of doing business and availability of resources from inside the family. As there are numerous advantages there are certain challenges too that needs to be addressed in order to carry out the successful future of business. The scope of our research shows that, we need to identify the causes that hinder the FOB's growth.

The factor which researcher has identified includes: lack of succession planning, power and authority issues, conflict and conflict management strategy, honesty & Trust, responsibility. These are some of the issues which hamper the future performance of FOB's. According to the findings of our research, all these factors are linked to each other while; succession planning is the most important one therefore an FOB that has planned their succession and communicates to others can run successfully. For this research we have selected five businesses that are purely FOB and working and running their business in Pakistan. Respondents are all these firms are interviewed and findings and their views are jotted down. Most of these businesses i.e. FOB have already experienced these issues and therefore are better respondents.

6. Recommendations

Following are the recommendations for this research:

- Succession planning: the business needs to have a proper succession planning. However, the designing of power structure in succession planning is designed in such a manner that members didn't have much issues related to it. Else conflicts started on the succession activity. Although the succession is residing within single hand but, its decision is hard to be taken and needs strong consideration on the contenders.
- Conflict strategy: The FOB should have to define a proper structure and matrix on conflict management. The senior member should be involved resolution of conflict. The strategy should be designed in such a manner that it addresses the conflict in the start as, lingering on these conflicts would only results in development of politics

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