**FAMILY BUSINESS MODELS**

4.1 Two Circle Model:-

Initial analysis of family businesses identified two overlapping but competing systems: the family system & the business system. D. J. Levinson, Ivan Lansberg & other academics who have studied family businesses have posited that the unique problems encountered by family businesses can be traced to situations in which the goals or norms of these two systems conflict. For example, management may keep an incompetent family member on the company payroll. Although this is clearly a poor decision for the business, it may be a good decision from the family’s perspective.

![Two Circle Model](image)

*Figure 4.1:* Two Circle Model (Tagiuri and Davies, 1982).

The two overlapping systems can be drawn as two overlapping circles (see figure 4.1). The circles correspond to involvement in the family, the business or both. The numbers in the diagram reflect the number of individuals in the family & the number of individuals employed in the business. The intersection of the two circles illustrates the number of family members who are involved in the business. Notice in above figure that only one family member is actively involved in the business while other family members are “non-participants”. The two circle model is helpful to advisers in understanding sources of tension & conflict in family business. Understanding these tensions can help advisers appreciate why few family firms are able to survive until the third tension.182

---

4.2 The Three Circle Model:

The Three-Circle Model of the Family Business System was developed at Harvard Business School by Renato Tagiuri and John Davis in the 1970s. It quickly became, and continues to be, the central organizing framework for understanding family business systems, used by families, consultants and academics worldwide.

This framework clarifies, in simple graphic terms, the three interdependent and overlapping groups that comprise the family business system: family, business and ownership. As a result of this overlap, there are seven interest groups present, each with its own legitimate perspectives, goals and dynamics. The long-term success of family business systems depends on the functioning and mutual support of each of these groups.

![Three Circle Model](image)

**Figure 4.2: Three Circle Model (Tagiuri and Davis, 1982).**

*John Davis reflects on the significance of the Three-Circle Model:*

“It’s durability is because it is simple, has immediate face validity and captures enough complexity in family business systems to help researchers, academics, managers and families think more clearly about the strengths and challenges of these systems.

Before the Three-Circle Model when the family business field first started, the few thinkers about family business were focused almost entirely on the business itself. Before too long, there was an understanding that family dynamics were influential in the business, and vice versa, so researchers thought about two circles: family and business. People were already starting to think about a system, where what happens in
the family influences the business, and vice versa. However, they ignored the importance of ownership factors. The addition of the third circle (Ownership) allowed much more attention to other issues that couldn’t be explained by the first two circles. Linking the family, business and ownership circles fully defined what a family business system is, which is the interaction of all three of these subsystems. “The Three-Circle Model was first published in the Family Business Review in 1982 in Tagiuri and Davis’ classic article, “Bivalent Attributes of the Family Firm.”

4.3 The 3-D Developmental Model:

The Gersick et al. (1997) developmental model is based on the three dimensions of ownership, family, and business, which is presented as a “three-circle model” by Tagiuri & Davies (1982). The model “describes the family business system as three independent but overlapping subsystems: business, ownership, and family. Any individual in a family business can be placed in one of the seven sectors that are formed by the overlapping circles of the subsystems.”

Gersick et al. (1997) have adopted a variation of the three-circle model, choosing to focus on family, ownership, and business and breaking each up into an individual life cycle. The result is a three-dimensional matrix they call their ‘dimensional model’ of the family enterprise. This developmental model of family businesses was one of the first models that made a real attempt to look at family businesses as three independent yet interdependent systems.

![Figure 4.3: The dimensional model of the family enterprise (Gersick et al., 1997)](image)

---

Although, this model provides a valuable step towards our understanding of family business, many important dilemmas that family businesses encounter are caused by the passage of time, organizational and family change, and ownership changes. As a result the effect of time in the three dimensions must be considered.

4.3.1 The Ownership Developmental Dimension:-

Ownership means possessing something by lawful right. In family business ownership creates and shapes—directly and indirectly—several social roles: shareholder, board member, full-time employee and family member. How the ownership structure in family companies develops depends upon its unique history and family membership. Ward is credited with identifying 3 different stages of ownership for family companies: Controlling Owner, Sibling Partnership, and Cousin Consortium.

• Controlling Owner:-

Companies that are controlled by single owner or a married couple are said to be in the controlling owner stage. The main characteristic of this category is that ownership control is consolidated in one individual or a couple. If there are any other owners, they have minority holdings and do not exercise significant ownership authority.

Key challenges for family businesses in this first category recapitalization, responsiveness, and preparing succession structure. Securing adequate capital, dealing with consequences of ownership concentration, and devising an ownership structure for continuity present capitalization challenges because the founding owner manager is usually the principal source of capital (usually from savings and labor investment by the founder, family and friends).

In this stage significant attention is needed to balance unitary control with input from key stakeholders so that the controlling owner’s autonomous control is balanced by input from other stakeholders. A significant challenge involves selecting and implementing an ownership structure for the next generation and making

decisions about whether to split the firm among a group of heirs or invest control in a single individual.

- **Sibling Partnership**:  
  This category describes companies over which ownership control is exercised by two or more siblings, regardless whether they are active owners. These family businesses in the second or subsequent generations have survived the controlling owner stage. Another characteristic is that effective control is in the hands of a common sibling generation.

  The key challenges in this category are developing mechanisms of shared control, defining role of non-employed owners, retaining capital, and managing family branch conflicts. Developing processes for shared control includes development of a structure that reflects different distribution of shares and control among the sibling group that fits the individuals in a particular family.

  Defining the role of non-employed owners involves means to create workable relationship between sibling owners employed in the company and those who are not. Some controlling owners distribute ownership shares only to those offspring who work in the company arguing that those who earn the profits should benefit from them; other families distribute equal share of ownership to all offspring arguing that the company is a legacy asset created by the parents for the benefit of all their children. In either case, issues arise that require creating effective relations among members of the family.

  Another challenge for the sibling partnership stage is attracting and retaining capital. Because older, established companies tend to be more reliable debtors, debt financing with banks and other lending institutions is easier to arrange than in the first generation companies. However, in the Sibling Partnership stage the interests and priorities of employed and non-employed owners regarding reinvestment and dividends may vary. When banks see divided behavior they are less likely to provide financing, so ensuring all stakeholders understand the company’s capital becomes an important task in this stage. Controlling functional orientation of family branches that may have group interests different from the company or other shareholders becomes a critical governance issue to ensure coordinated direction and control of the firm.
• **Cousin Consortium:**

In this stage many cousins from different sibling branches have ownership interests and no single branch has enough voting shares to control decisions. It is possible to have cousin ownership groups in small families that behave more like the sibling partnership category, so this third stage of the classic business family is based on at least ten or more owners.

Thus significant characteristic of this category is large number of shareholders and a second characteristic is a mixture of employed and non-employed owners. Key challenges at the Cousin Consortium stage are managing family and shareholder complexity and creating capital.

In this stage, powerful personal connections in the two previous ownership stages are weakened by a mix of ages, family relationships, wealth, and places of residence. Moreover, the shareholders may be a mixture of first cousins, aunts and uncles, second cousins and more distant relatives who may not have met.

Cousin relationships tend to be less intense and more politically motivated than those among siblings and cousins are usually at least one generation further removed from the founding of the company and may not share similar interests or values.

Creating a workable internal capital market among family shareholders to allow individuals to withdraw ownership is another key challenge in the Cousin Consortium stage. By creating an internal market, opportunities to sell interests are created in order to minimize negative consequences for the company.

4.3.2 **The Family Developmental Dimension:**

The family dimension in the three-dimensional model based on the fact that families continuously change. Some of the issues that business families face are: the entry of a new generation, the passing of authority from parents to children, the relationships between siblings and cousins, the effects of marriage and retirement. Such issues, according to Gersick et al. (1997), can be described only overtime.

The family developmental dimension includes four sequential stages: the Young Business Family, the Entering the Business Family, the Working Together Family, and the Passing the Baton Family. The biological aging of family members differentiates the “family” from the “ownership” and “business” subsystems.
• The Young Business Family Stage:

In this stage family development is characterized by the parental generation usually being under forty years old and, if there are any children, they are under eighteen. The key challenges in this Young Business Family Stage involve creating balance between work and family life and effective family relations. A significant challenge is creating a workable marriage enterprise by establishing a solid relationship with the spouse or intimate partner and children in the early years of their lives.

The family must make initial decisions about the relationship between work and family because of the additional pressures the business adds to the time, energy, attention and money concerns that young families face. These special business pressures include late hours, seven-day work weeks, and a tendency to have family social events taken over by business discussions.

In this stage it is necessary to work out the relationship with the external family. Finding a place for the new family in the extended families of both spouses and keeping a balance between sides of the extended family is always a challenge for a young couple.

Finally, there are the natural challenges of raising children. Young business families face the challenge of deciding whether or not to have children, timing of births, the number of children, and the time investment in raising them.

• The Entering the Business Family Stage:

Family development in this stage is characterized by a senior generation between thirty-five and fifty-five years of age and a junior generation is in their teens and twenties.

The key challenges in this stage of family development involve midlife changes in the parents and development of the children. Parents at this stage are managing their midlife transition because it is common for adults in their early forties to experience a time of self-assessment or what is sometimes called the “midlife crisis”. In the midlife transition the initial career decisions of the offspring stimulate self-questioning in the parental generation, raising questions such as “How did I become a business person?” or “If I had to do it over again, would I make the same decisions?” The fact that two generations are asking similar career questions creates the dynamics of this entering the Business Stage.
In this stage separation and individual development in the children are important. The offspring generation generally moves out of the parental home and this change is part of the parents’ midlife transition. The separation changes the family structure and the children seek some balance of becoming separate individuals while remaining part of the family. These differentiating pressures may lead some to embrace or reject the family business.

One key challenge is facilitating a process for career decisions by the children. The means by which the options for joining the family business or pursuing other careers are reached by the younger generation are critical and involve many questions, such as whether the business will continue for another generation, whether the parents want their children to consider careers in management in the firm or only to participate as owners, and whether several members of the next generation will run the firm together or only one individual will be invited to join. Parents also need to resolve issues about whether they wish to structure opportunity and experience so that they ultimately control who enters, whether they want the offspring to make the choice, whether children should join the firm immediately or seek higher education first.

- **The Working Together Family Stage:**

  This stage involves a senior generation between fifty and sixty-five years of age and a junior generation between twenty and forty-five years of age. The key challenges involve creating effective working relationships among adult family members.

  Fostering cross-generational cooperation and communication is critical at this stage. Family members need to openly discuss roles in the business, shared management and ownership responsibilities, and the effects the establishment of new families by the younger generation. The primary challenge is to create the linking communication mechanisms so the family is integrated in the business while diversifying personal interests and lives.

  Productive conflict management is needed at this stage because as the two generations work together; complex issues of authority and collaboration inevitably create stresses. Different agendas and perspectives, different roles, issues of authority and respect, and other factors create workplace and home conflicts that need to be openly addressed.
During this stage, issues of managing three-generations of family members working together simultaneously may arise and the entrance of the third generation creates new challenges and family dynamics that require adjustments in the company and family relationships.

- **The Passing the Baton Family Stage:**

  This final family developmental stage is characterized by the senior generation surpassing sixty years of age. The key challenges in this stage involve reducing activity in the firm and effectively transferring leadership. The disengagement of the senior generation from the business involves succession, one of the most discussed issues in the family business literature. In many cases the senior generation has difficulties leaving the business they have started and nurtured and the younger generation has difficulty waiting to take over the business. In this situation ensuring effective success and continuity of the business and its strategy creates a complicated and dynamic process.

  The generational transfer of family leadership can happen either gradually or suddenly. The death of one or both parents, the parents(or the surviving parent) deciding to sell the family home, parents choices to move to a warmer climate or place they grew up, illnesses, or mere desires to retire create situations in which leadership is transferred to the younger generation.

4.3.3 **The Business Developmental Dimension:**

In Gersick’s et al. model the business developmental dimension takes into account how and why organizations change over time. This includes the effects of external economic and social forces on organizations as well as organizational changes in a predictable sequence of stages, which are partly driven by conditions in the external environment but primarily result from complex maturational factors inside organizations.

  The three developmental stages are start-up, expansion/formalization, and maturity. Measures of development through the stages are growth and complexity, while each stage has characteristics of both size and structure.
• The Start-Up Stage:-

Business development in this stage is characterized by an informal organizational structure, with the owner-manager at center, producing a single product of service.

Organizational structures tend to be minimal and informal and procedures are established as need arises. Organizational communication is mainly from the owner.

The key challenges for companies at this stage are survival and realism. Entering the market, planning the business, obtaining financing, and meeting market needs are the fundamental issues owners face. Owners in this stage need to balance their emotional dreams for independence and business ownership and their belief in a business idea with rationale analyses.

• The Expansion/Formalization Stage:-

Enterprises in this stage are characterized by development of an increasingly functional structure and development of multiple products or business lines.

These companies are expanding their sales, products, and number of employees and tend to create more formalized organizational structures and processes such as human resource policies, differentiating marketing and sales, and production controls. The key challenges in the stage involve the evolution of the owner manager’s role and professionalizing the business. In this stage the business typically evolves from a founder-centered structure to a more formal hierarchy with differentiated functions and begins significant strategic planning that is required by the growth and development of the firm. Other challenges involve creation of organizational systems and policies and development of cash management strategies and systems.

• The Mature Business Stage:-

Firms in this stage tend to have more organizational structures supporting stability, stable or declining customer bases, modest growth, divisional structures run by a senior management team, and well-established organizational routines.

Owners often play less significant daily roles in managing work activities. Mature firms face key challenges of refocusing strategy, reenergizing management and ownership commitment, and maintaining regular capital reinvestment.\(^\text{186}\)

---

4.4 Family Business Models (Gimeno et al, 2010):-

Gimeno et al (2010) propose that family business models can be categorized based on their degree of family complexity and degree of business complexity. The six main categories of family businesses which resulted from their research are “Captain”, “Emperor”, “Family Team”, “Professional Family”, “Corporation” and “Family Investment Group”. The data for their model was based on data from 2007 from a database of Spanish family businesses. The business complexity aspect of the model was measured using variables such as size, number of workplaces, level of product diversification, level of internationalization, level of value chain integration, and the type of sector in which the business operates. It can be quickly seen that some of these are not applicable to a smaller family business which does not, for example, have any degree of internationalization or a number of workplaces.

4.4.1 Captain Model:-

These are basically SMEs (small and medium-sized enterprises) ranging from extremely small companies (micro-businesses, technically speaking) to medium-sized ones. The average age of the business is 28 years. Family complexity is also relatively low. The low business complexity is in some way duplicated in the low family complexity.

The entrepreneur shares ownership with members of the family (mostly his or her spouse, and later on their children). These are ‘founder businesses’, i.e., they are the result of one person’s effort, and usually last as long as that person has energy to spare.  

4.4.2 Emperor Model:-

The Emperor Model is a different kettle of fish. The level of complexity is high in family and business alike. The average age of these companies is 41, and consequently they are led by either a rather senior founder or a still fairly young second generation. This family complexity comes as a result of the passing of time. There are two generations working together, although power is in the hands of a single person who leads both the business and the family.

The shares are owned by several family members belonging to different generations. The degree of structure development is very similar to that of the Captain Model, which means that these businesses are run in a very similar way. The success or failure of the family business depends mainly on the abilities of one dominant person with high managerial discretion.\textsuperscript{188} Hence the names of the models: a captain is someone who commands a simple unit, whereas an emperor wields power over a wide range of social systems.

The Emperor Model is built over time. Frequency is very low at first but grows rapidly during the first 40 years of the life of the business, and then drops dramatically. This implies that it is a highly successful model for a cycle equivalent to one generation, but that it diminishes with the second generation as rapidly as it grew in the first. The difference in complexity between the Captain and the Emperor Models is due basically to two factors: time and the resources of the family leader.\textsuperscript{189}

\textbf{4.4.3 Family Team Model:-}

In this type of family business we find a feature that is unique to this model, namely that family complexity is greater than business complexity. The disorder that can be created in the business as a result of family complexity would appear to be limited, as restrictions are applied to the entry of family members into the firm. This limitation is to some extent spontaneous, as the small size of the firm makes it unappealing for the professional development of many family members, who opt instead for a career outside the family business.

The differentiation between ownership and management incorporated into this model requires a structural development that is deployed as far as possible. As a result, its structure has a medium level of development, midway between the low level of the Captain and Emperor Models and the high level of the Professional Family and Corporation Models.

In comparison with single-person businesses (the Captain and Emperor Models), power is more evenly spread (higher level of institutionalization), there is greater family/business differentiation, which makes it possible to keep many of the

\textsuperscript{188} The concept was first proposed by Williamson (O. E. Williamson, \textit{The Economics of Discretionary Behaviour: Managerial Objectives in a Theory of the Firm}, Prentice-Hall, 1964), to refer to managers’ ability to address objectives other than making a profit.

shareholders away from management affairs, and communication is better developed, given the family complexity that exists.  

4.4.4 Professional Family Model:

The Professional Family Model has an inverse complexity profile to the Family Team. Business complexity is notably higher than family complexity. Businesses of this type have undergone a relatively high level of growth and development, and display a medium level of business complexity, practically on a par with the Emperor Model.

The great difference between this and the Emperor Model lies in how it is managed. Its structure is completely different. Growth and development have come not from one highly competent leader but from a well-developed family business structure. Right from the first generation, the family opted for a less personalized management model.

The family is closely involved in management. This is the model with the highest number of family members in management posts (an average of 3.0), but these family members behave professionally, owing to the differentiation they have created in their family/business relationship structure. The family is a managerial family: it is oriented towards running the business, but with a high level of sophistication in management and structure in general.

The frequency of this type of business grows slightly in the first ten years, and then passes through a long period of stability and drops away over the last 40 years. The small numbers of businesses that begin with this model suggests that it is not the best model for the start-up period. If we look at the rest of the models, we find that the Captain or Emperor Models might be more appropriate at start-up.

This should be food for thought for academics and consultants alike. It is important to avoid recommending family businesses to implement structures that are inappropriate for their complexity profile (i.e., oversized). However, once the start-up period has passed, this model proves to be successful until increasing family and business complexity probably cause it to evolve towards the Corporation Model.  

---

190. Ibid, (pp. 63–64).
191. Ibid, (pp. 65).
4.4.5 Corporation Model:-

The Corporation Model is the most developed, in several dimensions. It shows the greatest complexity both as a family and as a business, and is also the type with the highest average age 61.

The level of structure development is also the highest; although it is only slightly higher than the Professional Family Model. It is the model that imposes most limits on family members entering management. These are family businesses in which the family has evolved towards the ownership side differentiated from the management side. The presence, in some cases, of family members in top management is circumstantial. Those firms that are managed by family executives could easily evolve into firms with nonfamily executives, which are also included in this model. The success of this model over time is incontestable. The passing of time makes this model the dominant one, because, if complexity increases, the other models either evolve towards this model or they tend to disappear. 192

4.4.6 Family Investment Group (FIG) Model:-

This model has been studied qualitatively but not quantitatively, and therefore there was not much data present on that. A large economic surplus is required for this model to occur. This surplus might originate from a family firm that is already operating, the sale of a firm, or even capital assets inherited from previous generations. In a FIG, the family makes joint investments but does not take responsibility for the management of the businesses, and so the relationship between the family and its investments should be different from that between the family and its family business as such.

Typically, FIGs are created when the family is unable or unwilling to go through the various types of family firm and decides to sell the business. This sale generates large economic surplus and the family decide to organize it to manage these resources together.

The FIG model differs from the other models chiefly in that it is concerned with investment companies rather than operating companies. The fundamental difference between the two, for our purposes is that the value of operating companies is directly related to the quality of their management; therefore, good management can lead to a major increase in value, whereas bad management can be a huge

192. Ibid, (pp. 66-67).
destroyer of value. In fact, this effect is becoming increasingly obvious. To give an extreme example, if a family owns a building in a central street in any city, the value of that property will depend more on external factors than how it is managed. It is the same case as owning a small percentage of the family business and not being in the governance structure, or any other financial investment, as an increase in value will not depend on the FIG’s management skills but other people’s.

In the family’s relationship with all the models described up to now, it was essential that the family should provide entrepreneurship and ensure the full functioning of institutions, especially the Board of Directors and the Management Committee. However, in the case of the FIG, the family’s role should consist primarily in creating a favorable atmosphere for an ordered and prudent management of its investment portfolio. The FIG is a good model for preserving rather than for creating value. FIGs frequently offer their partners a range of services, such as filing tax returns, making tax payments, book-keeping for particular activities, insurance and so on.¹⁹³

Briefly, the five types found can be described as shown below:

<table>
<thead>
<tr>
<th>Model</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Captain</td>
<td>SMEs managed by the founder.</td>
</tr>
<tr>
<td>Emperor</td>
<td>Businesses and families united by a leader.</td>
</tr>
<tr>
<td>Family Team</td>
<td>Extended family working in a small business.</td>
</tr>
<tr>
<td>Professional Family</td>
<td>Few family members engaged in professional management of a complex business.</td>
</tr>
<tr>
<td>Family Investment Group</td>
<td>Corporation Complex family governing a complex business Family with varying complexities investing together.</td>
</tr>
</tbody>
</table>

¹⁹³. Ibid, (pp. 67-68).