The Family Business: Statistics, Profiles and Peculiarities

By Sheelah E. Johnston

The family business is the world's dominant form of business organization. Based on figures compiled by the Family Firm Institute (FFI), family firms comprise 80 to 90% of all businesses in North America. In the United Kingdom 75% of all businesses are family businesses.

Contrary to most expectations, family businesses are not limited to small, "mom and pop" operations. Some of the world's biggest and best-known companies are actually family-owned. In the United States, some 37% of Fortune 500 companies are family-owned while 60% of publicly-listed companies are family-controlled (FFI figures). Wal-Mart, Ford, Mars Corporation, J.P. Morgan, Firestone, DuPont and Levi Strauss are some examples of big family businesses in the U.S. Other family-owned or family-controlled multinational companies with popular brands include: L'Oreal (France), Benetton (Italy), Siemens (Germany), Ikea (Sweden), Lego (Denmark) and Kikkoman (Japan).

In the Philippines, it is estimated that at least 80% of businesses are family-owned. In fact, most big corporations are family-owned or family-controlled. These companies, whose ownership may be already dispersed, are still identified with the founding family. They would include Ayala Corporation (Ayala family), Metrobank (George Sy Family), ABS-CBN and Meralco (Lopez family), J.G. Summit Holdings (Gokongwei family) and SM Prime Holdings (Henry Sy family). Although these companies are publicly listed and hence, ownership may include non-family shareholders, each family's influence on these companies is still far-reaching: the top position is occupied by a family member. In addition, other family members are part of the board of directors and/or are corporate officers.

Just what is a family business and why is it different from other forms of businesses? There are numerous definitions, as scholars cannot seem to agree on one operational definition. The primary criterion has been ownership. Some would insist that at least 50% of ownership should reside in one family for it to be considered a family business. Other scholars such as Donckels and Frohlich require 60% or more equity in the family business. Ayala Land, Inc. fits this criteria and may be classified as a family business. It is 65.5% owned by the Ayala family.

Others however say that ownership can be substituted by other factors such as management control or management influence. When family members influence the direction of the business even though they may own less than the majority of the stock, the firm may be considered a family business. Fred Neubauer and Alden Lank, in their book The Family Business: Its Governance for Sustainability, argue that voting control should be in the hands of one family. They cite Siemens as an example of a company controlled by one family. The Siemens family controls only 10% of the voting rights of the company. The 90% however is spread among 607,000 non-family shareholders. Thus the influence of the Siemens family is very significant.

When a significant number of family members sits on the board of directors or are part of senior management, then for scholars like Smyrnios and Romano, the company is a family business. SM Prime Holdings, which owns all the SM Supermalls across Metro Manila and select provinces meets this criteria.

Based on its 1999 annual report, out of the seven board directors, five seats are held by Henry Sy, Sr and his children. Six family members are executive officers as well. This is in contrast to Ayala Land where although the family owns 65.5% of the company, only two family members sit on the board and no one family member serves on the management committee.

It is clear that there are peculiarities that are unique to the family business. The family business is made up of three separate but overlapping systems according to Taguiri and Davis as cited by Hilbert-Davis and Dyer in, Consulting to Family Businesses. The three systems are: 1) the business system 2) ownership/governance system and 3) family system.

Because these three systems overlap, conflicts arise. Since family members run the business, family issues are brought into the business and business issues are carried over into the family. Recently, the rivalry between the two children of the late textile magnate Ramon Siy (whose family owns Jag/Lee, Kenny Rogers and Seattle's Best) have made the headlines. One business columnist reports that the family has been divided into two camps. The only recourse may be to break up the properties and distribute them among the heirs.

The family business faces other challenges uniquely its own. Because of the duality or multiplicity of roles (i.e. as father, husband and president of the company), problems can occur where one family member acts out a role inappropriate for the situation. Family conflicts when left unchecked can lead to the collapse of the business. Other causes for the failure of the family business are: inadequate estate planning, failure to properly prepare for the transition to the next generation, and lack of estate taxes -- the three leading causes for family business failure according to the Family Firm Institute.

Despite these challenges, family businesses enjoy opportunities that may not be present in other business organizations. Studies show that family businesses can outperform other companies because family members tend to think long-term. In addition, because the family name is attached to the business, the family members are willing to work longer hours and plow back earnings to ensure the success of the venture.

The family business can be a major contributor to a country's economic growth. According to Shanker and Astrachan, family firms contribute about 49% to the total GDP of the United States. Based on FFI figures (Family Firm Institute) family-owned businesses account for 60% of total job employment. Recognizing the potential of family businesses as engines of economic development, the DLSU-Angelo King Institute has created the Family Business Studies Center. The Center intends to become a resource for small and medium-scale family businesses by providing information, training, consulting services and research.

Sheelah E. Johnston is Assistant Professor, Business Management Dept.-De La Salle University and Project Coordinator- DLSU-AKI Family Business Studies Center.

These article are contributed by the CBE Faculty in the column of Business Focus of Manila Bulletin published February 6, 2004.