

THE SUSTAINABILITY OF FAMILY BUSINESSES: EVIDENCE FROM THREE UK CASE STUDIES

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Abstract: This paper analyses some of the key issues faced by family businesses (FBs) in the UK. Perhaps because most family businesses are Small and Medium sized Enterprises (SMEs), in the UK it is rare to draw any distinction between the problems faced by FBs and SMEs, yet FBs have some unique characteristics and problems. The paper examines certain key issues for the development (and perhaps the very existence), of the FBs. These areas are motivation (to found the business), development/diversification, sustainability (it is this family succession that most distinguishes an FOB from other businesses), and the role and importance of technology in all aspects of the business. These issues are discussed, with reference to the available literature and are highlighted by evidence from three case studies, each of which is taken from a different business sector in the UK.

Keywords: Family Business, SMEs, Business survival and development, business succession.

1. Introduction

What is a family business? A family business can be defined according to a number of different criteria. Miller and Le Breton – Miller, define a family business as “... business, whether public or private, in which a family controls the largest block of shares or votes and has one or more of its members in key management positions” (2005:518). We prefer to define a family business as comprising one of three distinct types, which can overlap.

1. Businesses that are owned by members of the same family, typically with the family owning over half of the shares.
2. Businesses controlled by members of the same family, even if the family is not the majority owner. In this case the family can lose control if the owners become unhappy with the performance of the business.
3. Businesses in which the ownership and/or management pass from one generation to the next. This may be thought of as a ‘higher order’ of family business.

As the majority family businesses (FBs) are SMEs, there is a not unnatural tendency to assume that FBs face exactly the same challenges as non-family businesses of a similar size. Whilst such assumptions are generally true, there are additional considerations that apply exclusively to FBs, which present such companies with unique threats and opportunities. One obvious difference which gives the FB its unique character is the fact that a business relationship is ‘embedded’ within the wider context of family relationships (Birley *et al.*, 1999; Chua *et al.*, 2003; Sharma, 2004; Cater and Schwab, 2008). There are also different issues between family owned businesses (FOBs) and family controlled businesses (FCBs), which are often overlooked, such as succession and inheritance. In practice, data deficiencies mean that it is difficult to distinguish between these different types of FBs.

2. Family Businesses in the UK

The British Family Business appears to be alive and well, although its existence receives less attention in the UK than in many other Countries. A London Business School survey (undertaken in the late 1980s) found that of 8,000 of the largest UK companies, some 75%

were FBs (Bridge *et al.*, 1998:131). When the family business becomes large and are floated on the stock market, issues of control can assume paramount importance. For example, Rocco Forte lost control of the Trust House Forte group, which his father had built up when, in 1996, the institutional shareholders lost confidence and accepted a hostile takeover offer from the Granada Group. Although some family businesses have grown into very large organisations, for example Sainsbury's food chain, these are not typical and the majority is small. Indeed they comprise the majority of all small businesses (Bridge *et al.* 1998:129). Notwithstanding the impressive numbers of FBs, discussion in Britain does not generally differentiate them from SMEs in general.

SMEs, and therefore FBs, are highly important to the UK economy. Using the standard definition of small businesses (less than 50 employees) and medium sized businesses (50-249 employees) and large (250 or more employees), the Government estimates that of the 4.5 million businesses in the UK in 2006, 99% were small, 0.6% was medium and 0.1% was large (UK, 2007). These SME's account for 59% of employment and 52% of turnover. Small business alone accounted for 47% of employment and 37% of turnover.

However, despite these impressive statistics, it is important to note that the failure rate amongst such businesses is also high: approximately 400,000 (10%) of SME's cease trading every year, with a similar number of new businesses being created. Many of these are likely to have been forced into closure through accumulated debts. The typical life of an SME is three and a half years. With their high bankruptcy rate and even higher rate of ceasing trading as an independent business, questions of business strategy and succession are key issues for SMEs and of vital importance to their long – term economic success.

It is interesting to speculate on why the British should find it so difficult to differentiate the FB from an SME. One possible explanation lies in the social make-up of UK society, with the demise of the large extended family as a social unit. However, the onslaughts on the traditional composition of the family are being felt throughout most of the world and include divorce and the geographical dispersion of the extended family due to the search for employment. While these factors could have implications for the future of the FB in many countries, they are taking place within the context of cultural differences, for example between the Americans, British, Swiss, Germans, Scandinavians and other northern Europeans on the one hand and the Arab nations, Japanese, Chinese, Latin Americans and Southern Europeans on the other. The former compartmentalise and differentiate between work and family relationships, while the latter emphasise the importance of the extended family, friends and personal relationships as a basis for business.

Family businesses predominate in diverse sectors: the retail sector characterised by the 'corner shop' in which all-family members, including children are expected to serve. Catering, including wholesale suppliers, restaurants and 'take away' hot food shops. Family businesses in the skilled trades (plumber, electrician, joiner and builder) have long been common, as have unskilled trades in the construction industry. Often these service sector businesses are dominated by ethnic minority groups – Pakistani families run retail, textile wholesale and restaurant businesses. Chinese families run wholesale, restaurant and 'take away' food businesses. Irish families have long run businesses in construction and building. More recently, East European migrant workers are establishing businesses in the construction industry, often as transferred or 'posted' workers (these are workers working for a company not based in the UK). Since the 2004 EU enlargement, Polish shops and bakers are opening in most UK towns to serve the needs of the growing numbers of Polish workers. Interestingly, some of these ethnic minority family businesses are facing a labour crisis as their (British born) children go to University and have an expectation of a better career. In some instances, the family business is used to finance sending their children to University to study to become a doctor or solicitor and this is a key expectation of the founder. In such

cases, whilst completing their full time education, the children are expected to help out as and when necessary in the business; however the long – term expectation is that they will not go into the business full – time. Thus, there may well be times during which the FB experiences both a crisis of succession, and/or one of staffing. Indian restaurants have recently called for a relaxation of immigration rules to ease their labour crisis.

3. Advantages and Disadvantages of the Family Business

We have argued that FBs possess many aspects which are different to other businesses and so it is worth considering the advantages and disadvantages of the family business. As with most SWOT (Strengths, Weaknesses, Opportunities, and Threats) analyses, many of the identified variables might be considered as both a strength (‘advantage’) or a weakness (‘disadvantage’), depending on the specific circumstances and interpretation. There are, however, certain key considerations:

3.1 Common Values. Members of the same family are likely to share the same values, ethos and beliefs on how things should be done. This gives the FOB an extra sense of purpose and pride - and this might well translate into a competitive advantage for the business.

3.2 Flexible Employment. Family businesses can offer flexible employment - in particular in terms of job content (with tasks and responsibilities being widely shared between family members) - and in terms of hours to enable job sharing, part –time commitment, and working from home. The family business may not need to take out employers' liability insurance, if it only employs close family members.

3.3 Commitment. The level of commitment to the business must be high, or it is unlikely to succeed. Whilst wage – earning employees, working for someone, else can afford to adopt a more relaxed attitude towards their employment commitments, the FOB is providing for the family and can only do so with a high level of commitment from all involved. Family members may be more willing to make financial sacrifices for the sake of the business, or what, they might regard as their future inheritance. This may (and generally does) involve working long and sometimes antisocial hours, foregoing holidays, and accepting lower pay than they would get elsewhere to help the business especially in difficult times. Some members of the family may even work without pay. Employment legislation may be ignored. It is this bond of loyalty - both to the business and, by extension, to the family - that makes the FOB different to most other businesses. Family members are expected to show a level of loyalty and commitment, that far exceeds that expected of an employee. Family members support the business in return for future business stability, and accumulated wealth, sometimes with an expectation of inheritance.

3.4 Family Relationships - However, close personal relationships between family members can be both a strength and weakness, depending on the situation: if family members fall out, the closeness of such relationships may become a major weakness, and source of problems within the business. Most FOBs fail to distinguish between family and business life, personal disagreements can translate into commercial disagreements, with negative effects on the smooth running of the business. One key issue in this respect is the question of how one deal with poorly performing family members, especially as those concerned may not view the business in the same light as the founder. Major disadvantages, therefore, can be summarised as potentially including a lack of career progression, low skill jobs, a lack of training, and low pay - often below the official minimum wage.

3.5 Business Skills - The knowledge that one is building for future generations encourages long-term thinking – itself necessary for growth and success. The downside of this, however, is the potential for a family controlled business to become “fossilised” in its development, or to lack new skills. Just because the new MD is a member of the family, it does not mean that they have been blessed with infinite commercial wisdom, and an ability to understand and

react to, changes in the market. Thus, the lack of business skills may be a problem, especially when coupled with intergenerational disputes over strategy and succession.

4. The Stages of Business Development

Research into family businesses has produced several models of growth and development, which are broadly similar (Steinmetz, 1969; Boardman et al, 1981; Churchill and Lewis, 1983; Scott and Bruce, 1987; McNally, 2001; Brockmann et al, 2006; Cater and Schwab, 2008). For example Chisnall (1987) and Dewhurst and Burns (1993) propose a four stage model; survival, consolidation, development, and expansion. Scott and Bruce (1987) analysed these models and propose 5 stages of business development; Inception, Survival, Growth, Expansion, and Maturity. They also link each stage of growth to a major catalyst of motivation - "each stage of a business is preceded by a crisis..." (p46), and suggest that such crises are precipitated by "Changes in both external and purely internal factors..."

In order to analyse our case studies, we have adapted and reduced these models to three stages; 'start up' which includes inception and survival, 'strategic development' to include growth, expansion and maturity, and 'sustainability' which includes prospects for future business survival in terms of the markets, management and ownership succession.

4.1 Start Up

What were the driving factors that led the owners to found the company in the first place? How was finance obtained? If a relative founded the business, why has the current owner/manager agreed to become involved? There are many reasons for starting a business (Scott and Bruce, 1987). Dewhurst and Burns (1993:12) divide the initial motivation into 'push' or 'pull' factors. 'Push' factors include unemployment, job dissatisfaction, seeking life style changes or lack of current income. 'Pull' factors include a perception of an opportunity or a desire to be rich. Some pull factors can be related to general aspirations and desires, rather than money - the desire to 'better oneself' or 'prove something': "*I wanted to be the best at...*" "*I wanted to show people that I had the ability to ...*" Although monetary success may be an indicator that they had achieved the success they sought.

An important question is the extent to which the reasons that led a person to found the business in the first place are a direct determinant of its likely success. Do they produce motivation or a determination to succeed? Also, they are an indicator of what the founder feels to be important in their lives - to a certain extent might even be likened to the "mission statement" of a larger organisation – and therefore can be used to define business success. If the founder was seeking life-style changes then this may be a more important determinant of success than traditional financial criteria. Caroline Cosgrove, founder of "Baby Concierge", the 'one-stop-shop' consultancy service for expectant parents, saw a gap in the market after being both shocked and disappointed after her first shopping trip for her new baby:

"I had expected it to be exciting but the whole experience was dreadful. The shop assistant did not seem to know much more than I did about their products and the range of options was confusing. I came back from my first trip exhausted, with 20 pram brochures but no pram. It seemed crazy that there was no one-stop shop staffed with people who could genuinely help." (Atkins, 2008)

Alternatively, the founder might have been motivated by the desire to escape from something. Such motives are usually associated with ones' current employment, which has become boring, uninteresting, annoying, or frustrating: "*I wanted to escape from the rut I was in*", "*I thought that there must be more to life than a 'nine-to-five routine*", or "*Anything was preferable to what I was doing.*" Whilst it might be argued such attitudes are not the most psychologically stable base on which to found a business, they can lead to success. For example, Nick Wheeler founded Charles Tyrwhitt Shirts in 1986, because he 'didn't like

being told what to do by other people' (Morrison, 2008). Michael Thompson, founder of the children's nursery chain "Child Base", resigned his lucrative position working in his father's company, as he was "fed up of being in his father's shadow" (Thompson, 2008). Having been ousted from the business his father build up, Rocco Forte has gone on to found his own chain of luxury hotels.

Statistics relating to the motivation to found ones' own business vary greatly, as a consequence of diverse business sectors, economic conditions, competition, and the psychology and personal circumstances of the founder. All have made for a rather haphazard coverage of the reasons for business start – ups. Despite this, there are common key themes that emerge from various case studies: the desire to escape from the 'rat race' or the desire to be ones' owns boss and the desire to make a living out of what was an interest, hobby or pastime. It is important to note that, in general terms, a positive motivation (to found the business) is perhaps more likely to lead to success than a negative motivation. In addition to being central to the foundation of the business, this motivation generally keeps the business going though the most difficult phase: the first 1 – 3 years of trading.

Having decided to start a business, raising finance, both for the initial start-up and to sustain the business during a loss-making early period, is the next hurdle to be overcome. Potential sources of finance include savings, mortgaging the house, start-up loans from a bank, borrowing from family members. Accurate market research and cash-flow projections are key to accurate estimates of how much money would be required. Simply running out of money is one of the main reasons for business failure during the start-up phase.

4.2 Strategic Development

Family businesses also face the same sort of business pressures as other SME's - how to survive in highly competitive markets, often with low profit margins; problems in raising finance for expansion, which in turn can make them highly vulnerable to interest rate changes. To be successful, the business must come to terms with important external factors: market demand, achieving a competitive edge or unique selling proposition (USPs), and coping with the impact of technological change. Accurate market research is critical, knowledge of the competition and financing new investment are important issues. Changes in information technology has affected many businesses in recent years, at the very least, it has provided a way in which businesses can communicate with customers.

Formulating a business strategy is problematic at the best of times, but more so for those who may be without any formal business training and limited business experience. Will diversification into new markets or extending the supply chain, may take the business away from its *raison d'être* and into new markets in which they no longer have any expertise or competitive advantage?

Knowing there is a market is no guarantee that your business will succeed. For example, although the market for 'eating out' is growing, it is also highly competitive. The Tampopo chain of restaurants adopted a unique approach to 'eating out' by offered a fusion of East Asian foods, served to customers who sit at benches that they have to share with strangers. Even the somewhat conservatively – minded British appear to have accepted this radical concept. We could also cite examples of some of the Japanese restaurants in which the customer's order is cooked at their table. Or the pizza houses that let customers design their own toppings. The list is endless, but they all give (or at least gave until the competition moved in) a USP that distinguished them from their direct competitors. Low barriers to entry are a key limitation on successful business strategies.

Whilst such considerations are faced by all businesses, the FOBs faces difficulties and advantages not experienced by other firms. For example, expansion in any direction generally requires finance, and whilst an SME might go public to raise the finance for expansion, such

an option may not be open to the FOB, in which, by definition, control is held in the hands of a single family. Traditional sources of finance available to FOBs may have been exhausted during the start-up phase. Also, the managerial challenges of strategic development facing family businesses should not be underestimated. How does the family get agreement on the new strategy? How can the existing business be managed and at the same time extra labour resource become available for new ventures. This is how long hours can become a feature of FBs, which in turn causes tension in family relationships.

4.3 Sustainability

Whilst all companies wish to sustain their operations as far into the future as possible (generally through expansion and growth), for the FOB the question of sustainability is more than one of mere commercial development. Sustainability is a big problem for most SMEs. If the business survives, who will take over either the ownership and or the control?

Table 1: 'Mediators of Success' and the Stages of Business Development

Key Criteria	Business Development Stage		
	Start Up	Strategic Development	Sustainability
Motivation	Reasons for founding the business	Reasons for business development/expansion	Reasons for passing the business on to successor
Market Research	Level of demand for the product/service? Level of competition?	What changes in demand patterns since the business was founded? Role of technology?	Likely future demand patterns? How will technological developments affect the business?
Money	Money needed to found the business initially. Generally savings, a business loan, or re-mortgaging house (if owner).	Money needed to fund business expansion plans. Possible choice: financed from business profits, or take out another loan?	
Markets & Competition	What product/service are we going to sell? To whom? Pricing level? Our Experience of this sector? Are there any local competitors?	What other (different and/or additional) products/services are we going to sell, in view of changing demand and level of competition?	
Managing (Growth)	Key issue is survival; likely that little thought given to development much beyond foreseeable future.	How will the development phase be managed? Main focus is on the sustainability of the business.	Main focus still on the sustainability of the business, but now in addition, there is issue of succession.
Managing (People)	Key issue is survival; all family members expected to become involved. Growth is dependent on people	Focus is on staffing issues: in particular the suitability of personnel for key business developmental roles.	Major focus now on the succession of ownership and control.

The consensus of research on family businesses would appear to suggest that succession (passing control to the next generation) is the second stage at which most business fatalities occur - the first most likely failure stage being the 'start -up', or lasting beyond the first three years (Longenecker and Schoen, 1978; Beckhard and Dyer, 1983a and 1983b; Handler and

Kram, 1988; Handler, 1994; Fox et al., 1996; Morris et al., 1997; Birley et al., 1999; Sharma et al., 2003; Sharma and Irving, 2005). Indeed only 30% of western family businesses survive into the second generation, and 15% to the third generation (Birley et al., 1999:599).

Who will inherit control of the business after the current owner has either retired or died is a major issue? Unlike the majority of companies, in which people are employed for monetary reward, a family business is a business that is run *by* the family *for* the family, and carries with it the unwritten expectation that the founder is building an empire that will be not just a source of family income for generations, but a testimonial to their entrepreneurship, initiative and vision. In other words, many FOBs may be likened to the family legacy - much like the 'family silver', the business is intended to remain in the family long after the founder has departed. This question of succession is the major difference between the FOB and other SMEs. But there is no guarantee that the founders dream will be inherited by their offspring. Nor is there any guarantee that the children have inherited the founder's business acumen. If the family does not want to take over the business, it must be sold or closed. If sold, it may remain a family business, albeit a different family, or may become absorbed into a much larger organisation.

5. Three Case Studies

This paper explores some of these issues by examining three families owned and managed businesses. Given that all three businesses have been in existence for some time, they are not typical of SMEs. These businesses are the winners, although that may not be how the proprietors view them. The case studies are taken from different business sectors (1) business - to - business; (2) consumer: niche market (personalised, relatively high - value assembly and retail) and (3) consumer: mass - market (mail -order). Each case study is examined through the three stages outlined previously: start up, strategic development, and sustainability. 'Mediators of Success' for the Family Business include: (1) Motivation, (2) Market Research, (3) Money, (4) Markets (& Competition), and (5) Management. The last, Management, can be sub-divided into the management of growth (of the business), and the management of people (the family and any paid non-family members. Whilst these variables are influential at all of the three stages of development, their precise focus may change.

6. Case Study 1: 'Fast Signs'

Outline. This FOB was founded in 1984 by a husband and wife team, who continue to run the business. Initially the business was established to design, produce and erect 'for sale' signs for Estate Agents in South Wales. In the UK most property is sold through estate agents who advertise the property in the local press, in estate agents windows, and increasingly on the Internet. These Estate Agents place their 'for sale' signs outside the property, to advertise, to help prospective purchasers locate the property, and also to identify which Estate Agent is selling the property.

6.1. Start Up.

Motivation. Paradoxically the initial motivation was not to start their own business but to relocate from a London commuting town to somewhere they wanted to live, and for the wife to get out of school teaching, which she said was 'overwhelming' her life. Both had trained as primary school teachers and had no previous business experience or business education. However the wife came from a family with a history of small business ventures – her mother bought and ran a small shop, her two sisters jointly ran a hairdressing business, and her brother runs a business in the USA. They decided where they wanted to live and the decision to start the business was very much a secondary consideration. The husband had worked on and off since 1973 for a business, which provided a similar service, where he was employed

to drive the van, put up and take down the estate agents signs. He was aware that he had no knowledge of the production side of the business.

Market Research. Prior to starting the business they had conducted a number of preparation activities. Both enrolled on a basic silk screening course run by the local technical college. The wife conducted a market research exercise by administering a telephone survey to establish that local estate agents were interested in this service. They established that nobody was currently providing this business in this area and that the estate agents were interested. Estate agents currently requested sales staff put up and take down signs, for which they had little interest or skill, with the result that signs fell down and were often not collected following the sale of the house. These estate agents were subsequently visited to discuss ‘face to face’ their interest in purchasing this service and all were very enthusiastic. One estate agent with three offices claimed that he put up 60 boards a month. The figures provided by the estate agents were used to develop a business plan. Unfortunately, the Estate Agents massively exaggerated the number of properties they sold, and so in their first year of trading the business recorded a staggering loss, which brought them very close to bankruptcy.

Start-up finance. They sold their house in the Home Counties and with the proceeds bought a derelict farmhouse, and converted the farm buildings for use as workshops. A business start-up loan was obtained from a bank, at what they described as ‘extortionate’ interest rates. With hindsight, they felt that this was a mistake – they should have taken a mortgage on the house instead of buying it for cash, because the interest rate on a mortgage would have been much lower than for the bank loan.

Business strategy and operation. In order to establish the business, they offered a ‘no-loss’ gamble to the estate agents in that they would produce the signs without charge and the estate agent would only pay each time they requested a sign to be erected. So there were three distinct elements to the business activity; the production of signs, using silk screen technology, leasing – they own estate agents signs which are of no use except to a particular customer and (iii) erection service putting up and taking down signs as requested by estate agent. The business was officially launched in 1984, and the first year was very difficult; although they has a very good take up from estate agents, they also experienced what can only be described as a major problem of income generation, which came about because the estate agents had massively over-estimated their demand. The good take-up from estate agents meant they bore a heavy cost in producing the signs, which they owned. While they had budgeted for an expenditure of £19K and an income of £26K, in the first year, in the event they spent £39K and had an income of substantially much less than they thought. In the 1st month of trading they had an income of just £148. One estate agent, who had told them that he would order 60 signs per month, ordered just 3 boards. It was a disaster; the bank became very nervous and they came very close to bankruptcy. However they survived and by 1989 they had paid off all their loans and had £10K in the bank.

6.2. Strategic Development

Technological change and diversification. Since the initial start up, this business has embraced the challenges and opportunity of new technology, by moving from silkscreen production to computer aided design, laser cutters and digital printing. This has facilitated diversification into the production of signs more generally, with an erection service for anybody who needs a sign and most recently into the printing of large-scale images for domestic customers. Design has become a major part of the business. But the new technology has both increased the capital demands of the business and at the same time as lessening the ‘barriers to entry’ with the result that competition is intense and profit margins low. A number of ‘sign makers’ franchise businesses have started and have tried to compete, so far without

success. However one consequence of this competition is strong customer resistance to price increases.

They started diversifying immediately, not because they planned it, but because people approached them and asked them to make signs for vans. Very early on they bought a lettering machine for £5,000, which produced coloured vinyl letters sheets. This was an alternative to the traditional 'sign writing' with paint and a brush, with the attraction that it was much cheaper. Although this machine utilised 1950s technology, their account number was 309, indicating that only 308 similar machines existed in the country, and they became the first computerised sign writing business in the area.

In 1989, they invested £38K in new computerised technology and bought a plotter, which could produce 1-metre wide signs. This computer technology made both silkscreen production and the traditional sign writer's craft obsolete, and paved the way for diversification into sign production in general. The new technology also signalled their diversification into design – signs no longer consisted of just letters – they had the capacity to produce shapes and utilise photographic images. They now design and produce graphics for vehicles, especially 'transfers' prior to a re-spray, business signs for vans, board, pavement and post mounted signs, site and safety signs, advertising signs and banners. And they also provide an installation service for these signs. However the adoption of this new technology was not without problems – for a considerable time it did not work and they came close to asking for it to be taken away. As a result it took them many years to recoup their investment. In 1992 they further upgraded their equipment. By 2004, they were being left behind compared with newly emerging competitors and invested a further £60K in new equipment.

Although they have diversified into signs, the estate agents side of the business is still important and accounts for about 40% of their business. Also, it is an area of business which has until recently been relatively shielded from competition. Currently a franchised sign making business has established and is trying to undercut their service to estate agents offering to under-cut them by 50%. Some estate agents have complained about their relatively high price, but have been locked into contracts with them. Others realise that at these prices the new business must be uneconomic, and fear being let down. The franchise fixes prices nationally, and they believe that these may be viable in large towns, but are unviable in a largely rural area, where there can be a 40-mile drive between jobs.

Finance. Finance for the investing in new technology is another area of controversy. Since the business is located in an area of high unemployment, grants are available from various public bodies to support investment, which will create or protect jobs (Thomas, 2001). Although they have been able to use this source of finance to adopt modern computerised technology, it has not been without problems. They complain that grants are awarded to allow competitors to establish. How can new jobs be created if they are simply transferred from one business to another? They complain that some competitors only survive until the grants run out. In 2006 one competitor was established with £300K worth of Government Grants and rent-free accommodation from the local Council worth £45K – it has just gone bust. Grants were awarded on the basis of only the most casual of business plans, although they noted from their current application that the process had been considerably tightened up. One competitor was singled out for particular criticism. This business managed to obtain £586K worth of grants, and went bust. One machine alone cost £100K, which the proprietor managed to purchase from the liquidator for just £3K and start up again with almost free technology and therefore no debt.

Business development. More recently the advent of domestic digital photographic revolution has enabled further diversification – the production of digital images for domestic customers. They opened a rented shop in a nearby town in 2007, specifically to act as a showroom for the production large colour images from digital files on canvas, acrylic or

board, which can be mounted and used for a variety of purposes. Similar shops are currently springing up in many large towns. This business is trading under a different name 'corrugated iron', because they did not feel that anybody would go to 'Fast Sign's for the production of digital images, and because they had recently hired a business coach, who had advised them to separate their businesses into distinct, stand alone activities. Their motivation for this expansion from B2B to B2C was that the latest investment in equipment left them with surplus capacity, which needed to be used. They had established a web site, but notwithstanding the fact that their web site had already received 330,000 hits, compared with just 12,000 hits in a single year for the Fast Signs web site, they had only received one on-line order. They admitted that they could not compete with other larger on-line order businesses, not withstanding that they used superior quality materials (exhibition quality frames and canvas). As a result, they saw their market as producing personal prints for local customers and pictures for local holidaymakers. This new business was picking up only slowly. Christmas would provide a test for the long-term viability of this business.

In 1993 they introduced the quality assurance standard ISO 9001 and became the only sign firm in the region to have it. They felt that the process of gaining accreditation had been very beneficial. They had looked at all their processes and involved all their staff in doing so. As a result, they experienced less 'cock-ups', cut waste, and the improved process had saved them both time and materials. But since then, they felt that things had been allowed to drift. The Business currently employs 8 staff and has a £250K per annum turnover. In common with many small businesses, they are making only normal profits. Their own earnings take no account of the hours worked, or the fact that there are two of them working. Paradoxically, since they started this business because teaching dominated their life, their business dominated their life far more than teaching would ever have done, and for lower financial reward.

6.3 Sustainability

Markets and Competition It is clear that sign production using the new computer technology has become a very competitive area in recent years, aided by low entry costs. Some competitors have managed to find their own niche markets. One ex-customer specialises in signs for exhibitions, another in signs for vehicles. However, competition is becoming an increasing problem. They felt that they still had a competitive edge. Silk screen technology is still suitable for low quality, high volume signs – anything with a run of about 100, and they still use this technology for part of their business – indeed since most of their more recent competitors have no silk screening capacity, they have a monopoly for this type of work. Also quality of their production and design and reliability in delivery, were part of their strategy. They describe picking up quite a bit of work from one competitor who was disorganised and missed deadlines. Many of their competitors had no or poor design capacity. But this approach to meeting the competition by reliability had inflicted a serious cost on medium term development. Typically, customers would turn up demanding signs, *which they* urgently need in a couple of days. As a result, everything would be dropped to meet this production. The consequence of this was they were always trying to meet very tight deadlines, and business development did not take place. They became locked into trying to meet deadlines for small orders and low margin business. While they were clear that what they should be doing is diversifying into the higher margin business 2 business activity. A number of large firms that were previously customers have been taken over, but they could not find the time to promote themselves with the new owners. Although they had followed some customers as they had expanded outside the geographical region, with more effort, many other possibilities could have been developed. Managerial capacity is clearly limiting business development.

The business was dominated by production. They admitted that they really did not know much about marketing and finance and this was a continuing problem. At the time of the interview, they had a severe cash flow problem caused by the discovery that they had £50K of outstanding debts, and admitted that they never had any idea of their cash flow position. This was a major problem because they were at the limit of their borrowing capacity. One cause of this problem was that long-standing member of staff had omitted to chase up unpaid bills for the last six months and they had failed to notice. Previously she had been very efficient, but now really wanted to retire and only had not done so because of problems with her husband's pension.

Succession. The long-term future of the business is very uncertain. There is conflict between the wife who would clearly like to retire and the husband who wants to know what they would live on! Since they have no children, and no other member of the family is either involved or interested, this business will not continue within the same family. Although most of their workers have been with them for a very long time, a worker take-over is not likely – they have neither the interest, nor the ability. If the business is to survive, it will eventually have to be sold. They had previously been advised that the business was not saleable, although they thought that this would have to be looked at again.

6. Case Study 2: 'Lancashire Cycles'

Outline. This is a retail business, which sells cycles, and cycling equipment, although is very different from the usual high street cycle shop. The business was established to build and sell custom made bicycles to enthusiasts, and custom build wheels for racing teams. Cycles typically cost in excess of £1,000 and some racing cycles considerably more than this. Frames are purchased from a wholesaler and sold as complete cycles under the frame manufacturers own brand name. Other frames are purchased from well know specialist frame builders and sold as complete cycles under the Lancashire Cycles own name. The business was started by the current proprietor in 1994, initially as a one-man private business, but has since become a partnership then a limited company.

7.1 Start Up

Motivation and business strategy the proprietor confessed to having absolutely no business experience or knowledge. Initial finance came from a £6,000 addition to the mortgage on his house. At first sight the business appears as if it was a classic case of a person turning their hobby into a business, however this is not the case. The proprietor was not a cycle-racing enthusiast but had previously worked for two other specialist cycle shops. His motivation for starting the business was he 'thought that he could do it better'. Given this motivation, it is perhaps not surprising that he has very strong ideas about business strategy and compares his own approach to that of his competitors. He refuses to sell children's cycles, because that would distract the business from its niche market – 'once you start selling children's cycles, it dominates your business and your specialist products become marginalised'. He also refuses to view price as the way to achieve a competitive edge, comparing the price of his own cycles with those of a nearby competitor (his own brand cycles were more than twice the price of his competitors own brand cycles). Brand loyalty is important and he argued that if you set out to compete of price 'you attract the wrong sort of customer'. Other competitors have found this – once interest rates rose, your customer base disappeared. He was clear, that the majority of his customers were 40+ professionals – lawyers and doctors etc. The cycles are built to individual customers specifications, including measuring the customer on a 'cycle jig', thereby building a cycle, tailor made to fit the customer. This is better than a mass production cycle, and not as expensive as a bespoke built cycle. As he put it 'other shops sell cycles and do not care whether the cycle fits the customer or not'. This USP gives this specialist firm its

competitive edge, but restricts sales because the customer has to come to the shop to be measured.

7.2 Strategic Development

Product development and marketing. The business started by specialising in racing cycles. During his first year he had a turnover of £1/2m. When a velodrome opened in a nearby town, he responded by producing track cycles, however this was always going to be a small market. He only produces bikes to order, which takes about 4 weeks for a simple order, 6-8 weeks to supply a more specialised order. There is no attempt to keep any frames in stock – there are a lot of frame sizes and colours – he only orders a frame when he gets an order. However he does keep a very limited stock of cycles, but only as examples of what he can supply. This business strategy means he has limited stocking costs.

Once clear indication of his business strategy comes from the fact that he refuses to supply the biggest segment of the cycle market - mountain bikes - because he says that he does not have the specialist knowledge. His next product development was to produce specialist touring bikes but as he puts it ‘These are not easy. They are a lot more difficult than racing bikes - you have to give them a lot of thought. However one problem with entering this very specialist market is that there is not enough demand in the local market – he needed to supply a national market. His strategy for achieving this was interesting and very successful – he sought reviews of his cycles in the national cycling press. Asked how difficult it was to get the national press to review his cycles he said he found it very easy – he just rang them up, however he did admit that one magazine was ‘snobby’ and did not want to know. When a review came out he could not believe it – he could not have written a more positive review himself and his touring cycle went on to win the magazines ‘cycle of the year’ award. After this review, he said that everything went mad - demand took off and he struggled to meet it. He stopped all advertising. Following his success in the national cycling press, he hired a specialist to develop a web site and a major part of this web site is copies of the reviews of his cycles in the national press.

Premises and strategic development. The business occupied very small premises, which gave it one of the highest turnovers per square metre in the Country. His turnover increased every year until 2005 when it fell – this was because of the size of the premises – ‘there was not enough storage or space to work - all my time was spent looking for things - you could not move’. A move to larger premises became overdue and this took place in 2006. These larger premises have enabled diversification by expanding parts and clothing retailing, including developing a mail order capacity. The business currently employs six staff.

7.3 Sustainability

Markets and competition. Since the move to the new premises, the business is developing rapidly - parts and clothing retailing, and mail order. The extra space has also given scope for future business development by developing the supply chain. One plan is to increase the cycle repair capacity. Another possibility under consideration is to produce and spray steel frames on site. When aluminium started to replace steel, his frame supply started to source all frames from Taiwan because aluminium welding is much more difficult. However, aluminium has not been the threat expected – steel has a longer life, is easier to repair, and does not have much weight disadvantage because aluminium frames have to be made bigger to get the strength. He currently sells more steel bikes than aluminium. A longer-term plan is to move into physiotherapy and fitness testing. Whether this business can retain its distinctive niche market and USP while diversifying into highly competitive markets remains to be seen.

Succession. Given his age and his younger business partner, handing on the business will not become an issue for some time. When it does, the plan is to eventually take more of a back seat. However, given his personal enthusiasm for the business, it is doubtful whether he

could ever be persuaded to 'let go'. But this business also illustrates the problem of family succession. The owner has three children and his wife wants him to involve them in the business. However, as yet they have shown no interest. If they are not interested, involvement would be good for the long – term viability of the business. However, unlike Fast Signs, there are other options, which would give the business sustainability - it could be sold to worker buy out, or to another enthusiast, or to a competitor. Indeed approaches have already been made to buy the business.

8. Case study 3: 'Lagoland'

Outline This is a large, multi-million pound, multi site retailing business which was established in 1964 in an area of national beauty in the north of England, and is now a second generation family retail business, run by the founder's three sons. The father was, by all accounts, a classic serial entrepreneur, who established several businesses. It seems likely that he felt challenged and motivated by the idea of starting up a business, but perhaps just as equally bored by the thought of becoming involved in the daily operations and control of the business he founded. One of his businesses sold animal feed to farmers and he discovered that the farmers he visited wanted to freeze unsold poultry and meat for direct sale to the public, but couldn't because they did not have access to plastic bags. So he established this particular business as a low tech plastics supply business selling polythene bags and sheets to farmers. As well as polythene bags for chest freezers, he sold polythene sheets as haystack covers and for silage. From this he extended his range to selling freezers (with a delivery and installation service), frozen food and egg boxes.

8.1 Start Up

Motivation. The father abruptly left the business in 1974 for personal reasons and gave the business to his three sons, two of whom were only in their early 20s (21yrs and 23yrs), and one was still at School. Only one of the sons had any business experience and this was limited to having just completed a business studies degree, and having run an island community in Africa. At the time they took over the business, it has a turnover of only a few hundred thousand pounds. Not taking over the family business was not an option. However, the business they inherited was limited in terms of future development. The potential for premium pricing, pricing differential, or price increases was somewhat limited.

8.2 Strategic Development

Diversification The business the sons inherited in 1974 was low tech - administrative systems were manual and paper-based, sales were high volume and low margin. So the three sons set about developing the business. They quickly concluded that they needed to diversify.

An obvious diversification for the plastic sheeting presented itself in the form of the yachting and boating fraternity, moored (quite literally) on the nearby Lake. In addition to the locals, the lake attracted millions of visitors each year, and hundreds of these paid not inconsiderable sums in mooring charges. The plastic sheeting served as an ideal covering to keep the boats from the worst effects of the weather – especially during the autumn and winter months, when many vessels remained unused for six months or more. This first expansion proved lucrative, and, although impossible to prove, may well have been the key development that stopped the business going the way of many others in this region that did not have at least a minor interest in the tourism market.

The next step was to move in supplying domestic customers - a move that coincided with the freezer revolution and their business took off. However, demand for freezer products was highly seasonal – concentrated in the spring and autumn, and the obvious direction for diversification was to extend their range into kitchenware more generally. When interviewed,

they felt that one consequence of youth was that they had tremendous energy and confidence in their own ability - 'it never occurred for one second that we could fail'

As they expanded, they moved into new premises. The business was being run from a two-bedroom house, with four administrative staff working in one bedroom, orders taken in the front room and customer records kept in the bathroom. The business was being spread across a number of sites in the locality. In 1979, they moved all the business to one site.

In 1980 they bought a wholesale company. This brought the first ever computer into the company, and a computer based mailing list. This wholesale business was highly successful at first, especially since it coincided with the growth in microwaves but as the microwave boom peaked, it went into decline and they eventually decided to close it. By the late 1980s the business was static. So their next step was to establish a mail order business using their computerised systems. This did well and turnover increased from £3 million to £7m in one year. They moved into different product categories, and issued paper catalogues. In the 1990s they established a web based catalogue and electronic ordering facility. In the 1990s, they simplified their name to reflect the current business.

The mail order business had become so successful that they quickly realised that they had capacity problems – they couldn't get the orders out - they were turning over one thousand orders a day, but if they issued more catalogues this could be increased to two thousand orders a day. This led to the establishment of a new 80,000 sq ft distribution centre in a nearby town dedicated to the mail order business. This became the heart of the business, supplying products to replenish the shelves of our mail order despatch department and the growing number of retail stores nationwide. They have the capacity to pick, pack and despatch up to 10,000 orders a day; all automatically loaded into several 40 ft. long trailers. All a far cry from the early days when the brothers used to trundle customers' parcels down to the local Post Office on a trolley!

In the 1990s they also started opening stores, which have done well. Incidentally they think that they made a mistake. It took them three years to open their first store, whereas they should have opened in several cities at the same time. They now have 35 shops, and are currently opening 2 or 3 a year. Ownership is important – they believe that they only have the capacity to open 2 or 3 stores a year and to do it properly, whereas they believe that a PLC would not want to open less than 20 per year. As a result of their success they have been given exclusive rights for some new products from major brand suppliers.

Their business philosophy is that (1) it has got to be right and (2) they are risk averse. For this reason they are reluctant to borrow to finance expansion, preferring to finance expansion out of income. Turnover in 2007 will be between £130 and £153 million. They only owe the banks £5 million. They have over 1409 staff, many of which are part time. Innovation is a key part of their business aims - they are always searching for something new. People turn up with an idea and get seen. Some have led to new products – for example, a charity line for charity production events with a donation being given to the charity. They believe this would not happen at a big PLC – they would not get past the front door.

Management style Management style is a particularly important characteristic of FBs and is an explanatory factor for the success of this business. When they took over the business, the sons agreed that the middle son should become Managing Director, as the person with the most appropriate skills and temperament – 'he was an organiser and a doer'. The three brothers get on extremely well and partitioned the business according to areas of strength, which are complementary, and all the brothers accept this. One became the purchasing director, because he was very detailed and meticulous and the third the marketing director, who said that he was not allowed near any people management issues because this is not his strength.

The decision making process is also interesting. Any big decision will not be taken unless it is unanimous. Small decisions (such as branching out in to a new product line), which do not have a major impact on the business, do not have to be unanimous – but they will all agree to let another have his way and see if it works. This consensual method of decision taking has always been a characteristic of their management style.

8.3 Sustainability

Although this is a 2nd generation family business, sustainability as a family business is a big problem and it is unlikely to become a 3rd generation a family business, mainly because none of the 7 grandchildren are either interested in the business, or possess the competence. Interestingly, a third generation would not be able to replicate the business model adopted by the 2nd generation. The three brothers get on extremely well and are very close. This sort of working relationship could never be reproduced by the grand children.

However, sustainability can be achieved via various options including sale to venture capitalists. Approaches have already been made. However the current owners are concerned to maintaining the business’s social responsibility ethos and support for the local community, and are concerned that venture capitalists would asses strip the business. Sale to a competitor is another option, but would probably lead to closure and relocation in order to achieve economies of scale. Paradoxically, the current owners favour sale to an overseas parent as the best option to provide for sustainability of the business in its current form.

Summary and Conclusions

The table below illustrates some common features of our three businesses as well as some differences. Interestingly, despite their differences, sustainability is a major issue for all three businesses. None will continue as family businesses and none will continue in their current form.

Criteria	Fast Signs	Lancashire Cycles	Lagoland
Motivation to Start	To ‘escape’ teaching	Be his own boss	Father – entrepreneur
Initial Finance	Bank loan	Increased mortgage	Bank loan
Development	From B2B to consumer markets	Horizontal & vertical integration	From B2B, through niche consumer, to mass consumer
Competition	Intense	Niche market	Market leader
Technology	Constant change - opportunity & threat	Traditional technology combined with personalised service	Mass – market, web site and telephone. Key to business
Sustainability	No children	No interest	No interest/competence

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