MFBC

Becoming a Family Business

Ken McCracken

A family business is one in which a family has enough voting power to decide who will lead the business *and* the boundary between the business and the family is permeable so that family dynamics influence business decisions and family relationships are affected by the business.

Voting power

In a limited company, a family who own at least 50.1% of votes can decide who is on the board of directors if the owners act together. This power to appoint and remove directors gives the family control of the company and its business activities.

Each family will decide who is a family member for the purpose of being an owner. This could be restricted to bloodline descendants of a common ancestor or extended to include spouses, partners, adopted children, and others with kinship ties who are treated as being part of an extended family.

A family group with less ownership power might exert influence in a company if they have enough votes to block some decisions and they can use this to extract concessions from the owners who in aggregate could control the company.

Such negative influence would apply to relatively few decisions and depend on the other owners being unable to form an effective majority. Since the behaviour of other owners will usually be beyond the control of a family that holds a minority voting stake, focusing on a family controlling at least 50.1% of the votes is a surer way of identifying a family business than trying to measure influence through negative control.

Leadership

A family business can be family controlled and family led or it can be family controlled but not family led. Leadership is important for some families, but majority ownership has more significant power including the power to appoint and remove leaders.

Family Dynamics

A business in which a family has ownership control is still not necessarily a family business. This identity is established when family dynamics start influencing actions and decisions in relation to the business and the business has a significant impact on family life.

Family dynamics refers to how relatives behave towards each other, and includes their attitudes to risk, and financial and other types of wealth such as reputation, as well as the family's ways of communicating with each other, and dealing with conflicts.

In a company that is controlled by a family, it is possible for the owners and the board to believe that they can establish an impermeable boundary between the business and family life so that family concerns are kept out of the business and business issues do not affect the family. I have not met family businesses that have entirely succeeded in doing this, but those that believe they have achieved this should be accorded the respect of being excluded from the definition of a family business, regardless of the company being controlled by a family. Their identity will change when, rather than if, the business must deal with family issues that would not arise in other types of business, or when the business has an impact on family relationships.

Other definitions

There are many other definitions of a family business and a debate about them is important for those who wish either to integrate an increasing volume of research into a unified theory about family business, or to compare policy initiatives from different cultures and jurisdictions. These tasks do not greatly concern many family businesses, or their advisers, for whom the definition suggested is adequate.

Ken McCracken is a family business consultant and teacher who works with family businesses, family offices and the advisers who help them. For more information:

Ken McCracken, Director, MFBC Limited **ken@m-fbc.com** **www.m-fbc.com**