Chapter 2

The Meaning of Being a Family Business in the 21st Century

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The Meaning of a Family Business in the Twenty-First Century

As a discipline, the study of family businesses is still in its infancy and the academic and business community have yet to uniformly define what exactly constitutes a family business. John Davis, a leading expert in family businesses, reviewed an abundance of definitions that abounded in the literature in the early noughties. Based on his analysis he ended up clustering the varying definitions into two major categories: structural definitions and process definitions (Davis, 2001). The main premise of the structural definition is that it focusses on the ownership or management arrangements within the family business, for example, '51% or more ownership by members of the family'. The process definition of a family business centres around the amount of involvement the 'family' has in the business. Davis (2001, p. 1) provides an example of the process definition based on how much influence the family has on the policy of the business, and the desire to perpetuate the family in terms of its control in the business. Table 1 provides definitions posed in the literature by some of the world's leading researchers on family business and we have applied Davis's (2001) principles of structural versus process lens to them.

The European Commission has provided a definition of what a family business is and uses that as the basis to measure the contribution of family businesses to the European Union (EU) economy. Family businesses are important to the European economy because it is the backbone of its economy. Findings from European Family Businesses (2020) indicate that between 65% and 80% of all European companies are family businesses and they contribute on average more than 40%–50% of all jobs in the EU. Within the EU definition, you will notice that it leans more towards the process definition as identified by Davis (2001). The

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Table 1. Definitions of Family Businesses With a Structural or Process Lens Applied.

Family Business Definition	Author	Structural or Process Lens Applied
Members of one family own enough voting equity to control strategy, policy and tactical implementation	Miller and Rice (1967)	Process definition
Ownership control by a single family or individual	Barnes and Hershon (1976)	Structural definition
Two or more family members influence the direction of the business through the exercise of management roles, kinship ties or ownership rights	Davis and Tagiuri (1982)	Process definition
Family influence over business decisions	Dyer (1986)	Process definition
Ownership and operation by members of one or two families	Stern (1986)	Structural definition
Legal control over the business by family members	Lansberg et al. (1988)	Structural definition
Closely identified with at least two generations of a family, the link has had a mutual influence on the company policy and the interests and objectives of the family	Donnelley (1964)	Process definition
Expectation or actuality of succession by a family member	Churchill and Hatten (1987)	Process definition
Single-family effectively controls the firm through the ownership of greater than 50% of the voting shares, and a significant portion of the firm's senior management team is drawn from the same family	Leach et al. (1990)	A mix of structural and process definitions

European Commission (n.d., para. 2) proposes that a firm, of any size, is a family business, if:

- Most decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.

- Most decision-making rights are indirect or direct.
- At least one representative of the family or kin is formally involved in the governance of the firm.
- Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the decision-making rights mandated by their share capital.

Astrachan and Shanker (2011, p. 211) clearly state in their work that because there is no 'concise, measurable, agreed-upon definition of a family business', this leads to a 'challenge in quantifying their collective impact'. Emanating from their research they created a spectrum on which one could define a family business, from a broad to a narrow definition. Key to their understanding of the term family business is the 'degree of family involvement in the business'. They depicted this spectrum as a 'bull's eye' with a broad definition in the outer sphere. From a broad definitional perspective, Astrachan and Shanker (2011) propose that to be a family business only requires input from some family members in the business, and the strategic direction of the business is controlled by the family. They also pose a 'middle ground' definition which is the intention to pass the business on to a family member, with the incumbent still involved in the running and operations of the family business. In the 'nucleus' of the bull's eye, Astrachan and Shanker (2011) propose a narrow definition where the management and operation of the family business include representatives from different generations of the family, with siblings in different management roles and up-and-coming family members (possibly cousins) joining the family business at entry-level. Van Der Vliet (2021) provides an expanded version of Astrachan and Shanker's (2011) bullseye as per Fig. 1.

Van Der Vliet (2021) has applied the broad, middle and narrow definitions to family businesses in the United States at two points in time: 2003 and 2021, and has observed the sheer growth in the volume of family businesses by evaluating them based on the revised bullseye approach.

As is evident from the various definitions posed here, writers tend to vary in how much family control of a company is needed to call the business a family business. Writers often disagree on how much the family must want to perpetuate the family control of the business to qualify as a family business. Cano-Rubio et al. (2017, p. 132) advocate that if there was a single general criterion used to conceptualise the term 'family business', this would 'ensure that the concept used in the different studies of these companies does not condition the results obtained'. The lack of agreement on a definition is troubling because it reflects the lack of conversations in the field on this subject. More troubling still is the many writers in the field that use the term family business to identify their subject, without defining the term at all. Writers also frequently confuse the family and other kinds of business, e.g. small business. The two are decidedly distinct, given the large size of many family businesses, i.e. Samsung, Walmart, and the

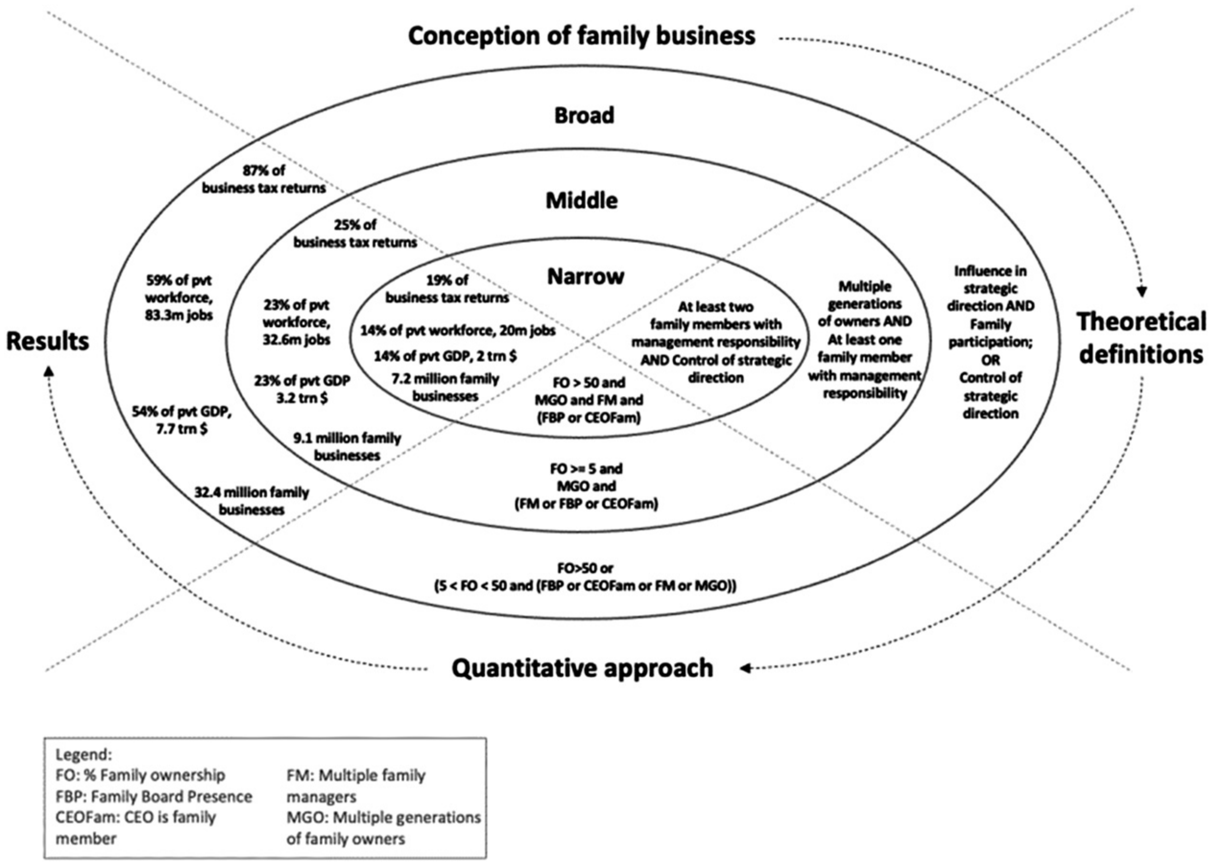

Fig. 1. Bullseye 2021 (Pieper, Kellermanns, & Astrachan, 2021).

non-family ownership of many small businesses. Another often-made mistake is to assume that family companies are private companies. Most are but over half of all publicly traded companies in the United States, for example, are family-owned.

In choosing the respondents for this book, we asked each case study author to ask the family business if they thought they were a family business, and if so then they could be included in the book. On further analysis of each of the family businesses portrayed here, they fitted into either the structural or process definitional categories.

Family Businesses Around the World

Are family businesses an enigma or a reality? They are very much the latter as they are the most frequently encountered ownership model in the world and their impact on the global economy is tremendous. Tharawat Magazine (2014) produced a report that showcased the contributions that family businesses make to the global Gross Domestic Product (GDP) as per Fig. 2.

Just shy of 10 years later we can see from the research that in that length of time family businesses have made an even bigger stamp on a nation's GDP. For example, in 2021, Van Der Vliet (2021) reported that family businesses in the United States, contributed to 64% of the US GDP, a 7% increase. In the Netherlands, it is estimated that over 276,000 of its businesses are family businesses (European Family Businesses, 2017), and Finnigan (2016) found that in Argentina family businesses contributed just shy of 1 trillion to the nation's GDP.

Most of the world's wealth is created by family-owned businesses. In a joint piece of research, the University of St. Gallen along with Ernst & Young (EY) found that in 2023 family businesses they studied generated $US8.02 trillion in revenue which was a 10% increase on their previous findings in 2021 (Robertsson, 2023). Many of today's well-known brands stem from family-owned businesses such as Walmart, owned by the Waltons with revenues of $572.8 billion (Ozbun, 2022) and employing 2.3 million people worldwide in 2022 (Walmart, 2023) to the Porsche family who owns Volkswagen with total revenues of US$18.8 billion worldwide and with total market revenue amounting to US$1.8 trillion in 2021 (Statista, 2022). In some countries, family businesses have a long history in the fabric of the economy. Up to 2006, the oldest family business in the world was the Osaka temple-builder Kongo Gumi which was established in 578. When it succumbed in 2006 it was replaced by Hoshi Onsen, which is in the Ishikawa Prefecture in Japan. Started by the Hoshi family in 718 it is currently being led by the 46th generation of the Hoshi family. Table 2 identifies the 10 oldest family firms according to Kristie (2021).

Countries Represented in This Book

The family businesses portrayed in this book come from the United Kingdom, the Republic of Ireland and Germany.

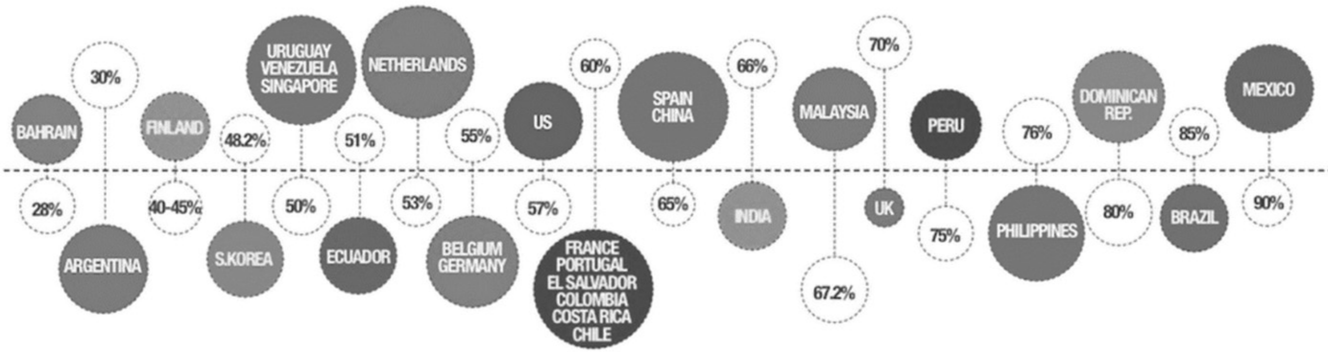

Fig. 2. Percentage of Family Business Contribution to National GDP (Tharawat Magazine, 2014).

Table 2. Top 10 Oldest Family Businesses in the World.

Family Business Name	**Year of Establishment**	**Country**
Hoshi Onsen	718	Japan
Stiftskeller St. Peter	803	Austria
Chateau de Goulaine	1000	France
Founderia Pontificia Marinelli	1000	Italy
Barone Ricasoli	1141	Italy
Barovier & Toso	1295	Italy
Hotel Pilgrim Haus	1304	Germany
Richard de Bas	1326	France
Gmachl	1334	Austria
Torrini Firenze	1369	Italy

Interestingly, the United Kingdom's oldest family business is not portrayed in Kristie's (2021) list of the oldest family businesses in the world, even though it has a right to be there. Peter Freebody & Co has been identified as Britain's oldest family business. The Freebody family has been living and working on the middle Thames since the thirteenth century and are master craftsmen when it comes to boat-building and boat restoration (Grady, n.d.). The second oldest family business in the United Kingdom, based in Dorset, is R J Balson and Son, a butcher and is being run by the 26th generation of the founding family (Campden, 2015). Scotland's oldest family business dates back over 300 years and is the John White blacksmith business and it is being run by the 18th generation (Campden, 2015). According to Oxford Economics (2022) family businesses are truly the backbone of the UK economy in that in 2020 they found that there are 4.8 million family businesses, generating £575 billion in gross value added (GVA) contribution to UK gross domestic product (GDP), employing 13.9 million workers. In a nutshell, this equates to 85.9% of all UK firms and directly generating 44.4% of GDP and responsible for 51% of all private sector employment in the United Kingdom in 2020. Oxford Economics (2022) did find that family businesses did not fare as well as other firms in the private sector during COVID as the number of family firms declined by 6.8% between 2019 and 2020 and their turnover also declined by an estimated 9.6% during the same period.

The Republic of Ireland has many old family businesses, many of which are found within the 'Publican/Vintners' domain, with bars and pubs being run by families through to the twenty-first century. For example, Carey's Pub in Carlow which was established in 1542 is still being run by a member of the founding family, and Morahan's of County Roscommon has still been run by the Morahan family since 1641. Though no longer run by a family member of the original founders, Rathborne Candles was established by the Rathborne family in 1488 based in Dublin. It eventually fell out of family ownership in 1914 but it still is in operation today. Avoca, which is one of the world's oldest surviving clothing manufacturers, was established in 1723 and is still run by members of the original founders. It is estimated that there are over 170,000 family businesses in Ireland straddling all sectors within the marketplace, employing nearly a million people (Deacon et al., 2020).

It has only come to light recently that Germany's oldest family business is that of the Coatinc Company, which was founded in 1502 having started as blacksmiths in the town of Siegen (Deutsche Welle, 2023). Coming a close second is the William Prym Holding Ltd. family business which was founded in 1530. It originally produced rolled plates and wires but changed its business model in 1903 to sewing kits and snap fasteners. It currently has a global workforce of 3,300 employees (Prym, n.d.). Now it employs over 2,200, and it focusses on steel surface finishing. According to the Foundation for Family Business (Schultz, 2019), 90% of all businesses in Germany are family businesses and include icon brands like Volkswagen, BMW, Porsche, ALDI, Bosch and Merck which was founded in 1668 and is one of the oldest pharmaceutical companies in the world. These businesses are also key employers by employing 58% of all employees in Germany. In Germany, most family businesses are small in that 90% of all family businesses generate less than one million in sales revenue (Schultz, 2019) but conversely, the number of very big family businesses, like BMW and Porsche, is extraordinarily high when Germany is compared to other industrial nations. Schultz (2019) found that 43% of German companies with sales revenues of more than €50 million are family-owned businesses. Family Capital (2021) has found that Germany's top 500 family businesses employed over 6.4 million people globally in 2019, generating over $1.8 trillion in revenues, which accounted for nearly 43% of the country's GDP.

During COVID, family businesses globally managed to survive the pandemic somewhat. Bajpai et al. (2021) found that, on a global scale, family businesses laid off fewer staff (8.5%) when compared to non-family businesses (10.2%). Family businesses displayed resilience during COVID more than other companies and Bajpai et al. (2021, p. 2) advocate that it is that resilience that will lead family businesses to be the 'engine of the global economic recovery from COVID-19'.

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