



STRUCTURE OF FAMILY BUSINESS

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ABSTRACT

Family businesses are a unique combination of family system and business structure. Understanding their models and structure is crucial because these businesses contribute significantly to the global economy. This paper explores conceptual frameworks of family businesses with an emphasis on the Two-Circle Model, the Three-Circle Model, and the Three-Dimensional Developmental Model. The research will analyse the relevance of these models in contemporary family business environments.

INTRODUCTION

Research into family businesses has developed along two distinct paths in recent decades. Scholars in management and organisational sciences have applied established models from organisational behavior, human resource management, strategy, and finance to smaller family businesses. On the other hand, some scholars have adapted concepts such as differentiation, triangulation, and disengagement to analyse family business dynamics. Like much contemporary research, this study will combine insights from these disciplines and present it as a conceptual model.

Keywords and Meaning

- Two-Circle Model: the influence of family and business on each other, and the need for alignment of family and business goals and interests.
- Three-Circle Model: linking the family, business and ownership circles fully defines what a family business system is, which is the interaction of all three of these subsystems.

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- Three-Dimensional Developmental Model: represents change that continuously and simultaneously occurs in family, business and ownership dimensions.
- Family Business: a business that is owned and/or run by current generation members of the founding family.

OBJECTIVE

- To examine key foundational models of family businesses and their relevance in understanding family business complexities.
- To understand the overlapping of family, ownership and business dimensions.
- To encourage future research into multi-generation family businesses

LIMITATIONS

- Generalisation: The models and frameworks discussed in this research are largely generalised and may not fully capture the characteristics of small family businesses.
- Cultural context: These models and frameworks were developed in Western contexts and might not adequately apply to family businesses in Asian cultures.
- Theoretical literature: While these models and frameworks are widely cited in various family business scholarships, they lack in general applicability.
- Oversimplification: The overlapping roles in family, ownership, and business systems are more complex in real-world scenarios than the models suggest.
- Narrow focus: These models do not address external influences such as market conditions, technological changes, legal or regulatory influence.
- Overlooking perspectives: The models focus on family members with official roles in the business, often overlooking the informal power structures and family influence.

Family businesses are shaped significantly by family involvement in ownership and decision-making. Thus, the overlapping of family interests with business interests often lead to rise in complexities as explained by Davis et al.¹ This study provides an overview of key models and frameworks to better understand the structure of family businesses.

The Two-Circle Model

¹ Davis, John A., Marion McCollom Hampton, and Ivan Lansberg. *Generation to generation: Life cycles of the family business*. Harvard Business Press, 1997.

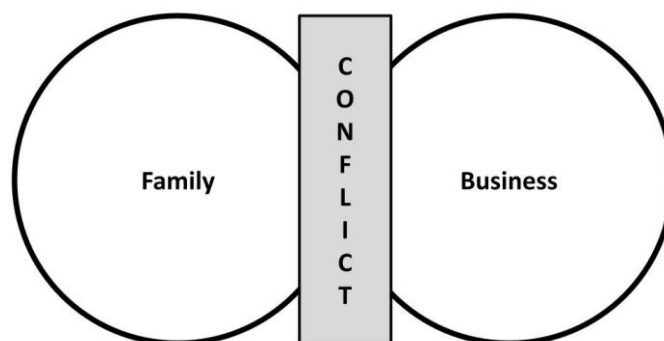


Figure 1. The Two-Circle Model

Bechard and Dyer² identified two core subsystems in the family businesses, the family and the business, to develop the Two-Circle Model. The model highlights family influence such as emotions, traditions, and values on one hand and business operations such as strategic planning and operational decision-making on the other. The model also underscores tensions in maintaining family harmony and business growth by acknowledging the potential for conflict at the intersection of the two dimensions.

The Three-Circle Model

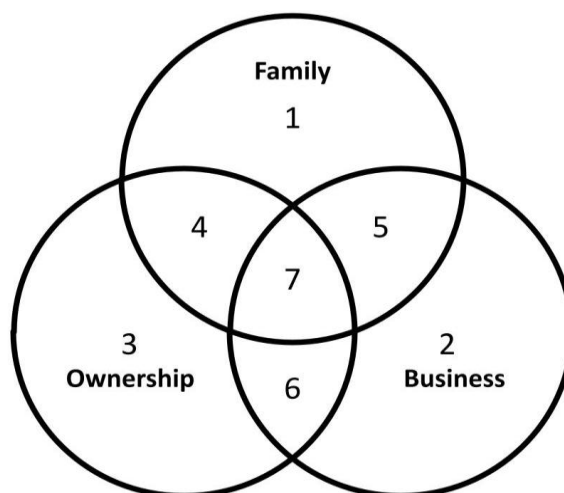


Figure 2. The Three-Circle Model

1. Family members not involved in the business
2. Employees who are not family members

² Beckhard, Richard, and W. Gibb Dyer Jr. "Managing continuity in the family-owned business." *Organizational dynamics* 12, no. 1 (1983): 5-12.

3. Non-family shareholders / partners
4. Family shareholders / owners
5. Family members involved in business but are not owners
6. Employees who are not family members but they are shareholders
7. Family members who are owners, managers and work in the business

Tagiuri and Davis³ extended the Two-Circle framework and proposed the Three-Circle Model by introducing ownership as a third dimension. Their model consists of three overlapping circles representing family, ownership, and business. Where family represents members connected by kinship, ownership represents stakes, and business represents operations including the workforce.

The model showcases unique interaction of each stakeholder group helping in understanding roles such as family-owners, non-family managers, and family employees. Despite highlighting overlapping roles, the model provides key insights by putting a spotlight on distinct identities.

Family system

- Represents individuals connected through blood, marriage, or adoption.
- Focuses on emotional ties, values, traditions, and family dynamics that influence the business.
- Includes family members who may not directly work in or own the business but still impact its direction indirectly.

Ownership System

- Includes all stakeholders with equity in the business, including family and non-family shareholders.
- Highlights the differences between controlling owners and passive owners.
- Demonstrates the challenges of managing ownership transitions.

³ Tagiuri, Renato, and John Davis. "Bivalent attributes of the family firm." *Family business review* 9, no. 2 (1996): 199-208.

Business System

- Comprises employees, managers, and operational stakeholders.
- Includes both family and non-family members.
- Addresses professionalisation, governance, and decision-making.

Overlaps

- Family Owners: Individuals who both belong to the family and have ownership stakes.
- Family Employees: Family members who actively work in the business but may or may not have ownership.
- Non-Family Owners: External stakeholders or investors who own a portion of the business but are not part of the family.
- Owner-Managers: Individuals involved in all three circles, combining family membership, ownership, and managerial roles.

Implications

The model implies that overlapping roles can lead to conflicts, such as tension between family and business objectives. The model helps in defining clear boundaries and role expectations, making the decision-making process easier. The model encourages family businesses to identify future leaders based.

The Three-Dimensional Developmental Model

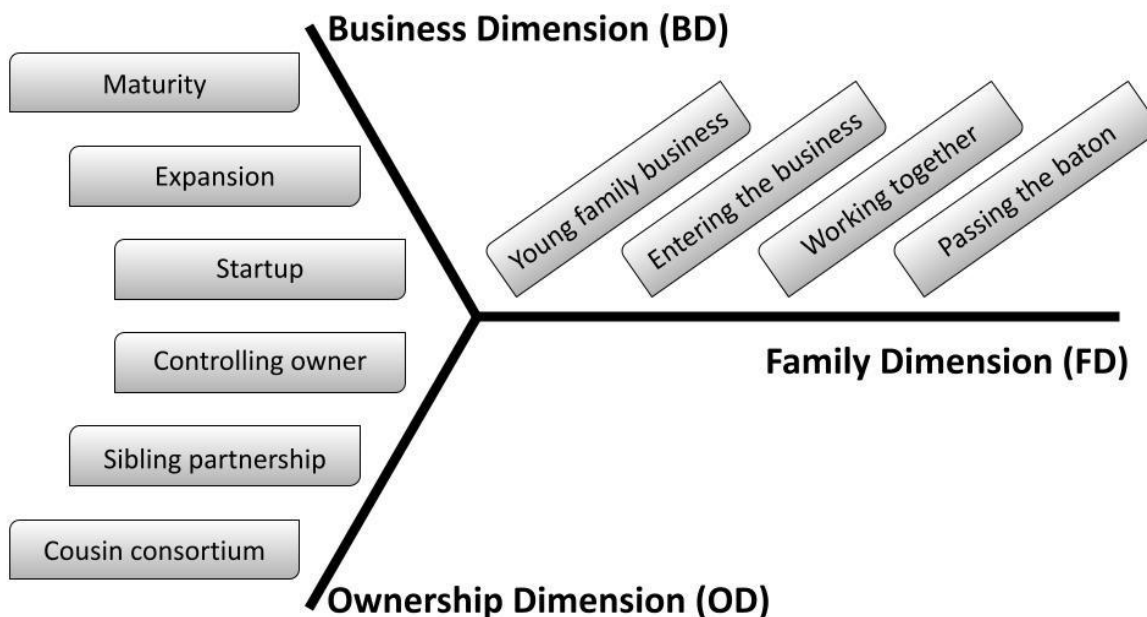


Figure 3. Three-Dimensional Developmental Model

Davis et al. considered the evolution of family businesses over a period of time to introduce the Three-Dimensional Developmental Model. The model consists of:

1. Ownership axis to measure change from founder-ownership to sibling partnerships and cousin consortiums.
2. Family axis to observe generational transitions and changes in family roles.
3. Business axis to note growth stages from a start-up to maturity and diversification.

The business dimension begins with the startup, followed by expansion, and finally reaching maturity. The family dimension starts with the formation of a new family business, followed by participation of the next generation, at this stage all members are working together, until the time when it is appropriate to hand over the business control completely to the next generation. The owner dimension starts with the first owner, followed by sibling partnership joined by the second generation, until eventually siblings' children form a cousin consortium. This perspective underscores the need for adaptive governance structures to address generational shifts.

Ownership Axis

- Controlling Owner: The founder or current leader who owns and manages the family business.
- Sibling Partnership: Ownership transitions to siblings in the next generation, requiring collaboration and shared decision-making.
- Cousin Consortium: Ownership is further divided among extended family members, often leading to complex governance needs.

Family Axis

- Young Family Business: The business is closely tied to the founder's family.
- Entering the Business: Next-generation members start joining the business, taking on roles with increasing responsibility.
- Working Together: Multiple family members collaborate, often leading to challenges in balancing familial relationships with professional roles.
- Passing the Baton: Succession planning becomes critical as leadership and ownership transition to the next generation.

Business Axis

- Startup: Focuses on growth, innovation, and market entry.
- Expansion: The business scales operations, diversifies, and builds infrastructure.
- Maturity: Emphasis shifts to sustaining market leadership, stability, and professional governance.

Implications

The model identifies that family businesses must adapt for longevity and avoid conflict. The model also highlights the need to establish formal governance structures to manage growing complexity. This model encourages strategic planning for ownership, leadership, and family involvement across generations.

KEY OBSERVATIONS

The Three-Circle and Developmental models offer a comprehensive perspective about the nature of family business by addressing multiple dimensions. The Three-Dimensional Developmental Model is appropriate for longitudinal studies to reevaluate the progress being made in each dimension by observing change across decades.

However, these models may not fully account for cultural differences in business practices as noted by Yilmaz et al.⁴ The overlapping nature of roles in the Three-Circle Model does not adequately represent blurred boundaries of decision-making in family businesses.

These models can help in identifying sources of conflict or map out the zone of tension across family, ownership, and business systems. Having studied the developmental model, succession planning could take cues to ensure systematic generational transition in accordance with each subsystem's requirement.

CONCLUSION

The Two-Circle, Three-Circle, and Three-Dimensional Developmental models offer valuable frameworks to simplify the inherently complex structure of family businesses. The Three-Circle Model provides a foundation to analyse overlapping roles and responsibilities in family businesses. It also offers some clarity for insightful governance. The Three-Dimensional Developmental Model compliments the Three-Circle Model by highlighting critical change and periodic evolution of family businesses.

These models re-emphasise the importance of balancing personal interest and professional interest of family businesses. In doing so businesses will also face succession challenges, conflict of interest, and influence of external factors.

Future research should focus on contemporary challenges like technological disruption or a sudden digital collapse resulting in economic downturn and include family business resilience as an overarching dimension to these subsystems.

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⁴ Yilmaz, Yasin, Sebastian Raetze, Julia de Groote, and Nadine Kammerlander. "Resilience in family businesses: a systematic literature review." *Family Business Review* 37, no. 1 (2024): 60-88.



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