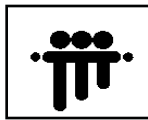


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BRINGING UNIVERSITY GRADUATES
INTO THE FAMILY BUSINESS:
LEARNING

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BRINGING UNIVERSITY GRADUATES INTO THE FAMILY BUSINESS: LEARNING

Abstract

Several recent studies have revealed that a large number of Family Businesses (FBs) will soon be faced with the need to appoint a successor to their current CEO.

No research has focussed on the knowledge and interests of the candidates for the post of CEO in FBs. As MBA graduates can be considered prime candidates, this paper analyses their knowledge of FBs and their interest in joining a FB.

Data were gathered by means of a questionnaire. The responses given by first-year MBA students were compared with those of students who had all but completed the MBA programme. The students' knowledge had improved considerably, but this had not increased their interest in joining a family business on finishing their MBA.

BRINGING UNIVERSITY GRADUATES INTO THE FAMILY BUSINESS: LEARNING

1. Introduction

An earlier research paper, “Bringing University Graduates into the Family Business (A): Attitudes and Knowledge” (1), reports the results of a study of university graduates carried out in 1990, 1991, 1992 and 1993, in which a two-part questionnaire was administered to a group of 798 first-year MBA students.

To find out to what extent these students had a better understanding of the problems of Family Business (FB) at the end of the MBA programme, an identical questionnaire was administered to the same group of students in 1992, 1993 and 1994. Part of this group of students took the “Famia” course on Family Business, which was offered during the last term of the MBA programme. The questionnaires were administered during the final weeks of the course (2).

In the period 1992-1994, Famia was offered as an elective course with a focus on general management. The topics of study included: the distinguishing features of FBs; the most common problems affecting FBs; and different approaches to solving these problems.

The course consisted of five parts:

1. Traps of the Family Business
2. Stages in the life cycle of a Family Business
3. Succession
4. Other players (shareholders, relatives, consultants, etc.) in the Family Business
5. Family protocol

During the course 18 cases were discussed. These cases dealt with family businesses in Spain, North America, Germany, France, Italy, Portugal, and Switzerland. In addition,

(1) RP-304 BIS, IESE, 1995.

(2) The MBA Programme, with a total of 35 courses spread over a period of 21 months, is offered to university graduates who wish to pursue a career in management. Classes are given in English and Spanish. During the first year of the programme, students take 15 required courses, whereas during the second year there are 3 required courses, the rest being electives.

5 presentations were given by experts and people directly involved in the management of a family business, on the following topics: Succession, Non-family Managers, Relatives, Shareholders, and Governance (1).

154 students took the Famia course during the 3-year period: 47 in 1992, 51 in 1993, and 56 in 1994.

Those who did not opt to take the Famia course were asked to complete questionnaires identical to those completed by the Famia students. 81 valid responses were collected (response index = 12.8%).

Using information obtained from the questionnaires, this paper will compare the responses given by students at the beginning of the MBA programme with those given only days before the end of the programme by students who took the Famia course and by those who did not.

The results of the study indicate:

- The extent to which students' knowledge of and attitude towards FBs changed in the course of the MBA programme, especially among those who took the Famia course.
- The need to intensify the focus on topics relating to the governance of FBs.
- The need to objectively familiarise students with the subject of Family Business so as to change negative attitudes that influence their personal decisions as to whether or not they should join a FB.

2. Students' opportunities and intentions of joining their own families' FB

Table 1 shows, for each of the three groups of students, the responses to the question of whether or not the student's family has an FB, and whether or not the student thinks it likely that he/she will work in the FB.

(1) Exhibit 1 gives the titles of the 23 units of the Famia course.

Table 1

	Famia(**)	First-year(*)	Non-Famia(***)
Number of students	154 100%	798 100%	81 100%
Family has FB	75 48.7%	333 41.7%	25 30.9%
Student has option to work in FB	63 40.9%	236 29.6%	14 17.3%
Family has FB	75 100%	333 100%	25 100%
Student has option to work in FB	63 84%	236 70.9%	14 56%

(*) Questionnaires completed at the start of the MBA programme.

(**) Questionnaires completed 20 months later, at the end of the MBA programme, by students who took the Famia course.

(***) Questionnaires completed 20 months later, at the end of the MBA programme, by those who did not take the Famia course.

Comparing the data in Table 1, we can say that the percentage of students whose families own a FB is fairly similar among those who took the Famia course and those who did not. The difference between the two groups is more marked on the question of whether or not the students “have the option to work in the FB”: those who elected to take the Famia course were far more likely to have the option of joining their family’s FB.

Table 2 shows the responses to the question of whether or not the students who have the option to join their family’s FB actually intend to do so (1).

Table 2

	Famia	First-year
Student has option of working for FB	63 100%	236 100%
Intends to join FB upon graduation	9 14.3%	11 4.7%
Wishes to work for an other business and then join FB	32 50.8%	103 43.6%
Does not wish to work for FB (2)	12 19%	43 12.8%
Has not yet made a decision	10 15.9%	79 33.5%

(1) Tables 2, 3 and 4 do not include the data for students who did not take the Famia course, as there were so few of them (the total number of students with the option of working in their FB = 14).

(2) Of those who did not take the Famia course there were 6 (42.9%) who indicated that they did not want to work in their FB.

Those who wanted to work for another business before joining the FB were asked how long they intended to work for this other business. Table 3 shows their responses.

Table 3

	Famia	First-year
Wants to work for another business before joining FB	32 100%	103 100%
From 1 to 2 years	4 12.5%	16 15.5%
More than 2 years but less than 4	3 9.4%	13 12.6%
From 4 to 5 years	15 46.9%	26 25.3%
More than 5 years	2 6.2%	11 10.7%
Undecided	8 25%	37 35.9%

If we add up the students who have “not yet made a decision” (10 in Table 2), those who are “undecided” as to how long they intend to work for another business (8 in Table 3), and those who wish to work for another business for “5 years or more” (2 in Table 2), we have a group of 20 students who can be described as “undecided” with regard to joining their family’s FB (Table 4).

Table 4

	Famia	First-year
Student has the option to work for the FB	63 100%	236 100%
Undecided	20 31.7%	127 53.8%

When making comparisons within Tables 2, 3 and 4 and observing the considerable differences they reveal, one must bear in mind that these differences cannot be attributed exclusively to the fact that some of these students have taken the Famia course. Between the first and second applications of the questionnaire lie 20 months of intense study, including 35 separate courses (1).

(1) It was not possible to have students give their answers on the same questionnaire as they had used before because, to help ensure the reliability of the answers, all the questionnaires were completely anonymous.

The main differences with regard to students' *intentions of joining the FB* are:

- A higher percentage (three times as many) of Famia students intend to join their family's FB on completing the MBA programme (Table 2).
- The percentage of students who "have not yet made a decision" (Table 2), as well as those classified as "undecided", has halved. This is only natural, however, as by this stage most students have already secured a job or are looking for one through the selection process.
- Among those who wish to "first work for another business and then join the FB", an exaggerated number of Famia students chose to work for this other business for 4-5 years, twice the number who originally selected this choice on the questionnaire.

3. Students' perceived knowledge of family business

To measure students' knowledge of family business, the questionnaire describes in detail the following 12 problems typically encountered by FBs:

1. Restrictions on rapid changes in strategic direction.
2. Limitations on growth owing to a lack of effective management.
3. Difficulties in financing growth.
4. Decisions relating to change of ownership.
5. Difficulties in the distribution of financial gains.
6. Inability to establish an active and capable Board of Directors.
7. Difficulties in changing the responsibility structure.
8. Inability to attract, motivate or develop the members of the next generation.
9. Inability to attract, motivate or retain non-family managers.
10. Top management succession.
11. Relations between company management and family shareholders.
12. Taxes on the transfer of ownership of the business by inheritance.

3.1. Range of Knowledge

Table 5 shows the percentage of students in the three sample groups who claimed to know about each of the above 12 problems.

Table 5

Problem	Familiarity with problem		Relative Index ⁽¹⁾	
	YES	NO		
1- Changes in strategy	94.2%	5.8%	100	Famia
	58%	42%	85	First-year
	67.9%	32.1%	83	Non-Famia
2- Growth and lack of managers	94.2%	5.8%	100	Famia
	68.4%	31.6%	100	First-year
	79%	20.9%	97	Non-Famia
3- Growth and financing	90.3%	9.7%	96	Famia
	56.4%	43.6%	82	First-year
	69.1%	30.8%	85	Non-Famia
4- Changes of ownership	86.4%	13.6%	91	Famia
	46.2%	53.8%	68	First-year
	61.7%	38.2%	76	Non-Famia
5- Distribution of financial gains	88.3%	11.7%	94	Famia
	46.8%	53.2%	68	First-year
	61.7%	38.2%	76	Non-Famia
6- Board of directors	87%	13%	93	Famia
	40.2%	59.8%	59	First-year
	65.4%	34.5%	80	Non-Famia
7- Changes in structure of responsibilities	90.3%	9.7%	96	Famia
	57%	43%	83	First-year
	67.9%	32.1%	83	Non-Famia
8- Attracting and developing family members	89%	11%	95	Famia
	60.9%	39.1%	89	First-year
	67.9%	32.1%	83	Non-Famia
9- Attracting and retaining non-family managers	86.4%	13.6%	91	Famia
	51.3%	48.7%	77	First-year
	75.3%	24.6%	92	Non-Famia
10- Succession of high level management	90.3%	9.7%	96	Famia
	54.5%	45.5%	80	First-year
	81.4%	18.5%	100	Non-Famia
11- Management/ shareholder relations	86.4%	13.6%	91	Famia
	49.5%	50.5%	72	First-year
	72.8%	27.1%	89	Non-Famia
12- Inheritance taxes	71.4%	28.6%	76	Famia
	36.6%	63.4%	54	First-year
	56.7%	43.2%	70	Non-Famia
Percentile average corresponding to the 12 problems	87.9%	12.1%		
	52.2%	47.8%		

(1) Proportion, in percent, between the number of students who claim to know about any given problem and the number of students who claim to know about the best-known problem (i.e. nos. 1 and 2 in the case of Famia students, no. 2 in the case of first-year students, and no. 10 in the case of non-Famia students).

Table 6 classifies the students into four groups according to the “range” of their knowledge, measured as a function of the number of problems they claim to recognise.

Table 6

Range of knowledge	Number of probs recognized	Famia	First-year	Non-Famia
Very wide	12 - 10	119 78%	181 23%	36 44%
Wide	7 - 9	25 16%	235 29%	24 30%
Average	4 - 6	6 4%	177 22%	12 15%
Low	0 - 3	3 2%	205 26%	9 11%
		153 100%	798 100%	81 100%

When we make a general comparison between the Famia group and the first-year group, as in Tables 5 and 6, we find an extraordinary difference, not only in the percentage of students who claim to recognise each problem (from 52% to 94%), but also in the percentage of students who demonstrate a “very wide” range of knowledge (from 23% to 78%) (1). As was expected, the differences were less marked in the case of the non-Famia group, since the education received during the programme had essentially established the number of students who could demonstrate a knowledge of the problems of FBs.

Based on the information displayed in Table 5:

- The greatest relative percentile increase in the students’ ability to recognise a problem occurred with no. 6, “Inability to establish an active and capable Board of Directors”. This was not surprising, however, given the students’ lack of knowledge of this topic on beginning the programme and the time devoted to this theme during the programme, not only in the Famia course but also in the required course General Management II.
- Problem no. 12, “Inheritance Taxes”, continued to be the least well understood, which is also hardly surprising, given the intrinsic difficulty of explaining and understanding this issue in a short time, particularly when students come from different countries, each with a different legal system.

(1) These changes can be attributed to the students’ ongoing education, as the percentage of students whose families own a FB is very similar in the Famia group and in the first-year group. The chi-squared test indicated that this result was related to a high degree of familiarity with the problems listed (see RP-304).

It seems very unlikely that the considerable difference between the Famia group and the non-Famia group with regard to their familiarity with the problems of FBs is due to the fact that the Famia students were precisely the ones who were already familiar with these problems before taking the course.

At the same time, it is worth noting that, despite having completed the MBA programme and the Famia course, and bearing in mind that some students will persist in expressing their frustration over their studies through their responses to this kind of questionnaire, there remains a group of 6% of the students whose range of knowledge is classified as “Average” or “Low” (Table 6). Also, there are still certain problems typical of FBs, such as “Decisions relating to change of ownership” (no. 4), “Inability to attract, motivate or retain non-family managers” (no. 9) and “Relations between company management and family shareholders” (no. 11), of which students remain relatively ignorant.

3.2 Accuracy of Knowledge

Considering that the 12 problems described in the questionnaire are among the most important problems that any FB will ever have to deal with, it can be argued that there is a relationship between the importance the students ascribe to each problem and the “accuracy” of their knowledge of that problem (their good judgment).

We asked students how important they thought each problem was and gave 3 points to the response “Very important”, 2 to “Quite important” and 1 to “Not very important”. We then summed the students’ responses to each problem to obtain a “Point Level”, which can be seen in Table 7.

The figures in the “Relative Index” column show the relative importance of each problem by expressing the number of points assigned to any given problem as a percentage of the number of points assigned to the problem that was considered most important.

Table 7

Problem	Level of points		Relative Index
	Famia (n=154)	First-year (n=798)	Famia
	Non-Famia (n=81)		First-year
			Non-Famia
1- Changes in strategy	371	2.4 (*)	95
	687	0.9 (*)	85
	140	2.1 (*)	81
2- Growth and lack of managers	375	2.4	96
	741	0.9	100
	173	2.1	100
3- Growth and financing	333	2.2	85
	684	0.9	92
	146	1.8	84
4- Changes of ownership	346	2.2	88
	592	0.7	80
	110	1.4	64
5- Distribution of financial gains	306	2	78
	686	0.9	93
	108	1.3	62
6- Board of directors	322	2.1	82
	505	0.6	68
	117	1.4	68
7- Changes in the structure of responsibilities	347	2.3	86
	639	0.8	86
	141	1.7	82
8- Attracting and developing family members	336	2.2	86
	720	0.9	97
	131	1.6	76
9- Attracting and retaining non-family managers	332	2.2	85
	648	0.8	87
	145	1.8	84
10- Succession of high level management	392	2.5	100
	593	0.7	80
	173	2.1	100
11- Shareholder/management relations	321	2.1	82
	606	0.8	82
	136	1.7	79
12- Inheritance taxes	304	2	78
	439	0.6	59
	113	1.4	65
Average corresponding to 12 problems	340	2.2	
	628	0.8	
	136	1.6	

(*) Points per student (number of points divided by number of students)

Table 8 shows the data for the accuracy of students' knowledge on the following three topics: "Management of the FB" (Strategy: nos. 1 and 3; Organization: 2, 7, 9); "Governance of the FB" (4, 5, 6, 11); and "Succession" (8, 10, 12). It also classifies the students in quartiles (1).

Table 8

Topic	Accuracy of knowledge (Quartiles)														
	Inaccurate			Not very accurate			Accurate			Very accurate			Total		
	Famia	First-year	Non-Famia	Famia	First-year	Non-Famia	Famia	First-year	Non-Famia	Famia	First-year	Non-Famia	Famia	First-year	Non-Famia
Management (1,2,3,7,9)	14 9%	531 66%	13 16%	9 6%	215 27%	17 21%	36 24%	48 6%	24 30%	95 61%	11 1%	27 33%	154 100%	798 100%	81 100%
Governance (4,5,6,11)	6 4%	580 73%	24 30%	24 16%	66 21%	17 21%	56 36%	49 6%	31 38%	68 44%	3 0%	9 11%	154 100%	798 100%	81 100%
Succession (8,10,12)	17 11%	612 77%	21 26%	15 10%	143 18%	20 25%	44 29%	35 4%	23 28%	78 50%	8 1%	17 21%	154 100%	798 100%	81 100%

A comparison between the first-year group and the Famia group, as in Tables 7 and 8, reveals that for each of the 12 problems there is a notable improvement in the accuracy of the students' knowledge, and that the percentage of students in the "Inaccurate" quartile falls dramatically. We find a smaller, but still significant improvement if we compare the first-year group with the non-Famia group.

The greatest improvement in the accuracy of students' knowledge was found in relation to "Inheritance tax" (no. 12), "Management succession" (no. 10) (which was considered the most important problem), and the "Board of Directors" (no. 6) (2).

- (1) The maximum number of points that could be awarded to each topic was as follows: Management - 15 points (3 points each for the 5 problems); Governance - 12 points; Succession - 9 points. By dividing these points into four quartiles, the students can be categorized into the following four groups:

Inaccurate (low score)
 Not very accurate (medium - low score)
 Accurate (medium score)
 Very accurate (high score)

- (2) These changes must again be attributed to the process of the students' education, as there is practically no difference in the percentage of each group whose families own a FB. The chi-square test indicated that there is a positive correlation between the accuracy of students' knowledge on the "Management" and "Governance" topics and the fact of their families' having or not having a FB.

4. Concluding remarks

On the basis of the comparisons we have made between the three groups of students, we can say that successful completion of the MBA programme and the Famia course helped to improve and expand the students' knowledge of family business. Their knowledge went from "limited" and "inaccurate" at the start of the programme to "extensive" and "accurate" by the end.

It can also be said that the influence of the Famia course, in its own right, has been considerable.

As for who benefited most from the Famia course, the data lead us to conclude that those who had not yet decided whether to join their family's FB were those who benefited most.

With regard to the content of the Famia course in the future, it would seem advisable to intensify the course's focus on the problems of governance in FBs (Table 8), and in particular, "relations between management and shareholders", "distribution of financial gains", and "changes in share ownership", i.e. the problems that are not part of the day-to-day management of a FB. Another area that requires special attention is that of management succession and the preparation of successors, as well as the "interests" of those family members who are owners, but not do not work within the FB.

If students' lack of interest in joining a family business can be attributed to their lack of knowledge of family business as such and their vulnerability to negative inputs on the subject, this study demonstrates students' openness to new ideas and their ability to change.

Efforts should therefore be made to objectively educate students to understand the nature of family business and the reality of employment in a family firm. □

Exhibit 1

BRINGING UNIVERSITY GRADUATES INTO THE FAMILY BUSINESS:
LEARNING

Famia Course (1994 - 1995)

Class Titles

1. Introduction
2. Characteristics of the Family Business
3. Traps of the Family Business (I)
4. Traps of the Family Business (II)
5. Stages of Development (I)
6. Stages of Development (II)
7. Growth
8. Structural Crises
9. Joining the Family Business (I)
10. Joining the Family Business (II)
11. Succession (I)
12. Succession (II)
13. Succession (III)
14. Non-Family Managers
15. Other Players
16. Relatives
17. Board of Directors (I)
18. Board of Directors (II)
19. External Consultants
20. Treasury
21. Family Protocol (I)
22. Family Protocol (II)
23. Culture of the Family Business

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