

Tutorial letter 201/1/2018

Family Business Management MNE3704

Semester 1

Department of Entrepreneurship, Supply Chain, Transport, Tourism and Logistics Management

IMPORTANT INFORMATION:

Please activate your *myUnisa* and *myLife* email addresses and ensure you have regular access to the *myUnisa* module site MNE3704-18-S1 as well as your group site.

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1 INTRODUCTION

Dear Student

The purpose of this tutorial letter is to provide you with feedback on Assignments 01, 02 and 03 and information regarding the examination.

2 CONTACT DETAILS OF YOUR LECTURER

Questions regarding the academic content of this module may be presented to the primary lecturer: Mrs S Radebe, e-mail: radebes@unisa.ac.za.

Refer to Tutorial Letter 101 for all other contact details.

3 EXAMINATION GUIDELINES

Please note the following important information.

3.1 Year mark

In order to pass this module you require a final mark of 50%. You need to refer to Tutorial Letter 101 for more details on the calculation of your final mark.

3.2 Examination paper

The following valuable information on the examination paper should be studied carefully:

- ◆ In the examination paper there might be questions on the following topics:
 - Estate planning
 - Genogram concept
 - Zero-sum dynamics
 - Family systems perspectives

- Family meetings
 - Role of non family members
 - Family –business governance
 - Generational transfers
 - Sources of capital
 - Competitive advantage
 - Board of directors
 - Distinctiveness of family businesses
- ◆ The examination paper could include some of the questions which appeared in the assignments.
 - ◆ **Please note:** Aspects of some of these topics are addressed in more than one chapter and you should be able to distinguish the difference in focus.
 - ◆ It is important to consult the **index** at the back of the prescribed book (Poza & Daugherty, 2014) to ensure that you study all the pages where the topics listed above are covered.
 - ◆ A case study will be included in the examination.
 - ◆ You should be able to define and describe concepts, give examples and explain what is meant by certain concepts.
 - ◆ Please read each question carefully before answering it. Take note of key words such as “list” or “discuss” and do what the question asks you to do. If you only list answers when you also have to discuss them, you will only get part of the marks.
 - ◆ The examination paper is set in English.

- ◆ The examination paper counts 70 marks and consists of two sections (Sections A and B).
- ◆ **Section A** (30 marks) is compulsory and will be based on a case study.
- ◆ **Section B** contains **three** questions of 20 marks each of which you may choose any **two** questions.
- ◆ Multiple-choice questions will not be asked in the examination paper.
- ◆ Previous examination papers are available on **myUnisa** and may not be supplied to students by the lecturer.
- ◆ The Examination Department will notify you of the examination date and time.
- ◆ You are advised to study the model answers to Assignments 01, 02 and 03, which are included in this Tutorial Letter, as part of your examination preparation.
- ◆ Comprehensive details on the administration of examinations, including the criteria and dates of supplementary examinations, are available on **myUnisa** under “Examinations”.
- ◆ Several resources and tips are also available on **myUnisa** to assist you with examination management and other related issues during examination periods.

Further guidelines regarding the questions in the examination paper will be given in due course nearer to the exam time on MyUnisa.

4 FEEDBACK ON ASSIGNMENT 01

1. The correct answer is 2. Text Book Chapter 1, page 15.

The competitive advantage inherent to family business are best explained by the resource-based view of organisations.

2. The correct answer is 1. Text Book Chapter 1, page 13

Wavering relates to the extent to which the next generation is paralyzed by indecisiveness and inability to adapt the business to current competitive conditions

3. The correct answer is 3. Text Book Chapter 1, page 23.

The stewardship perspective claims that the founding-family members view the firm as an extension of themselves and therefore view the continuing health of the enterprise as connected with their personal well-being.

4. The correct answer is 4. Text Book Chapter 2, page 38.

A genogram, a cousin of the traditional family tree, inform us not just of family names, relationships, ages, and lineal descendants, but also captures critical events, the quality of relationships and important messages.

5. The correct answer is 4. Text Book Chapter 2, page 41.

Emotional intelligence refers to the capacity for recognizing our own feelings and those of others and the ability to manage our own emotions and our relationships with others.

6. The correct answer is 2. Text Book Chapter 2, page 44.

Family meetings and family councils are a reliable forum for the education of family members about the business. In family meetings, family members can learn about the rights and responsibilities that accompany being an owner manager.

7. The correct answer is 2. Text Book Chapter 2, page 47.

A prenuptial policy states the family's desire to keep the ownership of the business within the family as well as the steps required of every family member when they marry.

8. The correct answer is 4. Text Book Chapter 2, page 47.

Liquidity policy includes principles supporting the desired relationship between the controlling family and the company in the future and recognizing the individuals or particular family branches may have cash-flow needs

9. The correct answer is 1. Text Book Chapter 2, page 47.

A subcontractor policy offers guidelines for arm's-length transaction in an open competitive market.

10. The correct answer is 5. Text Book Chapter 2, page 47.

An owners' plan conveys to the board of directors the vision, values, mission, goals and needs of the shareholders.

11. The correct answer is 3. Text Book Chapter 2, page 47.

A dividend policy discuss family needs and balance them against reinvestment in the business for growth.

12. The correct answer is 2. Text Book, Chapter 3, page 71.

Providing shareholder liquidity through dividends, buy-sell agreements, and redemption funds is essential to preserving concentrated ownership and family control as source of competitive advantage.

13. The correct answer is 3. Text Book Chapter 7, page 171.

The governor CEO set a departure date and announces it publicly and thus committing himself to the goal of transferring power within an established time frame

14. The correct answer is 3. Text Book Chapter 4, page 108.

Philanthropy is a great elixir for the prevention of entitlement culture in the family of growing wealth as it also promotes a family's legacy and its continued spirit of enterprise.

15. The correct answer is 3. Text Book Chapter 8, page 247.

One of the pitfalls in estate planning and ownership transfer is confusing love and equality with fairness.

16. The correct answer is 1. Text Book Chapter 14, page 415.

For nonfamily managers, the complexity of getting the job done is compounded by the need to understand the family-influenced organisation culture and to skillfully manage relationships with family members.

17. The correct answer is 4. Text Book Chapter 8, page 222.

Culture is a collection of beliefs, values and ground rules that shapes and significantly influences how individuals, groups and the company as a whole behave or operate when confronted with choices, decisions, opportunities and threats.

18. The correct answer is 2. Text Book Chapter 8, page 246.

Competition to day is based on procuring and deploying new products and new products/service combinations in new supply-chain channels including the internet.

19. The correct answer is 1. Text Book Chapter 13, page 374.

The total value of a business to its shareholding family is a combination of fair and market value of the enterprise to the family.

20. The correct answer is 2. Text Book Chapter 13, page 367

The DuPont method for calculating return on investment focuses on asset utilisation through the total asset turnover

TOTAL: 20 marks

5 FEEDBACK ON ASSIGNMENT 02

Read the case study and then answer the questions that follow.

CASE STUDY: SAWIRIS DYNASTY

Onsi Sawiris is the founder of the Orascom conglomerate and the patriarch of Egypt's richest family. The Sawiris family, which comprises of Onsi and his sons Naguib, Nassef and Samih, has an estimated worth of \$4.2 billion. In the early 60s, Onsi Sawiris set up Orascom Onsi Sawiris & Co, a small construction-contracting firm with operations in Upper Egypt. His firm soon became one of the largest construction firms in the country. Onsi, the patriarch of the Sawiris family, was in his mid 20s at the time, and was savouring his success, when the commercial success of Onsi's business soon made it a government target for nationalisation.

Disenchanted, he left Egypt in 1966 and relocated to Libya where he attempted to rebuild his business. While the move was logical from a commercial point of view, it meant significant personal sacrifice, with his wife left at home in Egypt, alone after their three sons had flown the nest to enrol in colleges abroad, Naguib to study engineering in Zurich, Nassef economics in Chicago and Samih engineering in Berlin. However, as Onsi himself points out, had he not made the difficult move to rebuild his business in Libya, there would have been no money to fund his sons' expensive international education. He returned to his native land in 1977 and set about rebuilding his contracting business, starting out with a small office of just five employees. With his sons back by his side, the Sawiris business, now known as Orascom Group thrived.

Oldest son Naguib joined his father in the family business in 1979 and, with his training in Engineering; the oldest son established and built up the railway, IT and telecommunications sectors of Orascom. Middle son Samih, upon graduation from Berlin, founded his first company, National Marine Boat Factory, in the 1980s, followed by Orascom Projects for Touristic Development in 1996. Meanwhile, youngest son, Nassef would oversee the core construction activities of the family business from 1990 onwards.

Onsi decided to split the conglomerate into separate operating companies, giving each son control of one of the major business segment, according to their experience and strengths. Oldest son Naguib became CEO of Orascom Telecom Holding (OTH), middle son Naguib headed up the tourism and real estate activities through Orascom Development and Hotels (ODH), and youngest son Nassef took charge of Orascom Construction Industries (OCI). Onsi stepped away from the day to day operations, to become the Group's chairman, although it cannot be said that Onsi was entirely content with the realities of taking a back seat in the business. Onsi Sawiris always said that the greatest investment he has ever made was in his sons. "I can barely give them advice," Onsi once said. "The new generation has its own methods and ideas and I have to practice consummate diplomacy when I want to make them see it my way. That is not to say that I am never overruled."

Adapted from: Pursey, S. Sawiris Dynasty: Pharaohs of the Boardroom. 2012. Euroasia Industry. Available from: < <http://www.euroasiaindustry.com> > [Accessed: 26 June 2015].

QUESTION 1

1.1 Based on the case study, what led to the success of the Orascom Group? Support your answer with ten (10) statements from the case study. (10)

Any 10 marks

- Onsi did not give up on his business after it was nationalised by the government. (1)
- Disenchanted, he left Egypt in 1966 and relocated to Libya where he attempted to rebuild his business. (1)
- The involvement of his children into the family business. (1)
- With his sons back by his side, the Sawiris business, now known as Orascom Group thrived. (1)
- Onsi decided to split the conglomerate into separate operating companies. (1)
- He gave each son control of one of the major business segment, according to their experience and strengths. (1)

- Oldest son Naguib became CEO of Orascom Telecom Holding (OTH), middle son Samih headed up the tourism and real estate activities through Orascom Development and Hotels (ODH), and youngest son Nassef took charge of Orascom Construction Industries (OCI). (2)
- Educating his sons and working with them in the family business before he retired. (1)
- Onsi Sawiris always said that the greatest investment he has ever made was in his sons. (1)
- Oldest son Naguib joined his father in the family business in 1979 and, with his training in Engineering; the oldest son established and built up the railway, IT and telecommunications sectors of Orascom. (2)
- Middle son Samih, upon graduation from Berlin, founded his first company, National Marine Boat Factory, in the 1980s, followed by Orascom Projects for Touristic Development in 1996. (1)
- Meanwhile, youngest son, Nassef would oversee the core construction activities of the family business from 1990 onwards. (1)

1.2 Which CEO exit style did Onsi Sawiris use when he retired? Justify your answer with evidence from the case study. (1)

Onsi Sawiris took the Ambassador exist style.

Orascom's founding father stepped away from the day to day operations, to become the Group's chairman.

Although it cannot be said that Onsi was entirely content with the realities of taking a back seat in the business.

"I can barely give them advice," Onsi once said. "The new generation has its own methods and ideas and I have to practice consummate diplomacy when I want to make them see it my way. That is not to say that I am never overruled." (1)

1.3 Elaborate on the CEO exit style that you have given in 1.2. (7)

Poza & Daugherty 2014: *Chapter 7 page 170*

Any 7 marks

- Ambassador exit the business by delegating most of the operating responsibilities to the next generation members and or key nonfamily managers but hold on to their diplomatic or representational duties on behalf of the corporation. (2)
- Ambassadors make room for top notch nonfamily managers and next generation members. (1)
- They allow others to learn the business first hand and to eventually take over responsibility for running the enterprise. (1)
- The CEOs prone to become ambassadors are those who enjoy people, like to travel, and have always entertained the idea of living several months of the year in a city that is also a key market. (1)
- CEOs who discover another calling in philanthropy or public service are candidates for this exit type as well. (1)
- Ambassadors make good board members for a few years after their exit as CEOs. (1)
- Ambassadors should proceed slowly with their exit, making sure that the next generation and or key non family managers are indeed capable and ready to take over day to day operations. (1)
- The heirs of an ambassador type CEO are lucky, they merely need to prepare themselves thoroughly and avoid competing with the CEO for visibility outside the business. (1)
- Advisors to this type of CEO should build bridges with key nonfamily management and the next generation because, without such relationships, they are likely to be replaced. (1)

1.4 “Each generation has the responsibility of bringing to the business their own vision for the future of the business” Samuel Curtis Johnson III, former Chairman, S.C. Johnson: Family Company.

Vision is a controversial word for many in management. Why is it so important to a next generation leader’s ability to lead a family business?

Poza & Daugherty 2014, *Chapter 6* page 157

- Younger-generation members of a business-owning family are more inclined to accept new technology. (2)
- They are more likely to assume more risks that go along with promoting growth of the business. (2)
- Younger-generation members of a business-owning family are more inclined to accept new managerial approaches. (2)
- If their chosen profession is management, next generation members are likely to want to engage in strategic planning, to redesign information and financial systems, and to pursue digital strategies or e-commerce opportunities. (2)
- The next generation’s complementary skills and perspectives are precisely what a family business often needs in its struggle to update itself in order to grow and continue to create value for its customers. (2)
- They provide the necessary skills for the business to become a contender in the new era. (1)
- Earlier-generation members tend to give more importance to what has made the business successful thus far. (1)

(12)

[30]

QUESTION 2

Due to the myriad ways in which us-and-them behaviour can manifest itself, multigenerational families are fertile ground for zero-sum dynamics.

Elaborate on this unique challenge faced by family owned businesses. (8)

Poza & Daugherty 2014: Chapter 2, page 35

Any 8 marks

- Zero-sum dynamics in relationships are characterised by exchanges in which one party's perceived gain is the other party's perceived loss. (1)
- An example, if one branch of the family uses educational assistance for next-generation members, another branch of the family assumes that less will be available for its children. (2)
- If family members in top management are to be compensated at a fair market rate, those not active in management assume that they will have to settle for lower dividends to accommodate those salaries. (2)
- If those active in management agree on a growth strategy, family members employed elsewhere believe that, in settling for greater reinvestment in the business, they would have to accept reduced distributions to shareholders. (2)
- It can be triggered by any perceived difference, male versus female. (1)
- Active in the business versus inactive in the business. (1)
- Richer family members versus poorer family members. (1)
- Older family members versus younger family members. (1)
- Blood relatives versus in-laws. (1)

QUESTION 3

Depending on the size of the family council and its prescribed role in a particular family, it may be appropriate for council members to vote on policies.

Describe any four guidelines that can help families to develop family business interaction policies. (4)

Poza & Daugherty 2014: Chapter 2

Any 4 marks

- Involve as many family members as possible as are relevant to a particular policy that is being developed. (1)
- Family members should be included by expertise and potential effect of the policy on those family members. (1)
- May start small and involve only direct descendants, not their spouses; welcome spouses at later meetings once the group has developed a foundation for policy-making activity. (1)
- Look at the big picture, and formulate a mission statement or outcome goal that defines what is best for the extended family and the business. (1)
- Refrain from favouring policies that repeatedly put one individual or family branch above the interests of all. (1)
- Focus on the future and let go of the past. (1)
- Self-management is critical in moving away from repetitive retelling of past incidents and instead breaking new ground that will prevent or minimise the occurrence of similar situations in the future. (2)
- Use experienced facilitators who can play a significant role in helping a family business focus on the future. (1)

QUESTION 4

There are seven primary sources of value on which family companies can build competitive advantage.

Describe any six (6) primary sources of value on which family companies can build their competitive advantage. (6)

Poza: Chapter 10, page 307.

Any 6 marks

- Financial resources, such as cash and securities. (1)
- Physical assets, such as plants and equipment. (1)
- The product (sometimes protected by patents) and its price and performance. (1)
- Brand equity, which is the market's perception of a distinction in quality or reputation, a perception created over time. (1)
- Organisational capabilities, which are the competencies residing in employees and unique organizational architectures. (1)
- Customer supplier integration, which includes new ways of getting the product or service to the customer in any form, at any time, and in any place. (1)
- A positive family business relationship, the source of patient family capital. (1)

QUESTION 5

If a family business is going to preserve one of its intangible yet well-documented competitive advantages, it is essential for them to make long-term investments in the ownership subsystem.

What investments should family businesses make? (2)

Poza & Daugherty: Chapter 3, page 59

Any 2 marks

- The design and execution of an appropriate ownership and control structure. (1)
- The education, access to information, and engagement of shareholders. (1)

- The creation of institutions that govern the interaction between the owners and the firm. (1)

(20)

Total marks: 50

6 FEEDBACK ON ASSIGNMENT 03 (Self-evaluation)

Please note that these are guidelines on how you were supposed to answer your questions.

SELF EVALUATION ASSIGNMENT

This assignment does not have to be submitted but serves as preparation for the examination at the end of the semester.

Read the following two Cases and answer the questions that follow.

Case 1: S.C. Johnson

Many years ago, as a young chemist working in the company's lab, Samuel Curtis Johnson III, now deceased chairman of SC Johnson: A Family Company, tried to convince his father that he had the formula for a breakthrough product, an insecticide. Reports are that several attempts at convincing his father of the soundness of the idea were rebuffed with simple, "Remember, son, we are a wax company." Samuel Curtis continued to perform his assigned job faithfully at the lab. He also continued to bring up his idea and advocate its merits in subsequent meetings with his father, only to receive the same admonition. Finally, he added a tiny wax as an inert ingredient to his formulation for the insecticide. When he once again took the new product, now part of the wax family of products, to his father, it received the go-ahead; after all the insecticide was now wax-based.

(Poza & Daugherty 2014:160)

Case 2: J.W. Marriot

“My father forced me to think and to present my ideas in a forceful way because he said no to everything. He took the position of a devil’s advocate. And everything I brought in for approval - to buy a hotel, grow a hotel business, to change the strategies – he’d say no.”

J.W. Marriot, Jr., CEO and Chairman of the Board, Marriot International

Question 1

Vision is a controversial word – too soft and ethereal for many in management. But why is it so important to a next-generation leader’s ability to lead a family business? (12)

(Poza & Daugherty 2014:157-158).

Importance of vision (12)

- Younger-generation members of a business-owning family are more inclined to accept new technology.
- Younger-generation members of a business-owning family are more inclined to accept new managerial approaches.
- Younger-generation members of a business-owning family are more inclined to accept greater risk.
- Earlier-generation members tend to give more importance to what has made the business successful thus far.

The points above serve as a guideline. For more detail refer to your prescribed text book pages 157-158. You were expected to give a detailed explanation for each point.

Question 2

What do the experiences of J.W. Marriott and S.C. Johnson have in common? (10)

(Poza & Daugherty 2014:160).

Experiences of JW Marriott and SC Johnson

- Expect the difficult conversations to get problematic.
- As successors reach their mid-thirties and forties and as the CEO advances to his/her sixties expect problems about the strategy of the family business.
- Allow the new and old ideas to be both embraced.
- Allow a search of growth opportunities during difficult conversations.
- To minimise difficult conversations, create forums for continuing dialogue.
- Allow maintenance of the relationship such as regularly scheduled meetings.
- Maintenance of relationships can also be maintained initiating fishing/hunting trips, vacations together as family members.
- CEO's initiatives at building institutions of governance are also very important here.

The following create a more balanced and rational discourse on different visions that carry high emotional content:

- Boards of directors with independent outsiders.
- Nonfamily managers in top management positions.
- Family meetings.
- Family councils.
- After all, entrepreneurs and their heirs are passionate about their dreams.

You were expected to give examples from the two case studies to support your answer.

Question 3

Describe what a family business is, and define the essence of the distinctiveness of family firms. (10)

Definition of a family business:

Poza & Daugherty: Chapter 1, page 7

- Ownership control (15% or higher) by two or more members of a family or a partnership of families; (1)
- Strategic influence by family members on the management of the firm. (1)
- Concern for family relationships. (1)
- Continuity across generations. (1)

The essence of the distinctiveness of family firms:

Poza & Daugherty, 2014:7

- The presence of the family. (1)
- The overlap of family, management, and ownership, with its zero-sum (win lose) propensities, which in the absence of growth of the firm, render family business particularly vulnerable during succession. (2)
- The unique sources of competitive advantage (like a long term investment horizon) derived from interaction of family, management, and ownership, especially when family unity is high. (1)
- The owners dream of keeping the business in the family (the objective being business continuity from generation to generation). (1)
- The strategic influence of noneconomic family goals and values. (1)

Question 4

Differentiate between the three common valuation methods (approaches) to determine the value of a family business. (10)

The three valuation methods (approaches) are:

- (1) Discounted cash flow (Poza & Daugherty, 2014:385-387)
- (2) Guideline public company method (Poza & Daugherty, 2014:387-389)
- (3) Guideline transaction method (Poza & Daugherty, 2014:389-390)

You should have given a short description of each evaluation method.

Question 5

Discuss the general expectations of family members who are participating as board members. (8)

Any 8 marks

Poza & Daugherty 2014: Chapter 9, page 266

- They ask challenging questions that open up the business to an outside perspective. (1)
- They help the business to adopt to changes sooner; given the high rate of change in the company's competitive, technological, social, and regulatory environment. (1)
- They also insist on thorough and convincing answers to their challenging questions. (1)
- They hold top management accountable. (1)
- They have ample related experience. (1)
- Risk-taking peers who have been through it before can help guide the Chief Executive Officer. (1)
- Whether in seeking capital, strategic planning, growing the business, gaining market share, developing key manager, or succession. (1)

- They bring with them a network of contacts that can help locate talent, financial resources, and new business opportunities. (1)
- They are management professionals. (1)
- A board is a part of the corporate signalling process on professionalism, commitment to the long run and part of developing a great reputation. (1)

Total marks: 50

7. CONCLUDING REMARKS

We trust that you found the feedback and information given valuable. Do not hesitate to contact us if you have any questions regarding the assignments and the guidelines for the examination provided in this tutorial letter.

As your lecturers we wish you all the best with your examinations.

Mrs S Radebe

Family Business Management (MNE3704)
