

Chapter 5—The Family Business

TRUE/FALSE

1. When a parent retires completely and turns the firm over to a son or daughter, the firm ceases to be a family business.

ANS: F

A firm remains a family business when it passes from one generation to the next.

PTS: 1 REF: p. 138 OBJ: 5-1 TYPE: C

NAT: Analytic | Dynamics

2. A company run by the great grandchildren of the founder would be considered to be managed by a cousin consortium.

ANS: T

PTS: 1

REF: p. 136

OBJ: 5-1 TYPE: D

NAT: Analytic | Dynamics

3. In a family business, the family's primary function is to ensure the profitability and survival of the business.

ANS: F

The family's primary goals are the development of members as well as equality of reward opportunities for each member.

PTS: 1

REF: p. 137

OBJ: 5-1 TYPE: C

NAT: Analytic | Dynamics

4. One advantage of a family business is that there is no need to separate the business interests from the family interests.

ANS: F

Competing interests can complicate the management process; therefore the separation of business interests from family interests would be best as each organization has separate purposes..

PTS: 1

REF: p. 138

OBJ: 5-1 TYPE: C

NAT: Analytic | Dynamics

5. An advantage of a family business is that family members may have company knowledge that leads to better decisions.

ANS: T

PTS: 1

REF: p. 139

OBJ: 5-1 TYPE: C

NAT: Analytic | Dynamics

6. Nepotism is not as large of a problem for small companies as for large ones.

ANS: F

Nepotism can be a problem for both.

PTS: 1

REF: p. 140

OBJ: 5-1 TYPE: C

NAT: Analytic | Dynamics

7. One weakness of a family business is the tendency of family members to leave quickly when the business starts to falter.

ANS: F

Members of the family are drawn to the business because of family ties, and they tend to stick with the business "through thick and thin."

PTS: 1 REF: p. 138 OBJ: 5-1 TYPE: C
NAT: Analytic | Dynamics

8. A major weakness of a family business is that it has greater difficulty than a nonfamily business in focusing on long-run decision making.

ANS: F

A family can take the long-run view more easily than corporate managers who are being evaluated on year-to-year business results.

PTS: 1 REF: p. 139 OBJ: 5-1 TYPE: C
NAT: Analytic | Dynamics

9. The distinctive values that motivate and guide an entrepreneur in the founding of a firm cannot serve as a foundation for competitive advantage in the firm.

ANS: F

The values can serve as a foundation for competitive advantage in the firm. For example, emphasizing intensive customer service may attract business that would normally go to competing firms.

PTS: 1 REF: p. 138 OBJ: 5-1 TYPE: C
NAT: Analytic | Value Creation

10. A family firm's special patterns and beliefs comprise the firm's organizational culture.

ANS: T PTS: 1 REF: p. 140 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

11. Research shows that next-generation family members motivated by a need-based commitment instead of a desire-based commitment are the most likely to pursue long-term careers with the family business.

ANS: F

The family members motivated by a desire-based commitment are the most likely to work hard, because of their passion for the business.

PTS: 1 REF: p. 144 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

12. Family members with an obligation-based commitment may see their participation in the family business as a requirement for family unity.

ANS: T PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

13. Family members with a desire-based commitment in the family firm are the least likely to work hard because of their lack of confidence in their abilities.

ANS: F

Family members with a need-based commitment are often in doubt and may lack the capabilities and confidence to excel. This problem is compounded if they are promoted only because of their last name.

PTS: 1 REF: p. 144 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

14. A 2007 survey of family business owners conducted by *MassMutual Financial Group*, *Kennesaw State University* and the *Family Firm Institute* concluded that the overlap between individual and organizational values may result in increased levels of employee loyalty, commitment and organizational citizenship behavior.

ANS: T PTS: 1 REF: p. 144 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

15. Husband-wife teams that own a business are popularly referred to as co-preneurs.

ANS: T PTS: 1 REF: p. 145 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

16. Two major factors involved in grooming a son or daughter to enter the family business are the child's aptitude and the right to choose a career.

ANS: T PTS: 1 REF: p. 146 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

17. Some family businesses benefit from effective collaboration among brothers and sisters.

ANS: T PTS: 1 REF: p. 147 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

18. A family business involving two or more children may experience either sibling cooperation or sibling rivalry.

ANS: T PTS: 1 REF: p. 147 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

19. One sibling dilemma in a family business has been labeled the predator/parasite conflict.

ANS: T PTS: 1 REF: p. 148 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

20. In-laws not working in the family business may have a bad attitude about the company because of only hearing one side of an argument.

ANS: T PTS: 1 REF: p. 148 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

21. The role of the entrepreneur's spouse in family conflicts can sometimes be described as that of a mediator in business relationships between the entrepreneur and the children.

ANS: T PTS: 1 REF: p. 149 OBJ: 5-3 TYPE: D
NAT: Analytic | Dynamics

22. In the family business, family considerations affect only members of the family.

ANS: F
Those employees who are not family members are still affected by family considerations--e.g., being passed over for a deserved promotion that was set aside for a family member.

PTS: 1 REF: p. 150 OBJ: 5-4 TYPE: C
NAT: Analytic | Dynamics

23. Nonfamily employees in a family business may be caught in the crossfire between feuding family members.

ANS: T PTS: 1 REF: p. 150 OBJ: 5-4 TYPE: C
NAT: Analytic | Dynamics

24. Family retreats are best handled by an outside facilitator, who can help develop an agenda and establish ground rules for discussion.

ANS: T PTS: 1 REF: p. 152 OBJ: 5-4 TYPE: C
NAT: Analytic | Dynamics

25. Even if family members lack the capability to run the business, an entrepreneur should always select a successor from this pool of talent.

ANS: F
When capable family members are not available, the entrepreneur may have to bring in outside leadership to avoid a decline in firm performance.

PTS: 1 REF: p. 154 OBJ: 5-5 TYPE: C
NAT: Analytic | Dynamics

26. The process of preparing a family member to take over a family business typically takes about one year.

ANS: F
This process usually takes a number of years, and in some cases decades.

PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: C
NAT: Analytic | Dynamics

27. The owners of Lackland Self Storage are an example of how founding parents should clarify their children the transfer of management responsibilities.

ANS: T PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: A
NAT: Reflective Thinking | Dynamics

28. A "best practices" for the family firm is to promote family members above other, more skilled employees, so that the workers will understand who is in charge.

ANS: F

Family members should be promoted based on their skill levels not on their being a family member.

PTS: 1 REF: p. 150 OBJ: 5-4 TYPE: C

NAT: Analytic | Dynamics

29. When hiring non-family employees it is only fair to identify the positions, if any, that are reserved for family members.

ANS: T PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: C

NAT: Analytic | Dynamics

30. A responsibility of a junior generation member who desires advancement is to understand that change is needed more so than the history of the family business.

ANS: F

Junior generation member should understand how the founding values of the company could be used to implement change if needed.

PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: C

NAT: Analytic | Dynamics

31. When a senior generation member is planning for succession, planning should encompass family members, employees and the owners.

ANS: T PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: C

NAT: Analytic | Dynamics

32. A 2008 study found that a majority of business owners had prepared both a will and a succession plan.

ANS: F

The survey by *PNC Wealth Management* reported 77 percent of business owners had a will but only 33 percent have a succession plan.

PTS: 1 REF: p. 153 OBJ: 5-5 TYPE: C

NAT: Analytic | Ethical and Legal

33. Bequeathing equal shares of ownership to children in a family business will probably create havoc in the future functioning of the business.

ANS: T PTS: 1 REF: p. 156 OBJ: 5-5 TYPE: C

NAT: Analytic | Dynamics

34. A critical part of a family firm transfer from one generation to the next is to discuss decisions with potential heirs as well as family members working in the company.

ANS: T PTS: 1 REF: p. 157 OBJ: 5-5 TYPE: C

NAT: Analytic | Dynamics

35. When considering the long term health of a company during the transfer of ownership, tax advantages should be the primary concern.

ANS: F

Tax considerations are relevant; however they should not be the primary concern as possible adverse effects on management may hurt the long term health of the company.

PTS: 1 REF: p. 156 OBJ: 5-5 TYPE: C
NAT: Analytic | Finance

36. A family retreat can bring family members closer together as well as strengthen the family business.

ANS: T PTS: 1 REF: p. 151 OBJ: 5-5 TYPE: C
NAT: Analytic | Dynamics

37. Family owned businesses represent less than five percent of the *Fortune 500* firms in the United States.

ANS: F

Over 35 percent of *Fortune 500* firms have been identified as family businesses.

PTS: 1 REF: p. 137 OBJ: 5-1 TYPE: C
NAT: Analytic | Economic Environments

MULTIPLE CHOICE

1. In the U.S., family businesses generate what percent of the gross domestic product?
- 35
 - 49
 - 75
 - 80

ANS: B PTS: 1 REF: p. 137 OBJ: 5-1 TYPE: C
NAT: Analytic | Economic Environments

2. Which item is *not* an advantage of a family-owned business?
- shared culture
 - focus on the long-run
 - reduced cost of control
 - commitment

ANS: C PTS: 1 REF: p. 139 OBJ: 5-1 TYPE: C
NAT: Analytic | Dynamics

3. Which family characteristic may be in conflict with a business?
- competition is valued
 - taking advantage of opportunities
 - perpetuate traditions
 - All of the above may be in conflict.

ANS: C PTS: 1 REF: p. 140 OBJ: 5-1 TYPE: C
NAT: Analytic | Dynamics

4. In a family business, the interests of the family and the interests of the business are best described as
- overlapping.
 - conflicting.
 - coinciding.

d. having no relationship with each other.

ANS: A PTS: 1 REF: p. 137 OBJ: 5-1 TYPE: C
NAT: Analytic | Dynamics

5. People with higher levels of _____ and _____ commitment are more likely to support efforts to promote change to improve the company's performance and survival.
- need-, cost
 - desire-, obligation-
 - cost-, desire-
 - strategy-, cost-

ANS: B PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

6. A(n) _____ commitment may motivate a person to go "beyond the call of duty" to protect or extend personal financial interests in the company.
- Need-based
 - Obligation-based
 - Cost-based
 - Strategy-based

ANS: C PTS: 1 REF: p. 144 OBJ: 5-2 TYPE: D
NAT: Analytic | Dynamics

7. The close relationship of business factors and family concerns in a family business has been described as
- separation of domains.
 - a generational gap.
 - an example of blood being thicker than water.
 - overlapping.

ANS: D PTS: 1 REF: p. 137 OBJ: 5-1 TYPE: C
NAT: Analytic | Dynamics

8. A benefit of a strong family relationships is the greater willingness of family members to
- adopt new operating methods when needed.
 - act generously in compensating nonfamily employees.
 - sacrifice salaries and dividends when necessary.
 - emphasize short-run profits.

ANS: C PTS: 1 REF: p. 138 OBJ: 5-1 TYPE: C
NAT: Analytic | Dynamics

9. Steve, Harry, and Chris, who own and operate a family auto parts store, are experiencing tough times during a downturn in the local economy. To help the store survive these conditions, the brothers agree to each take a 25 percent reduction in salary for a one-year period. This decision
- demonstrates a weakness of financial management.
 - illustrates an important advantage of a family business.
 - reveals a lack of customer orientation in a family business.
 - reflects a lessening of entrepreneurial ambition in second-generation businesses.

ANS: B PTS: 1 REF: p. 138 OBJ: 5-1 TYPE: A
NAT: Reflective Thinking | Dynamics

10. A founder's core values may become part of the family business culture because

- a. the founder typically knows what is best for the company's culture.
- b. others in the firm absorb traditions and values established by the founder.
- c. the values coincide with modern management theory.
- d. family members follow family traditions without excessive analysis.

ANS: B PTS: 1 REF: p. 141 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

11. Those with a(n) _____ commitment are the most likely to work hard because of their passion for the business.
- a. need-based
 - b. strategy-based
 - c. cost-based
 - d. desire-based

ANS: D PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

12. Family members who join the business because of a concern that they may not be able to reach career success on their own display a(n) _____ commitment.
- a. desire-based
 - b. obligation-based
 - c. need-based
 - d. cost-based

ANS: C PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: D
NAT: Analytic | Dynamics

13. A family member who feels he/she ought to pursue a career in the family business is expressing a(n) _____ commitment.
- a. desire-based
 - b. obligation-based
 - c. cost-based
 - d. need-based

ANS: B PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: D
NAT: Analytic | Dynamics

14. A family member who believes that joining the business may be the best way to benefit from what the family firm has to offer is revealing a (n) _____ commitment.
- a. desire-based
 - b. obligation-based
 - c. cost-based
 - d. need-based

ANS: C PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: D
NAT: Analytic | Dynamics

15. A common problem for a founder in passing the business on to a daughter or son is
- a. introducing the child to outsiders such as bankers.
 - b. finding a suitable position for the son or daughter within the business.
 - c. arranging the transition from part-time to full-time employment.
 - d. deciding whether the child has the necessary temperament and ability.

ANS: D PTS: 1 REF: p. 145 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

16. An inherent problem for couples involved in a family business is that
- conflicts in the business tend to carry over into family life.
 - hours of work may become longer for one person.
 - uneven division of labor i.e. one person is only responsible for the menial tasks.
 - some husbands find their masculinity threatened when their wives are better managers.

ANS: A PTS: 1 REF: p. 145 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

17. Jane and Joe are experiencing a strain with their family relationship after running their family business for 5 years. Which issue might be the most likely underlying cause of the tension?
- Jane is the CEO while her husband is the CPA.
 - Joe started the business but has stepped down from the CEO position.
 - Jane and Joe's roles have not been carefully defined as the business has grown.
 - Their difference of opinions about a business matter is spilling over into their family time.

ANS: D PTS: 1 REF: p. 145 OBJ: 5-3 TYPE: A
NAT: Reflective Thinking | Dynamics

18. In considering the role of younger family members, the best philosophy is to recognize that
- a child should have a right to a job in the business if he or she desires.
 - no family member should be hired at any level.
 - children should have a right to prove themselves.
 - sibling rivalry will always be an issue with second-generation managers.

ANS: C PTS: 1 REF: p. 146 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

19. From the children's standpoint, one common reason that they may be reluctant to join the family firm is a desire to
- make a difference in another industry.
 - prove their abilities without family assistance.
 - make a higher rate of pay.
 - help the parent avoid favoritism.

ANS: B PTS: 1 REF: p. 146 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

20. Sibling rivalry in a family business
- rarely affects nonfamily members in the firm.
 - may create disagreements about business policy.
 - is unusual if roles are determined before the siblings join the business.
 - is often good because it spurs business competition within the organization.

ANS: B PTS: 1 REF: p. 147 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

21. As the spouse of the President of *Two Men and a Truck*, Neil Bergeron serves the family business in a typical but critical role of
- making impartial decisions on controversial business matters when his wife, Melanie, asks.
 - filling the role of a company director so as to provide balance in family matters.
 - mediating family disputes.
 - supporting Melanie through the many hours the business requires.

ANS: D PTS: 1 REF: p. 149 OBJ: 5-3 TYPE: A
NAT: Reflective Thinking | Dynamics

22. In a 2007 study on family unity, ___ percent of respondents said family members share the same values.
- 87%
 - 65%
 - 50%
 - 38%

ANS: A PTS: 1 REF: p. 144 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

23. Which statement is the most correct about in-laws and possible complications in a family business?
- Rarely do in-laws impact the business since they are only indirectly involved and have limited decision making responsibilities if at all.
 - In-laws may impact the business if they are employed in the firm and are responsible for decision making.
 - There will be a complication only when in-laws are competing against another family member for a promotion.
 - In-laws will impact the business as they increase the number of persons who are either directly or indirectly involved in the family business.

ANS: D PTS: 1 REF: p. 148 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

24. A document that states the principles intended to guide a family firm through times of crisis and change, including the succession process is called the
- business plan
 - articles of incorporation
 - family business constitution
 - corporate by-laws

ANS: C PTS: 1 REF: p. 152 OBJ: 5-4 TYPE: D
NAT: Analytic | Ethical and Legal

25. If the spouse is not actively involved in the family business, how can they best support the entrepreneur?
- Serve as the mediator between any children wanting to enter the business and the entrepreneur.
 - Be a good listener.
 - Mandate they are given a copy of the books each month.
 - All of the above roles should be done.

ANS: B PTS: 1 REF: p. 149 OBJ: 5-3 TYPE: C
NAT: Analytic | Dynamics

26. Concerning the need for good management in the family business, which “best practice” is best?
- Resist preparing successors for leadership to avoid demoralizing those who are not selected.
 - Maintain rigid guidelines based on family traditions to guide the company into the future.
 - Emphasize the attraction and retention of family members.
 - Stimulate new thinking and fresh strategic insights by promoting learning.

ANS: D PTS: 1 REF: p. 150 OBJ: 5-4 TYPE: C

NAT: Analytic | Dynamics

27. To avoid a stifling atmosphere for nonfamily employees in a family business, the owner should
- promote only nonfamily members.
 - avoid all special consideration for family members.
 - make clear the extent of opportunity for nonfamily members.
 - minimize discussion about future management changes.

ANS: C PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: C

NAT: Analytic | Dynamics

28. To protect the interests of both the family and the business in a family business, the owner should
- recognize a basic obligation to supply the family with employment of some type.
 - refuse to hire family members but, instead, reward them with generous dividends.
 - personally make all personnel decisions affecting family members.
 - identify the positions, if any, that are reserved for members of the family.

ANS: D PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: C

NAT: Analytic | Dynamics

29. A nonfamily employee of a family business complains that the recent promotion of a family member was unfair. The owner should
- enter into a discussion of the roles and opportunities for both family members and outsiders.
 - clarify that family members always have the inside track, even though this fact is disappointing to the bypassed employee.
 - get the employee to think more positively by describing other attractive features of the employee's job.
 - acknowledge that a tension always exists and that it can never be dealt with satisfactorily.

ANS: A PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: A

NAT: Reflective Thinking | Dynamics

30. A family retreat is designed to
- bring family members together to openly discuss business matters.
 - focus on business matters while avoiding extensive communication.
 - control the lines of communication.
 - announce the latest policy decisions and other changes in the business.

ANS: A PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: C

NAT: Analytic | Dynamics

31. Patricia, a nonfamily employee of a family business, is concerned about competing with family members for future career opportunities. To protect her personal interests, she should
- align herself with the CEO to hopefully know when new positions will become open.
 - ask that the owner/manager clarify the extent of opportunities considering her skill set.
 - seek assurances that she will receive first consideration for promotion, ahead of family members who are not as qualified.
 - be realistic enough to leave the firm and seek employment in a nonfamily business.

ANS: B PTS: 1 REF: p. 151 OBJ: 5-4 TYPE: A

NAT: Reflective Thinking | Dynamics

32. Family retreats, which open lines of communication,
- use the founding entrepreneur as a communication facilitator.

- b. avoid discussing sensitive issues for best results.
- c. involve family members but not in-laws.
- d. may result in formation of a family council to continue discussion.

ANS: D PTS: 1 REF: p. 152 OBJ: 5-4 TYPE: C
NAT: Analytic | Dynamics

33. Which statement is true concerning the process of preparing a family successor for leadership in the family business?
- a. A specific date can be decided for a smoother transition between the successor and the current manager.
 - b. The process should be short for best result so as to not stall out any company momentum.
 - c. The process is best when the parties age as the next generation will be better prepared.
 - d. The process should be as long and drawn out as possible for the successor to be ready.

ANS: D PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: C
NAT: Analytic | Ethical and Legal

34. A family business constitution is sometimes labeled a _____.
- a. business plan
 - b. by-law guide
 - c. family creed
 - d. succession plan

ANS: C PTS: 1 REF: p. 153 OBJ: 5-4 TYPE: D
NAT: Analytic | Ethical and Legal

35. In preparing for succession, the senior generation should have accountability meaning that before a transfer of management occurs,
- a. the estate of the senior generation should be settled and audited.
 - b. the senior generation should hold the next generation accountable for their actions.
 - c. the business should have a formal audit of the financial statements.
 - d. the next generation should develop long term plans for leadership and be held to these plans.

ANS: B PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: C
NAT: Analytic | Ethical and Legal

36. Senior management will be more receptive to the junior generation advancing if the junior generation
- a. decides what time is best for their personal lives.
 - b. prepares for ownership by concentrating on learning “big” picture skills as opposed to basic management skills.
 - c. designs life plans for themselves and the business that involves what happens if the business fails,
 - d. proactively shares their preparation for advancement and ask for advice for implementation.

ANS: D PTS: 1 REF: p. 156 OBJ: 5-5 TYPE: C
NAT: Analytic | Ethical and Legal

37. What step is best for parents to decrease succession conflict among children active in the firm and those who are not?
- a. Letting those not involved in the company have a larger portion of an inheritance outside of the company and allow those involved in daily operations have more ownership of the business.

- b. Letting the next generation reach a consensus about management of the company.
- c. Changing the ownership of the company so common (voting) stock is only given to those active in the company and others receive preferred (nonvoting) stock.
- d. Making decisions based on tax considerations, not what is best for the next generation or the business.

ANS: C PTS: 1 REF: p. 156 OBJ: 5-5 TYPE: C
NAT: Analytic | Ethical and Legal

38. Which statement is true concerning using available family talent in the succession plan?
- a. Younger family members working in the business should realize that mistakes early on in their careers should be considered in their future advancement.
 - b. If the available talent is not sufficient inside the company, the owner must bring in outside leadership even if it is not perceived as a favorable decision by the family at large.
 - c. If a younger family member would like to advance their career by working on a new direction for the company, a negative decision by their parent means they should not discuss their ideas with the board of directors.
 - d. It is rare a younger member will have the skill set to rescue a struggling company; therefore they should not be considered for a succession plan.

ANS: B PTS: 1 REF: p. 154 OBJ: 5-5 TYPE: C
NAT: Analytic | Ethical and Legal

39. Jim, the founder of a family business specializing in real estate, is contemplating turning the business over to his five children. One possibility, the founder believes, is to divide ownership equally among the children. This action would
- a. be next to impossible as gaining consensus from six persons is difficult.
 - b. be inherently unfair if any of the children work in the company.
 - c. potentially hinder the future functioning of the business.
 - d. require a possible change in corporate structure since the company deals in real estate.

ANS: C PTS: 1 REF: p. 156 OBJ: 5-5 TYPE: A
NAT: Reflective Thinking | Dynamics

40. Fran and Bob (who are married) own and manage a cleaning service. A potential advantage of this arrangement is that
- a. differences of opinion about the business won't carry over into family lives since they will see each other more hours daily.
 - b. it affords the opportunity to share more of their lives and build something together.
 - c. the business isn't likely to dissipate their energies as they can each work on separate sections.
 - d. they can count on working fewer hours in the business.

ANS: B PTS: 1 REF: p. 145 OBJ: 5-3 TYPE: A
NAT: Reflective Thinking | Dynamics

41. As a college student, Billy works part time in his mother's garden supply wholesaling business during the year and full time in the summer. He would like to enter into the business after he graduates. Based on the text, should his mother agree to his plan?
- a. No, as he needs to work externally to build his confidence in taking over from nonfamily members.
 - b. No, as he should see if he can succeed with the family safety net and possibly gain knowledge in another industry.
 - c. Yes, as he would simply continue the tasks he does in the summer when he works full time.

d. Yes, as his talents have already been fully developed and shouldn't be wasted on another company.

ANS: B PTS: 1 REF: p. 146 OBJ: 5-2 TYPE: A
NAT: Reflective Thinking | Dynamics

42. A parent might attempt to resolve a transfer of ownership by giving active children in the firm's management _____ stock and giving nonactive children _____ stock.
- preferred, common
 - growth, speculative
 - common, preferred
 - more, less

ANS: C PTS: 1 REF: p. 156 OBJ: 5-5 TYPE: C
NAT: Analytic | Finance

43. Tom is taking over the family business because it is what his parents have wanted him to do. He is showing a(n) _____ commitment.
- cost-based
 - obligation-based
 - desire-based
 - need-based

ANS: B PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: A
NAT: Reflective Thinking | Dynamics

44. John is more likely to pursue a long-term career in the family business if he is motivated by a(n) _____ commitment.
- cost-based
 - obligation-based
 - desire-based
 - need-based

ANS: C PTS: 1 REF: p. 142 OBJ: 5-2 TYPE: C
NAT: Analytic | Dynamics

45. John and his brother Jack started a produce farm 20 years ago and are thinking about retirement. Over time, their children have worked at the farm and so the cousins have started talking about taking over management. At present, this produce farm is an example of _____.
- co-preneur managed business
 - cousin consortium
 - owner-managed business
 - sibling partnership

ANS: C PTS: 1 REF: p. 136 OBJ: 5-1 TYPE: A
NAT: Reflective Thinking | Dynamics

46. Jan and Jill started a business 20 years. Jill recently stepped down; her daughter Jenny has agreed to start managing the company with Jan's help; and the eventual goal is for Jenny to run the entire company. This process between Jan and Jenny is called _____.
- sibling partnership
 - family consortium
 - mentoring
 - Two of the above are true.

ANS: C PTS: 1 REF: p. 155 OBJ: 5-5 TYPE: A

ESSAY

1. Explain the concept of family and business overlap in a family business.

ANS:

Although the family and the business are separate institutions (each with its own members, goals, and values), they overlap in the family firm.

Families and businesses exist for fundamentally different reasons. The family's primary function is the care and nurturing of family members, while the business is concerned with the production and distribution of goods and services. Family goals include the personal development of each member and the creation of equal opportunities and rewards for each member; the main business goal is to create value for the customer and firm's owners.

Since relationships among family members in a business are more sensitive than relationships among unrelated employees, competing interests can complicate the management process. Tension that is created may sometimes lead to conflict requiring management to act as managers and not as someone's parent or child.

PTS: 1 REF: p. 137-138 OBJ: 5-1 TYPE: C
NAT: Communication | Dynamics

2. Explain the role of the entrepreneur's spouse as it affects a family business and show how it can be made most effective if they do not have an active part of daily operations.

ANS:

The spouse's role is often described as mediator. The spouse occupies a unique position, with a strong concern for each member of the family. At the same time, the spouse sees the business with some detachment because he or she is not involved in its everyday operations. The task of creating harmony and minimizing misunderstanding is a major one.

The role can be made most effective if there is effective communication between the spouse and entrepreneur. The spouse must be informed about what is going on in the business.

Students should recognize, of course, that individual differences in personality affect the manner in which spouses carry out this role.

PTS: 1 REF: p. 149 OBJ: 5-3 TYPE: C
NAT: Communication | Dynamics

3. Outline the "best practices" for the management of a family firm.

ANS:

The text identified the following list of "best practices":

- a. Stimulate new thinking and fresh strategic insights.
- b. Solicit ample input from outsiders.
- c. Establish channels for constructive communication and use them often.
- d. Build a culture that accepts continuous change.
- e. Promote family members only according to their skill levels.
- f. Attract and retain excellent nonfamily managers.
- g. Ensure fair compensation for all employees, including those outside the family.
- h. Establish a solid leadership succession plan.

i. Exploit unique advantages of family ownership.

PTS: 1 REF: p. 150 OBJ: 5-4 TYPE: C
NAT: Communication | Dynamics

4. Discuss guidelines for a successful family business retreat.

ANS:

Since a family retreat should have all family members including in-laws, having the meeting away from the company could encourage a more informal atmosphere. A facilitator should be hired to guide discussion if discussion is expected to be difficult.

Lansky's guidelines are to:

1. Be clear about the purpose of the retreat. What should the meeting accomplish?
2. Set small, attainable goals. Don't look at the retreat as having to accomplish all possible goals.
3. Use an agenda and stick to it. Schedule the meeting for a fixed period of time, and appoint someone to take notes.
4. Give everyone a chance to participate. This action is critical to establish trust among the participants. People need to feel that they have been heard.
5. Know the difference between consensus and agreement. Participants don't have to see things the same way (agreement) in order to concur on a course of action (consensus).

PTS: 1 REF: p. 139-140 OBJ: 5-4 TYPE: C
NAT: Communication | Dynamics

5. What could a founder do to make a succession plan successful? Using the Three-Circle Model of Family Firms, identify issues the founder should discuss with each group.

ANS:

A founder should have a well developed plan that is properly communicated to all parties. While it may be hard for the entrepreneur to think about not being at the business, a discussion should be had with

- 1) a spouse especially about issues related to settling an estate;
- 2) family members in the business (who may or may not be an owner) so they understand who will be leading the company and why. Family members with possible succession talent should be supported;
- 3) family members not in the business in relation to the impact the change would make on any inheritance; and
- 4) nonfamily employees and nonfamily owners in the business as to who will be leading the company and the impact of a change in leadership.

PTS: 1 REF: p. 137 | p. 153 OBJ: 5-1 TYPE: C | 5-5 TYPE: C
NAT: Communication | Dynamics

6. Describe seven strengths of family enterprises. Based on the text, how does *Two Men and a Truck* (TNT) achieve these strengths?

ANS:

The seven principles are summarized from Leach's *Family Business: The Essentials* and Exhibit 5-2.

1. Family business culture and values - which provide guidance toward accomplishing shared goals

TNT has been in business for over 30 years and has involved a mother and three siblings in its daily operations for most of those years. Even a grandmother was involved in the early years of operations. Husband of daughter is supportive even though he isn't in daily operations.

2. Commitment - the passion that grows out of a family's sense of responsibility

Sibling partnership as the brothers and sister along with the mother still run the company now. TNT's Gramma Rule of "Treat everyone with dignity, respect, and patience" illustrates this principle along with its core value of giving back to the community.

3. Knowledge - applied as a competitive advantage by family members who have learned through intimate involvement

Again TNT's 30 year history with the same family members speaks of knowledge.

4. Long-range thinking - looking toward the next generation, not just the next quarter

Mother's plan to franchise brought daughter into the company but also looked to future growth.

5. A stable culture - typically found in durable, low-profile, profitable niche enterprises

30 years of operations

6. Speedy decisions - a function of trust among family members

When daughter decided to step down, decision was made immediately for brother to step into position.

7. Reliability and pride, recognized by customers, suppliers, creditors, and other outsiders

Again 30 years of operations has resulting in TNT being a national operation.

PTS: 1

REF: p. 139

OBJ: 5-2 TYPE: A

NAT: Communication | Dynamics