

The family business and the three-circle system ¹

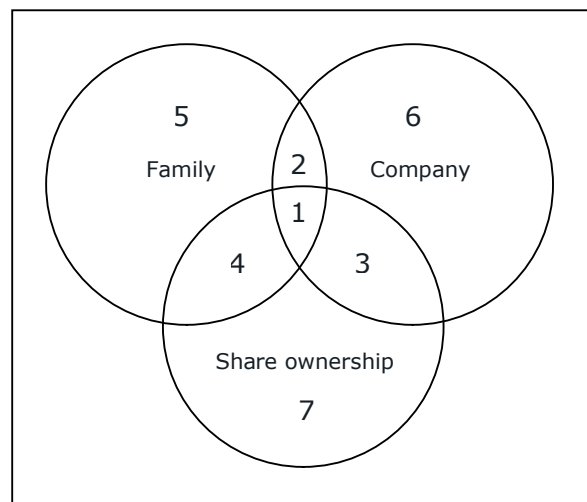
How do you define a family business?

According to Litz, a business can be considered a family business if its management and its ownership are concentrated in the hands of a family unit and if the members try to maintain or increase the presence of the family within the organization.

A family business is therefore defined in terms of three entities: the company itself, the family attached to it, and the owners.

Based on these points, we can represent a family in business using three circles: one represents the family, one represents the company, and one represents share ownership.

This illustration highlights the interdependence of the three circles as well as the resulting advantages and issues.



Source: Taguiri and Davis (1996).

The interdependence of the three entities becomes more evident when the people within each circle are identified. It quickly becomes clear that the three circles overlap. For example, at the intersection of the three circles (zone 1) you find people who are at the same time members of the family, company employees, and company shareholders. At the intersection of family-company (zone 2), you find people who are family members and employees of the company at the same time, but do not own shares of the company. Continuing in this vein, seven different zones are distinguished into which each person linked to the family business, whether closely or not, can be placed.

The advantage of placing each person within the circles is to better understand their behaviour, which is often linked to the advantages and disadvantages of their position. For example, the person heading the company is usually found in zone 1. This person generally has a good understanding of the family as well as the strengths and weaknesses of each family member. The person also knows the company inside and out. The person is in a perfect position to help the family fully benefit from the company and vice versa.

1. Source: St-Cyr, Louise. "Management des PME", Chapter 33, edited by Louis-Jacques Filion and Brahim Allali, *Édition internationale France/Québec Pearson France/ERPI*, Québec, 2007, p. 575-576.

But this is also the person who is responsible for arbitrating conflicts between the family, the company, and the owners. Exercising the power that goes with this position should not be confused with the roles of head of the family, head of the company, and owner. In addition, the person should not try to solve family conflicts by using the company, or use the family to solve company conflicts. Being in zone 1 is clearly not standing on the sidelines!

The issues are different for the people in zone 4. These family members own shares in the company but do not work in it. There is a strong possibility that they are more interested in the dividends they can receive in the short term than they are in the long term performance of the company. By becoming aware of the interests of the people in zone 4, the owner-manager will be in a better position to make the right decisions.

And you, as the future head of the company, what zone are you in? Where will you be in two years? And in five years? Will you move from zone 2 to zone 1? Your point of view on your contribution to the company, on what it can bring you, on its future, will surely change with this move.

Think about the members of your family. Where are they situated? What are their expectations of the business? What is your reaction to these expectations? Are they justified? Can you respond to them? What can you do about them? Talking about them is probably a good place to start.