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University of Pittsburgh PH.D. 1983

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FAMILY-OWNED BUSINESS AS A SYSTEM:
A CASE STUDY OF THE INTERACTION OF FAMILY, TASK, AND MARKETPLACE COMPONENTS

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Submitted to the Graduate Faculty in the School
of Education in partial fulfillment of
the requirements for the degree of
Doctor of Philosophy

University of Pittsburgh

1983

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7-2

FAMILY-OWNED BUSINESS AS A SYSTEM: A CASE STUDY OF THE INTERACTION OF FAMILY, TASK, AND MARKETPLACE COMPONENTS

Barbara S. Hollander, Ph.D.

University of Pittsburgh, 1983

Family-owned businesses have been minimally understood and researched. They have also been short-lived. The literature reviewed contained a unifying thread which was the existence of two powerful systems in interaction, business and family.

This research is a case study of one family-owned business and addresses the following questions: What can be determined about the interactive nature of family, task, and marketplace through the application of systems concepts? What can be learned about the nature of the responses of the task system to the forces of the family system and the demands of the environment? How does the family system influence decisions about how to respond to the environment and therefore determine the purposes and goals of the organization?

Data was gathered through interviewing members of the family and business studied. Four significant events in the history of the business were identified, described, and analysed. The analysis utilized two systems theories, Bowen Family Systems and Charns-Schaefer, to explore the response of management to the four events. Additionally, a configurator was assigned to each event depicting the degree of overlap of family and business system.

As the marketplace and environment became more uncertain, there was less congruence between family and business needs. The work of management became more complex. It is postulated that the survival of a family business is related to the ability to manage complexity and requires the intentional management of three systems, task, family and environment and an understanding of their inter-relationships.

The findings indicate the value of exploring family business through the use of systems theories and the need for continued research using a systems approach.

To my father, Samuel Stone

ACKNOWLEDGMENTS

The focus of this work has been a case study of an eighty year old family-owned business, which for reasons of confidentiality remains anonymous. I wish to thank the CEO for welcoming me into the family and business systems and making available to me a rich and meaningful learning experience. Providing access for the research was not without risks and I am grateful for his trust, support, interest, and investment of time. I also wish to acknowledge all those affiliated with the family and the business who gave so generously of their time and energies in interview sessions.

I wish to express my appreciation to my committee, all of whom worked with me throughout the project and who have been mentors and models, as well as teachers. I thank Dr. Nancy Elman, who directed the dissertation, for her willingness to explore, her precision, and her encouragement; Paulina McCullough, ACSW, for helping me to monitor my own processes so that I could maintain distance and objectivity; Dr. Marguerite Schaefer, for her clarity, consciseness, and concern; and Joseph Werlinich for helping me tap my energies and identify directions.

And finally, I want to thank my family, my husband, Tom, and my children, Scott, Leslie, and David. Without their constant understanding, encouragement, support and assumption of responsibilities ordinarily in my domain, the work could not have been completed.

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CHAPTER I

Introduction

Evolution of the Study

As a child, I "cut my teeth" on our family-owned business, a small credit clothing store where "one account outfits the entire family." My father, now retired, was the entrepreneur, joined in the business by his two partners, my uncles. My only paternal aunt was one of the buyers. My mother often worked during peak times and when I was thirteen I began to help out; working on mailings, selling, straightening stock, bookkeeping, and making collection phone calls. The needs of the business controlled our schedule, family life and time.

My professional interests have evolved from a focus on management training to a focus on the dynamics of organizations which in turn has expanded to include focus on yet another human system, the family. This study of family-owned business represents an integration, and culmination. It also seems that I have come full cycle. Although I am the older of two siblings, as a female neither my parents nor I considered the family business an option for me. Perhaps this work is a birthright.

Background

This study is an exploration of the interaction between and interrelatedness of the three components of a family firm: the task component, the family component, and the marketplace. This exploration is undertaken through the utilization and application of systems concepts and constructs.

There is nothing new or stunning about the existence of family-owned businesses. From time immemorial, in agricultural societies, families or kin-groups worked together to provide sustenance and shelter. Over centuries, families have worked cooperatively to create goods ranging from basic necessities and crafts, to technology and luxury items. The arrival of the industrial revolution and the nuclear family did not reduce the influence or quantity of family-owned businesses in the economy. Perhaps what is startling and stunning about family-owned businesses is that despite their complexity, indigenous conflicts, and defective managerial approaches (Danco, 1980), they continue to be a significant force in the economy. Some exist over generations; most have a short period of success, then fall victim to the very forces and characteristics that got them off the ground. They present themselves in a variety of sizes, shapes, and forms: the corner Mom and Pop store, the small retail chain, banks, sport franchises, providers of energy and technology. Household words such as Rockefeller, Rothchild, Bechtel, Mellon, Ford, and Rooney, are illustrative of the impact of family-owned businesses on our lives and on the economy.

Family-owned businesses perpetuate the American dream. Public psychology favors private enterprise (Calder, 1952, p. 107), and giant corporations have grown suspect (Boswell, 1973, p. 13). The Horatio Alger myth with its "rags to riches" theme is still figural. With a little hard work, luck and pluck the lowliest among us can rise to the greatest heights--riches, power, fame (Alcorn, 1981, p. 41). The entrepreneur is the profit-making cowboy who against all odds makes it big. He must do battle along the way with "Big Companies and Big Government" (Boswell, 1973, p. 19). The entrepreneur is the personification of the Jeffersonian Ideal, the free enterprise system. Self sufficiency and independence are romanticized.

Family-owned businesses serve to perpetuate other aspects of American ideology. They are seen as vehicles for family togetherness. The family-owned business is "good for the country," because people spend their entire lives building a business which in turn serves their community (Alcorn, 1981, p. 18). The family firm, then, perpetuates the Protestant work ethic and supports societally acceptable values such as self-sacrifice, ambition, family loyalty, the pioneer spirit, independence, and risk-taking. Family business contributes not only to the economic base of American society but to the philosophical base as well.

Ninety-eight percent of the one million registered corporations in the United States are family-owned (Alcorn, 1981, p. 1) as are 150 of the Fortune 500 companies (Beckhard and Dyer, 1981, p. 1). As reported by Leon Danco (1975), only 20,000 of 1,000,000 corporations are publicly owned and the largest of these is General Motors with sales in excess of 30 billion dollars. The number of corporations whose annual sales exceed 200 million dollars is only 1000, totaling four percent of all publicly held corporations and only one-tenth of one percent of the total number of corporations in the nation (p. 12).

Additionally, only 50,000 corporations, including both publicly and privately held, employ more than one hundred people. Only 200,000 additional companies have over 25 employees. Remaining employees work in settings hiring from one to 25 people. In other words, half of the work force is employed in publicly held companies. Those companies produce one-half of the GNP. The remaining half work in privately held family firms and generate the other half of the GNP (Danco, 1975).

Ninety-four percent of all manufacturing and whole-saling firms are closely-held; ninety-six percent of all retailing firms and ninety-nine percent of all construction firms also fall into this category (Hershon, 1975, p. 3). Family businesses are vital to the economy often supplying highly specialized products to publicly held corporations. General Motors claims to buy from 20,000 small businesses (Danco, 1975, p. 16). The family business owner is the backbone of the clientele of bankers, insurance agents, lawyers, accountants, and other professionals. He or she fills the majority of positions on boards of private schools and colleges, banks, hospitals, and social agencies (Danco, 1975).

The contribution of the family-owned business to the economy is significant. Yet the mortality rate of such firms is high. According to Leon Danco (1975), most businesses in this country are first generation businesses. Only thirty percent make it to the second generation; the average life expectancy is 24 years, and most fail within the first ten years (p. 14).

Despite its impact, place in the economy, and high mortality rate, surprisingly little research has been aimed at the family firm. In 1981, the Small Business Administration appointed a task force to study the problem of continuance within family businesses. While no information is yet available from that committee, the establishment of it is a statement of concern.

It seems predictable that family-owned businesses will continue to be an important component of our socio-economic base. The increased availability of telecommunications systems which have the potential to link individuals with needed sources of information is encouraging the trend toward cottage industries (Toffler, 1981). There is a return to valuing that which is small, manageable, and controllable. These factors may well serve to encourage continued establishment of family firms.

Focus of the Study

The questions that become figural from a study of the existing literature on family businesses are: Why don't family firms survive better and longer? What makes intervention so difficult and/or unwelcome?

The research available in the field can be divided into the following categories: the entrepreneur, management succession, stages of growth, dysfunctional aspects, and identification of components of family firms. Most writers have emerged from business and management backgrounds, and most express frustration with the complexity and inflexibility of the family firm. With some exceptions, the literature tends to concentrate on dysfunctional aspects.

It seems that the family firm will not yield to already developed management theories, leaving many authors in a state of frustration and calling for a return to rationality within the organization. The powerful forces of the family system complicate the management of the business.

It would seem that what differentiates the family firm from other businesses is that it consists of two powerful sub-systems: the family and the firm. These components are interactive and interrelated and are responsive to the environment. Ludwig Von Bertalanffy (1968), the creator of General System Theory, defines a system as a set of elements standing in interaction. Characteristically, social systems, as opposed to systems which are biological or physical in nature, are open. In other words, they are responsive to and interactive with the environment in which they exist (Schaefer, 1983).

By placing the family firm within a systems framework, its complexity becomes apparent. The two sub-systems, family and firm each in themselves consist of a set of interactive elements: each is open and fluid and impacts the other. These sub-systems, in turn, are responsive to the environment, forming a macro-system.

What seems clear from reviewing the literature on family firms is that the process of interaction between the two sub-systems has been little understood and therefore minimally explicated. What has been explored are the red-flag issues: the entrepreneurial personality, the stresses of transitions, degree of conflict, father-son interactions. What has not been discussed is the process which gives rise to those symptoms in the system. Some admirable groundwork has been done, notably by Simon Hershon (1975) and Maryam Tashakori (1977) in their dissertation work at the Harvard Business School. However, what is sorely needed is a conceptual framework, through which the entity of the family firm can be understood.

The intent of this research was not to produce such a framework. That is probably a lifetime effort which will require contributions from many different people. The goal of this research was to provide an initial and incremental step.

Two family firms were examined utilizing a case study approach which consists of description and analysis of the subjects. The case study methodology was selected because it lends itself well in areas where previous research is minimal, and it provides opportunity to test and generate new hypotheses (Coppersmith, 1977, p. 15). The firms selected included a retailing organization which served as the preliminary study, and a manufacturing organization which was the focus of the in depth study. Data was gathered through interviews with individuals, both family and non-family, in various levels within both organizations, and from family members not directly associated with the firms. The interviews were non-structured. Additional information was gleaned through written materials such as annual reports, charters, and correspondence. Issues regarding rights of privacy, editing, utilization and access to information were delineated.

The focus of this study is the task system of the family firm. The research questions then are formulated as follows: What can be determined about the interactive process of the family, task, and marketplace sub-systems in a family firm through the application of systems concepts? What can be learned about the nature of the responses of the task system of the family business to the forces of the family system and the demands of the environment? How does the family system influence management decisions about how to respond to the external environment and therefore determine the nature of purposes and goals of the organization?

Systems theories offer the guidelines for both the gathering of data and the analysis of it. In examining and analyzing the family system, Family Systems Theory as articulated by Murray Bowen and his explicators was the primary though not exclusive framework. For description and analysis of task system, the Charns-Schaefer Theory was the primary guide. I would like to emphasize the word <u>guide</u> in the utilization of these frameworks. It is intended that the use of such guides enrich and not impoverish the observations of the researcher. Some information has already been gathered about family firms without the use of a framework; the result has been scattered and without unification. It is projected that the application of systems theories will unify previous work on the problems of family firms as well as identify new roads to be traveled. Understanding of the family firm is minimal. There have been a few spades thrust into the ground with no blueprint in mind. This study will offer the beginning point of a blueprint: the knowledge of the terrain.

Definition of Terms

Bowen Family Systems Theory: The set of constructs articulated Murray Bowen and explicated by his followers which seek to explain the emotional processes in families (1978).

Charns-Schaefer Theory: A systems theory of organizations consisting of identified variables standing in interaction, namely: environment, purpose, goals, work, structure, people, coordination (1983).

Family firm or family-owned business: A business enterprise, characterized by a unique set of traditions which stem in large part from the founding family thereby creating a unique and personal bond between the company, its members and the family (Hershon, 1975).

General System Theory: The theory of interrelationship and interaction of biological functions articulated by Ludwig von Bertalanffy who sought an alternative to cause-effect thinking.

Macro-Level: The term used to indicate the totality of interactions among all components of a system. i.e. family, task, and environment.

Professional: The term used in the literature of family business to distinguish between family members and outsiders.

Professionalization: The process by which non-family members or outsiders and formal operating procedures are integrated into the organization.

Rationality: The attempts of an organization to be effective through intentional decisions about internal and external constraints, contingencies and variables (Thompson, 1967).

System: A set of elements standing in interaction (Bertalanffy, 1968).

Systems theory: The sets of theories developed as a result of von Bertalanffy's work and applied to areas outside the biological sciences, such as social systems.

Uncertainty: The difference between the amount of information needed and the amount of information already possessed. (Galbraith, 1977).

<u>Summary</u>

Family-owned business occupies an important place in American ideology and is a significant part of the economic base of this country. The Jeffersonian idea of free enterprise and the Horatio Alger myth have been hallmarks of our socio-economic development. Half of the GNP is generated by family firms.

Yet family firms have defied analysis. The mortality rate is high and the literature reflects fragmentation, and frustration. The powerful forces of the family confound the best efforts of textbook management.

Throughout the literature, one unifying thread seems prevalent; it calls for the explication of the family firm through the application of systems concepts. The interrelatedness and interactions of family, firm, and environment require examination in order to manage effectively in family-owned business.

The focus of this study is to determine what contribution can be made through examining family business from a systems perspective.

CHAPTER II

Review of the Literature

The review of the literature pertinent to the applications of systems concepts to family-owned business falls into two categories: (1) research related to family business, and (2) research related to systems concepts.

The Literature of Family-Owned Business

The last decade has witnessed an awakened interest in family-owned business and much of that work has been done within the last five years. However, quantity does not exist, and the work is scattered and unfocused. It varies from recounting of case histories, to financial management for small businesses. The writers include researchers, consultants to family firms, lawyers, journalists, psychiatrists, management consultants and professors. There are few books; references are often buried within related writings. Most agree that there is considerable dysfunction in family-owned businesses, and, that a family business represents a highly complex system which is difficult to manage. The call has been put forth to find a way to understand and intervene in family-owned businesses (Davis and Stern, 1981; Alcorn, 1981; Hershon, 1975). What is sorely needed is not a "theory of decline . . . but a theory of continuity" (Boswell, 1973, p. 112).

The literature of family business falls into the following categories: the entrepreneur, predominant dysfunctions, stages of development and the family firm as a system.

The entrepreneur or founder serves as the initiator, vital life force and often presides over the demise of the family-owned business. It is fitting to begin with him.[1]

Characteristics and motivation of the entrepreneur have received considerable attention. As previously noted, he has been romanticized in American culture. The advent of big business brought with it the fear that we would lose this brave figure whose sweat and tenacity built the economy and whose innovative drive perpetuated the creativity and ingenuity which helped the United States become a world power (Boswell, 1973, p. 43). This resulted in an attempt to understand the entrepreneur and a hope that those having entrepreneurial characteristics could be identified and nurtured. The entrepreneur is an enigma and understanding him has become a research challenge. The literature is exploratory and in large part, non-definitive. It may be divided into two categories: (1) psychological development and (2) qualities of entrepreneurial management.

In their classic study, <u>The Organization Makers</u>, Collins and Moore (1970) report their findings regarding the childhood experiences of entrepreneurs. Childhood was a time of storm and stress and perhaps danger. The entrepreneur is left with the belief that no one else ever experienced quite the degree of deprivation that he had. The theme of being orphaned and alone frequently emerges. Parents are often absent through death or emotional withdrawal. Fathers are referred to in disgust while the mother is described as long suffering and deserving. Alcorn (1981) also reports that entrepreneurs often come from homes where affection was withheld, parents were highly authoritarian, and frequently rigid in their religious beliefs (p. 76).

Escape from poverty emerges as a strong motivating factor (Alcorn, 1981; Collins and Moore, 1975). The entrepreneurial figure is depicted as a hungry waif facing a hostile environment. Two modes emerge as common: (1) rags to riches through sterling honesty and hard work; (2) the hard boiled idea of going it alone and reaching the top through dogged energy and sheer determination (Collins and Moore, 1975).

According to Collins and Moore (1975), escape from poverty often entails disconnection from family and associates. The entrepreneur develops a "leaving pattern." He views authority figures as unworthy of trust and incapable of nurturing, and chooses to remove himself, either physically or psychologically. Often he becomes the "man in the family" in his family of origin, and feels guilty for displacing his father. Frequently, after leaving to establish his own business, he will send for his father and find work for him in the business. He learns not to be dependent and to distrust situations in which others have control. He is constitutionally unable to function in a bureaucratic setting.

The entrepreneur emerges as the "rugged individualist" whose establishment of his own business is a reaction to previous dissatisfactions and failures (Danco, 1975, p. 24). He learns to live with a continuous feeling of dissatisfaction (Tashakori, 1977, p. 47). In the entrepreneur's life, "A central and important figure is the figure who needs to be protected and nourished" (Collins and Moore, 1975, p. 37). This figure may take many forms from a family member to the business itself. There has been some speculation that the business becomes a maternal replacement to the entrepreneur (Hershon, 1975, III-7). The following themes, then, are present: absent or unavailable father, loneliness, family turmoil, impoverishment, persistent dissatisfaction, distrust and suspicion, death, disconnection, dogged independence.

The entrepreneurs in the Collins and Moore study had minimal formal education. Many left high school, and most did not have college degrees. However, today's entrepreneur tends to value and receive a college education (Alcorn, 1981, p. 28), and those entrepreneurs who are involved with the development of technology have historically had baccalaureate and often graduate education. The traditional entrepreneurs of the

Collins and Moore study choose the "school of experience" (p. 51). They will select unstructured rather than structured learning, may drift for twenty years, become wheeler-dealers, and experience failure and exploitation. Entrepreneurs often become proteges, but eventually that relationship sours and the entrepreneur will again cut-off.

Boswell (1973) notes that entrepreneurs are frequently members of minorities and that "Quakers and Jews are entrepreneurially out of proportion to their numbers" (p. 46). He also reports that in the 17 of 31 cases in his study, the business founded was an extension of the work that the father had done and was likely to be located in the home town.

McClelland (1971) has identified the need for achievement as the most compelling characteristic of the entrepreneurial personality. Profit motive is second to achievement motive. The achiever prefers a situation where the probability of winning is low and the achievement high. The entrepreneur will prefer: moderate risk-taking as a function of skill; decisiveness, energetic and/or novel activity; individual responsibility; knowledge of results (feedback) with money as a measure. Achievement satisfaction derives from having initiated the action.

Characteristics and implications of entrepreneurial management have received significant attention in the literature. The entrepreneur assumes multiple roles and as the business grows so do the functions of entrepreneurial managers. They are involved with production, sales, marketing, purchasing, finance, personnel, delivery, costing, quality control, clerical, organizing, general management and personal management (Wilkie, 1971). The entrepreneur dislikes depending upon others and would rather assume the wide range of responsibilities himself. Maryam Tashokori (1977) describes the entrepreneurial style. The founder:

> is involved with operational aspects on a routine basis, rather than by exception. The implicit delegation 'contract' between him and his subordinates is that he reserves the right to influence directly any decisions that are of interest to him, regardless of the organizational level of these decisions (p. 15).

The entrepreneurial manager tends to be involved with detail and nitty-gritty. He is usually not a planner (Wilkie, 1971); he is secretive and does not delegate. In his relations with subordinates, colleagues, and associates, loyalty and trustworthiness are more important than performance. Frequently family relationships play an important part in decision-making (Tashokori, 1977; Boswell, 1973). The organization is highly informal and closely resembles an extended family. There is rarely any effort toward development of management personnel. The first generation business is usually a one man show which mirrors the needs of the founder (Hershon, 1975).

It is at the juncture where the requirements of the business diverge from the requirements of the founder that the trouble begins. The organization becomes an entity with energy and direction. However, as Theodore Cohn (1972) reports, the entrepreneur is more concerned with self-expression than with organization building. The enterprise is a vehicle for the attainment of personal goals; and is not deserving of continuance after those goals are reached (p. 29).

Tashakori (1977) discusses the inability of the founder to change his style. Primarily, he has become addicted to the operational aspects of the business. When the firm began, there was no staff to whom to delegate responsibilities. He forms habits of involving himself with what the professional manager would consider detail work. The owner-founder has skills to manage an informal organization. He is not comfortable with formal control systems, reports, etc. He is not an administrator.

Tashakori points out that the founder probably does not want to withdraw from day to day activity in his belief that his presence is central to the firm. Indeed, in some industries where the founder has been primarily responsible for client development and relationships, this may be the case. The founder may not want to withdraw from daily operations because he doesn't trust his subordinates. It is not unusual, as pointed out in the Collins and Moore study (1975), for the entrepreneur to find it difficult to trust because of negative formative experiences with authority figures. This inability to trust discourages independent and creative decision-making in the firm. It also creates the tendency for the entrepreneur to be involved at levels which are inappropriate for him. Thus the movement toward growth and the transition is both inevitably painful and often destructive.

The question emerges: Why has the entrepreneur been focal in research on family-owned business. Ralph Waldo Emerson has said that an institution is but the lengthening shadow of one man (1949). In the family-owned business, that man is the founder. An exploration and understanding of the psychological and economic environment may help predict the difficulties that the business may encounter. Several observations are pertinent. The mission of the entrepreneur and the mission of the newly established business are at the point of founding, congruent. The business provides a vehicle for the achievement needs of the founder, and for his endless energy. It becomes a haven where he can exercise his independence and avoid reliance upon authority and bureaucracy. Profits are of secondary importance and so, therefore, is growth. He looks to the business to provide an extension of self. That goal determines his modus operandi which has been labeled entrepreneurial management. The nature of entrepreneurial characteristics and management would seem to forbode crisis at a point where the business requires a formal structure. The conflictual nature of the management succession process seems guaranteed as the portrait of the entrepreneur emerges.

The quantity of the literature devoted to understanding the entrepreneur is notable. It reflects modes of thinking which emphasize individual intrapsychic development and cause-effect relationships. Understanding of the family business has been sought through understanding of the entrepreneurial personality. This would be akin to attempting to explain the dynamics of a family by focusing on one parent only. Interaction and interrelatedness of variables and elements are absent. What is absent may be as telling as what is present. It is suggested then that the emphasis on research of the entrepreneur as a clue to comprehending family business has been over-emphasized and is reductionistic. It is important to identify insufficiency as well as contribution. The study of the entrepreneur as founder of family business casts light in one area. However, the study of the entrepreneurial personality does not explicate the totality of family-owned business.

Another important category of research on family-owned business has been the development of models of growth. Significant work has been done on stages of development of the family-owned business by Simon Hershon (1975). Hershon identifies the cogent issues in family-owned businesses by looking through the periscope of succession and transition problems. He identifies three patterns which emerged from his study of 70 family-owned businesses. The "Pattern A" firm, is characterized by paternal dominance and entrepreneurial management. This is the typical first generation firm which is the extension of the founder.

The "Pattern B" firm, which Hershon calls collaborative, is expansive. It probably branches out into new products, increasing marketing energies and distribution channels. This is a second generation firm which Hershon also refers to as "fraternal management." It is likely that the sons of the founders may head divisions of the organization. The organization, if it has survived, has experienced its most difficult transition from entrepreneurial management to professional-type managment. The son has endured the agonizing period of hovering in the shadow of his father and waiting to take over the reigns, which he probably does around 35-40 years of age. At this point, the founder has either died, retired or semi-retired; if he still lives he may have been able to let go of the business and direct his energies toward community and volunteer efforts. That however is a rarity. It is likely that he may still hover in the wings or retain a seat on the Board of Directors.

A "Pattern C" firm is characterized by what Hershon calls collective or family network management. At this point, the firm has probably passed to the third generation and is managed by brothers, cousins, and other family members. The firm, if it has survived to this point, has responded to environmental pressures as well as internal and family forces. It is probably divided into functional parts, each controlled by a trusted family member. The transition from second to third generation is nowhere near as emotionally loaded as the transition from first to second. However, it is at this juncture that fertility and genes play an important role in the transition process. There may not be adequate management talent within the family; also expansion of human and financial resources may be desirable.

The family may at this point be faced with the decision of whether to bring in outsiders. This may involve recruiting a "Professional President," perhaps going public, or even selling out or merging. Clearly, all these choices would present great challenge and difficulty to a firm which has been associated with the norms, myths and values of one family for thirty to fifty years.

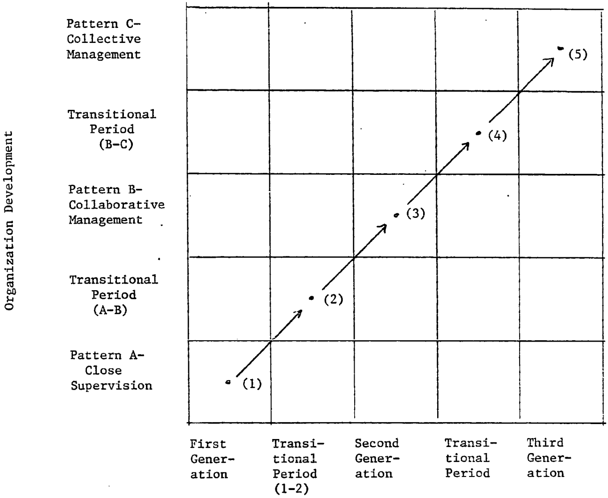
Maryam Tashokori (1977) addresses these issues, focusing upon the difficulties of transition and succession. Tashakori points out that entrepreneurial management or a "Pattern A" firm can function adequately in a low complexity situation, but is not adequate in conditions of high uncertainty in the environment. The entrepreneur is too busy with operational matters to attend to strategic issues of growth or accommodation. It is this crunch that frequently causes a firm to search for outside or professional management.

Hershon (1975) has traced the expected movement of family firms through observation of generational and developmental movement (see Figure 1). He observes that successful organizations follow a diagonal path upward and to the right. This allows for passage of time which makes the transitions less difficult and tends to "temper the emotional excesses." Hershon further notes that "whereas the growth of the firm tends to occur during one of the organizational patterns, the progress toward maturity tends to occur in the transitional period. It is at these turbulent times that issues of leadership, direction, organization, and control are grappled with" (p. VII-3).

Richard Beckhard and Gibb Dyer (1981) identify three stages of the family firm: Royalist, where only family members can reach the top; family owned/mixed management; and family owned/professionally managed. Leon Danco (1975), in a lighter vein, describes five stages: the wonder stage where the entrepreneur deals with uncertainties and unknowns, but committed to his idea forges ahead; the blunder stage, a period of rapid growth for which the entrepreneur is unprepared; the thunder stage, where the entrepreneur is "loud, obnoxious and opinionated," and impressed with his own success; and finally sunder or plunder, in which the owner either learns to be a manager or the business goes under.

Figure 1

Management Succession



(Hershon, 1975, p. V-26)

The importance of analyzing and identifying stages of development of the family firm lies in providing a model, and therefore some universality. Additionally, knowledge of stages of development offers some predictability, therefore increasing control and possibilities for effective planning. The beginnings of a road map have been drawn. However, what seems apparent is that the road map contains destination points but lacks the roadways to reach them. What is missing is the process by which the family business attains the various stages. The models of development described therefore do not offer insight into what variables distinguish firms which pass to second and possibly third generation from firms which dissolve. As mentioned earlier, only thirty percent make it to the second generation (Danco, 1975).

Hershon's work is important to this study because throughout, he respects the existence of the two parallel sub-systems--family component and task component. His method of addressing the issue is to view development of family through movement in time from one generation to another and movement of the firm through the various phases previously described; entrepreneur, collaborative and collective (see Figure 1). Hershon further recognizes the impact of family on firm in times of transition, which of course are periods of high stress. At that time the influence of family is most discernable.

Most certainly, the influence of family is present at all times; Hershon sees it through his particular area of interest--transitions--at which point it is heightened. Therefore, he identifies those times as "critical." What happens in times of crises or transitions is the manifestation of the processes preceding the critical period. It would therefore be valuable to understand the nature of the ongoing interactions between the family and task component. Hershon identifies this need: "For a complete analysis of the family firm the critical ingredient is the <u>interaction</u> between the two factors." In his final section entitled "A closing thought," he continues, "As I look back over the manuscript, three words seem salient, relationships, transitions, and interactions" (p. X-6). Hershon says that in any system movements along the components are called interactions. But it is the uniquely human system which is characterized by complex relationships. And it is during transitions that individuals and their organizations are forced to react. At these times, many aspects of the human relationships are revealed for the first time. Hershon therefore concludes that what is needed to understand the family firm and perhaps indeed all human behavior in organizations is a theory which joins interpersonal relationships and small group behavior (p. X-6). It is suggested that what Hershon may be calling for is a systems approach to understanding the family firm, a theory which would join individual, family and firm as they stand in interrelation to one another.

Another category of the literature is the focus upon problems in the family firm. Considerable effort has been expended by those who have worked with family-owned businesses in creating a catalog of difficulties and dysfunctions. Some of these issues have been touched upon previously: the nature of the entrepreneur, the resistances and difficulties associated with management succession, and transitions of the firm in response to growth.

The issue of nepotism presents an area of difficulty and challenge. It restricts the pool from which employees and management personnel may emerge. Also, mobility within the company may be limited to family members; therefore, desirability of joining the firm is significantly decreased. External recruitment becomes unworkable. Frequently in a family-owned firm, family members are guaranteed a place. Often they are not suited for the position and work in the business in response to family pressures. Family membership may replace competency and inclination. Further, the nepot may never know whether he/she is competent or simply successful through an accident of birth (Miller and Rice, 1970, p. 112). Nepotism connotes jealousies, resentments, and conflict, all of which can prevent the effective functioning of the firm, not to mention the family. However, nepotism is widespread and probably here to stay. In a study of 2700 executives, it was found that 57% of the firms evidenced nepotism. Additionally, having nepots has its advantages. Many interviewees in the survey felt that a relative is likely to have more interest in the company, be more loyal, dependable, and possibly fit better (Ewing, 1965).

Another problem identified in the literature is father-son conflict. Harry Levinson (1971, p. 93) concludes that the son of the founder can never win; even when he takes over the business he is vulnerable. Davis (1968, p. 403) refers to the institutionalization of charisma in describing the legacy of the founder. For the son, that magic becomes an albatross. The difficulties encountered by progeny of founders has resulted in the formation of a group who call themselves the "SOB's," Sons of Bosses. Their memebership is now open to women and in-laws. Their purpose is to attempt to manage better the inherent difficulties in the founder, family, successor relationships. The following poem by John Betjeman, poet laureate of England, captures the poignancy of the father-son relationship in family firms:

> . . . Most of all
> I think my father loved me when we went
> In early-morning pipe-smoke on the tram
> Down to the Angel, visiting the Works,
> 'Fourth generation--yes, this is the boy.'
> 'Well now, my boy, I want your solemn word
> To carry on the firm when I am gone:
> Fourth generation John--they'll look to you.'

I was a poet. That was why I failed.
My faith in this chimera brought an end
To all my father's hopes. In later years,
Now old and ill, he asked me once again
To carry on the firm, I still refused.
And now when I behold, fresh-published, new,
A further volume of my verse, I see
His kind eyes look woundedly at mine,
I see his workmen seeking other jobs,
And that red granite obelisk that marks
The family grave in Highgate Cemetery
Points an accusing finger to the sky.
(Miller and Rice, 1970, p. 111).

Another problem of the family-owned-business is the nature of a closed or closely-held corporation. The term has both economic and interactional implications.

Economically, financial resources for a family-owned business may be tight. Frequently, the firm is started with family money, and there is often a reluctance to seek outside financing. This is of course one way to ensure internal control. Boswell (1973, p. 35) notes that small firms frequently have an aversion to bank borrowing. The establishment of government loans to small businesses is an attempt to counterbalance this problem.

Stock in a closed corporation is non-tradeable on the open market; the value of it is situationally determinable and therefore may fluctuate more than over the counter stocks. This makes stock in the closed corporation as an investment or as a reward not highly desirable. The method of sharing of assets, liquidity, and estate taxes are further areas of financial stress for the family business.

The interactional implications of the term "closed corporation" are related to the characteristic secrecy of the family firm. Consequent to the founder's high control needs, the organization tends to become isolated. There is reluctance to establish an outside board of directors (Danco, 1975; Tashakori, 1977; Becker, 1978) and to utilize the expertise of external advisors or consultants. Frequently, even the advice of accountants and lawyers is not sought, and basic tools of record keeping are not utilized (Danco, 1975, p. viii). Sharing of plans with employees and family is often non-existent and "long-term incumbancy" (Danco, p. viii) without review perpetuates dysfunctional patterns. Secrecy permits lack of both short and long term planning; planning is replaced by faith and trust in the family. The myth becomes that so long as the family survives, so will the firm, and therefore the jobs.

In a closed corporation, selection and availability of personnel is a double-edged sword. On one hand, the family-owned business often operates like an extended family which encourages loyalty. Loyalty as a motivator often works well; employees have been known to remain in lower paying jobs accepting tenure, care, and concern as compensation. On the other hand, loyalty is often a deterrent to selection and promotion on the basis of competence. Nonetheless, the family-owned business has become the work setting of choice for those to whom informality, warmth and closeness are important. According to Calder (1961), the family business not only offers a place for the family to work, but also flexibility and expression of individuality. The nature of the small business is such that an employee may be involved with many facets of it, therefore gaining variety of experience and on the job training.

The emotional entanglement and enmeshment processes in the family-owned business are targeted by many writers, as represented by Miller and Rice (1970).

> Each family member has to believe that his continuing membership is essential to other members, and even more, that their membership is essential to himself. However much he may disagree with other members or disapprove of what they do, he must feel bound to them and they to him. Individual action must be compatible with family aspiration and individual freedom must be curbed or even denied. Success and disgrace are alike shared (p. 110).

The family's name becomes synonomous with the business, and family members may find themselves with unsought visibility in the community which the business serves. Forces and factors in the business encroach upon the individual lives of the family and vice-versa.

Even those who are not employed in the business become players in the panorama. Beckhard and Dyer (1981) delineate: wives of founders who supported their husbands' efforts through the early years, serve as arbitrators between father and son in times of conflict; widows who find themselves with 50% of the assets when the founder dies; daughters-in-law who are affected by the succession procedures; small children of founders who view the business as their father's favorite child and/or who are brought to "play" there while Mom and Dad get some work done. Indoctrination begins early in family-owned businesses. In-laws who enter the business face another set of problems. They may compete with blood relatives for power; or, if there is no heir apparent, claim the progeny's birthright through marriage. Either way results in a tenuousness of position.

Dual roles also create conflict. The father/supervisor son/supervisee relationship has inherent and obvious difficulties; additionally, a brother supervising another sibling, and particularly if that sibling is older poses difficulty. If there is incongruity between status in the family and status in the firm, problems arise (Beckhard and Dyer, 1981).

The family-owned business then seems a melding of paradoxes: it is closed yet welcoming, controlling yet flexible, filled with loyalty and common values, yet fraught with conflict. It is an enterprise in which ownership may be destructive, and less control may mean greater profits. Those very characteristics and attributes which were responsible for the creation of the family-owned business are those which are frequently responsible for its demise.

Perhaps it is the paradoxical nature and the complexity of family-owned businesses that seduces so many writers into an attempt to simplify it. Some urge surrender of the business to professional management (Levinson, 1971; Wilkie, 1971; Becker, 1978). Others advocate the placement of firm interests before the family interests (Becker, 1978; Danco, 1975; Calder, 1952) or condemn the family emotional processes as the prime source of difficulty. It seems that there has been an attempt to identify one symptom as the major difficulty whether it be emotionalism, nepotism, father-son conflicts, or poor management techniques. Yet there is a unifying thread that runs through much of the literature, sometimes stated, sometimes intimated. That is the existence of two parallel systems, interactive and interrelated. The language itself, two juxtaposed nouns offers the initial strand of fiber. The word, <u>family</u>, is a noun not an adjective, and the term, <u>family firm</u>, suggests two equal, parallel systems, each of them entities unto themselves, each of them open, viable, and dynamic systems whose boundaries are permeable.

Many writers intimate or express concern about the difficulty of managing the co-existing systems in the family firm. Alcorn (1981) speaks of the clash between the social and economic components. Donnelly (1964) refers to the "confusion of family interest with those of the firm" and cautions that "company requirements may lose out to family obligations" (p. 95). He sees successful family firms as those in which a "rare harmony is achieved between the normally competing values within the individual and organization" (p. 97).

Cohn (1974) states that the problem with family firms is that family issues take priority over administrative needs. Calder (1961) regrets that "sentiment rather than logic may dictate the decisions of the owners" (p. 103). Tashakori (1977, p. 193) recommends disassociation of the founder from the firm after the professional president takes over.

A clear theme, then, emerges from the compilation of dysfunctional aspects of the family firm, and an examination of concerns about the emotional entanglements. Parallel systems exist in the family firm: the family or non-rational component and the firm, or the rational component. The underdog in the clash between the two parts is the rational component, which falls prey to the power of the family system. Most writers who have dealt with family firms are business consultants. Their general intent is to intervene in organizations so that the result will be a reduction of chaos and an increase in rationality. It is understandable that a family firm is a frustrating client. "Much of this is a far cry from the tidy formulations in the management texts" (Boswell, 1973, p. 152).

That the emotional component is integral, enriching and inevitable is little recognized. The result is that many analysts of family firms emphasize the inadequacies, deficiencies, and generally condemn it. The literature with some exceptions, notably, Davis and Stern and Hershon, mirrors the expected bafflement that results from assuming that the client will value the rational component of the system, the firm, above the non-rational, the family. When this does not occur and the client does not respond to consultant's suggestions, methods, and techniques, little more is left than a cry to "call off the dog." From the consultant's theoretical view, the family firm falls more into the failure category than into the success category. This may account for the negative judgments and sarcastic approaches found in the literature. Small wonder that family firms are reluctant to engage consultants.

What all this indicates is the need to develop a systematic way of looking at family firms which will make them more understandable both to themselves and to those who consult to them. Peter Davis and Douglas Stern, in their article, "Adaptation Survival and Growth of the Family Business" strive to develop such a framework. They identify the components of the family firm and create a systems model representing the fourth and final category of the available literature (1980).

> A family firm, as a firm operating in a business environment is as influenced by the forces of technology, environmental complexity, and uncertainty as any other firm. But a family business must also contend with the business of the family. The

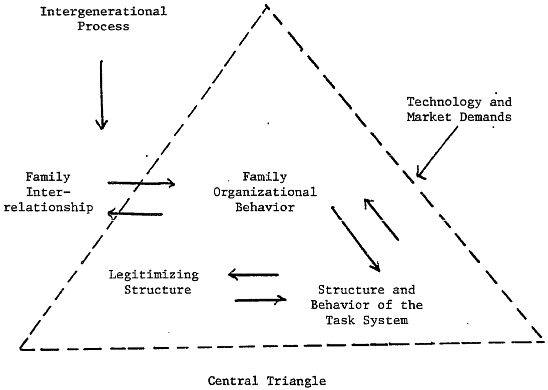
> emotional bond becomes a primary force and a focal point for organizational life. The intense personal and interpersonal issues generated from the role of the business as a context (or an arena) for acting out of the family agenda become powerful determinants of organizational structure and behavior. These issues are in every sense core to the family organization and cannot be conceptualized as subservient to external factors. Both external factors and family issues must be simultaneously accommodated to facilitate survival and growth (p. 209).

According to Davis and Stern, the needs of the business then are influenced by two powerful environmental forces, the family with its history and present relationship system, and, technology and market demands (Figure 2). There are forces which work their way to the central triangle primarily through the marketing and technology requirements in the environment, are accommodated by the task system, and then affect the family; there are forces which originate in the family, impact the task system which then must respond to accommodate it. Those forces take the form of nodal events: births, deaths, marriages, birthdays, children leaving, separations, divorces, and, the myths, norms, and values of the family.

The authors continue their analysis with a call for the establishment of appropriate and consistent boundary formation which will "allow problems and issues to be placed in a framework which facilitates their resolution" (p. 213), and to do this with consistency. The result over time would be that as issues recur, they would fall into the proper system for their resolution, be it family or firm.

Figure 2

Davis & Stern Model



(Davis and Stern, 1980, p. 211)

Davis and Stern also call for emotional containment of the family system, the development of a process by which the family would systematically attend to the resolution of issues germane to that part of the system and prevent emotional spillover onto the task system. As previously noted, many authors have proffered the same conclusion. Davis and Stern also advocate acceptance of high organizational slack in family-owned businesses where profit margins allow, and to use it to compensate for additional staff needed to inject competency into the organization. They suggest developing a legitimizing and valid structure which would be congruent with the nature of the family-owned business, rather than adopting techniques and methods from the world of big business.

> Valid approaches to legitimization accept the inherent weaknesses of the family business and develop the counter strengths. By placing weaknesses in a positive framework they legitimize them. Invalid approaches deny the weaknesses and generally lead to postures with no more than surface content. Overemphasis on the role of professionalism and participation of nonfamily members, denying the inherent deficiencies of the family business for the nonfamily members, often proves of short-lived convenience. This can be destructive of those positive value systems which are essential for organizational maintenance in times of stress and high anxiety. People do not know what to believe in once the legitimizing structure has proven to be false, which inevitably in the long run, it must be (p. 221).

Davis and Stern conclude that there:

> are deep seated contradictions built into the family business which defy resolution. At best, the family business can hope to develop a partial framework which provides enough common ground to support basic organizational coherence (p. 222).

Family organizations pose special problems which classic management theory has not been able to address. The authors see the family firm as representing two distinct units which are highly integrated. Further, such firms can only be understood through careful analysis of the family system.

> The challenge for the interventionist is to develop an operational scheme that differentiates family dynamics from business operations (p. 233).

The work of Davis and Stern represents a significant contribution. Their analysis provides a synthesis of the work that has preceded them and a germinal point for this study. It synthesizes through offering a systematic way to look at family firms. That offering makes present what was absent. It is the absence of a wholistic view that made the prior work seem fragmented and unfocused. The presence of an overview allows the fragments to fall into place and become part of the whole.

The cataloging and identification of problems in family firms were attempts to find answers and they serve as useful identifiers of symptoms or dysfunctions. Those dysfunctions emerge as a result of the interactions at the boundaries of each system. Nepotism, for example, in itself is not an evil; it is the response of the systems to the interaction at their boundaries.

The research and emphasis on the role of the entrepreneur becomes clearer; he serves as the generator of both systems. The search to understand the entrepreneur is a search to comprehend the roots and origins of a rich and complex system. The work on stages of development provides another step in working toward a systematic or wholistic view. However, most of the developmental theories fall short because they analyze the task system and do not include the family system or ignore process.

Davis and Stern clarify the importance of understanding and being able to manage both systems with equal effectiveness. To do so, they call for containment of boundaries between task and family system. However, since a family business is a type of social system and all social systems are open, it is unlikely that boundary containment is possible. What may reduce inappropriate penetration of boundaries is an understanding of the interactive nature of the task and family system. That is the challenge of this research.

It is proposed then that a family business consists of two sub-systems, the family and the firm, forming a macro-system which is responsive to the environment. Further, it is hypothesized that the application of systems concepts to the interactive process between family, firm and environment will produce new understandings regarding their interrelatedness.

The Literature of Systems Theories

The development of systems theories and constructs represents a departure from previous frameworks. The concept that human organizations and families are systems represents a landmark in developing thought (Charns and Schaefer, 1983). Although the germs of systems thinking are traceable to the 1920's, it is generally accepted that the presentation of the article, "An Outline of General System Theory," by Ludwig von Bertalanffy in 1950 provided the major genesis and rallying point. Von Bertalanffy's (1968) concept of General System Theory developed as a result of the inadequacy of the cause-effect paradigm, or mechanistic thinking. Von Bertalanffy reports that he became puzzled about obvious gaps in his research work in biology. The prevalent mechanistic approach appeared to neglect or actively deny what is essential in the phenomena of life. As a result, he began to advocate an organismic approach to biology which emphasized consideration of the organism as a whole or as a system, and views the work of biological science to be the discovery of the principles of organization.

Following and concurrent with von Bertalanffy's presentation, a systems explosion occurred. Simultaneously, writers and thinkers in various fields began to apply and report upon system approaches: Kenneth Boulding, in the field of social sciences and economics; W. Ross Ashby, in cybernetics; Russell Ackoff in operations research. The Society of General Systems Research, an international group for the furthering of systems theory, was founded as was the Systems Research Center at Case Western Reserve University. A systems zeitgeist arose. According to von Bertalanffy (1968), it became accepted that there exist models, principles and laws that apply generally to systems, irrespective of their particular kind, the nature of their elements and the relations or forces between them. Consequently, a new discipline was postulated applying universal principles to systems in general; that new discipline was called General System Theory.

Bertalanffy's hope was to unify the sciences (Blauberg et al, 1977). He recognized that the concept of General System Theory is still developing and will never be exhaustive. The expansiveness of the concept offers richness and also confusion. Bertalanffy sought to clarify by labeling some approaches "Systems Science," such as cybernetics, and game theory. He applied the term General System Theory to the attempts to understand wholeness and interrelatedness of elements standing in interaction (Blauberg, et al, 1977). Today, the state of the art is amorphous; researchers and philosophers continue to develop systems constructs. In a 1963 article entitled "General System Theory--A Critical Review," Bertalanffy recognized that there is no unique and all embracing world system. Various systems theories are models that mirror different aspects. However, he proffers that this does not preclude but rather implies the hope for further synthesis toward a theory of wholeness and organization (Bertalanffy cited in Blauberg).

A system is defined as "complexes of elements in interaction" (Bertalanffy, p. 33). The underlying assumption of various systems approaches is that understanding is a result not only of knowledge of elements but of their interrelatedness. This is applicable to the interplay of enzymes in a cell, the dynamics of conscious and unconscious in mental processes, and to social systems (Bertalanffy, 1968, p. xix). The underpinnings of a systems framework includes the following characteristics: emphasis on wholeness and interrelatedness of parts; hierarchical order and openness; anti-mechanistic view; reduction of complexity.

Blauberg (1977) elaborates on the concept of wholeness. He states that from antiquity came the precept that the whole is more than the sum of its parts; that the parts precede the whole and the whole precedes its parts. Blauberg explains that the solution to this riddle is the recognition that wholeness is characterized by new qualities and properties not inherent in the parts but appearing from their interaction in a certain system of connections. Parts and whole do not take precedence over one another. They are inseparable. Each element is interdependent with the other in such a way that it emerges not as a linear causal link in a chain but as a sort of closed circle, each element of which is a condition for the existence of the other.

The concept of hierarchical order is primary to systems theory. Every system is an element of a system of a higher order and a higher order system to a lower element, i.e., enzyme, cell, organ. This concept leads to the consideration of systems being defined as open or closed. Conventional physics deals with closed systems, or systems which are considered to be isolated from their environment (Bertalanffy, 1968). However, any living metabolic organism is essentially an open system. Openness connotes being in a state of constant exchange with the environment. This would of course include social as well as physical systems.

Most systems theories seem to have evolved in reaction to mechanistic or cause-effect ways of thinking. Weinberg (1975) posits that the mechanists saw phenomenon as reducible to the laws of physics or chemistry. Pairwise interaction is therefore suitable to explain the system, as in gravitational force. However, as knowledge expanded it became apparent that the cause-effect paradigm left much unexplained, and in the past thirty years development of the systems paradigm has occurred. The newness of the systems paradigm is notable, for general inculturation processes in the Western world have inculcated mechanistic modes of thinking.

Finally, systems concepts have developed as a way to reduce complexity. As Weinberg observes, science and technology have left little unknown on this planet. The more we know, the greater the complexity. Systems approaches have been designed to reduce complexity without resorting to simple cause and effect thinking.

As mentioned earlier, during the 1950's theorists and researchers in many different fields simultaneously and spontaneously began to apply systems concepts to their work. Those approaches included classical system theory which applied mathematics to systems; computerization and simulation; compartment theory dealing with complex mathematical structures; set theory dealing with theory focusing upon axioms; graph theory, concerned with representation of topology; information theory, game theory and decision theory, and cybernetics, which seek to define the formal structure of regulating mechanisms in systems.

Although Bertalanffy (1968) cautions that cybernetics should not be identified with systems theory in general, the terminology and concepts have been widely applied. The description of a cybernetic model developed by Ashby (1970), includes the concept of an open system whose boundaries are permeable by environmental forces. The process of impact upon the system by elements in the environment is called "input." The affected mechanism is either changed by or creates change as a result of the input. This change process is referred to as the "transformation," and the resulting forces or products which are returned to the environment are called "output". The environment or another system in the hierarchy experiences the output and interacts with the producer of output. That process is called "feedback" (Ashby, 1970). Ashby also incorporated the concept of homeostasis, first advanced by Walter Cannon, in his cybernetic model. The homeostatic nature of a system is related to that system's need to maintain equilibrium. Therefore a movement toward change will be complemented by movement to maintain the status quo. The result can be functional or dysfunctional.

Generally, systems concepts first developed in the areas of physical sciences and found their way into the area of social or human systems. The beginnings of this are attributed to Kohler and his work which became the basis of Gestalt psychology (Bertalanffy, 1968). The work of Jean Piaget is also viewed as a contribution to application of systems concepts to human systems (Bertalanffy, 1968). The common thread which enabled transfer of systems concepts from physical systems to behavioral was that of interaction and interrelatedness of elements. These applications found their way into family and organization theory.

The developing field of organization theory has relied significantly on the application of systems concepts, particularly upon interrelationship of elements and upon open systems theory, or the exchange between organization and environment. These concepts are evident in the works of Lawrence and Lorsch, Galbraith, Thompson, March, Simon, Cyert, and Mintzberg. At this point, "it is inconceivable to think of managing without thinking of what is being managed as a system" (Koontz and O'Donnell, 1974, p. 11).

The focus of the work of James Thompson (1967) is to analyze organizations as open systems which are therefore indeterminate and faced with uncertainty, but at the same time needing certainty in order to plan. According to Thompson, this paradox makes organizations subject to the criteria of rationality which permit an organization to be effective by making intentional decisions about internal and external constraints, contingencies and variables.

Jay Galbraith (1977) further developed understanding about the openess of organizations by presenting them as systems whose main task is to process information (input) in order to produce a product or a service (output). The organization's effectiveness is determined by its management of uncertainty, or the difference between the amount of information needed and the amount of information already possessed.

The work of Martin Charns and Marguerite Schaefer (1983) also offers a systems approach for understanding organization theory and management. It provides a diagnostic method which incorporates and integrates landmarks in organizational thought.

The Charns-Schaefer model is directed toward the management of the rational components of an organization. It assumes that an organization is an open system which is characterized by input, transformation, output, and feedback processes. Charns and Schaefer identify six interrelated variables: environment, purposes and goals, work--both direct and management, structure, coordination, and people. The variables are described below.

Environment: The environment consists of all which is external to a system and falls outside its boundaries. This includes client systems, competitors, regulating bodies as well as social, political and economic factors. An organization is an open system which is interdependent with its environment. The environment affects the resources available and therefore determines what products or services are possible.

Purposes and Goals: An organization's purposes are the rationale for its existence. Purposes are of necessity interactive with and dependent upon environment. Purpose answers the questions of what business the organization is in. Goals are the statements of desired results based upon organizational purpose. They address the questions of what goods or services will be produced and determine quantity and cost.

Work: Organizational work is the process of making the intangible tangible. It is the translation of conceptual purposes and goals into products or services. Work is positioned between purposes and goals and the other elements of the model. It represents a fulcrum. It transforms goals into action and is the element toward which other variables are directed. There are two major types of organizational work: direct work and management work, which offers the necessary supports to direct work.

Structure: Structure represents the form of the system, and as in architecture should follow function. The organization chart is the graphic statement of structure. Structure determines how to divide the work and responsibilities, how to allocate them to units, and how to coordinate those units. Structure also determines the assignment of power through position.

Coordination: Whenever the work of two units within an organization is interrelated, coordination is required. Coordination facilitates the flow of information from one unit to another and manages conflict. The more complex an organization is the greater are the coordination needs. Interdependency between parts of the organization and between organization and environment requires coordination.

People: People represent the human variable in organizations. This variable interacts strongly with every other element. People can be divided into individuals and groups. Behavior of individuals and groups combines to determine organizational outcomes.

Charns and Schaefer (1983) then, have developed a systems model which clarifies organizations by identifying the elements within them and the interrelatedness of those elements. The set of constructs provides a way to organize observation about and diagnosis of a task system. As Schaefer has noted, views are formed as a result of experiences whether explicitly stated or not. The researcher's formal study of Charns-Schaefer theory and application of it within organizations has been functional and effective; therefore it is assumed to be of value to the understanding of the task system of a family business.

The development of the theory and practice of family therapy can be viewed as a part of the systems zeitgeist. Bowen (1980, p. xiv) suggests that intrapsychic approaches came to be viewed by the family theorists as limited because they focused on forces within the individual with only indirect references to relationships. In working with the family, it became necessary to see it as a unit rather than as individuals, echoing the systems concept that the whole is more than the sum of its parts.

A unifying thread in the development of Family Therapy seems to be the concept of open systems in the form of the recognized need to consider the immediate environment of the patient, i.e., the family, as important in treatment. Ackerman's early work focused upon the study of non-psychotic disorders in children as related to the family environment. Minuchin's work with anorectics included the family as did Bowen's early work with schizophrenics at National Institute of Mental Health. Whitaker's work now includes large extended family grouping (Guerin, 1976). Additionally, the concept of interrelatedness and interaction is focal in family theory and therapy, as are concepts from cybernetics.

Guerin (1976, p. 21) identifies four categories of systems in the field of family therapy: general systems, structural, strategic, and Bowenian. As with Charns-Schaefer theory, exposure with positive results creates a bias toward the Bowenian theory. It is that theory that will be utilized as a guide in observing interactions which cross the boundaries from the family system to the task system of a family-owned business in this research.

According to Bowen, the core of the theory has to do with the degree to which people are able to distinguish between the feeling and intellectual processes. (Guerin, p. 59). The theory involves two main variables. One is degree of anxiety and the other is the degree of differentiation of self. Differentiation of self has to do with the ability to make distinctions between emotional and intellectual functioning, or between automatic programming and thoughtful processes. (Guerin, p. 65).

It is suggested that the principles of Bowen Family Systems Theory may be categorized as follows for the sake of brief explanation: Environment, Organizing Principles, Fusion-Differentiation, Sibling Position, Triangles, Balances and Counter-Balances.

Environment: A family like an organization is a human system and as such is open. It is in a state of constant interchange with its environment, which is composed of all that is external to the nuclear family. This includes societal and economic factors as well as the family's geneology, history and the Bowenian concept of the multigenerational transmission process. It is this process which over generations determines the patterns, themes, values and resulting behaviors of a family. It defines the principles of projection over generations (Bowen, 1978). The family projection process is that by which the dynamic forces of a family entangle the individual. Sometimes this web of entanglement results in dysfunction. The categories of dysfunction are: emotional distance or at its extreme, cut-off; marital conflict, spouse-dysfunction, and impairment of children (Kerr, 1981). Understanding of the multi-generational transmission process provides a base from which to make predictions regarding the functioning of present and future generations.

Organizing Principles: Organizing Principles are the products of the multi-generational transmission process. They include family themes, myths, patterns and values. They are often unspoken, frequently unconscious, and automatic; the resultant programming of emotional history. Organizing principles form rallying points which may promote function or dysfunction.

> Unresolved issues in past relationships are carried into new relationships and new generations until they develop into on-going issues around which family members polarize, i.e., death, money, sex, achievement (Carter, 1976).

Fusion-Differentiation: The major emotional work of the individual within the family and of the family itself is to differentiate. The difficulty of this task is compounded by the multi-generational transmission process with its resulting organizing principles. The instinctive tendency is to respond automatically to those powerful family forces, through unthinking acquiescence or unthinking reactivity. Fusion is the original human state. It is a blending or melting together so that one thing unites with another (Fogarty, 1978). Fusion is the result of the flooding of intellect by the emotions (Kerr, 1981).

Differentiation affords choice and options rather than programming and automatic reaction. Individuals who are differentiated are operationally clear about the difference between feelings and intellect (Bowen, 1978). Fusion implies loss of boundaries; differentiation, retention of boundaries.

Sibling Position: Sibling position is determined by birth order. Birth order brings with it expectations for behaviors which in turn influence functioning in and out of the family of origin.

> A person transfers or generalizes experiences within the family to social situations outside the family, for instance, to the playground, to kindergarten, school, to acquaintances . . . and to friends, to groups and clubs, to his chosen work (Toman, 1969, p. 4).

Sibling position from oldest to youngest form continuum from over-responsibility to underfunctioning, with variations along the spectrum. These functional characteristics are brought into the nuclear family and influence the structure of it. For example, the marriage of an oldest to a youngest brings implications for the management of power. The nature of individual functioning is in part a legacy of sibling position. The functional expectations of oldests, youngests, oldest sons, for example, are built into the structure of families through generations (Kerr, 1981). They go beyond the wishes and desires of any one person and are dictated by emotional forces (Kerr, 1981). Functional patterns determined by sibling position can be influenced by the family projection process which in turn can serve to exacerbate or reverse expected behaviors.

Triangles: The triangle, a three person emotional configuration, is the molecule or basic building block of any emotional system whether it is a family or any other group (Kerr, 1981). The formation of a triangle is a means to avoid the intensity of over-closeness or fusion. The manifestations of a fused state can be either unthinking blending or conflict. To reduce the intensity of conflict between the fused twosome, a triangle is created. Thus a third factor, either a person, an idea, an activity, or another system is introduced. The third factor may take the form of a lover, alcoholism, the school, or a value. The fused twosome now focus their conflict around this third factor. Thus they avoid the hard emotional issues inside and between them (Fogarty, 1978; Bowen, 1978). Fogarty (1978) explains that the key to understanding the triangle is that it is a homostatic mechanism. It is an attempt to stabilize a system and prevent its disintegration. Triangles are fluid. As two points draw closer together, the third point assumes the outside position (Bowen, 1978). During periods of high tension the outside position is preferred. However, when tensions are reduced, the outsider may feel isolated. During periods of moderate tension, there are two comfortable sides of the triangle; the remaining side is under stress experiencing exclusion. It is possible at that time for people to occupy relatively fixed positions (Kerr, 1982). When the tension level is mild to moderate, it may be contained in one central triangle. However, with increasing levels of tension, other people may be drawn in thereby creating adjoining or interlocking triangles (Bowen, 1978).

Balances and Counter-Balances: The concept of the balancing of forces is central to systems thinking. Bowen has identified two major counter-balancing life forces in his study of the family. They are the balancing of individuality and togetherness; and, the balancing of the emotional and the intellectual (Kerr, 1981). The extreme of togetherness is fusion; the extreme of individuality is isolation. In either of these extreme states, emotional forces have superseded rational forces. Although not explicitly addressed in Bowen Family Systems literature, it is implied that from these sets of primary balances and counter-balances other sets emerge: independence-dependence, active-passive, rigid-flexible, etc. These reciprocities serve to keep the system in balance. A family member may adopt a way of functioning in order to provide the needed reciprocal force in the system. Symptomatology often represents a breakdown in the balancing and counter-balancing process.

> When a symptom develops in a system, it is frequently a complication or exaggeration of the mechanism that has been used to preserve the system in the first place . . .
>
> In this sense, symptoms reflect failure of adaptation by the system and are exaggerations of normal processes (Kerr, 1981, p. 235).

The relevance of the review of Bowen Family Systems is that like the Charns-Schaefer Theory, it provides a guide in the present research. The word <u>guide</u> is significant. The theories serve as signposts and aids in organizing; hopefully, they do not impoverish. In the literature that is available on family-owned business, there is little evidence that a guide or systematic approach was used; the result has been fragmentary and wants unification. Much of the research on family business seems to reflect cause and effect thinking, a natural occurrence since that has been the prevalent paradigm until the last thirty years when systems models began to be considered. The impact of the systems paradigm is reflected in Hershon's work through the suggested relatedness of the historical and generational components in organizational stages. Hershon thus supplied the vertical axis for looking at family business. What is missing and what he has called for is the examination of family business through understanding interactive processes of relational dynamics, or in other words, a systems approach. It is postulated that by using systems concepts developed in the fields of organization theory and family therapy as guides by which to observe the interactional processes of family and task system in a family business, new understandings may develop. These in turn may contribute to the development of a conceptual framework.

The challenge for the present research is found in the literature. Miller and Rice (1970) use as the sub-title for their book, Systems of Organization, the phrase, "The control of task and sentient boundaries." By sentient boundaries, they refer to the emotional component of a system. Boswell (1973) marvelling at the ability of the family firm to survive, states:

> A more critical question is, why did sluggishness and inefficiency survive for so long? How could small firms continue throughout such long periods of managerial weakness and external turbulence? This question has been neglected, but it is critical to the wider economic argument, the theory of the small firm and the contrast between family firm and others. Clearly, what is required as much if not more than a theory of decline is a theory of continuity (pp. 112-113).

Summary

The literature related to this study falls into two major areas: family business and systems concepts. The research available on family business focuses on the entrepreneur, stages of development, dysfunctional aspects, and components of the family firm as a system. Though research seems fragmented and scattered, a unifying thread emerges as a mandate to examine family business as a system. The review of systems literature identifies generally acknowledged systems concepts and elements that are used in the present study to explicate the interaction and interrelatedness of family, task, and environmental components.

CHAPTER III

Research Design and Methodology

Nature and Focus of the Research

The nature of this study is exploratory. It was designed to be congruent with the requirements for the initial phases of systems research and utilizes the case study. A family firm is explored in depth in order to determine the nature of interrelatedness of family and task systems as they stand in interaction with the environment.

The family firm stands as a significant force in our economy and in American socio-economic ideology. Family-owned businesses generate half of our GNP. They also have a high mortality rate; 70% never make it to the second generation. Yet little research has been focused on the area of family business. Most of what is available seems fragmentary. The literature reflects frustration and negativity resulting from the inability to manage both the powerful forces of the family component and the requirements of the business or task component. No conceptual framework exists to clarify the relationships of those two sub-systems.

Reviewing the available research on family firms produced questions: Why don't family owned businesses survive better and longer? What makes intervention so difficult and often unwelcome? It has been established in the review of the literature in the previous chapter that a unifying thread exists: the recognition of the existence of two sub-systems in interaction and, of the need to understand more fully the nature of their interrelatedness with each other and with the marketplace.

The major focus of the study is upon the task component, or the business. The goals are: to determine the nature of the responses of the task system of the family business to the forces of the family system and the demands of the environment; to identify how the family system influences management decisions about how to respond to the external environment, therefore determining purposes and goals of the organization.

Systems Research and Methodology

Systems research and methodology is, like its counterpart systems theories, in an embryonic state of development. Most of the significant energy related to systems thinking has been directed toward the application of systems and the transfer from one field to another (Blauberg et al., 1977). Little effort has been put forth to expand methodology for systems. It is also possible to engage in dialetics regarding whether or not the existence of a system is simply in the eye of the beholder. "Whether or not to study something as a system or as an element is simply a matter of the researcher's choice" (Ackoff, 1980, p. 27). In this instance, the choice of a systems approach emanates from the researcher's training as well as failure of cause-effect modes to explain fully the complexity of family business.

Given its limitations, there are aspects of systems research that are useful to the present study. They are: the hypothesizing of a configurator; the emphasis upon synthesis; incompatibility with mechanistic thinking; the affirmation of exploration and observation as a necessary beginning.

According to Thorsen (1969), systems methods offer "a conceptual scheme for the conduct of more integrated and synthesized research" (p. 276). A systems orientation offers the possibility of creating a framework which may bring together the conglomerate of previous research thereby serving as an integrating force (pp. 287-8). It also offers the possibility of integrating product and process as represented by the task and family component respectively. Product and process are frequently polarized. Thorsen further suggests that a systems approach, in general, offers a way of synthesizing; the emphasis is "clearly on the 'big picture'" (p. 276). To date, many researchers have focused upon difficulties in the family firm. What is not clear is how those common problems fit into the overview or broad picture. This study focuses upon the previously unexplored as a way to integrate what is already known.

Both Blauberg et al. (1977) and Bertalanffy (1968) advocate the use of systems methods when mechanistic modes or cause-effect analysis is inadequate to explain dynamics. Blauberg specifies the following criteria for fitting a problem into a systems research mode:

-- generation of properties of the whole by the properties of its elements and vice-versa

-- inseparability of the description of a system from the description of conditions for existence

-- hierarchical structure and specificity of interrelationships of various levels (p. 85).

Blauberg et al. offer a rationale which supports a systems approach for family business. The family firm is an entity which consists of interrelated elements; must be defined through interaction of those elements; and, is in constant state of exchange with its environment, the next system in the hierarchy.

The advantages of exploration and observation as initial steps in systems research is addressed by both Bertalanffy (1968) and Blauberg et al. (1977). Although he acknowledges that disagreement exists, Bertalanffy strongly advocates the use of the "intuitive survey" as a way to generalize about observable patterns (p. 95). Blauberg et al. (1977) also emphasize the significance of "intuitive analysis." They posit that a model for systems formulation can't be offered at present, but that the essence of a system can be disclosed through "nonformal, intuitive analysis complemented by formal constructions giving a rigorous description of at least some of the features of systems" (p. 138).

The exploratory nature of this study with its focus on the processes of interaction as an initial step in comprehending the family business as a system is supported by the aspects of systems research discussed.

Case Study Method

The case study approach is congruent with the need to utilize an intuitive survey as a first step in systems research. A case study consists of description and analysis of a single person, event, institution, or community. It includes inferences, intuition, fact, and synthesis. Further, it allows for generation of hypotheses to be tested in later research and of new ideas. The case study is designed for use in areas where there is little pre-existing knowledge (Sax, 1968). These characteristics of a case study indicate that it lends itself well to an exploration of the area of family-owned business given the present state of the art.

The Research Process

The case studied is a 66 year old steel fabrication and warehousing firm with a four generation history. The CEO of the company has long had an interest in the dynamics of family business and, at one point, began to gather materials for a book on the topic. A mutual friend introduced the researcher to the CEO.

The CEO was initially reluctant to permit the research. After a series of three meetings, which were semi-social in nature and which established a trust relationship, agreement was procured. Confidentiality and anonymity for individuals and company was assured. A contract which appears in the appendix specified conditions for participation: interviews with family and firm members were to be arranged through the CEO, not by the researcher independently; the CEO retained the right of review of the written study; the researcher was not to use any anecdotal material which the CEO chose to use in his memoirs.

The research process consisted of several phases: the first set of contacts and the agreement, which was already described; gathering of data from the CEO; interviewing individuals in the system; the synthesis; the analysis.

A series of eight interview sessions ranging from two to four hours were held with the CEO in his office over a period of two and one-half months. One of the challenges in the intensive interviewing of the one individual, the CEO, was the difficulty of maintaining a systems perspective. The largesse of the CEO engendered loyalty that at times hindered objectivity.

The nature of family business is political and demanded sensitivity from the researcher. Part of the challenge was to retain relationships and trust levels, and at the same time, to avoid being perceived as allied with any individuals or groups. Essentially, the researcher straddled a line of being both inside and outside of the system.

Following the series of interviews with the CEO, the researcher was turned loose into the system. Those interviewed responded with openess and co-operation both to the establishment of a date for the interviews and in the interviews themselves. In part, the positive response was a result of a letter to each person interviewed from the CEO explaining the project and urging them to feel comfortable and to be open. Additionally, the uncertain future of the company and stage of life seemed to be factors. Many welcomed the opportunity as a way to reminisce and/or clarify their thoughts about the family and the company. All but two of the interviews were taped and the researcher promised to return the tapes to each individual interviewed.

The immersion into the system was followed by a period of withdrawal which enhanced perspective before beginning to write the descriptive material. Nonetheless, the first attempts were laborious and frustrating. It was difficult to distinguish between writing geared for public relations and writing geared for scientific reporting. Achieving distance was difficult.

The final phase, the analysis, required another step of distancing in order to objectify and abstract through the use of the theoretical concepts. Time and consultations helped.

The first draft was submitted to the CEO for his review. A series of meetings followed for clarification and revisions of material.

Data Gathering

Interviews were the primary source of data. Written materials including organization charts, reports, by-laws, memos, journals, and correspondence, magazine, newspaper articles and in-house publications were also used.

Interviews were conducted face-to-face with the exception of three instances by phone. All interviews with the exception of two were taped and transcribed. Interview selection was based upon attaining representation from the founding branches, generational lines, non-family management, former management, and board members. Interviewees included: the CEO, who is also Chairman of the Board; the President, who is non-family and a Board member; the Senior Vice-President, also non-family; the former Vice-President of Purchasing and brother-in-law of the CEO, who is also a Board member; the Purchasing Agent and Quality Assurance Manager, who is a cousin of the CEO; the Assistant to the Vice-President and General Manager of the Steel Service Center, who is married to a cousin of the CEO; Manager of Secondary and Excess Steel, also married to a cousin of the CEO; the former Production Co-ordinator and Manager, cousin of the CEO and Board member; the former Chief Fabrication Clerk, who is a cousin of the CEO; three former

Executive Vice-Presidents, two of whom were cousins of the CEO, and one of whom is a Board member and one a non-family manager; the Administrative Assistant to the CEO, who is non-family; one non-family and one family Board member who do not work in the Company; the legal counsel to the company, who is non-family; and the wife, son, and daughter of the CEO. Family members interviewed are designated by a check mark on the Genogram, (Figure 6, p. 82).

A general format was designed for the interviews and additional questions were prepared for each session depending upon the nature of the information desired. The general interview format is included in Appendix C.

The interviews were non-structured and free flowing. The researcher usually began the session by explaining the evolution of personal interest in family business, purpose of the research, issues of confidentiality, and offered the interviewee an opportunity to ask questions about the use of the materials, the procedures, or the study itself. Interviews generally lasted about two hours.

Description

Four significant events in the history of the business were identified. Those events were selected because they represented critical junctures in the business at which time the task system altered its response to the environment. They were: the first management succession, 1950; the election of the professional president and the Chairman of the Board, 1975; the sale of the automotive division, 1977; and, the demolition of the fabrication plant, 1982. The discussion of the data was organized around those events.

Analysis

The research questions were: What can be learned about the nature of the responses of the task system of the family business to the forces of the family system and the demands of the environment? How does the family system influence management decisions about how to respond to the external environment and therefore determine the nature of purposes and goals of the organization?

The purpose of the analysis then was to examine the response of the task system to its environment at the time of the events selected. The task system is directed by management. The environment consists of two components, the family system and the marketplace.

Each event is analysed using a four step process. The first is a description of the macro-level factors or the overview of the three sub-systems, marketplace, family, and business. Second, management response is analysed according to concepts of Charns-Schaefer Theory. The third step is the assignment of a configurator, which will be discussed further, to each event, and finally discussion of management response according to concepts of Bowen Family Systems Theory.

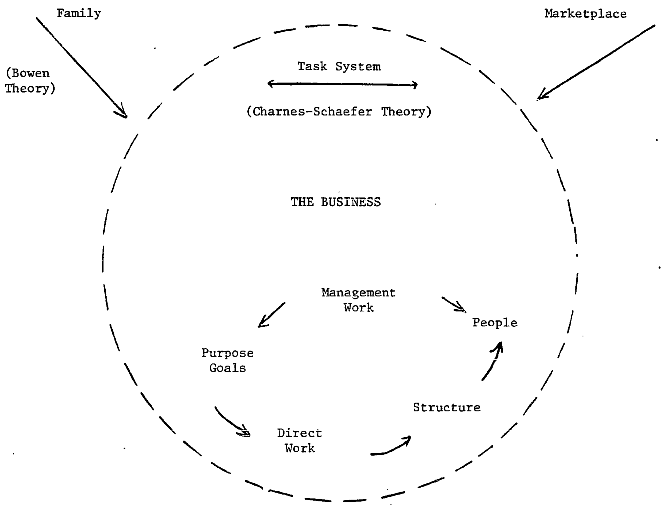
The Charns-Schaefer Theory has been used to discuss the work of management which is to make decisions about how to respond to environmental forces, as well as decisions about the purposes and goals of the organization, its structure, and the utilization and placement of people, all of which are components of the Theory. The component of co-ordination is not discussed in this study.

Bowen Family Systems Theory has been used to discuss the family emotional process issues which affect the work of management or decision making in the task system. The Charns-Schaefer Theory deals with decisions that are intended to be rational and intentional and to enhance organizational functioning. The discussion of family emotional processes using Bowen Theory often focuses upon the aspects of decisions that may be automatic or programmed as a result of the transmission of patterns, themes and myths over generations. This research is not an attempt to collate those two theories into a theoretical model or to make comparisons or contrasts between the two. The analytical process is depicted in Figure 3.

The approach to the analysis changed over time. The original proposal included analysis of Family Systems Theory in the task system and of Schaefer Theory in family system. The attempt to accomplish this created lack of clarity and overload

Figure 3

Analysis of Significant Events



for this research. It also reflected the difficulty in creating distinctions and separating of the components of the system in order to analyze. This in turn mirrored the complexity of family business.

The Configurator

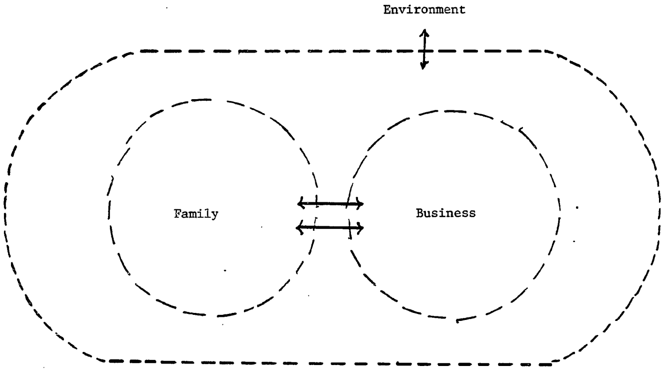
Each of the four significant events analysed is assigned a configurator representing the degree of overlap or separation dictated by responses at that given juncture. A suggested procedure in research of systems is to create a configurator.

> This idea means that the researcher, constructs at a starting point, the configurator, a special model of the object, exercizing the methodological function of synthesis. This model has to be evolved in such a way as to coordinate a different notion of the object . . . Of special significance is the fact that the researcher . . . has to start out from the idea of the systemic structure of the given object. . . . The initial notion is of a hypothetical character and is made more precise in the course of further theoretical treatment of the object (Blauberg et al., 1977, p. 123).

It is hypothesized that the system represented by family business can be depicted as illustrated in Figure 4. It consists of two circles, as opposed to linear figures, symbolizing the fluidity and circularity of forces in the system. The circles are amoeba-like in character and can overlap to varying degrees forming a continuum from concentricity to separateness as they respond to forces which cross their boundaries. The circles are of equal size with the "Family" on the left as the origination point. Every system is an open

Figure 4

Configurator as Method



system; each component is open as represented by dotted lines, permitting unavoidable seepage from one part to another. Additionally, as an open system the family business exists in a state of constant exchange with its environment.

Limitations

A case study is by definition idiographic and the data cannot be extrapolated. The nature of this type of research is intuitive as well as cognitive. It contains elements of subjectivity emanating from the interviewer and the interviewees. The researcher is the instrument and is limited by individual reactivity.

Additionally, while theoretical bases clarify, they may also impoverish. Hopefully, the selection and use of the two theories, Family Systems and Charns-Schaefer enriched more than hindered.

Preliminary Study

A preliminary study of a two-generation retailing business was done as a pilot. This study provided an opportunity to test the application of theoretical bases, identify problems in methodology, anticipate challenges, and raise key issues. The preliminary study is contained in Appendix D.

Summary

The focus of this research was upon the task system of a family business. It monitored the response of the task system to environmental forces in the marketplace and in the family system. A case study approach was used, complimented by concepts of systems research and methodology. The data was gathered through interviews and written materials. Four significant events were identified which represented important junctures in the history of the business. These were times when task system evidenced change in response to environmental pressures.

Two systems theories were utilized both as guides in gathering the information and for the analysis. Charns-Schaefer Theory was used to analyze the task system and Bowen-Family Systems, to analyze the family. A preliminary study of a retailing business was done as a pilot to test concepts, methods, and procedures.

CHAPTER IV

Background of the F. Family and Company

Nature of the Business

The F. Steel Company (FSC) is a 66 year old family business engaged principally in fabricating and warehousing steel. In the fabrication process, FSC purchases steel from steel manufacturers and forms it to specifications for its customers for use in construction of bridges and buildings including hospitals, office and apartment buildings, mills, and nuclear power plants. One of its largest fabrication contracts was for 12,000 tons of steel. FSC's typical order requires 600 tons and approximately two months. The fabrication division closed in 1980.

FSC's warehousing operation has been ongoing since 1938 and has been a consistent profit-maker for the company. The company warehouses mild carbon and high strength steel, principally structurals: bars, plates and sheets. The warehoused steel commands a higher price than steel purchased directly from the mill, but can be bought in any quantity and on demand, providing the customer flexibility. The warehouse division continues its full scale operation.

FSC differs from many family businesses because no one person or group owns controlling interest. Stock holders may assign shares of their stock to members of their immediate families; thus as new family members have been added through marriage and birth, stock is dispersed. From the original five shareholders, owners now total 65: family, 61 and non-family management 4. Each share of stock entitles the holder to one vote at the annual meeting. As is the nature of a closely-held corporation, stock ownership in FSC does not afford liquidity. The book value is determined annually and dividends fluctuate dependent upon the economy and the needs of the business. Often, earnings are rolled back into the company.

Based upon standards of longevity and productivity, FSC is a successful family business. It has survived for 57 years as a corporation and for 80 years since its inception as a scrap metal business (Figure 5, Business History). It has grown from an annual volume of 5 million in the founding generation to a peak of 50 million in 1975 (Figure 6: FSC Financial History). In 1960, the company employed 12 family members in management capacities; in 1980, seven; in 1983, four.

The profitability of FSC has always been tied to the cyclical nature of steel and heavy industry. From 1968 through 1978, the company sought ways to compensate for the down times in the cycle which seemed to be growing more frequent and lengthier. Attempts at diversification included ventures into pre-cast concrete, re-manufactured automotive parts, 105 mm

Figure 5

FSC: Business History

Year	Event
1902	PGF forms scrap business
1917	Founder and Uncle II form partnership and found steel company
1926	FSC incorporated
1934	CEO enters business
1938	Open warehousing division
1948	Added building products to line
1950	CEO becomes President: Founder becomes Chairman of the Board
1963	Pre-cast concrete venture
1967	Ordnance plant
1968	Add high strength steel to inventory
1969	Acquire F. Automotive
1975	CEO becomes Chairman of Board; Outside president elected
1977	F. Automotive sold
1980	Close fabrication division
1982	Demolition of plant and offices

Figure 6

FSC Financial History

YEAR	NET SALES	NET PROFIT	NET WORTH	NO. SHARES	BOOK VALUE PER SHARE
1957	$ 14,651,976	$ 640,883	$ 4,507,076	22,200	1,277.48
1960	13,497,395	355,815	5,080,253	22,200	1,572.63
1963	10,248,285	(354,306)	4,493,447	353,796	12.70
1965	17,674,552	812,414	5,476,134	353,796	15.48
1968	46,103,454	556,986	7,095,435	353,796	20.06
1970	29,569,480	493,709	9,308,228	357,796	26.02
1972	24,054,398	(784,779)	8,844,354	351,827	25.14
1975	50,006,510	2,102,200	12,477,721	344,327	36.23
1976	36,868,580	475,688	12,815,678	344,327	37.22
1977	55,553,782	(1,739,130)	10,940,403	344,502	31.76
1978	21,724,233	439,464	11,362,002	343,752	33.05
1979	59,705,948	981,109	12,236,036	342,812	35.69
1980	42,844,931	155,370	12,185,719	342,812	35.55

projectiles for the Viet Nam War, additional warehousing, the purchase of a subsidiary in the southwest which sells and leases construction equipment and fabricates light structural steel, and a flat roll steel division. The ventures had varying degrees of success.

The decade of the seventies brought with it rampant inflation, doubling of union wages, competition from foreign markets, construction freezes, energy crises, and a depressed market place. Nationwide, the steel industry sagged. Many fabrication companies went under. In 1980, FSC closed its fabrication division, leading an industry-wide exodus and leaving warehousing as its primary operation. In 1983, four family members were employed by the company and the future is uncertain. With de-emphasis on family members in management positions, the company continues to re-evaluate its long-range planning.

The First Generation

The origins of FSC may be traced to the emigration of the paternal grandfather (PGF) of the present chief executive officer (CEO) from a small village in southeast Russia to a city in the mid-West in 1886. Shortly after his arrival, a match was arranged between PGF and the sister of a friend. A ticket was sent to Russia for the bride's passage. In 1887, the couple was married; they had six children; five sons and one daughter. (See Genogram, Figure 7 and Referenced Members of the F. Family, Figure 8)

Figure 7
Genogram: F. Family

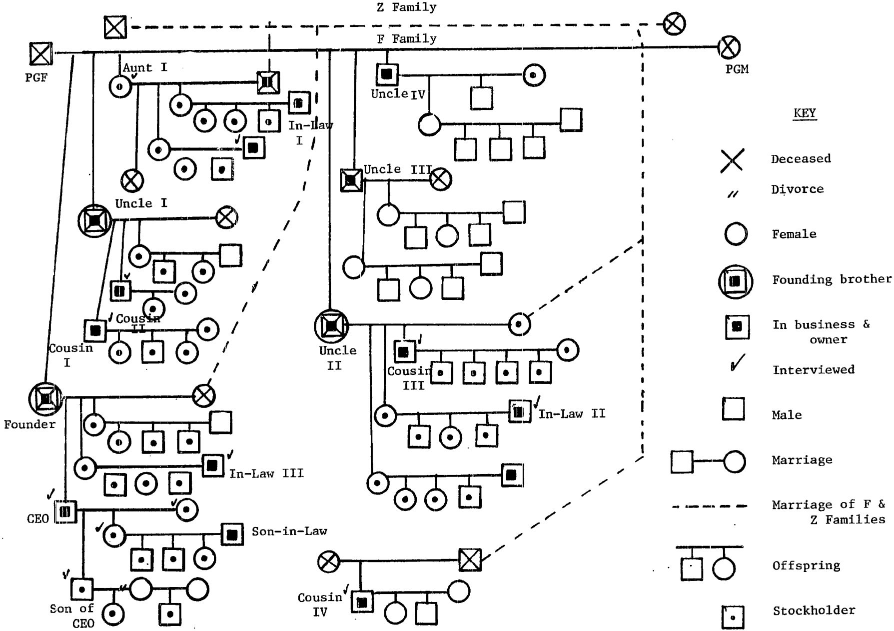


Figure 8:
Referenced Members of the F. Family

Reference	Family Position	Business Position	Stock-holder	Board Member	Inter-viewed
PGF (1863-1917)	Paternal Grandfather of CEO	Founder of scrap business which was forerunner of Steel Co.			
PGM (1862-1954)	Paternal Grandmother of CEO		X		
Father of CEO (1890-1964)	One of three founding brothers & oldest son of PGF	Founder & entrepreneur; 1st Pres. & 1st Chairman of Board	X	X	
Mother of CEO (1890-1981)	2nd oldest child in Z. Family		X		
CEO (1914)	Oldest child & only son of founder	CEO; 2nd Pres. & 2nd Chairman of Bd.	X	X	X
Wife of CEO (1912)	Spouse		X		X
Son of CEO (1942)	First born; oldest son		X		X
Daughter of CEO (1947)	Second born; only daughter		X		X
In-Law III (1913)	Husband of oldest sister of CEO	Vice-President of purchasing	X	X	X
Uncle I (1894-1969)	2nd oldest child & son of PGM & PGF	Founding brother; V.P. of purchasing	X	X	
Cousin I (1928)	Oldest son of purchasing founder	Former Exec. V.P. & successor apparent	X	X	X
Cousin II (1930)	2nd child & son of purchasing founder	Purch. Agt. & Quality Assurance Mgr.	X		X
Aunt I (1896)	Oldest sister & 3rd oldest in founding generation; husband in business		X		X
In-Law I (1920)	Son-in-law of Aunt I; husband of her 2nd oldest daughter	Assistant to Vice-President	X		X
Uncle II (1898-1969)	4th child & 3rd oldest son of PGM & PGF	Founding brother; Dir. of Prod. Dept.	X	X	
Cousin III (1934)	Youngest child & only son of Uncle II	Production Co-ordinator	X	X	X
In-Law II (1926)	Husb. of 2nd child of production founder	Manager of Secondary & Excess Steel	X		X
Uncle IV (1910-1958)	5th child & 4th son of PGM & PGF	Vice-President	X	X	
Uncle V (1906)	6th child & 5th son of PGM & PGF	Office Manager	X	X	

PGF is remembered as enterprising and determined with a penchant for humour. He worked on a labor gang building cement sidewalks. In those times it was an unusual occupation for a Jewish man, as was the later choice of steel fabrication for a Jewish family. According to the CEO, two things were important to PGF: making a living for his family and building a name. Those principles remained a part of the family value system as evidenced by the widespread distribution of stock throughout the family and the pride in the reputation of the family and business.

Paternal Grandmother (PGM) was the family matriarch. Her own mother died at her birth. Her father remarried and she reportedly was abused by her stepmother. For protection, her father sent her to another country to live with an aunt. PGM was reunited with her family shortly before her emigration to the U.S. According to family sources, in her new country with her own nuclear family, PGM became a force for closeness and unity. She is remembered as "keeping us all together." The sons "never left the house to go out and live by themselves. All the children lived with Mother, everyone of them until they got married" (Aunt I., 1983). One of PGM's prize possessions was a little black book in which she kept the phone numbers of her children and grandchildren. It is said that she phoned each one every day.

PGM was a rallying force in the family. The parties held in her honor with all the family in attendance are legendary; shows starring family members were performed for her enjoyment. Her emphasis on the importance of family closeness unity, and togetherness became internalized in the forms of organizing principles of the family and of the business. It is notable that three of her children married three siblings from another family (Z. Family); those couples represented three of the five original stockholding families. Their offspring are identified as "double cousins" by family members.

In 1902, PGF founded a scrap business in the yard of his home in partnership with his wife's brother, establishing a pattern of business involvement with extended family. PGF's sons worked alongside him in the business from time to time, particularly the third eldest son (Uncle II), who eventually ran the production department of the fabrication business.

In 1917, PGF died. The oldest son and father of the CEO left his work as a bookkeeper for a local grocer and formed a partnership with Uncle II. Thus began F. Steel Company which was incorporated in 1926. It was the age of Andrew Carnegie and "the skys were painted red and black" (CEO, 1983). The demand for steel was burgeoning with the wartime economy, expansion of railroads, and increasing construction of skyscrapers. By the 1920's steel was being used in residential as well as commercial construction. Many small family-owned fabricating firms were forming.

The Second Generation

PGF and PGM had six children. The oldest son, the entrepreneur and founder, was born in 1889; the second oldest brother, Director of Purchasing, five years later. Nine years separated the oldest from the third brother, who eventually ran the production department. The number of years separating the siblings is important because it offers suppositions about the way in which the siblings relate to each other. The number of years separating the oldest brother from the two younger ones would indicate that from the outset, the relationship would not be peer. Additionally, as indicated earlier, PGM's own experiences seemed to create intensity about mothering. The founder was born three years after her immigration and separation from her own family, and two years after her marriage to a previously unknown groom. During the first five years of his life, the founder was an only child. It would probably be valid to assume that these factors produced intensity in the mother-child relationship during early years, and that, as Toman has suggested, the arrival of the next siblings engendered competition and power struggles (1969). It is known that the founder functioned as a father figure before the death of his own father. In an interview with the founder's sister, she recalls how her oldest brother made the decision to move the family from the home where they were living into more commodious quarters. He determined which rooms would be utilized for what purpose. She remembers that he purchased an upright piano and had it placed in the room which doubled as his bedroom and the parlor (Jan., 1983).

The Father of the CEO was the eldest of the three and served as President and then Chairman of the Board of FSC. In addition to being the functional father in his family of origin, he was the entrepreneurial figure and founder of the business. He is remembered as being rough, demanding, highly competitive, decisive, impatient, charismatic and generous. Functioning as the "out-front guy," (In-Law I, 1982) he was highly successful in obtaining contracts for the company. He represented the company in business and in the community. He furthered the reputation of the family and company through his involvement in Jewish and other civic organizations, and was the recipient of various awards. In the family, he was admired, respected, and resented.

In addition to his involvement with FSC and the community, the Father of the CEO identified financial ventures outside the business which proved lucrative for the family. He would offer investment opportunities to various family members and sometimes to non-family managment. The responsibility of overseeing investments was inherited by the CEO and over time the family has been involved in various partnerships, corporate and real estate ventures.

In 1913, the Father of the CEO married, the first of the three intertwining marriages. The founding couple had three children: the oldest, a son who became CEO and two daughters, neither of whom worked directly in the business. One of the sons-in-law of the founder became a vice-president. The son-in-law of the present CEO has been appointed to the Board, one of two fourth generation representatives. Again, a pattern was established. Female offspring did not enter the business; their husbands were offered positions.

The second oldest brother in the founding generation, Uncle I, was Director of Purchasing and Secretary-Treasurer of the company. By establishing reliable working relationships with supplying mills, he insured that FSC had access to raw materials even in times of short supply. Along with his older brother, he is remembered as a strategist and credited with an uncanny ability to forecast. This enabled him to determine when to backlog steel in order to anticipate demands.

There seems to be a disparity between Uncle I's family and public image. He was known as an outstanding athlete and an expert at forming business relationships outside the company. He was the only college graduate of the three brothers and the only one invited to join a prestigious social club. Within the family, he is remembered as quiet, distant, and committed to his work. His youngest son is unable to recall any prolonged conversation with him. "We would ride to and from work in silence" (Cousin II, 1983). It also appeared that he was a swing force in the triangle of the three founding brothers and was close to his mother.

Uncle I married in 1926. He and his wife, who was not a member of the intertwining in-laws, had three children: two sons and one daughter, in that order. The oldest son appeared to be the likely candidate for the presidency, but left FSC to take over his wife's family business. The youngest son has devoted his career to working in the purchasing department. Again, a pattern is noted. Sons and sons-in-law of the founding generation frequently worked in the areas of the company where their fathers had worked.

The third oldest brother in the founding generation, Uncle II, was in charge of the shop and of the production branch of the company. Eight years younger than his oldest brother, the President of the company, Uncle II was as gregarious as Uncle I was quiet, forming a complementarity. Additionally, while Uncle I seems to have been closer to his mother emotionally, Uncle II was closer to his father. Uncle II was the one who "would roll up his sleeves and get his hands dirty" (In-law I, 1982), as his father had done. He worked closely with him in the junk business. According to his son, Uncle II did not have a close relationship with PGM. Although it was reported by family members that she phoned her children daily and was visited by them frequently, the son of the third brother has no recollection of phone calls or frequent visits to or from his Grandmother, despite the fact that she lived close by. Additionally, it was reported that the first and third brother fought often as youngsters despite the age difference. As discussed earlier, the third brother, distinguished himself as the family character and was defined as being different: while the rest of the family strove toward social respectability and acceptance and were white collar workers, he chose to eschew the accoutrements of affluence. He seemed to function as an outsider in a family where togetherness was valued.

Uncle II prided himself on being tough and his exploits are legendary in the family and company. He was devoted to the shop and was there seven days a week, often taking his only son and youngest child with him. He would drink and shoot craps with his employees and would also withhold the pay of those he knew to be spending too much time at the local bars, an enforced rationing. He was not above physical threats and involvement, and was known to appear at the local police station to bail "his men" out if they got into trouble.

Working under Uncle II was a rite of passage for any young family male who wished employment in the company. He urged them to act like owners and tested them with tough physical jobs. He is even remembered for tossing hot rivets at the feet of a young family member in order to get him to work faster. He is endearingly remembered as the family character who had "a heart of gold" and defined himself as the toughest of the tough. The shop was his domain. He became a Director of the company, but was never an officer. Nonetheless, his influence was powerful. He assumed a conservative position and often functioned as an oppositional force. His descendants still carry forth his role of "loyal opposition."

Uncle II married the sister of his oldest brother's wife. They had three children, two daughters and one son in that order. Following the pattern, their son worked primarily in the production department until the fabrication business was sold in 1980. He also served on the Board of Directors. The sons-in-law both were superintendents and worked in production. One eventually moved to sales. The husband of one of the granddaughters sits on the Board. Uncle II's oldest Grandson is not directly involved with the business, but seems to function as a stand-in for his Grandfather in asking tough questions and raising difficult issues at stockholders meetings.

Other family members who have been involved in the business include the son-in-law of Aunt I, whose husband was one of the original stockholders. That son-in-law worked in various positions including Superintendent of the Service Center. Uncles IV and V also worked in the business. Uncle IV was a dentist who had to give up his practice because of failing health. Uncle V, 16 years younger than his oldest brother served as Office Manager and was Controller and Vice-President of the company.

When positions within the company were available, family members often were tapped. Thus two cousins from the founder's wife's side of the family filled executive positions. It was accepted company policy that any family member who wanted employment was placed. Family members were offered jobs on both temporary and full time bases. Reflecting the values of PGM and PGF, the company served the family. In addition to providing a financial base, it functioned as a setting where people developed their careers, which supported them while they were in transition, or provided summer jobs for young family members.

In 1950, the founder assumed the position of Chairman of the Board and turned the leadership of the company over to his oldest offspring and only son, the present CEO. In 1964, the founder died followed by his two brothers, both in 1969. In 1975, the CEO became Chairman of the Board and the presidency was filled by a non-family executive who had been with the company for eighteen years. The forces and manifestations of the two succession processes in the company will be examined in depth further on.

Family Issues and Implications

The importance of reviewing the characteristics and relationships of members of past generations is to gain insight into patterns and dynamics that were established and influenced the family and business over generations.

PGM infused the family with the legacies of closeness, loyalty, and unity. The intertwining marriages of the second generation reinforced those values. Divorce is uncommon in the family and cut-offs or disconnections of one family member from another are non-existent. The adoption of these legacies as values pose challenges in the management of separation and conflict, as will be examined further.

PGF is credited with donating issues of reputation, achievement, and money. He is also understood to provide the model for the strong male figure who takes responsibility for the welfare of the system, functioning as the guardian of values, provider of financial security, and representative of the family in the community. However, it is difficult to determine whether it was PGF or his oldest son who was the donor of those issues.

It appears that the oldest son, the founder, functioned as a father figure in his family of origin. It is suspected that the founder was allied with his mother and that his father functioned as an outsider, forming a triangle. Uncle II, who reportedly attempted to emulate and was close to his father, inherited the position of functioning as an outsider and carried that role into the business. Many members of the branch he spawned continued his function of loyal opposition.

The founder who was the oldest, and Uncle II were each aligned with PGM AND PGF respectively and were competitive with each other. The Founder had an edge with his eight year seniority, making him a double threat, a father/older brother.

The second oldest brother, Uncle I, was quiet and distant and seemed to maintain a neutral position which provided balance in the triangle of the three brothers. He seemed to be a stabilizer and when pulled out of his position, shifts occurred. Autonomy was important to the maintenance of the balance of the triangle of the three founding siblings.

Each of the founding brothers fathered branches of the family. Male members of each branch often entered the department which was managed by their fathers/fathers-in-law and followed their career path. Often, succeeding generations exercised the same emotional function or role in the family as had their father. Thus the issues which were extant in the triangles consisting of PGF and PGM and the three brothers were perpetuated.

From its inception, the Company was inseparable from the family. It was designed as a way to take care of family and was also an arena which reflected family issues.

<u>Summary</u>

The importance of reviewing the characteristics of past generations is to identify patterns and dynamics that were established. In the F. Company and family, closeness, loyalty, reputation, profit, and inclusion in the business were legacies from PGM and PGF. In the founding generation, issues of automony, the establishment of family branches as sources of power and as determinants of nature of work emerged. The dynamics established and the resultant unresolved issues were carried into future generations and became a part of the fabric of the family and the company.

CHAPTER V

The First Management Succession

In 1950, a significant event occurred which affected both the family and the company. The CEO was elected President, and the founder became Chairman of the Board. This chapter will describe that event.

State of the Company and Environment

The years around 1950 were prosperous ones for the company. The war effort had increased the demand for steel, and workers in the company recalled times of frenzy and long hours as the company turned out orders. In the late Forties, a housing boom occurred along with increased construction of highway and railroad bridges. Steel was often in short supply. In response to the demand for housing construction, the company became distributors for building products. They carried product lines such as Reynolds Aluminum, P&H Welding and Thorn Windows. This represented an expansion of their warehouse inventory.

The annual volume in the year 1950 was around $12,000,000. Stockholders numbered thirteen and there were eight family members working in the business. The company had squeezed through the years of the depression and had existed for the fifteen years preceding the first management succession in a favorable economy and marketplace. The family had increased in size; therefore numbers of stockholders had increased as had family members working in the company. The company provided employment for any family member desirous of working there without consideration for qualifications. Economics allowed for organizational slack. Generally, the ups and downs of the marketplace were fairly predictable; planning was necessary, but did not have to deal with high uncertainty.

Background of the CEO

The CEO was elected to the Presidency at the age of 35. His father was 61 and still vigorous. At the age of 18, the CEO abandoned his university studies after one semester. In the heart of the depression, and without his parents' knowledge, he sought work as a laborer in Washington, D.C. He did not return to college, and at the urging and invitation of his father, entered the family business. He worked in the shop, processed orders, became sales manager and developed and directed the warehousing division before he became Executive Vice-President.

In reminiscing, the CEO acknowledges that he had little sense of choice regarding entering the business. He experienced ambivalence about his career, and like other successors evidenced some hesitation and resistance before acceding to the pulls of the family and business. He worried about the compromises he would have to make, his competency, and the task of gaining respect as the son of the founder. During an interview session, his wife recalled sensing that her husband was "trapped" and that his talents suited him for areas like public relations. His daughter surmises,

> Had his family not been in business, I don't think that would have been his leaning. I think he leans more toward dramatics, toward arts, towards emotional type activities but I also think he respected his parents to the point where this was going to please them and he did a good job of it. (Daughter of CEO, 1983)

Optimistic, warm, open, incisive, disarming and sensitive are all characteristics that have been ascribed to the CEO. He is a student of people and human behavior, describes himself as primarily "people oriented" (CEO, 1982), and takes pride in his ability to engage total strangers in conversation. He is a connector and inveterate correspondent identifying information of interest or concern to a friend or colleague and sending it to them.

Like his father, the CEO has been involved in community affairs and is a recognized humanitarian and civic leader. He has served on the boards of many community organizations. He has received awards for human relations, leadership and service. Married since 1938, he and his wife have two children, a son and a daughter both of whom are married. There are five grandchildren.

Dynamics of Succession

Two years after the CEO became President, the first and only "family fight" occurred. In addition to the founding brothers and the new President, Uncles III and IV were also involved. The disputed issues were country club memberships, company cars, salaries, positions, attendance at conventions. The wives were blamed by some as being behind the discontent.

As recalled by a Senior Vice-President who is non-family:

> . . . it was a time of trauma and intensity, I spent a period of several weeks or a month that I didn't come home for dinner. When that was finally resolved I sat down with (the CEO) and I told him I would never go through another one like that again, and, if it ever came to that point in time, I would leave. I meant it then (Jan., 1983).

The underlying issues, according to some family observers were control and ownership, with the stock becoming a symbol of power. It is remembered that family members were counting shares and attempting to form blocks. At the time of the initial stock distribution in 1926, the founder had more shares than any of the other four stockholders, but not a majority. No one person or branch of the family has ever had controlling interest. Control came from inherited family position.

The family fight was ostensibly resolved through attempts at equalization of some benefits and positions. For the first time officers were named: Uncle I became Secretary-Treasurer; Uncle II, Director; Uncle IV, Vice-President. It proved a rite of passage for the young president who recalls approaching Uncle II and convincing him to defuse the situation. It was not the first, nor the last time that the CEO would find himself in the middle. Indeed, it seems as if the forces of the system prepared him to become a tightrope walker, the balancing force and maintainer of boundaries between family and business. His management style was deliberative and participative and enhanced his work of balancing the two systems.

The transition to the presidency was not an easy one for the CEO. The founder was able to stand by and let his son manage for about a year, and then he attempted to "take the power back" (CEO, Nov. 1982).

> Finally, I went to him. I think I may have been crying. I was very upset. I said, 'Look, do you want me to be president of the company or do you want to be president of the company? I can't handle the way you're doing things. You know, you wanted me to be president and you're doing the whole job yourself.' He couldn't really help himself. He couldn't change.

There were no prescribed duties for Chairman of the Board, leaving an energetic entrepreneur with no function. Three years after leaving the presidency and becoming Chairman of the Board, the founder suffered his first stroke. His speech was affected and his health began to fail. For some years he was confined to a wheelchair, but appeared daily at the office.

The CEO learned to function in a fishbowl. As one family member describes it, "he was put behind the wheel and taught to drive while everyone watched" (In-Law I, 1982).

In later years, he was able to acknowledge his father's contributions to his own development.

> You taught me the fundamentals of business, how to sell, how to buy, how to manage people, how to size up people. You taught me the importance of timing and good reputation and the advantages of staying liquid. You taught me about prejudices and . . . phonies (CEO, Posthumous Letter to Father, 1979).

Post Succession System Changes

As the new President became entrenched, changes occurred within the organization. Stated though not written goals were: survival, profit, expansion and peace. Although information is not available regarding goals of the founder, it is doubtful that the issue of peace was focal.

The new President was involved with some of the day to day operations as well as the expected functions of strategic planning and representing the organization in the community. Appropriately, the bulk of the responsibility to oversee the daily operations fell to the Executive Vice-President. Throughout the 25 years of the CEO's presidency, the Executive Vice-President was a non-family person.

Additionally, the CEO appointed a board which included outsiders. Upper level corporate executives agreed to sit on the Board of the company. Ordinarily, it is difficult to obtain participation of outsiders on Boards of closed corporations because of the perceived lack of impact and low fees. One of the Board members attributes the willingness of outside executives to sit on the Board to the CEO. "They did it because of personal friendship with him" (Board Member I, 1983). Representatives of each of the branches of the three founding brothers also held Board positions.

According to an outside Board member, "the Board was used primarily for consultation and to set policy. It did not involve itself with family issues such as stock redemptions" (Board Member, 1983). It has been suggested that the composition of the Board was a way to bring greater objectivity to the company and to counter-balance forces.

Also implemented were information systems and the use of a management committee comprised of non-officers working in supervisory capacities. Most were family people. The new President also wrote his own job description, and he articulated and emphasized the policy of promotion on the basis of merit.

Structurally, a new configuration developed. Although no charts existed at that time, reports indicate that during the presidency of the founder, the brothers and the son all reported to him. It might have been expected that, when the CEO became President, he would shift to the founder's slot: his uncles would report to him and he in turn, to his father. Because of the nature of the relationships, that was not workable and the demands of family position and order took precedence over the formal organization chart. The CEO recalls that he would never call his uncles to his office; he would go to theirs and couch his requests in the form of asking their advice. The Chairman of the Board would often bypass his son and deal directly with the Executive Vice-President or his brothers. In some other instances, family members were known to prefer reporting to someone other than their immediate superior and would do so.

The new President became involved in community activities, a precedent established by his father. His commitments resulted in outside contacts that were helpful to the business and also criticism regarding the amount of time spent. As described by a former Executive Vice-President,

> "He (CEO) had the type of personality that although FSC wasn't that big of a company, he could retain the top consultants in the country on any subject and we would meet with them (Ex. V.P., 1983)."

The CEO also became active in the Young President's Organization, and exposed to then current management theory, and to experts in business administration. He acknowledges the contributions of MacGregor and Hertzberg to the formation of his management philosophy.

<u>Summary</u>

The first management succession occurred in 1950 with the election of the CEO to the Presidency. It occurred at a time when the marketplace was supportive and the company had been consistently profitable. Product lines had been expanded to meet customer demands.

The family was changing rapidly with growth. Four generations lived in the same community and two generations worked in the business. The business was expected to absorb family members who wanted work.

Shortly after the election of the CEO, the first and only family fight occurred. It became a rite of passage for the new president whose management style was well suited for the required balancing of family and business needs. The first succession brought with it movement toward a more formal organization.

CHAPTER VI

Appointment of the Non-Family President

In 1975, it was announced that the CEO would assume the position of Chairman of the Board and the Executive Vice-President, a non-family member who had been with the company for 18 years was appointed to the presidency. The move was not a surprise to anyone and represented the culmination of a process that was set in motion years before. The company had evolved from being family-owned and managed to family-owned and non-family managed.

State of the Company and the Environment

During the twenty-five years preceding the second succession, the steel industry experienced cyclical ups and downs reflecting the economy. There was a mild depression and then a steel boom in the fifties; the mid-sixties proved favorable. Two wars, Korea and Viet Nam increased demands for steel. Union wages doubled; major strikes occurred in 1956, 1959 and 1969. Capital expenditures and inflation began to take a toll, and in 1972 the company operated at a loss. However, by 1975, net sales reached an all time high of fifty million with an unmatched two million in net profit, a temporary reprieve.

The company had attempted to counterbalance the cyclical nature of the steel industry through several efforts to diversify and in 1975 was operating F. Automotive. High strength steel had also been added to the warehouse inventories. The employees numbered 691 with 157 of those engaged in the Automotive Division. From a total of 13 stockholders in 1950, the number grew to 65 in 1975, reflecting the growth of the family through marriages and births. Six of these were non-family. From an all time high of 14 family members employed in 1960, nine were working in the company in 1975.

Thus, in 1975, the company was sound financially although buffeted by swings of the marketplace and inflation. The numbers of stockholders had increased dramatically, creating new challenges for management. The number of family members employed in the business was declining. One member of the founding generation remained, Uncle IV. All others had died. It was company policy to provide employment for any family member who desired work, but promotion was by merit only. This affected family involvement.

Over the years, the family had left their investments in the company rather than redeem their stocks. A record high dividend was paid in 1975. Family members chose to keep their investments with the company not only for the financial rewards but also because the stock certificate seemed to be a symbol of belonging. Association with FSC engendered a certain pride. Its reputation in both business and civic circles was admirable. The mission of building a "name" begun two generations earlier had certainly been achieved. Additionally, stockholders were willing to support the company because it provided a place for family members to work either temporarily or as careers, and in some cases, to continue the contributions of their fathers. Investment in the company had been more than financial; it represented a memorial for family history, continuance of heritage, and a buffer against mortality.

The Professional President

In 1975, the CEO moved to the position of Chairman of the Board and the Executive Vice-President became President of the company. He recalls the exact date with some humour-April Fool's Day. President III was at that time 46 years old and had been with the company for 18 years. He recalled his entry into the company:

> When FSC hired me, they really didn't know what they were going to do with me. I was not responding to an advertisement to fill a vacancy. They were impressed by my resume and by my background and they thought at that time, here's a guy that we can probably use. It was 1957 and steel firms were making lots of money and programs of austerity and keeping your work force lean weren't in vogue (1983).

President III began as an estimator, became sales manager and general manager of fabricating. He then began doing special projects for the CEO and was moved to Executive Vice-President, a position which placed him in charge of all operational aspects of the company.

Clear, concise, analytical, easy-going and articulate are adjectives that describe President III. He is the son of Russian Jewish immigrants, a shared heritage with the founders of the company; his grandfathers were an academic and an engineer. A graduate of Yale, he completed his Master's there in civil engineering and subsequently joined the faculty. As a native of Hartford, he still considers himself a Connecticut Yankee. He submitted his resume to FSC because he was seeking a Jewish company after having encountered discrimination at DuPont. He accepted the offer from FSC which:

> . . . offered me the lowest amount of money but the best sounding job with the best opportunity and in the kind of work I wanted to do. I liked the idea that it was a smaller company . . . and I was impressed by the personal interviews, the fact that I felt that they were interested in me as an individual, not just another engineer, one engineer out of a hundred. I felt that I would be treated fairly. It was an honorable and reputable company. I liked the statement of how they conducted business (1983).

The CEO was the mentor to President III, who carried forth his values of being open, straight, honest and trying to do the job in the most humane way possible.

The matching of President III with the company was productive for both. The prediction of his first supervisor, Cousin I and at the time, the President-apparent, did not materialize: "This is a great place to work, but in a family company you can never be President." By the time President III took office, both he and family expected it. There was no turmoil and transitional stress as reported by Maryam Tashakori in her studies (1977). However, it is to be noted that President III differed from the individuals in the Tashakori research; he was certainly non-family and professional, but not an "outsider." He had been chief operating officer for eight years preceding his appointment. His strengths, weaknesses and methods were known quantities. He had been groomed for the position.

Certainly, President III had the personal and professional qualifications, experience and acceptance to succeed to the office. The question is not one of evaluaton of choice or performance; rather, it is a question of what forces lead to the appointment of a non-family rather than a family member to the Presidency, representing a departure in the pattern of two generations and leading to a decline of family participation in the company on an operational level. In FSC, the numbers of potential candidates among family members was not a limitation: one board member estimates that there were 20 to 25 people including women and in-laws in the age range of 25-45.

However, there are limitations in most family companies such as low salaries, mobility, and the inherent complexity beause of the emotional component. Therefore, developing family members for management of a family company is related to the issue of continuance. As one Board Member observed,

> If it is a family business, then you've got to say, 'Do I have within the family a successor?' It's going

> to be very difficult to obtain somebody from the outside as a successor no matter how good that person is because professional men who are going to look at a small business will say, 'It's nice to know that I'm number two, but I'll never be number one because there will always be some member of the family who will come along and overshadow or overtake me' (1983).

<u>Forces Toward Professionalization</u>

Multiple forces contributed to the process of professionalization of the company. They include: the susceptability of the CEO to family pressures, the formation of family branches, family dynamics, economic and environmental issues.

The office of the President of the company serves two systems: business and family. The inherited role of the presidency brought with it the intensity of being central and figural and a target. The functional role in the family system had been to act as a sponge which absorbs the overflow when the anxiety in the family system reaches the point of non-containment. The CEO has been highly sensitive to the anxieties in the family system.

> I'm generally a calm person and there is nothing in the business I can't handle; but there is nothing that gets me going like trouble in the family. I've never been able to understand why . . . People would ban together and talk behind my back, or have side bar conferences . . . and it always happened when the economy would be bad. Suddenly the family would decide what should happen, and they would decide that there were too many expenses, that we would have to cut back and cut salaries or cut people (Nov., 1982).

Additionally, he summarizes,

> When you manage a family company, you have two

> branches of management: one is the professional managers in the company and the other is the family. And they both relate not only to political things, but also to corporate decisions. And I've had to do it all.

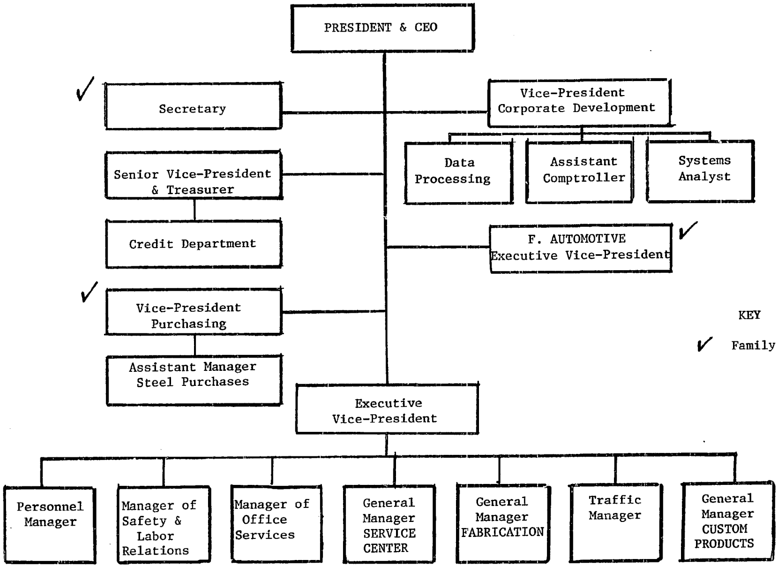
The CEO has bemoaned the lack of outside resources with whom to discuss issues regarding the management of the family component, contributing to the sense of isolation of the position.

As the numbers of stockholders grew, pressures upon the CEO multiplied. As they multiplied, more non-family were placed in upper management positions. The instinctive response of the CEO was to move the organization towards more rational and intentional modes of operating. He was attentive to goals and objectives, information systems, established committees and articulated policy.

In 1974, the organization chart, (Figure 9) shows only three of the nine family people in the company reporting directly to the President. Essentially, an executive committee had evolved consisting of President, Executive Vice-President, and the Senior Vice-President/Treasurer, the latter two being non-family managers. The two non-family officers, who had responsibilities for daily operations, would then oversee the management of most family members in the company who did not report directly to the President, thus eliminating a source of pressure. The Senior Vice-President had been with the company for 25 years and had directed accounting, credit and data

Figure 9

FSC Organization Chart: 1974



processing. He had been a close friend to many family members, and had served them as financial advisor for both outside family ventures and personal investments. He, like the other member of the executive committee were youngest in their families of origin, forming a complement to the CEO, an oldest.

The position of Chairman of the Board had been vacant since the death of the founder in 1964. Essentially, very little changed in terms of job responsibilities with the appointment of President III and the move to Board Chairman by the CEO. The CEO's primary responsibilities became managing the interface of the company with the marketplace and stockholders; strategic planning, consulting on operational aspects, and representing the business and the family in the community. Concommitantly, the heat intensified for the new President as he stepped into the functional role of "sponge." He reports that what was new in his job as President was that he found himself "on the firing line" (1983). In sum, as family employees and stockholders increased in numbers, family participation in upper management decreased.

Another factor leading to professionalization of the company was the evolutionary formation of family branches which engendered loyalty and mirrored established family patterns. As the sons and sons-in-laws of the founders entered the company, they gravitated toward the department which was directed by their fathers/fathers-in-law. With some exceptions, they remained affiliated with that department. The nature of the selection seemed to be automatic. Additionally, the offspring of each founding brother seemed to perpetuate the emotional functional role which had been assumed in the family of origin of the founders. The assumption of the functional role created dynamics that limited lateral and vertical mobility within the company as did the slotting into inherited work areas. Observed a Board Member,

> "When you go back to the original company with the three brothers, each brother had his domain of influence, and I think that domain is really where his children were supposed to stand up" (Board Member II, 1983).

The CEO was the son of the first president; the sons and sons-in-law of Uncle II, the director of production worked in the shop. The one son of Uncle I who remained with the company has spent his career in the Purchasing Department, the aegis of his father. One of the sons-in-law who worked in production had credentials that suited him for other work and reports that he was not satisfied. When asked why he stayed in that job, he responded, "Because Uncle II was shop-oriented. He wanted me there. He kind of wouldn't let me go" (In-Law II, 1983). His experience is representative.

The oldest grandson of Uncle II seemed to function as his emotional heir at stockholders' meetings. He is known for asking tough and probing questions. His father recalls that at one meeting he threatened, "You're not going to throw away what my grandfather built." Now in upper level management of a highly successful company, this grandson spent many childhood hours with his grandfather and is said to resemble him in personality. He did not become a Board appointee when the search committee identified fourth generation members for the Board in the interest of continuing family involvement.

The limitation of participation of the third and fourth generation and the movement toward professionalization is a manifestation of a multiplicity of factors including the dynamics of the family of origin of possible successors and management personnel, of programmed expectations, reactivity, and of economics and the marketplace. The following portraits illustrate these.

The youngest child and only son (Cousin III) of the founding brother who headed the Production Department, at the age of 50, retired from the company with the closing of the Fabrication Division in 1980. He underwent surgery for a malignant tumor and sought work outside the company. He remains puzzled by his inability to achieve his goals within the company and to find his niche there. His admiration for his father and his loyalty to the company were apparent as he reminisced:

> My dad used to take me down (to the shop) on a Sunday and I used to sort bolts with a white suit on and come

> back black. That was nothing unusual. I enjoyed spending time in the plant. I worked there on Saturday after I would leave Art School. I would have lunch with my dad and I would work with the men in the plant. My dad was the type of guy--he'd talk about business, he'd talk about what I was going to do (Cousin III, 1983).

After graduation from college, with a major in Mechanical Engineering and Industrial Management, Cousin III entered the army where he gained experience as a purchasing agent for the government in the Space Program. He had offers from Eastman Kodak and General Tire, but the pull of the company was stronger. In a sense, it was a non-choice. He worked in the Fabrication Department, as did his father. He tried to learn various aspects of the company and developed an informal training program for himself. He developed special projects for the company and at times was a trouble-shooter. At one point, frustrated with his lack of progress, he left the company for a year, traveling with his family across the country doing consulting work. The trip ended in an accident, and he returned to the company.

He was preparing himself for upper management but the opportunities did not arise. He offered his services, observations and ideas; sometimes they were accepted and sometimes not. He also sat on the board. Often, he disagreed with procedures. According to Cousin III he was put in charge of developing a project worth many millions of dollars and directed to report to the Executive Vice-President. He responded to the CEO:

> I'm not going to do that; the board has mandated that we do this. We're talking many million of dollars. I think you should be vitally interested in what this project means for the company and what is going on and how I'm progressing.

The exchange is revealing and indicative of the complexities of the system. It demonstrates the intricacies of wearing many hats including employee, stockholder, board member; the strength of the informal system as opposed to what might appear on an organization chart; and the inherited functions from family that were brought into the business. Despite his qualifications, knowledge, creativity and openess, Cousin III became a floater in the system, never attaining the degree of influence and power he desired, mirroring his father.

The two sons of the founding brother who was the Director of Purchasing Uncle I, also worked in the company. The oldest, Cousin I, appeared to be the appointed successor to the CEO. He is acknowledged by the family to be gregarious, bright, commanding in presence, charismatic and decisive. He has an intense loyalty to company and family.

> From the day I was old enough to make any decisions, I knew that (1) I was going to go to Ohio State (his father's Alma Mater) and (2) I was going to be President of FSC. There weren't any other alternatives. That's what I wanted to do and that's what I would do. Had I stayed I would have been. But I left very suddenly. I didn't want to go (1983).

Cousin I left the company to become the President of his wife's family firm. The sudden death of his father-in-law, a highly successful entrepreneur, left a management void that bordered on chaos and the Board urged him to take over. His leave of absence from FSC in 1966 turned into a career commitment. He has lead his company from a family business to a public corporation with seven subsidiaries and a volume of $32,800,000. He became CEO and Chairman of the Board as well as President.

Several factors were attractive in accepting leadership according to his brother.

> He got a much better deal there then he could ever have here (FSC). There he had complete control and could run the company without interference. If he came here, he would be subject to the same kind of problems that (the CEO) has: everyone in the family pulling, and putting a strain on everyone (Cousin II, 1983).

It also presented an immediate opportunity for the top position. It probably would have been nine years before access to the top would have been available at FSC; and, it was apparent that even after that he would have to lead jointly with the CEO.

Cousin I is described as being like the founder.

> He got along very well with (the founder). He was the same kind of person, outgoing and aggressive and liked people. He and the founder were very friendly (Cousin II).

Cousin I is also described as "shooting from the hip." It is conceivable that these characteristics which allied him with the founder would alienate him from the founder's son. According to one family observer, there was a question of whether or not the CEO would want Cousin I "behind him" and of comfort with his ambition and management style. Each serves on the Board of Directors of the other's company, and there are other board members in common. At one time, there was some discussion of a merger initiated by Cousin I.

The younger son and middle child of the founding brother who directed purchasing has worked in the company for 30 years. After graduation from high school, where he was a high honor student, he attended the Wharton School at the University of Pennsylvania. "When I went to college, it was sort of naturally assumed that I would go into the business. I never really gave it thought (1983). Cousin II is described as being quiet like his father and the opposite of his gregarious older brother. He is analytical, thoughtful and an astute observer.

He experienced difficulties in college and withdrew, returned home and was depressed, according to his own report. He ascribes some of the difficulties to family dynamics; he was different from his brother, closer to his parents, and particularly close to his mother, who was the communicator for the whole family. He recalls his father as being distant: "I knew he loved us and cared for us, but he wouldn't talk to us much." Upon entry into the company after his withdrawal from college, he worked sporadically in the Accounting Department as a clerk, and eventually was paid only for the time on-site.

> I didn't really have a job; I think I was tolerated; many family members had problems when they first came to the business and were given chances to work them out (Cousin II).

Eventually, Cousin II moved into cost accounting and purchasing, directed the quality assurance program, became President of the company foundation, and Secretary of the company. Reviewing his career and his work he mused:

> To a certain extent there's been frustration for me in a lot of my feelings about the company and about the job . . . I've always given the company the best I could, but I've thought at times I might have been happier doing something else, perhaps teaching. I've always felt a closeness and pride to the company; there's something about the fact that my name is the same as the company's . . . Maybe I don't have the qualities it takes to be really successful. I guess its my own doing. I've gone about as far as I can go around here and I'm a little frustrated. I don't know that I have to feel that I had to be something more here (Cousin II, 1983).

The son of the CEO did not enter the business and has followed directions that have led him to paths that are in opposition to the corporate world in which his father works and lives. Born in 1942, three years after a stillborn, he is the older of two offspring; the younger is a sister. The CEO's son graduated from Deerfield Academy and Harvard University. In 1964, following graduation, he went to India with a singing group. Impressed by the revolution, he chose to stay with the intention of doing walking tours with a disciple of Ghandi who preached non-violence and land reform. The disciple became ill and the tour was canceled; the CEO's son joined the U.S. Agency for International Development and thus found a way to stay in

India. While there, he married an Indian woman, thus becoming one of the few in his family to marry outside of religious background, and the only one to cross cultural boundaries. The couple had one child; they were divorced in 1976. In that year, he remarried. His present wife has recently completed divinity school. They have a two year old son.

After five years in India, the CEO's son returned to the U.S. and began graduate studies. He and his family returned to India while he completed dissertation work, a study of the economic determinants of malnutrition. Upon completion of his doctoral work, in 1972, he joined the faculty of Massachusetts Institute of Technology where he was in charge of the International Nutrition Program. He later spent time in Bangladesh. His work with the underdeveloped left him frustrated and disappointed with the inadequacy of government efforts to lessen the problems. He left his position, did part-time consulting, while he studied music and choral conducting. Presently, he is not employed. He and his family live in a communal home and dedicate themselves to serving the hungry and poor.

Both father and son report that on several occasions they discussed the possibility of the son's entering the family business. Both agree that the CEO discouraged his son: "In my son's case, I really didn't want him to (CEO, March, 1983). The son recalls:

> His position was always clear: that I was welcome but should do with my life what I thought was important and whatever I do, do it well. I always thought that was quite wonderful of him to say that.

The set of forces that led to the son's decisions seem to be related in part to the relationship of the CEO with his own father, and the intensity and entanglements of the company and family. According to the son:

> I think that there was just a tiny little sense that perhaps as he thought about some of the agonizing that he went through with the family business, need another generation go through it? Need I go through the same?

The son also considers it possible that because his father had difficulties working with his grandfather in the company that "lurking back there is the thought that our relationship is too good to be spoiled by working together in the same business."

Indeed, the CEO speaks with great pride of his son's accomplishments. Their relationship over the years has been intensely close.

> When he (son) was 10, we started a correspondence--and not a mundane correspondence. We talked about everything--philosophy, serving, people. I saved every letter, and when he was 32, after 22 years of correspondence, I presented him with 13 leather-bound books, inscribed with gold leaf: <u>Correspondence With My Father</u>. That's the kind of relationship we've had. We talk about everything . . . make bets on football games, invest together in stocks. We talk about each others' work (CEO, Unpublished Memoirs, 1983).

The CEO recalls that when he became President, he determined that he wasn't going "to do the kinds of things his dad had done and that his relationship with his children was going to be different." "Of course," he mused, "maybe I've gone too much the other way" (Nov., 1983). The CEO's relationship with his own father was a determining factor in his relationship with his son. His goal was to achieve closeness in contrast with the distance that he experienced. Toward this end, he established a peer relationship with his son. His wife recalls that he encouraged their son from the time he was a little boy to make his own decisions and the son verifies that his father never made any major decisions for him past the age of nine. The wife/mother filled the role of disciplinarian and felt protective of her husband because of his perceived vulnerability. At times, she seemed to function as parent to both males. Over the years, the son grew closer to his father and the distance with his mother increased. It is also notable that the family pattern of peer-relationship of parent and child is repeated for the third time in three generations.

The mother came from a musically talented family, a characteristic which her son inherited. She hoped that he would follow those inclinations. She saw her husband, and therefore possibly herself, being trapped by the family business. She expressed some regrets about not pursuing her education and relates that to the need for the CEO to continue his studies in order to have a free choice in a career.

For different sets of reasons, both parents urged the son to be free, to choose his own route, and to express himself. Additionally, it was clear that neither parent thought that involvement in the family business provided a means of self-expression; indeed the opposite seemed to be the case. Another set of messages is also recalled by the son:

> Whatever you do, be the best, be successful; people that accomplish things achieve positions of influence. Some positions are prominent and respectable. Don't throw it away.

The two sets may have been double binds.

Both husband and wife agree that their major focus in earlier years was upon their son. He exhibited brilliance and talent. Their daughter graduated college, married a corporate executive, has three children, and is completing graduate studies in psychology. Although the younger of the two siblings, she now functions as an oldest and acts as counsel, consultant and caretaker to her parents. At one point, there was consideration given to her husband entering the business, but the CEO was concerned that it would not be a fulfilling and productive experience for his son-in-law. He does hold a Board position.

The oldest nephew of the CEO born in 1943, was purportedly interested in the business and worked there under his father for a time. It is reported that he became discouraged about his progress in the company. His father had hopes that he would take over his job as Vice-President in charge of Purchasing someday and felt he would have been a "natural"

(In-Law III, 1983). Despite his father's urgings, the son refused. For a time, he chose to live an alternative life-style in California which represented the antitheses of the corporate world of his family. He presently is working in public relations in New York. The youngest son, 30, in that family is pursuing an acting career which is not yet self-sustaining.

As the saga plays out, it becomes apparent that a multiplicity of forces were at work which resulted in limitations of involvement on the part of the third and fourth generation and the movement toward professionalization. Those forces were: dynamics in the families of the individuals involved including expectations and programming regarding commitment to the company; the sensitivity of the CEO to family pressures; the formation of branches whose boundaries calcified, thus limiting participation in the company to areas beyond those traditionally held by members of that branch; the re-playing of dynamics in the family of origin of the founders by the branches they spawned and reactivity to operating styles.

The CEO summarized the problem:

> I always felt that trying to bring family members along into important positions in the company and trying to have the best person for the job . . . sometimes worked at cross-purposes with each other. It's not easy, because I felt that one advantage that a family person should have was training. And I knew there would be a dilemma when people didn't quite make the grade. On the other hand, I was dedicated to the fact that the company was going to be run as if it were not a family company. We would have the best

> person for every job. But I was uneasy, and I did have some problems. I was always apprehensive about this. It could be a dilemma. It can be a heartache. Maybe subconsciously, maybe even consciously, some of the fourth generation were discouraged. With my son, it was consciously (CEO, March, 1983).

In 1983, two fourth generation people were involved in the company as a result of an effort on the part of management to invite participation from that generation, most of whom are now ages 35 to 40. Some additional factors contributing to lack of participation were offered by family observers. With affluence came increased choices, educationally and professionally; opportunities presented themselves elsewhere. It was obvious that the company could support the rise of few and the stockholders could benefit from the company while developing careers of their choosing. Salaries in the company have never been competitive with those of larger corporations, which is not unusual for family businesses. All but one of the second and third generation remained in the city where the company is based, and the majority lived within blocks of each other. One cousin observes that the fourth generation wanted to get away from the closeness, in-groupness and exclusivity. Another said:

> It's like giving a child oatmeal every day of his life and saying, eat it. I guess they'd had FSC rammed down them all their lives. And they'd seen the toll on their fathers and uncles.

<u>Summary</u>

This chapter has explored the process of professionalization in the company as it culminated in the significant event of the election of the non-family President and the appointment of the CEO to the Chairmanship of the Board in 1975. As the demands upon management increased, from both the environment and family system, family participation in the company decreased. The factors were multiple and were related to both management needs and family dynamics.

CHAPTER VII

The Sale of the Automotive Division

State of the Company and the Environment

The sale of F. Automotive in 1977 represented the most significant financial loss in the history of the company. It was one of a series of acquisitions begun in the late sixties which had varying degrees of success. It is representative of a process which began with the professionalization of the company. As the company became less of an Alma Mater for the family, the emphasis shifted to profit. The managment responded with decisions to diversify in order to insure growth and profit.

The sale of F. Automotive ended a venture which engendered a two million dollar loss, twenty percent of the net worth of the company. The reaction of the stockholder-family system was increased conflicts, blaming, pressures, heightened anxieties, and attempts to exercise greater control. The reaction in the company had the same components. The CEO describes it using terms such as "crazy" and "unmanagable." This chapter is an examination of the forces which lead to the sale and the pressures and overlaps in family and business systems. It is an examination of decision making and emotional processes.

The decade of the Seventies was marked by recessions and depressions, rampant inflation, and the decline of the steel industry. Wage and price controls were instituted in 1971; unemployment reached 9.2% by 1975. The depressed economy brought with it construction freezes and zero economic growth. By the end of the decade, heavy industry was buckling: U.S. Steel closed 15 plants and Chrysler needed government subsidation to survive. The bottom fell out of the fabrication market in 1976.

The company continued to operate in the black, with the exception of 1972 at which time competition in fabricating was fierce, fixed costs were high, and the company was reluctant to decrease its force of skilled workers. However, 1973 saw an improvement. Net profits fluctuated with $812,414 earned in 1965; $493,709 in 1970 and a record $2,102,200 in 1975. Book value of stock showed steady growth and net worth increased slightly over a period of 10 years. The company was surviving and profitable. Its financial position was reflective of the steel industry which showed a two percent increase in growth annually.

In response to the construction freeze, the company had sought and won government contracts for fabrication of structural steel for nuclear power plants, which was according to one family member "the only show in town" (In-Law II, 1983). Rigid regulations, the establishment of a quality assurance program, reams of paperwork and high fixed costs made that venture minimally profitable. The company began to lose jobs in the Seventies. It is reported that time standards were imposed in the shop in an effort to meet contracts. It was observed that this represented a significant change from the days when the founding brother, Uncle II, was in charge. The Union demanded increased salaries and benefits and one management person speculated that the company gave away too much because "we were always busy and the shop couldn't stand a long strike" (In-Law II, 1983). In sum, environmental forces such as inflation, depression, competition, wages, government regulations, were pinching the company, and its growth slowed.

The number of family stockholders had grown to 65 and, as has been discussed, had increased emphasis upon profit and performance as the company moved toward being family owned and non-family managed. Eight family members worked in the company, none of whom were of the founding generation.

The CEO became 60 in 1974, and was a grandfather of three. His son had separated and remarried. In 1976, the CEO had radiation therapy for cancer; in 1977, surgery. Ironically, the F. Automotive sale was finalized the day of his surgery and he is reported to have quipped that it was good to get rid of two cancers in one day.

The management of the company was aware of the pressing issues in the marketplace and of the pressures from the family. In a memo to the Board in 1971, the CEO noted that structural steel fabricating was not consistent in producing income. He cited short periods of prosperity, cyclical business and competitive bidding as factors. Further he observed that the company was subject to the ups and downs of the capital goods industries and to supply and demand of steel. The warehousing division had also become cyclical although the earnings record was better.

History of Diversification

In order to compensate for the cyclical nature of the steel industry and to insure continued financial growth for the family and for the business, a goal was established: to change the image of the company and improve the earning pattern in order to become a public company, thus insuring the stockholders a marketable security. To accomplish these ends, the company embarked upon a program of diversification.

The history of acquisition and diversification dated back to 1964 when the company obtained a license from a Dutch operated company to make pre-cast concrete panels. It was a high quality product which was overpriced for the market. The risks were too great for potential profit and the venture was closed in 1966. In 1967, the government granted the company an $18,000,000 contract to produce 105 millimeter shells for the Viet Nam War effort. The ammunition plant was a quick start-up employing 2,500 people in six months time. Rehabilitative labor was used, and the complete first line of supervisors had to be developed. Some of the "younger" stockholders who opposed the Viet Nam War were vocal in their opposition to the company's support of the war, thus engendering conflict in the family. The Ordnance Plant, a profit-maker, closed in 1970 when the contract was not renewed.

In 1978, the company expanded into flat roll steel, but entered too late. The steel industry was highly depressed. They closed that division in 1980, at which time the Fabrication Division was closed. In 1977, a small building supplies company in the southwest was purchased in order to compensate for the company's primary location in a geographically low growth and depressed area. It operates presently.

The company prided itself upon the way it terminated ventures and its fairness to workers: giving ample notice, assisting in finding work for the displaced when possible, counseling for job hunting. With all the closings, not one contract was unfinished despite the advance notice given to employees. Systems of incentives were used and also loyalty to the company was a factor.

F. Automotive

In accord with the stated goal of diversification, the company bought F. Automotive consisting of two divisions and employing 150. The first was purchased in 1969, the second in

1973 at which time they were consolidated. One plant was in the home base community, the other in another state. The Automotive Division specialized in remanufacturing automobile parts, generators, starters, alternators, water pumps, solenoids and other components. Despite a thirty percent increase in sales after acquisition which represented 15 percent of the total volume of the parent company, the Automotive Division continually operated at a loss.

The decision to enter the automotive industry was based upon exploration and research. A consultant hired in 1970 concluded that the "automotive aftermarket gives every indication of extending its growth trend and that the logic used for the move into automotives was sound." The consultant also warned against further expansion into steel and predicted little promise for the steel industry. According to an article in Business Week, which was circulated in the company, replacement parts grew from 12,000,000 in 1964 to 26,000,000 in 1972. The older auto population was expanding and promised to contine due to inflation, unemployment and the generally depressed economy. Concluded an executive of Midas Muffler, "It's a forced market." (Business is terrific for auto parts makers, 1972.) In sum, the data for the purchase was convincing.

The automotive acquisition presented a multiplicity of problems, most of which have been retrospectively identified by the company. There were inadequate financial and inventory controls. The worth of the company was inflated because much of the inventory included scrap from the remanufactured parts that was unusable and unsalable. The company had no experience with automotives and was outside their area of expertise. Personnel problems emerged with the top ranking executives in conflict and finally avoiding all communications with one another. A consultant who was retained by the company reported that attention to the following areas were needed: clear definition of goals, organization structure as it applies to merged companies, scope of authority of management of acquired companies, chain of command, reporting procedures.

Management resources were a significant problem. The purchase contract included in-place management. The acquired company was in an entrepreneurial stage of development. The owner-manager was a one-man operator who oversaw every piece of work and was unlikely to delegate. Work backed up. The operation seemed chaotic and disorganized in contrast with the second generation management of FSC which had become hierarchical and structured. While retaining the entrepreneurial former owner, the parent company attempted to formalize the management of the acquisition. The effort was constantly frustrated.

Norms and values of the acquired outfit differed from those of FSC and conflict occurred. The company had always prided itself on a quality product and attempted to provide that. As with the pre-cast concrete venture, the market wouldn't bear it. According to the Executive Vice-President of the automotive acquisition:

> We (FSC) were competing with a guy who had a three-bay garage and was building a duct and selling it for significantly less money. While we were remanufacturing the whole part, he would open up the part, see what was wrong, replace that one small part and sell it. Shortly thereafter, another part would go bad . . . We always had a pricing problem. We could never get enough money for it (March, 1983).

Additionally, the issue of reputation which had been part of the family tapestry for three generations was tapped. The entrepreneurial former owner ran a marginal operation. Said the CEO:

> All of his philosophy was entirely different from ours. He was a one man operator. He cheated his employees, cheated the government, his customers and everybody. He paid his bills late . . . Our reputation was too important. We began to change things (October, 1982).

When the FSC Executive Vice-President who was in charge of the automotive operation, took a leave of absence, the CEO took over as President of the division. It was reported that the former owner and the CEO had significant "personality differences." Some of the description of the former owner's characteristics such as insensitivity, non-receptivity and entrepreneurial style, are reminiscent of some of the characteristics of the founder. After a few months of working there, the CEO decided to terminate the employment of the former owner.

Another factor which added to the complexity was the mentor-mentee relationship of the CEO and the Executive Vice-President and Chief Operating Officer at F. Automotive (Cousin IV). Born in 1942, the same year as the CEO's son, the Executive Vice-President had joined FSC in 1964 after completing college studies with a major in labor relations. He had received several leadership awards and worked his way through college selling jewelry, often earning $25,000 annually.

Shortly after graduation, the Executive Vice-President and the CEO saw each other at a family Bar Mitzvah; they were cousins but had lost contact. The father of the Executive Vice-President was the brother of the CEO's mother, who had often referred to the Executive Vice-President as one of her favorites. Learning of his employment search, the CEO asked him to submit his resume. He was hired and sent to work on the pre-cast concrete acquisition in a personnel capacity.

For the young Executive Vice-President, the opportunity offered more than a job. To him, the CEO became a mentor and father figure:

> My own father died when I was six years old and (the CEO) became my surrogate father. From my point of view, I can't tell you how close I felt to him. I was so close, and to this day, love him, but I mean it was truly, from my standpoint, he was my father. He knew my wife well before we were married and went through the courtship, the proposal of marriage, the marriage

> and the birth of both my children with me . . . I'm not sure that I was his son because he had a son. I needed the relationship more than he did . . . He was the most significant male in my life (Executive Vice-President, F. Automotive, 1983).

After working in the pre-cast concrete division, the Executive Vice-President returned to the home company, worked in the Ammunition Plant in Personnel, finally rising to the position of Corporate Director of Industrial Relations. His climb to that position had been exciting, for he was exposed to the high power people whom the CEO attracted, high level corporate executives, noted labor negotiators, and management theorists. At the age of 29, he had reached the top job in the Company in his field and consulted with the CEO regarding the possibility of going to law school with the goal of combining his job with a position to be created, general counsel. A counter-proposal was offered and accepted: an intensive management development program at the Harvard Business School with tuition and expenses underwritten by the company. Shortly afterwards, the Executive Vice-President took a four month leave of absence from F. Automotive to attend the program at a time when the venture was already experiencing difficulty.

It was assumed by the Executive Vice-President that he was being groomed for a top level job in the company, perhaps even the Presidency. He returned to the still unprofitable Automotive Division as Chief Operating Officer to find that the intensity and chaos had increased. Consultants came and went and the situation seemed to "defy analysis"; profits were drained. Finally, a top name consultant from the Harvard Business School was retained to do a complete analysis. His final recommendation was either sell or invest considerable capital to refurbish the entire operation. Neither course was acted upon immediately. The management remained split regarding selling or retention, with the CEO and the Executive Vice-President favoring retention and the other members of the Executive Committee, the Senior Vice-President and the President favoring selling.

After a meeting of the Executive Committee which again failed to offer resolution, the Executive Vice-President remarked in frustration that the company should be sold. This comment was made in the absence of the CEO and reported to him. The Executive Vice-President observed that the relationship seemed to disintegrate after that time.

The company was put on the market; part of the package was in-place management, the Executive Vice-President. The relationship between the two men became adversarial, as the CEO wrestled with balancing what was best for the company and what was best for the Executive Vice-President. Communications between them were difficult and often conducted through other officers. Essentially, a cut-off occurred.

The Executive Vice-President left the company. He was hospitalized for several days with a suspected coronary which he assumes was related to the stress of the situation. Recently, the two men resumed contact, in part as a result of participation in this research. The Executive Vice-President is now an owner and Vice-President of a profitable automotive company. He would not immediately dismiss a possibility of rejoining FSC if the CEO were still there.

In reviewing the series of events six years later, the CEO said:

> I felt very close to him and I've always been aware that he thought of me as a surrogate father. I was his boss and his surrogate father, but I think I was able to separate the two. I've always had to have in the front of my head the objective to separate business issues from family issues. I try not to let my business judgments be affected. This became a little more difficult because it was an unsuccessful operation. We were constantly running into crises. I don't know if he was able to separate (business from family) as I was. I didn't even think of that then. Somehow it wound up in a situation where we both felt let down. I had to consider the stockholders. I tried to walk that tightrope (March, 1983).

The relationship is illustrative of the inherent complexity and of the degree of intertwining of family and business. It also illustrates intensity, sacrifice, the drive to maintain the system, and the pulls toward and away from rationality and emotionality. The venture was sold four years after purchase.

Summary

The decade of the Seventies brought with it record inflation and economic depression. Reflecting the steel industry, the growth of the company slowed, although it remained profitable. The company experienced pressure from the stockholders regarding profit and performance. This seemed to be related to the professionalization of the company. It no longer functioned as a place where family members were assured careers and security.

In order to satisfy its client system, i.e. the stockholders, the company embarked upon a program of diversification which was intended to provide the financial resources to become a public company. This would afford the stockholders liquidity and increased value. It is also important to note that many of the stockholders had reached middle years and long term, non-liquid investments were not as desirable.

The attempts at diversification were, for the most part, unprofitable with a stunning loss of two million dollars with the sale of the Automotive Division. The situation there was described by most involved as chaotic, frustrating and unmanageable. Problems included financial and inventory controls, management resources, and conflict among executives. Additionally, conflicting values, philosophies and styles between the in-place management and the parent company emerged. There was also intensity in the relationship of the CEO of and the Executive Vice-President who was the chief operating officer.

Consultants came and went; proposals were made and solutions offered, some of which were unsuccessful, some of which were untried or delayed. In the aftermath of the automotive loss, the company adopted an austerity mode. In the words of one observer they "pulled in their horns." The rumblings were heard for years after and whenever a problem arose the specter of the loss was raised. The Board became more vigilant as did the stockholders.

CHAPTER VIII

The Demolition of the Fabrication Plant

In the Fall of 1982, the leveling of the fabrication plant and adjacent office buildings began. The company had occupied that site since 1926. With the plant, the commanding sign bearing the company's name fell. The facility had been readily visible from various points along the city freeway. The reverberations of the headache ball were felt throughout the family. As the researcher drove past the site with one family member, the usually gregarious former Executive Vice-President fell silent and bowed his head. Aunt I is reported to have said, "There is no FSC any longer." Another family member said:

> . . . the plant recreated the memories of super guys who are no longer here. It is part of the family heritage. FSC is their life. The whole family has been part of it, whether they like it or not (In-Law I, 1982).

The plant had been a symbol.

State of the Company and Environment

The demolition of the plant represented the end of an era and raised questions about the beginnings of another. It was a time of holding on and letting go, a time of mourning and planning. The heightened anxiety in the system created a bas relief of systemic movements across time and of the family and business issues that carved them. This chapter will focus upon the responses of the family and business systems to this critical juncture.

The year 1982 was one of economic revolution. Inflation and unemployment were still high. The economic base of the country was moving from heavy industry to hi-tech and service. The computer was replacing the mill. It was a time of transition and uncertainty. Many of the Company's competitors had gone under; others were marginal. The Company had survived. In 1980, the Fabrication Division was liquidated. The timing and the process prevented financial drain and left the Company solid. According to President III, the experience with F. Automotive taught them to bite the bullet fast (1983). It was a year of turmoil. Key family members had no option but to leave the company. There was no longer any slack to accomodate family members who might want temporary or transitional jobs. Some workers who had been in the shop for 25 to 40 years were left without employment. Notably, the workers had been informed of the closing one year in advance, thus lessening the hardship. There were no unfinished contracts or resignations. Regarding closing the plant, the CEO mused:

> The tough part for me was telling people that we were going out of business after so many years of loyalty. It's hard to change historic things. It's hard to make the tough business decisions. One of the difficulties with family companies is that often sentiment gets in the way of making hard decisions (Oct., 1982).

The warehousing division remained operational. The decision to stock high strength steel proved lucrative and was a mainstay. In 1982, the company almost broke even in what was a "very difficult year" (Cousin II, 1983). The flat roll division, extant for two years, had been liquidated. Cutbacks and salary freezes were the order of the day. The company was trim and lean. The number of employees in 1982, including administration, was 274, forty of whom were with the Southwest plant. The total number employed represented almost a 50% decrease from 1980, and a 200% from 1970. Stockholders totaled 59, four of whom were non-family, and the company was still paying dividends. The Board was composed of six family and six non-family members. Only three were members of management, reflecting the changes over time from family-owned and managed to family-owned and non-family managed.

Other changes occurred in 1980. After the close of the plant, the mother of the CEO died, and his aunt, the wife of the purchasing founder died. After the death of his mother, his sister and brother-in-law who was also in the business moved to another area of the city. Three of four family members who remained in the company's employ, all had health problems. Since 1981, two in-laws who were firm members had heart by-passes, the son of one of the founding brothers had open heart surgery, the son of another founding brother had cancer as did the CEO and his wife in the late Seventies.

Dénouement and Déja Vu

Aging, retirement, and death, non-liquidity of stock, pressures of inflation, minimal number of family people in the operating end of the business, and the desire to protect and preserve heritage were factors which in 1982 affected the stockholder group, and in turn, impacted the business. The business had responded to the forces of the marketplace through cutbacks, closings, and austerity. It's major goal was survival. The stockholder group represented an amalgam of goals and objectives ranging from those who wanted to get their money out of the company to those to whom it was important to insure the existence of the company as a symbol of family.

> A lot of people are getting older and there are fewer and fewer family people in the business. I have a feeling that people don't care about the business the way they used to--they just want to make money--if in some way it could be turned into something that they could get their hands on. For some, its the biggest asset they own (Cousin II, 1983).

For some of the younger members of the family, the company was primarily an investment. Others were fierce family loyalists who want to see the company continue:

> I think we're a strong company. We have strong financial assets and a strong reputation. We're a family company that has existed for 80 years and that's unique. We've survived depressions and recessions. We simply have to get the best management possible and move forward. If we need to make widgets, we'll make widgets. If we need, to sell brassieres, we'll sell brassieres. There is alot of talent and potential in the family. We need to make hard decisions about the future (Cousin I, 1983).

Some stockholders depended on the company for salaries; some were planning retirement. In sum, then, the company was buffeted by stockholders, the immediate environmental layer, who had disparate sets of goals and needs. The company also had to respond to the marketplace which was clearly dictating contraction. Management, board, and stockholders speculated about the future of the company and identified options: liquidation, sale, maintain the warehouse and continue to exist, or diversify. The company was, at the same time, moving forward with plans to develop a shopping center on the site of the demolished plant. In the opinion of one observer, with all of these factors at play, the company faced its most critical juncture.

Responding to the needs of the stockholders, the company offered a stock redemption plan. A partial redemption was offered with the price determined through a compromise process. The stockholders submitted a selling price, and the company submitted a buying price. Despite the fact that return on investment could have been improved through transfer of their monies to other securities, only two family members redeemed stock. It has been suggested by one family member that the holding of a stock certificate is a symbol of membership and belonging in the family. Some attribute the inaction to greed. Whatever the reasons, the results of the stock redemption process was to maintain the balance of the system in a transition period.

There was a great deal of speculation and discussion about the redemption offer: mini-conferences and branch meetings were held. Historical patterns, alliances and power issues re-emerged. Some suspected that the CEO would take this opportunity to gain majority control. The CEO was like the mercury in the family thermometer, as he again found himself in the middle of heightened intensity

Disparate goals and needs of the stockholders and the presses of the marketplace which were antipolar to stockholder needs buffeted the company creating anxiety and conflict. When asked what he would predict if the CEO would retire, one family member jumped from his chair in agitation:

> Oh, my God, don't even ask me that question. A lot of people would be concerned. A lot. He's been the balance and the backbone (In-Law, 1983).

Meanwhile, the CEO, two years from retirement was beginning to feel extruded from daily operations in the business. He sought to increase his involvement, heightening activity in an already over-active emotional system.

Anxiety and conflict emerged in other areas. The Board became a microcosm of the larger system. For a time, decision making on the board became difficult. A direction would be determined and then revisited. Conferences were held outside the board room, not unlike what was happening in the family. According to several observers, the board and the top level officers seemed to have an adversarial relationship. The President became a target once again, satisfying the historical function of capturing overflow when the anxiety level became unmanageable. The CEO found himself in the middle trying to arbitrate and balance, again his traditional and historical function. One board member shared a concern that discussions and decisions at meetings had not represented long term thinking, but were based on emotion.

A shifting of alliances seemed to be occurring with former supporters becoming critics. Longing for the return of the founding generation was expressed. The level of conflict increased between the CEO and his cousin, the former successor-apparent before his departure to head his wife's family company. The loyal opposition became increasingly vocal.

In the meantime, dynamics were heated in the nuclear family of the CEO and allegiances and alliances had also shifted. The son and the father were frequently "on the wrestling mat" over issues pertaining to the life-style of the son. The mother-son relationship was characterized by distance and anger. Brother and sister grew increasingly distant emotionally, and the daughter continued to grow closer to her parents.

In 1981, the son, feeling co-opted in his work in the field of nutrition, decided that he would be able to make more impact working outside of the system of established power. He allied himself with political figures such as Molly Rush and the Berrigans and participated in protests and demonstrations. He requested that a trust be established so that the income from his investments and previous earnings would be distributed to charities and to his children. He became active in opposing the use and spread of nuclear weaponry and power. He and his family lived in a communal home where the residents prepared food for and served the poor. The commune functions similarly to a family business in its formative stages. He reflected:

> My sense was that the U.S. Government and the work that I was then part of was part of the problem rather than part of the solution . . . Even though at that time I received some of the nicest compliments I've ever received regarding my ability to work within the system and still be uncompromising in what I believed in; nonetheless, it wasn't enough. I felt that I was being co-opted, complicit and that there were compromises I was no longer able to make . . . Then about a year and a half ago, this journey we were on intensified, partly from having a young child, partly from having a sharper sense of what was happening in the world in terms of the nuclear arms race. We began to be very much drawn to the idea of community (Son of CEO, 1983).

The family process had supported the evolution of sets of complementarities. The CEO worked with his system from a position of being in the middle, the son worked from the position of outsider. The family represented corporate influence, the son was anti-establishment; the family attributed a positive value to money, the son, a negative value. The business was hierarchical; the son opposed the concept of hierarchical management. The family mode was connectiveness, the son disconnected. The CEO characterizes himself as an optimist and as one who sees the world in shades of greys; he characterizes his son as a pessimist, who like the founder, sees the world in black and white.

These sets of polarities emerge in the correspondence between father and son in which they argue about the definition of immorality, the contribution of the corporate sector to decadence, the necessity of taking a stand, and the son's life-style.

In a letter to his father, the son writes:

> Our conversation of last week leaves me confused once again. For the implication appeared to be that (1) if it is legal and (2) if it is profitable, most business people will do it whether or not it is moral. This means--if I understand it correctly, that a businessman in the 1850's in America might not support the idea of slavery . . . but would continue to have slaves himself as long as it was profitable. And in the 1930's in Germany, an official of Topf and Sohne or G. Farben might personally oppose the persecution of the Jews, but be willing to construct gas chambers. And so, today, a business person may oppose gases which tear the skin off children, or instruments of torture for use in Chile or El Salvador, or worst of all nuclear weapons designed to end all life on earth, but when the opportunity arises to manufacture these instruments, they are willing to move ahead since it is legal and profitable (Son of CEO, Unpublished Letter, 1983).

The father replied:

> It may well be just about the way you outlined . . . there are contradictions. The world is full of contradictions . . . The fact that someone disagrees (with our point of view) doesn't make him immoral, uncaring, or against peace; they just think there's a different way to attain peace (CEO, Unpublished Letter, 1983).

As a part of his work in the anti-nuclear movement, the son protested the involvement of the firm of which Cousin I was President in manufacturing parts for nuclear weapons. The son requested that his cousin bring before his board "this conflict of values within the family" (Son of CEO, unpublished letter, 1982). The intervention caused a flurry in the family. The CEO and Cousin I each were members of the other's Board of Directors. At the time the letter was written, Cousin I and the CEO were in conflict. Thus the son seemed to support his father in a re-play of family alliances.

Over time, the son continued to distance himself from the family and business system. He maintained his bond with his father who continued to support and join him in his political stands. The CEO made clear that he applauded his son's intentions, but questioned the means that he used. The son desired his father's support and approval. In an exchange written shortly after the son spent a few days in jail as the result of protest activities, the CEO wrote:

> It has occurred to me that perhaps your parents (especially I) have been smothering you with our ideas, our activities and our philosophies and that deep down, these changes are simply a rebellion against us (maybe a subconscious one) and an attempt for you to establish your own identity (CEO, Unpublished Letter, 1982).

The son responded that the work in which he was involved was an extension of family values and that his father had been his teacher. He concludes:

> . . . and keep supporting me in my outrageous deeds of civil disobedience (divine obedience) and war tax resistance, however seemingly impractical and ineffective (and so they also surely seemed for Gandhi and Martin Luther King). I'd much prefer trying to explain these to my kids, than that I did less (Son of CEO, Unpublished Letter, 1982).

Summary

In 1982, the Fabrication Plant was leveled. The event symbolized the culmination of a set of forces and an intensification of family and business issues and dynamics. It was a time of high anxiety.

Various factors were present. The economic environment required a trim organization. The stockholders exerted pressure on the company according to their disparate goals and needs. For some the company was a symbol of family and its survival was tied to the preservation of heritage; for some it had become simply an investment, and for others, it meant jobs and security. Some of the requisities of the stockholders were obvious and stated; some were unstated and perhaps even unconscious. The requirements of the environment and those of some of the stockholders were not congruent. Additionally, other changes had occurred in the system as a result of death and major illnesses. The future of the company was uncertain.

CHAPTER IX

Analysis of Event I: The First Management Succession

In 1950, at the age of 35, the CEO was elected to the Presidency of FSC and his father, the founder, became Chairman of the Board.

Review of Purpose and Method

In Chapter II, the existing literature on family business was reviewed. The question which emerged from that review was why don't family businesses survive better and longer? An approach to answering that question became evident through the recognition that a family business consists of two sub-systems, the family system and the business system, which stand in interaction with one another and with the environment.

The purpose of this research is to examine a family business in depth in order to determine what may be learned about the accommodations of the task, family and environmental components of the macro-system to one another through the application of systems concepts. The research questions are: What is the nature of the response of the task component of a family business to the forces of the family system and the demands of the environment? How does the family system influence management decisions about how to respond to the external environment and therefore determine the nature of purposes and goals of the organization? (Figure 3).

Two systems theories have been utilized for the analyses: Charns-Schaefer and Bowen Family Systems. The Charns-Schaefer theory has been used to discuss the work of management which consists of making decisions about how to respond to the external environment and to the family system. The work of management also consists of making decisions about the purposes and goals of the organization, its structure, and the utilization and placement of people. The component of co-ordination is not discussed in this study.

Bowen theory has been used to discuss the family emotional process issues which affect the work of management or decision making in the task system. The Charns-Schaefer theory deals with decisions that are intendedly rational. Bowen theory deals with decisions that are both thoughtful and/or automatic as a result of the transmission of patterns, themes, and myths over generations.

The theories are used to explicate the four significant events described in the previous pages. These particular events were selected because they represented junctures when the organization was forced to change its response to the environment. The events are analysed as a snapshot in time. The analysis of each section includes a description of macro-system forces and factors, the response of management in terms of Charns-Schaefer theory, and the response in terms of Bowen theory.

Each event was assigned a configurator which delineates the degree of concentricity of needs and the degree of complexity.

The Macro-System

In 1950, when the CEO became President, the external environment was basically stable. It had been supportive and predictable for approximately fifteen years. World War II and the Korean Conflict had increased demands for steel as did the construction boom.

The major changes were in the family system which was characterized by growth. All five brothers in the founding generation were alive, married, had children, and were working in the business. Some had sons and sons-in-law who were also in the business. The births of grandchildren marked the arrival of the fourth generation. PGM was still living. Thus four generations lived within the same community, and two generations were represented in the business. The father of the CEO was the accepted leader of the family and of the business.

It was given that the business would absorb family members who wished to work there. It had done so to that time, and the prospect for the future was that demands for positions would increase given the ever growing family. Geographic proximity of the family also increased the pressures on the business. The presence of PGM was important as a focal point which promoted family cohesiveness. Essentially, then, in 1950 the family was cohesive, unified, and growing.

Response of Management: Charns-Schaefer

According to Charns-Schaefer theory the primary work of management is decision making. It is the responsibility of management to decide how the organization will respond to its environment, thus determining the purposes and goals. Management must make decisions about the internal functions of the organization such as what pieces of work will be done and by what persons or groups.

In 1950 the external environment was stable and predictable. The work of management in responding to those forces was fairly uncomplicated. Those basic decisions had been made years before and remained unchanged although there was expansion of product lines. The direct work was fabrication and warehousing both of which were supported more than adequately by the environment. Sales were increasing annually as were profits.

The shift that occurred and was culminated in 1950 was the assumption of the management of the family component as a necessary and acceptable part of management work. This was necessitated by the growth and proximity of family. One of the purposes, then, of the company became to accommodate and support family. The organization assumed a dual purpose - for profit and for family. The assumption of that dual purpose, a response to the family system influenced every other aspect of management.

The work of the organization was designed and allocated not only on the basis of what needed to be done to make the profit system effective, but also on the basis of what family members needed to be included. Thus, the "people" component of the Charns-Schaefer model, became a determinant of what and how work would be allocated. In the theory, the component of "people" refers to individuals who enter the work system and bring with them all of their previous experience, knowledge, abilities, and issues.

It is probably safe to assume that in most non-family businesses, goals of the organization determine the work that must be accomplished. In the family business studied, and probably in many family businesses the determinate of decisions about the work is the need to accommodate family members. "People" as well as goals determine work reflecting the dual purpose.

Additionally, the "family" was a component in the environment of the business and it was also the main constituency of the "people" component of the organization. Family is both internal and external. In other words, the people element is an extension of the environment. The identicalness of the two pieces complicates the work of management and makes it extremely difficult if not impossible to separate family from business both conceptually and literally. The issue frequently raised about the need to clearly define the boundary between family and business becomes moot. As viewed through the Schaefer model, they are inexorably intertwined.

The allocation of the work determines the structure of an organization. In FSC, structure was determined by what family members were to be included and also by sibling position in the family. As President, the CEO was careful not to tangle with family hierarchy in his management of his uncles. Occasionally, the founder usurped the duties of his son. The informal or family system took precedence over formal organization and titles.

In sum, what can be seen through the Schaefer model is that the organization was characterized by an enmeshment of family and task systems. This is no surprise to students of family business. What is new is the identification of the components that are braided together, particularly the focus of management work upon the variable called "people." From this focus, the other variables fall into place.

By 1950, then, the infusion of family into the business had affected every element; it became necessary to deal with family as an intentional piece of management work. The CEO was the perfect candidate for that responsibility.

Configurator: Event I

In 1950, the configurator representing family system and task system of FSC would be diagrammed through showing two circles, one superimposed upon the other (Configurator, Figure 10). At the time of his succession, the CEO inherited an organization whose history was filled with enmeshment of family and business. That became his to manage.

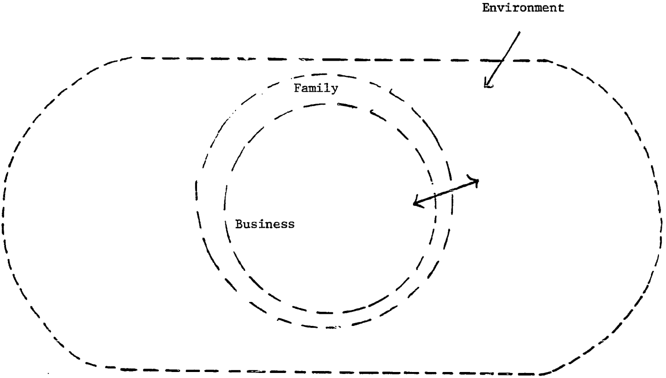
The superimposition of the two systems represents congruency in needs. The environment was stable and predictable. Profits were ample enough to allow whatever slack was necessary to accommodate family. Although the family was expanding, its needs and the needs of the business were not in conflict with one another. The demands upon management were relatively uncomplicated. Concentricity then is related to lack of complexity.

Response of Management: Bowen Family Systems

The Bowen theory involves two main variables, the degree of anxiety and the degree of differentiation of self. The greater the degree of differentiation, the more the individual is able to lower anxiety levels. According to Bowen theory, anxiety is insidious. It is tapped by multi-generational patterns, values myths. The individual may or may not be aware of the existence of these. These patterns may be determined by family emotional processes such as triangles, sibling position, balances and counterbalances, and entanglement of individuals.

Figure 10

Configurator: Event I



In the decision to elect the CEO to the presidency, several historical family issues are focal. It was the inherited responsibility of the oldest son to function as the caretaker of the system. Despite his leanings in other directions, the CEO seemed to have little choice in his selection of career. Added to that was the injunction of closeness and unity which made separation difficult.

Why the founder chose the year of 1950 for management succession is not known. What is known is that the family system had a different set of needs requiring time, energy and attention. The task of balancing the needs of the two systems was required, and the CEO was the perfect candidate. He was an excellent tightrope walker and had learned his skills in his family of origin. His management style was opposite his father's in many ways.

The CEO's relationship with his father was a critical influence.

> My dad and I had kind of an unusual relationship. He was not the kind of father that could embrace his son, both literally and figuratively. He was not affectionate. Our relationship was strange and strained. I just don't know why. I know we had a real love for each other. He never did anything to make me feel relaxed. I actually tried to compensate for my Dad. He was a one-man operator type of guy, real insensitive to people's needs. I saw his weaknesses, and I made up my mind that I was going to avoid them (CEO, 1982).

The CEO's mother, by contrast, is remembered by him as being open to the point of being too revelatory, down to earth, sensitive, warm, understanding and unassuming. He recalls feeling protective of her and often finding himself in the middle between his parents. He felt responsible for compensating his mother for his father's lack of sensitivity and affection. As the oldest of the siblings and the only son in a Jewish family, the injunction to be responsible and to be a caretaker was powerful.

It was then in this primary triangle that the CEO learned his emotional balancing and tightrope walking skills. Says he of himself, "I've been the peacemaker all my life" (CEO, Nov. 1982).

Reactivity to his father and providing a balance in the triangle between his parents and himself were issues that the new President carried into his management role. The new President's management style evolved as being deliberative where his father might have been decisive; "hands off" where his father would have been "hands on," consultative where his father might have been directive, process-oriented rather than product-oriented.

According to a former Vice-President, while the founder "would shoot from the hip" the CEO "would take 45 shots at the target first" (Vice-President, 1983). Explaining his philosophy of management, the CEO said:

I tried to manage by objectives, to pick good people and

> let them have their head and make most of their own decisions. Let them set their own goals and measure their own effectiveness. What I did is talk with them about the things that had to be accomplished. Not telling them how to do it but instead discussing targets and goals.

It is notable that the system seemed to strive to balance itself. The emphasis had been upon task and product in the founder's generation; the emphasis was upon process and people in the CEO's administration. Coincidentally, the emergent management theory of that time was emphasizing the interpersonal and motivational aspects of organizational life. The new President credited Douglas MacGregor and Fred Hertzberg for re-inforcing his thinking. It is observed that Theory X would reflect the style of the founder; Theory Y, the style of the CEO. The use of outsiders and non-family members also increased. The CEO frequently utilized outside consultants, appointed non-family people to the board, and to top level management positions. The inclusion of outsiders brought objectivity and clarity.

Thus the election of the CEO paralleled the needs of the system for more intentional management and also for assumption of management of the family as part of management work. It would seem that the CEO had been groomed for that responsibility since childhood both by position in the family as the oldest son of the oldest son, and, by his tempering in the primary triangle in his family of origin.

The first and only family fight erupted two years after the CEO became President. It served to solidify his resolve to be a balancer, walk the tightrope and reject his father's management style. The CEO remembered it as a time of trial (CEO, Nov. 1982). It was a time when family issues were activated. In a system where closeness and unity was paramount, dissension and conflict threatened to destroy the system for which the CEO was responsible.

Issues of power, control, mortality, and the future of the business and family were tapped. The founding brothers all had sons whom they hoped would one day run the business. The family fight re-played the alliances, triangles, and struggles in the family of origin of the founders. As discussed in Chapter IV, the founder functioned as a typical oldest and as a father figure both in family of origin and in the business. Competition and struggle for power were manageable until the scales were tipped by the election of the CEO to the Presidency. The act violated generational boundaries and added power to the founder's branch.

The system had remained stable as long as the primary triangle consisting of the three founding brothers maintained acceptable emotional distance from one another. It is to be remembered that the triangle of the three brothers is part of a system of interlocking triangles which included PGM and PGF. (Chapter IV). At the time of the dispute, the third brother and the founder became more combative, and lines of autonomy organizationally were violated. It would appear that the second brother shifted from his neutral position and allied himself with the third brother.

The intensity pulled in other members of the family and of management. It became the responsibility of the CEO to mediate and restore the balance in the system. The family fight functioned to temper the CEO and re-inforce his participative management style, and to make the business of the family a part of management tasks.

Summary

The outcome of the first management succession, then, was acceptance of family matters as management responsibility, and a shift in emphasis from product to people and process.

CHAPTER X

Analysis of Event II: Appointment of the Non-Family President

In 1975, a non-family President was elected and the CEO became Chairman of the Board. The re-structuring was a response to increasing complexity in all three systems: family, business, and environment.

The Macro-System

The environment in 1975 no longer was supportive and stable. The economy was marked by inflation and recessions; the stock market see-sawed, and the steel industry experienced cyclical ups and downs. Unlike previous periods, the cycles became less predictable and the down times lasted longer. Japanese steel competed with domestic products. Union wages had doubled.

The family system was also more complicated. The three founding brothers had died leaving only one member of the founding generation in the business. There were now five generations. Family members were no longer all living within the same community. Affluence had provided options in education, vocations, and life-styles. The family members represented a variety of ages, economic needs, and interests.

The stockholders numbered 65 in 1975. The stock had been recapitalized in order to accommodate disbursment to the expanding family. For family members, ownership of stock represented investment and/or symbol of family. Expectations for ownership of stock ranged from emphasis upon dividends to emphasis upon the business as a place for family.

In the business, nine family members held management positions, a reduction from a high of 14 in 1960. A core of professional non-family managers had also been developed. There were no family members in upper management positions. Promotion by merit had become company policy. The increased complexity of the management of the company can be seen in the Organization Chart of 1974, (Figure 9, p. 112) which shows twenty-three management positions.

The direct work of the organization had been expanded to include diversification as well as the two mainstays - fabrication and warehousing.

<u>Response of Management: Charns-Schaefer</u>

In 1975, the management of FSC had to respond to increasing complexity in the environment, in the family, and in the business itself. The response of management was to make distinctions regarding what was family work and what was profit work. The movement of the CEO to Chairman of the Board represented the culmination of a process during which he took increasingly more responsibility for managing the family stockholders, determining organizational direction in response to environmental demands and balancing both. He also continued his community involvments.

The President was primarily responsible for internal management and of course worked closely with the CEO. This arrangement is not unusual in organizations, and frequently an "inside" and an "outside" person is developed in order to respond to the demands of managing. The difference in FSC is that a part of that "outside" responsibility was one that was highly charged - that of managing the family stockholders.

Creating distinctions or differentiating could be seen in other elements. The "people" component consisted of both family members internal to the organization and also the core of professional non-family managers. Each group had their needs and their possible conflicts. Family managers, who were also owners, reported to non-family managers, some of whom were not owners. Career development of family and non-family managers was a management responsibility. Consulting with a cousin regarding his mobility within the company may be problematical.

The movement of the CEO to the position of Chairman reduced, though not eliminated, his responsibilities to internal family members who then would deal with President III. Previous to the re-structuring, the CEO had noted that he was responsible for both family and non-family managers.

As a way to respond, then, to increasing complexity in every sub-system, a re-structuring occurred. The election of the CEO to Chairman of the Board and of President III also came at a time which was appropriate to the career development of both men and was a reward for their performances. However, it also was a response to increasing demands upon management. The dual purpose still existed, for family and for profit. Decisions were made regarding the allocation of people to assume distinct responsibility for the two sectors.

Configurator: Event II

The management of both the marketplace and the family had become more demanding and complex. Distinction and splitting characterize the configurator, (Figure 11) which represents this event. Complexity and uncertainty reduce congruency and concentricity in the family business. A process of separation of business needs from family needs was occurring. Thus less overlap exists.

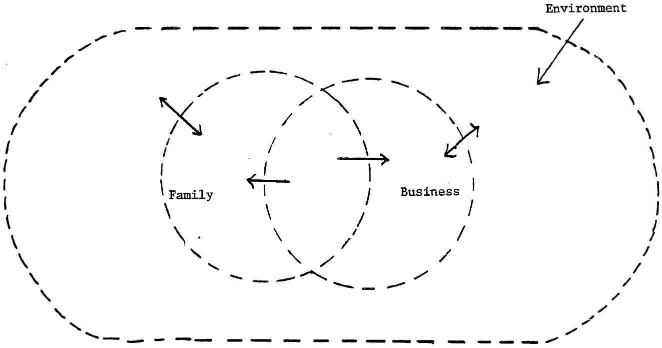
Response of Management: Bowen Family Systems

In 1975, the organization was characterized by struggle for clarity and intentionality as it sought to respond to increasing complexity and uncertainty. Family processes contributed to the responses of the task system to the increasing demands upon it.

The CEO had been trained to be ultimately responsible both in the family and in the business by virtue of his inherited position. Yet the role he inherited functioned as a

Figure 11

Configurator: Event II



target for family pressures. His tendency under pressure was to increase his responsibilities, which in turn, created greater vulnerability.

> He devoted a significant amount of time to the family relationships and it created a responsibility that most CEO's did not have. In other words, the CEO of a public company certainly has the public relationships to worry about, but it's not on a personal basis, it's not my uncle, my aunt--that sort of thing (Counsel, 1983).

In a family where closeness and unity were injunctions, the management of family members in the business setting raised anxiety levels because of potential conflicts engendered by family emotional process and expectations from the business. As described previously (p. 117), family members wore many hats and confusion often developed as a result. The relationship with Cousin I was complicated by the ghost of the Founder forming a triangle as explicated previously (p. 119). It also fell to the CEO to be responsible for the careers of family members such as Cousin II (p. 120) who had joined the company in part as a way to fulfill family expectations and whose talents may have been developed more fully in another setting.

According to family patterns, it would have been expected that the oldest son of the CEO would have been groomed for the leadership of the family and of the business. Relationship systems consisting of the triangles of founder-son-grandson and mother-father-son exerted forces which created a reversal (pp. 120-125).

The family component became more complex not only because of numbers but also because of the transmission process over generations. The CEO's relationship with Cousin III became a replay of that of their two fathers, the founder and Uncle II. Where in the second generation only one family member represented the "loyal opposition", in 1975 an entire branch was available to fill that function.

The increasing demands of a maturing and complex family system may well have contributed to the need to make some separations in the responsibilities of management. The process of professionalization and re-structuring served to defuse the intensity for the CEO. Essentially, the heat was shared by the two non-family managers who together with the CEO formed the Executive Committee. President III reported that his assumption of the office made no real change except that he was on the firing line more.

What did not change however, were the basic patterns, themes, and norms that have been a part of the system over generations and the individual reactions to them. These still remained as potent influences and potential creators of anxiety. Essentially, restructuring does not reduce anxiety. Anxiety influences the decision making process. The need is to recognize, reduce, and manage it.

Professionalization also reduced the numbers of family members in the company and the liklihood of the emergence of a family successor. As discussed previously, family companies frequently have difficulty attracting and keeping outside people and therefore the issue of the availability of a family successor is tied to the continuance of the company as long as it remained a closed-corporation.

Other factors limited availability of family as resources to the business, contributing to the need to professionalize. One factor was the establishment of family branches which in part determined roles in the family and therefore in the business. The branches mirrored and re-played the function and role that had been assumed by each of the three founding brothers in their family of origin. Members of the branch of the production founder, for example, were often oppositional and sometimes frontal not unlike the style of their forefather. These behaviors became expected and therefore often discounted. When the nature of participation intensifies emotionality, availability as a resource to the business is limited, despite obvious competencies. Members of the loyal opposition branch, historically the "outsiders" in the family system, were often the ones who looked to the company as an Alma Mater and felt that the primary goal of the business should be to exist for family. This further heightened conflicts as the business focused more upon profit.

Branch membership often dictated placement in the company and limited family resources to the business. Sons and sons-in-law were expected to work in the area that their forefather had founded. Additionally, sons had to deal with injunctions and programming about entering the business. Sometimes the match was workable; sometimes it wasn't. Often, talents lay elsewhere. The family rule established by PGM of closeness and unity made separation and leaving difficult. For some, the choice of leaving was eliminated; for others, the act of leaving had to be punctuated by closing doors so that the magnetism of the family and business system would be beyond their field.

A notable complementary exists in the relationship of Cousins I and II, the two brothers who were sons of the purchasing founder. Cousin I has been free to enter and leave at will; Cousin II has not. As undoubtedly was the case with other family members, the merging of historical issues with nuclear family issues circumscribed options.

Another family pattern which reduced family resources to the company was the position of women. Wives and daughters were expected to play a supportive role. When the family fight occurred, the founder warned the CEO not to entrust information about the company to wives. This became a company injunction which was one of the factors in lack of participation of women.

Summary

In sum, management response to the increasingly complex pressures of managing the environment, both stockholders and marketplace was to professionalize. In part, it seemed an intentional distinguishing of areas of responsibility. In part, it seemed to provide a way to reduce the intensity inherent in managing a family business. Historical family issues such as branch membership and position of women also limited the availability of family resources and thus contributed to the process of professionalization.

CHAPTER XI

Analysis of Event III: The Sale of the Automotive Division

In 1977, F. Automotive was sold. It had been a significant financial loss for the company and had created difficulties and conflicts for management.

The Macro-Level

By 1977, recessions and depression characterized the economy, accompanied by zero economic growth and construction freezes. U.S. Steel had closed 15 plants and the bottom fell out of the fabrication market. Competition for contracts was fierce. Essentially, environmental opportunites were shrinking.

Meanwhile, the family demands were growing. In response to professionalization of the company, the family layer was perceived as emphasizing profit and performance. Retirements were being planned. The last of the founding brothers left the company. The economy pinched the family layer and some expressed desire for liquidity of company stock. In 1977, family stockholders numbered 65. The CEO had reached the age of 63 and had cancer; his son had divorced and remarried.

The business experienced no growth. Eight family members worked in the business. Capital investments had further drained resources. In sum, the demands of the family were growing while environmental support of what had been the direct work of the company for years, fabricating and warehousing, was shrinking. The company's growth ceased. Uncertainty and complexity pervaded.

Response of Management: Charns-Schaefer

The external environment was uncertain and in rapid change, but the family needs were perceived to increase. The management of FSC, not unlike many non-family companies in the Seventies, embarked upon diversification to counteract retarded business growth. FSC had an additional component with which to contend and that was the family stockholders. The primary response was to that group in a time when a hold and maintain mode might have been conservative.

Diversification meant taking on a third sizeable piece of management work. The company had been designed to manage two pieces effectively, the family system and the profit system. The Charns-Schaefer theory divides work into two different kinds - direct work and management work. The direct work of an organization is the output of goods or services and the management work is the work that oversees and supports the direct work. Each piece of direct work requires management work. Each piece of management work requires decision making about how to respond to the environment. Such decisions are about purposes, goals, structure, co-ordination and people, and the design of managerial strategies such as information systems, policies, procedures, reporting. The greater the uncertainty and complexity, the greater the requirements of management work.

With the acquisition of the automotive division, the company bought in-place management. However, for varying reasons already discussed (p. 134), that management was unsatisfactory. The management of FSC stretched its internal resources to provide for the management of the acquired company, which also needed decisions about goals, work, structure, co-ordination, people and management strategies and technologies. The CEO himself took over the presidency of the acquisition in order to insure success. Of course, the demands of managing the parent company continued. Fabrication work now included making structural steel for nuclear power plants. Those contracts required meeting government regulations and necessitated the establishment of quality assurance programs which increased demands on management time.

The difficulties with the automotive divisions may be clarified by examining the problem in a framework of information and decision processes. As expounded by Jay Galbraith in <u>Organization Design</u>, the work of an organization is to process adequate information in order to support the output of its product or service. The more uncertain the task, the more information is required in order to perform. High uncertainity requires flexibility and immediacy in decision making.

Uncertainty, according to Galbraith, is the

> difference between the amount of information required to perform the task and the amount of information already possessed by the organization . . . and is a function of the nature of the task itself (1977).

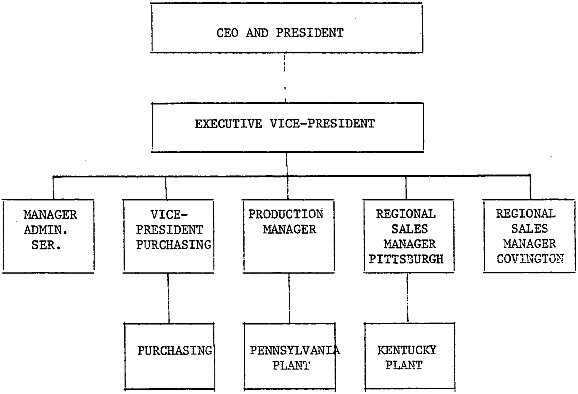
In moving into the automotive field, FSC moved into a situation of high uncertainty, having minimal information about the operational work, i.e., the nature of the task. Additionally, the way an organization is designed and structured determines in part the capacity of the organization to process information.

FSC was a second generation company and had developed a hierarchical layered structure. This was both evolutionary and in reaction to entrepreneurial management approaches. It is the model that has been traditionally used in heavy industry. According to a study reported by Galbraith, most firms who diversify also de-centralize (p. 29, 1977).

The Organization Chart of F. Automotive, (Figure 12) illustrates a centralized and a hierarchical arrangement. The CEO functioned as the President of the acquired company and was also Chairman of the Board. According to Galbraith, hierarchy is vulnerable to task uncertainty. As the organization's subtasks increase in uncertainty, fewer situations can be programmed and more exceptions are referred upward, thus overloading the hierarchy. It is not unlikely that a large part of the problem with F. Automotive was an overloading and inability of the organization to process information. The CEO recalls that he had few resources within the organization

Figure 12

F. Automotive: Organization Structure



available to him and seemed to be handling the bulk of the problem, both long distance and on site. It is also to be remembered that the CEO is an oldest sibling with a heightened sense of responsibility and distinctly responsive to family pressures. In times of crises, his operating mode has been to increase levels of responsibility and activity.

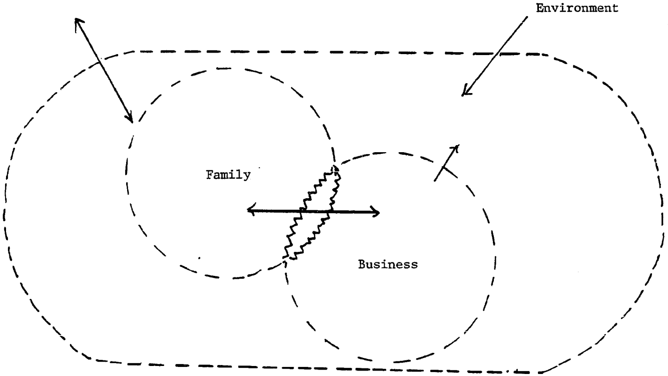
Another factor for consideration in the fate of F. Automotive was the place of dissent and conflict in the company. Paradoxically, creativity cannot occur without conflict, yet it has been found by those who work with family companies that controversy frequently heightens emotionality and ties up the system. In FSC, it was accepted that criticism and conflict created unwanted effects, sometimes alienation and discounting. Often for the CEO, it meant the critical voices seemed to rise on the basis of family branch membership, which made credibility an issue. It appears that it became difficult to separate the wheat from the chaff. This became a factor in the information and decision making processes.

Configurator: Event III

As has been discussed in the literature review, all human systems are open and are responsive to their environments (Schaefer, 1983). In the case of FSC, the management had to respond to two environmental layers: the family and the marketplace (Figure 13). Essentially, as is characteristic of systems, a hierarchy exists. The immediate and most present

Figure 13

Configurator: Event III



environmental layer is represented by the family stockholders, and management's primary response was to that layer.

> Tempermentally, I handle many things. But one that really upsets me is when the family gets upset. It just tears me apart. I get irritable and it gets me in the pit of my stomach. I deal with the problems because I know I can't run away from them (CEO, Nov. 1982).

The family-stockholder layer acted as a screen between the organization and its marketplace. When the pressures of the two layers are complementary, the organization is functional. When the pressures of the two layers are disparate, the organization is rendered less effective.

Up until the late Sixties, the needs of the two environmental layers were synchronistic and the internal resources of the company permitted it to keep in step. The marketplace was relatively stable and did not require gross adaptation from the organization. There was relative predictability and certainty. The exterior layer was essentially supportive; the company had to concern itself primarily with responding to the stockholders which it accomplished through the process of professionalization.

With the arrival of the Seventies, the marketplace lost its stability, predictability and certainty. The organization was screened from the marketplace layer by the stockholder layer and its reaction to outer layer forces was essentially delayed. The forces of the family-stockholder system mitigated toward an expand and diversify mode, which neither the internal resources of the company nor the marketplace could support. The needs of the family system and the needs of the business system were divergent creating complexity and uncertainty. It was a time of new configuration for the company, a time of rending and splitting, of loss of congruency, a time of conflict at the boundaries.

Response of Management: Bowen Family Systems

As previously discussed, the two main variables in Bowen theory are anxiety and differentiation (Guerin, p. 65). Further, Bowen postulates that anxiety in a system is insidious and contagious and that it seeps through the system emanating from the leadership of that system (Bowen, 1978). Therefore, Bowenian theory advocates focus upon the leadership of a human system in order to understand anxiety and promote change.

As has been discussed previously, the CEO inherited the responsibility of caretaker of the family and the business system. This had been a pattern in the family. The CEO was the oldest son of the oldest son, with a high value upon responsibility. It is unclear from the information available, to what extent the needs of the family system were data-based or felt; what is clear is that it was the legacy of the CEO to care and be responsible for the family system. The forces of the family system, in 1977, were divergent from the forces of the marketplace. The pull was toward the family component, and the ultimate result was management and emotional overload.

The CEO has noted and is aware of his reactivity to family (Nov., 1982), and has worked at controlling it: universally, a lifetime occupation. He has also noted that his tendency in times of anxiety and intensity is to become more active. This in turn probably engenders more anxiety. It is not unlikely that the assumption of the Presidency of the automotive division was a manifestation of that anxiety.

According to Bowen theory, anxiety is tapped by themes, patterns, myths, norms, and values in human systems. Involvement with the automotive problem tapped historical family issues of reputation, continuity, and achievement. Additionally, the myth of the strong leader was threatened. Virility, strength, and success were the accepted hallmarks of family leaders and especially of the father and grandfather of the CEO. Interestingly, given the information that the founder functioned as the father figure in his family of origin, it is likely that PGF has been mythologized. In any event, failure was not acceptable in the family system. The prospect of it also increased anxiety.

Another source of difficulty in the acquisition was dealing with entrepreneural management of the acquired company. The description of the former owner and his management style is reminiscent of some of the founder's characteristics with which the CEO had difficulty. A triangle emerges -

Founder, CEO, Entrepreneurial Owner.

It was also a time of personal stress for the CEO. He was battling with cancer and his son had divorced and remarried, creating another set of uncertainties. The CEO in the tradition of his family, valued connectedness. Energy was also devoted to maintaining relationships with his son's ex-wife and his grandchild from that marriage.

The CEO had reached the age of 62. He had a major illness. His father's illnesses had begun in his sixth decade. The entrance of the Executive Vice-President, to whom the CEO became a mentor, paralleled a time of intensity and uncertainty. It was apparent that his own son would not join the company. The accepted pattern had been to groom a family successor. The executive Vice-President was the exact age of the son of the CEO. Additionally, the CEO had been a highly skillful mentor and was able to acknowledge that ability. It would not be unlikely that the unmet expectations of grooming a family successor and the mentoring process added to rising anxiety levels.

For the Executive Vice-President, the relationship was clear; he had found a father-mentor and a career intertwined in the same system. For the CEO, the relationship became an additional source of anxiety. It represented the continuing struggle to separate business and family, the constant challenge of operating in two systems at once, and the unrelenting task of walking the tightrope.

The termination of the Executive Vice-President mirrored the wrenching in the system at large, as management struggled to respond to the divergent forces of family and marketplace. The gross result was managerial and emotional overload.

Summary

Uncertainty, complexity and divergent requirements from the two environmental layers, stockholder and marketplace, characterized the time of the sale of F. Automotive. Historically responsive to the family component, the company sought diversification which further stretched its resources.

The overload of work in the management system was paralleled by overload of anxiety in the emotional processes. It would seem that one fed the other and that there was spillover of anxiety into the work system from the family system. The anxiety was tapped by historical issues, and the CEO's sensitivity to responsibility. Additionally, it was a time of personal stress for the CEO.

CHAPTER XII

Analysis of Event IV: The Demolition of the Fabrication Plant

The fabrication plant and adjacent offices were leveled in 1982. The structures had been a symbol to the family. It was a time of intensity.

The Macro-System

In the year 1982, the environment was characterized by economic revolution. A shift was occurring from heavy industry to hi-tech and service as the basis of the economy. Unemployment and inflation were at record levels. The steel industry sagged and slumped.

The family system continued to change. The mother of the CEO and the wife of the purchasing founder had died. Other family members retired. All four of the remaining family members in the business had experienced major health problems and the wife of the CEO had chemotherapy for cancer. The stockholders were divided in their expectations from the company. For some, investment in the company represented their major asset and faced with retirement, they wanted liquidity. Others still valued their stock as a symbol of family heritage. Still others relied upon the company for job security as well as return on investment. It was a time of uncertainty and anxiety in the family system. The CEO neared retirement age and some family members expressed concern about the lack of a family leader and the future of the business. Conflict intensified in the family system.

In the business, only four family members remained. There were two fourth generation people on the board. FSC led the exodus from fabrication when they closed the plant in 1980.

Response of Management: Charns-Schaefer

By 1982, the intensity of economic pressures forced the management to respond to the marketplace as its primary environment. This represented a significant shift. Historically, the management had responded primarily and/or equally to the family stockholders; the two purposes, family and profit, had received at least equal weight. A new goal emerged - survival. That goal dictated response to the marketplace. Only one piece of direct work, the warehousing division, remained. It was as if the organization had recycled to its beginning phase which was survival oriented. It was in a mode of contraction rather than expansion.

The family layer was not ignored and was highly present as a set of forces. Family requirements were negotiated, as in the stock redemption plan, and added to the complexity. Anxiety in the family spilled over into the management system.

The shift in emphasis to survival was reflected in other elements of management work. In the past, the element of people had been a prime determinant in the management of the organization. Aging of family members and lack of organizational slack because of economics virtually eliminated the power of that determinant. The organization responded more in the mode of a non-family business with the work available determining its allocation, and therefore the workers needed. It was the death knell of an Alma Mater. The company could no longer afford to provide more than dividends for the family.

The structure of the company also reflected the trim and lean look demanded for survival. As pieces of work were eliminated, so were positions at all levels affecting family and non-family jobs.

The Configurator: Event IV

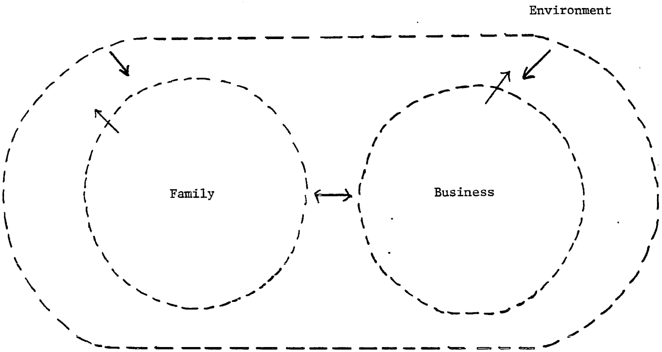
The configurator for Event IV, the demolition of the fabrication plant illustrates the splitting of family and business. Needs and forces were no longer congruent and therefore overlap was eliminated. Management was forced to respond to each system as a separate entity and to negotiate demands against the need of the business to survive. The splitting of the circles is a response to high complexity and uncertainty. It is to be noted that the figures are still drawn with dotted lines indicating continuous influence of each sub-system upon the other.

Response of Management: Bowen Family Systems

The year 1982 was a year of heightened anxiety. According to Bowen theory, anxiety rises in times of transitions

Figure 14

Configurator: Event IV



and when historical thematic issues are tapped in the family system.

Loss, threat of loss, and separation created intensity in the family system. The demolition of the fabrication plant was the loss of a symbol. Closeness, unity, loyalty, reputation, profit, and achievement had been family themes for five generations and the business had been a way to perpetuate those values. Not only was the plant demolished, but the future of the company was uncertain. It was also a time of stress which was accompanied by life-threatening illnesses of the CEO and all other family members who remained in the business. Aging and health problems further intensified threat of loss.

The configurator displays separation. Although the business still existed, it was no longer a "family business" in the historical sense. Separation has been a loaded issue in the family. There had been comfort and power in togetherness. Interestingly, among the yellowed clippings of the CEO was a newspaper article about several brothers who chose to sell their business rather than have it taken over and run by strangers who might not carry forth the values of the business. The clipping may be viewed of a statement of attachment and a premonition of the intensity engendered about sense of loss of the business.

Not unlike what occurred in Event III in 1977, anxiety spilled over from the family system to management system and back again. Historical issues were triggered and a re-play of the shifts in alliances which characterized the "family fight" of 1952 occurred.

For a short time, family branches became more distinctly defined, and their roles became exacerbated: the "loyal opposition" became more oppositional. The activity of the CEO increased in order to maintain balances, which in turn seemed to heighten the system wide anxiety. The President of the company became a target as evidenced by the adversarial relationship with the board. Like his father, the CEO was perceived as controlling and powerful. Shifts began to occur. The son of the purchasing founder, who like his father usually maintained a neutral/supportive stance, became adversarial. The son of the CEO, although disqualified for participation in the business through choice of lifestyle, made his presence felt in the system by attacking the new adversary through protest of his company's involvement with nuclear products. Thus he joined forces with the Presidential Branch of the family and in so doing, exercised his birthright.

The alignments and dynamics mirrored those of the "family fight" when the CEO was perceived to have unbalanced the system when he assumed the presidency thus aligning himself with his father. The stockholders voted not to redeem their stocks, thus acting as a stabilizing force. The intensity diminished and new corporate directions were established.

It can be seen, then, that historical emotional patterns re-emerged in times of intensity. Though outside the management system and distanced from both family of origin and extended family through choice of life-style, the son of the CEO nonetheless exercised his inherited mantle of leadership as the third generation of eldests and first-born sons of the founder's branch.

The outsider position is not a new one for the system and it can be traced to PGF and Uncle II, the production founder. He and his clan have been outsiders and family rebels within the system; the son of the CEO functions similarly beyond the system. The symphonic framework remains constant; the themes show variations. Both father and son are Peacemakers; they differ in vantage point and methods.

Summary

The time around Event IV was one of intensity and heightened anxiety triggered by issues of loss and separation. A replaying of historical emotional themes and patterns occurred.

As has been discussed previously, the configurator consists of circles drawn with dotted lines representing the openness of each system. Separation of the systems did not prevent seepage of anxiety. Although there is not concentricity or overlap, there is still spillover. Thus, one of the primary tasks of management became the handling of the heightened anxiety levels in the family system which impacted the task system. For the CEO, this involved work of monitoring his own reactivity and attempting to balance and calm the system.

CHAPTER XIII

Conclusions and Implications for Research

From living in, working with, and reading about family businesses, a problem became figural. That problem was one of continuance and mortality. Why couldn't family businesses survive better and longer? The literature was fragmentary and generally pointed to the family issues as the source of problems with the business. The conclusions seemed to be that if the family could be excised from the business, all would be well. Of course, excising the family would mean that the organization was not a family business. Frustration with family firms left researchers with little recourse but to wish that they could be managed like non-family firms.

The review of the available literature produced a unifying thread which was the existence of a set of systems in interaction. The focus of this research has been upon exploring the nature of the interaction among the three subsystems or the macro-level of a family business, the family, the business, and the marketplace. The research questions were: What is the nature of the response of the task system or management of a family firm to the environment and the family component and how do those responses determine the nature of purposes and goals of the organization? This research utilized a case study approach. The purpose of a case study is to explore minimally understood areas in order to generate hypotheses for future research. It is idiographic, and findings are not meant to be extrapolated. The following conclusions are offered as hypotheses which bear further research.

As suggested in systems research methodology, a configurator was designed representing the three sub-systems. Each nodal event was assigned a configurator. The positioning of the systems in interrelation with one another changed over time. In the entrepreneurial phase, there was superimposition and concentricity. In Event II, the configurator depicted partial overlap; in Event III, the splitting and pulling at the boundaries with partial overlap, and in Event IV, separation.

The movement from concentricity to separation was a movement from congruency of needs of the family and business systems as in the entrepreneurial phase to high complexity as in the last two phases. The greater the overlap, and therefore the congruency of business and family system needs with each other and with the environment, the simpler the tasks of managing. As overlap decreases, each system must be dealt with individually requiring greater accommodation and negotiation. As overlap decreases, the tasks of management multiply and become increasingly complex.

In the entrepreneurial phase, Event I, the environment was predictable and supportive. The family was increasing in size and was demanding more from the business through providing jobs for family members and also return on investment. The business was in a high growth phase and was profitable. Family could be accommodated without limiting profitability.

As the marketplace became increasingly complex and uncertain, it became less supportive of growth and profits. Concomitantly, the family became more complex in terms of sheer numbers and also of expectations from the business. Management decisions required sets of trade-offs in order to survive.

It is postulated that the survival of a family-owned business is related to the ability to manage complexity. That requires the intentional management of the three systems, task, family, and environment and an understanding of their interrelationships. This concept is a departure from ideas in the literature which pinpoint the issue of successions as primary to the survival of the business. Seen in a systems framework, succession is a piece of the management work which requires planning and thought. It is a part of the complexity, not a prime cause for failure. Other identified problems in family businesses such as nepotism, father-son conflicts, entrepreneurial management style fall into place as squares in the quilt when viewed from a systems framework. The task of management then in a family business is decision making regarding how to manage the configurator as it stands at any point in time. The amount of overlap seems to determine the degree of organizational slack allowable for accommodation and negotiation. The degree of overlap is not related to the ability of the family business to function. Accepted thinking has been that overlap of family and business system means encroachment of boundaries and therefore lack of clarity and tendency to dysfunction, and that concomitantly, lack of overlap is healthy. The degree of overlap simply must be recognized and managed.

Throughout the literature, infiltration of family issues into the business has been viewed as a problem with the implication that as a problem it is solvable. The infiltration of family into the business is not a problem; it is a condition. It is therefore ongoing. There is no way to separate family and business. Even in the fourth stage in the case study, where the two sub-systems are separate, seepage occurred across the boundaries. Furthermore, as in a family, a business is influenced by its history.

The impossibility of separating family from business requires that the family component must be managed as an intentional piece of work with the acceptance of the adaptations required. This is also a departure from the literature and is paramount to the survival of the business. At various phases dependent upon the demands of the environment, the "people" component may be the determinant of work and structure. There is nothing inherently dysfunctional about that so long as decisions are intentional and thoughtful, and therein lies a significant challenge.

According to Herbert Simon (1976), decisions are at best intendedly rational. This would indicate that there will always be some degree of reactivity and programming in any decision. However, the ability of the business to survive is dependent upon organizational rationality. The challenge to management of and consultants to family firms is to be aware of and to monitor anxiety and reactivity which have their origins in the emotional history of the family. The value of the analysis of Events III and IV is that the effect of anxiety and intensity upon the business system is delineated. This in no way detracts from the fact that FSC stands as a successful family firm and a model in the genre. Anxiety and intensity are given when family and business come together and must be dealt with.

Survival is not tied to the degree of family infusion in the business, but to the ability of leadership to understand the nature of family infusion and to make decisions from a state of awareness. Survival is tied to the ability of the leadership to monitor and manage their own reactivity and anxiety. The processes and components of decision making are minimally understood. Therein lies a paramount research challenge, not only for family businesses but for all organizations.

Full understanding of family-business requires the development of a theory base. This research utilized two systems theories which, happily, complemented each other. One focused upon intendedly rational decisions, the other upon the impact of family emotional processes and programming. Any theory base which is developed will need to incorporate these two polarities and find ways to clarify the intersection of family emotional processes and decision-making processes.

Future Research

As indicated previously, this study departs from most research done in the field in that it attempted a systematic and theoretical approach on a macro-level, an examination of the overview or broad picture. Previous research has focused primarily upon the micro-level, i.e. upon significant issues which stood out in family businesses such as succession, entrepreneurial characteristics, or inherent weaknesses of the genre. The contributions of writers and researchers who worked on the micro-level was to provide the pieces and materials which pointed the way for a macro-level study. It was as if all the materials had been brought to the building site without an overall plan for construction. The macro-level approach permitted integration and assimilation. It is painting with a broad stroke.

The choice of this approach in no way detracts from the contribution of earlier research, but essentially builds upon it. The nature of painting with broad strokes may seem to obviate details as the focus of the researcher becomes the translation of detail into large movements or process. The development of the knowledge base of family business has been, then, from a focus upon detail to a focus upon the overview, or systems approach. Davis and Stern (1980) contributed the first glimpse of a systems approach and provided the germinal point for this work. More macro-level work is needed. This study is merely the tip of the iceberg or as indicated earlier, a survey of the terrain preparatory to the development of blueprints. It is also the first in depth study at the macro-level and requires verification. The charge of macro-level work is to reduce complexity through emphasizing the broad picture, thus offering clarity. It requires wading through a morass of details and data. This is a significant challenge to the single researcher who enters the arena of the family business which is inevitably fraught with reactivity and intensity, and brings to that arena his/her own reactivity or intensity. It might be well to consider using a research team in order to provide checks upon the seductiveness of detail and upon the researcher's reactivity.

This study was vertical or in depth. Through the use of a configurator, varying degrees of overlap were identifed at different times in the history of the business. The design of the configurator was subjective. Horizontal studies might produce additional knowledge. For example, entrepreneurial phases may not necessarily always be characterized by concentricity. Much would depend upon the state of the environment in that phase of the business. Further study is required to determine the relationships of phases of the businesses, state of the environment, state of the family, the resulting degree of overlap or complexity and management work. Family influence may take different forms dependent upon the size, age, stage of development, degree of professionalization, product or service of the family firm. All of this needs to be explored further from a macro-level view.

In addition to continuing macro-level research which is the prime need, other areas emerge as the result of the explorations of this study. Two have already been identified. They are the need to understand the components and processes of decision making in family businesses and the need to develop a theory base for understanding and diagnosing family firms.

Another critical area is the utilization of human resources in family businesses. Tashakori (1977) has provided information on the process of bringing in a professional president. The FSC case did not reflect the difficulties encountered in the Tashakori studies, and the development within the company of an "outsider" may be worthy of further investigaton. Methods of identifying and developing talent within the family would increase the effectiveness of family firms. Much energy has been addressed to creating a profile of the entrepreneurial personality; it might be fruitful to attempt to produce a profile of the second generation family leader. The utilization or lack of same of women is another possible area of research.

The existence and composition of boards of family-businesses have received attention. In particular, Leon Danco urges the formation of boards and the exclusion of family members from them. In FSC, the mixed board contributed to effectiveness. More information is needed on effective composition and boardsmanship in family-businesses.

The response of nuclear family systems to the forces of the businesses were observed in this paper. The business frequently filled the position of the third leg of a triangle completed by two spouses or by parents and children. Elaine Kepner, in an unpublished paper (1983) focuses upon the effects of business involvements on nuclear family. More work is needed in this area.

The thrust to grow seems to be inherent in most systems, and the family-business studied reflected that introject. Growth frequently requires acquisitions, start-ups or mergers. The work of Simon Hershon (1975) was valuable in understanding the phases of the growth processes in family businesses and a hypothesis emerges. It would seem that the characteristics of management of entrepreneurial and second generation business are antithetical. This can create difficulty with acquisitions, as indicated in the discussion of F. Automotive and in the S. Brothers study contained in Appendix D. Additionally, issues of values, patterns, myths and norms seem to affect the ability of the acquired and parent operations to unify. This area needs further study.

The application of Bowen Family Systems Theory was confined to the family system for the purposes of this research. Some work has already been done, notably by Kathryn Wiseman (1983) in focusing upon the applications of Family Systems Theory to work systems. It might increase organizational effectiveness to understand more about how the issues which the individual worker brings from family of origin intersect with those issues that characterize the work setting. The manifestations of those intersections upon the organization require exploration. Contemplation of the transfer of Bowen Theory to work systems raises the question of whether or not the knowledge gained through the study of family business as a system is transferable to non-family businesses. It may be that what is seen in family businesses represents a heightening and intensification of the processes that are extant in any organizational system.

And finally, moving from the hypothetical, the experience of researching FSC as a case study is viewed with gratitude. The selection of that particular company was based upon its reputation and the willingness of the CEO to permit the research. What has been learned is immeasurable. The longevity and productivity of the company speak to its success. It had its beginnings in 1902 and was incorporated in 1926. It serves as a model for other family businesses. Distinctions have been made regarding the need to manage both family and profit systems as significant pieces of work. The management style of the CEO, his ability to balance, and degree of awareness regarding his own reactivity are strengths which serve as guidelines. The use of consultation, attention to strategic planning, establishment of goals and objectives, contributed to the health of the organization. Within it could be seen those qualities which make family businesses desirable places to work - caring, warmth, and attention to individual needs and rewards.

In conclusion, four words remain figural: complexity, uncertainty, intensity, and anxiety. It may be that the coming together of those four issues within the boundaries of family-owned businesses creates a system that self-limits or even self-destructs. Certainly, it would seem that it is the management of those areas that determines the ability of a family business to survive or to survive well.

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In-Law III, Personal communication, January, 1983.

President III, Personal communication, January, 1983.

Senior Vice-President, Personal communication, January, 1983.

Son of CEO, Personal communication, January, 1983.

Footnote

[1]To date, most entrepreneurs have been male, although there is evidence of change occurring presently.

APPENDICES

Appendix A

BARBARA S. HOLLANDER
272 Vee Lynn Drive
Mt. Lebanon, PA 15228

May 2, 1982

Dear

I am deeply appreciative of your willingness to participate in my dissertation research on family-owned business, and I look forward to our work. As I indicated in our recent phone conversation, I don't anticipate that the interview process will begin until September.

It is my understanding that the conditions for participation are as follows:

> You will act as liaison person for any interviews written for dissertation.
>
> You retain the right to review the material written for the dissertation.
>
> I will not use any anecdotal materials in the dissertation that you might wish to use in your memoirs.

I would like to meet with you before I leave for the summer to plan and to discuss the possibility of assembling written materials such as written history of the company, corporate charter, and correspondence that I might study. I will call for an appointment.

Again, I thank you for your support, interest, and time.

Sincerely,

Barbara S. Hollander

Appendix B

BARBARA S. HOLLANDER
272 Vee Lynn Drive
Mt. Lebanon, PA 15228

Consent to Participate

I hereby consent to and agree that the information obtained by me for the research conducted by Barbara S. Hollander, Ph.D. Candidate, University of Pittsburgh, may be used for publication.

____

__________________Date

Appendix C

Interview Questions

Section A.

Personal data: date of birth, place of birth, sibling position, marital status, number of children and grandchildren.

Educational history.

Work history.

When did you become affiliated with FSC? What were the circumstances?

Section B.

Series of questions designed for individual interviewed based upon experience and position with the family and company.

Section C.

What determines the nature of family and business influence and participation?

What were the critical or formative events in the history of the family and of the business?

To what do you attribute the lack of interest on the part of the fourth generation?

How does the family impact the business and vice-versa?

What are the rewards, challenges, difficulties of involvement with FSC?

What is your prediction for the future of the business?

What would the response of the family be if there were not a family member at the head of the business?

Would you encourage your children to go to FSC? Any family business?

Appendix D

Preliminary Study: S. Bros., Inc.

The purpose of this preliminary study was to utilize the theoretical frameworks described in order to alert the researcher to significant issues in family-business which were then examined in depth in the major case study. It was not meant to act as a source of comparison, but rather was a pilot. It was the precourser which honed observational and thought processes.

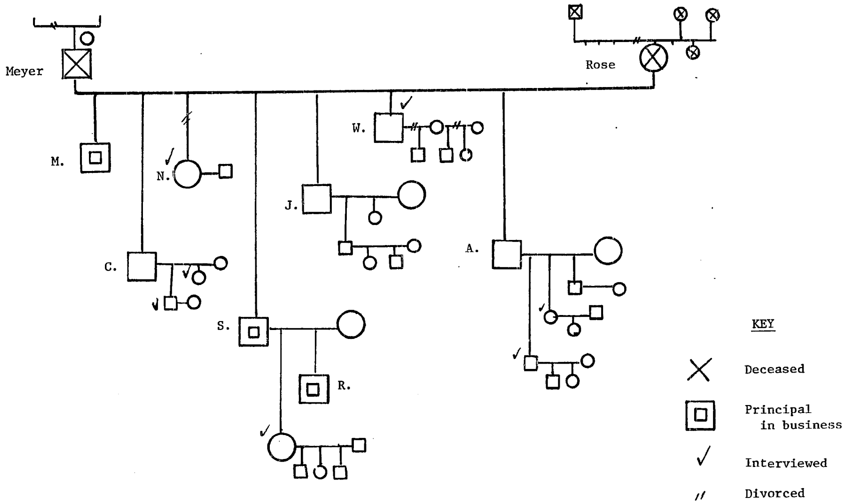
History of the Family

S. Bros., Inc. was a corporation in which three brothers were principals: M., A., and S. (Genogram, Figure A). The business was established in 1944 as R., Inc., with the opening of a credit clothing store in Wheeling, West Virginia. Expansion brought two additional stores in Weirton, West Virginia and in Chester, Pennsylvania. When credit clothing operations were no longer profitable enough, the brothers entered discounting. They owned, operated and controlled a chain of leased departments selling popular priced men's wear within stores of the type represented by Hill's, Zayre's or Heck's.

The principals of the business were the sons of Rose and Meyer S. who were Polish immigrants. Rose emphasized the

Figure A

Genogram: S. Bros.



necessity of being responsible for one another. She is remembered as asking repeatedly, "Where is your brother? Go find him." and "Do for your brother before you do for yourself." An introject of "I am my brother's keeper" developed and became a motivating force in the business.

Rose's husband, Meyer S. emigrated to the United States from Lodz, Poland in 1907, preceding his wife and infant son, M., by one year. Thereafter, they were reportedly cut-off from their respective families of origin. Closeness, loyalty, protectiveness became rallying points for the developing nuclear family which established itself in the Bronx on the edge of Harlem.

Meyer sought work as a tailor and was frequently unemployed. The family mode was survival, and the siblings supported the family as soon as they were old enough. Meyer was reportedly a gentle, withdrawn man who seemed shadowy in contrast to the toughness and energy of his wife. Achievement and vigor evolved as issues in the family. Of eleven cousins in the third generation, eleven are college graduates and ten have advanced degrees. As a member of the family, it is doubtful that any other option seemed to exist.

The marriage of Rose and Meyer was reportedly conflictual; Meyer was seldom able to please her. It appears that he was displaced by the two older sons who may have shared the father role. M., the oldest, is a gentle man who is highly respected by the younger siblings. His advice and consent were sought by them before undertaking new ventures. C. was the physical protector of the family who threatened those who might attempt to take advantage of another sibling. M. has never married; C. married at age 39.

N., the only sister, has been the hub, connector and mother to the emotional processes in the family; she married only after her own mother died. At the point of her marriage, distancing and emotional cut-off occurred between N. and various brothers. She participated in the business as a buyer and invested money upon request. She was never offered ownership, a factor which seemed to contribute to emotional distancing in later years. Her lack of participation established a pattern for daughters in the next generation.

S. was the entrepreneur of the business, and temperamentally explosive. It is reported that M. found him the most difficult to manage; yet they became partners in the business. J. was the appointed achiever in the family and the only college graduate; others in the family pooled their resources to assist him in his education. J. shocked the family by marrying an outsider; a "shiksa," a non-Jew. In order to dissuade him from his intention his mother, with limited command of the English language, traveled by herself on a train from New York to St. Louis. Unable to convince J. or his intended bride of the folly of their choices, she required the ritualistic conversion before she would accept her daughter-in-law. The first certificate of conversion was not acceptable because it was not written in Hebrew; the ritual was repeated.

W. was the baby of the family for ten years; he has been divorced twice and cut-off from his oldest son. Criticizing the family business as a capitalistic enterprise, he rejected an invitation to enter. A., who became a principal in the business, was a mid-life baby and the family pet. In sum, the operating principles of the family were loyalty, closeness, responsibility for each other, and unity. These were reflected in marriage patterns and emotional distancing after N.'s marriage. A triangle consisting of the mother, the father, and the children seemed to leave father on the distant leg, increasing the intensity between mother and children, and thus her influence. Separating from family seemed to be achieved with difficulty.

<u>History of the Business</u>

In the late '30's, M. was associated with an organization which owned, operated, and controlled a large number of credit clothing stores, Moses Trading Company. He had worked his way to a position of buyer. S. had no direction and was floundering. M. arranged for a job with Moses Trading establishing a pattern for entering business. Floundering became the pre-requisite. S. was not committed to working in the retail business and looked for work elsewhere, applying for a better paying job as a hod carrier. However, that work, as well as other avenues, did not materialize.

S. eventually became the fair-haired boy of Moses Trading and was asked to transfer to Wheeling, West Virginia where one of the stores was operating below expectations. Promised mobility and ownership in the corporation, S. moved with his wife and infant daughter. The promised promotions did not materialize despite increased profits. In 1944, two years after the birth of his only son, R., three years after leaving his family of origin in New York, and at the time of the Holocaust in Europe, he founded R., Inc. the first of a chain of three credit clothing stores. Always reluctant and cautious, M. enterd the partnership with trepidation. Only after S. threatened to venture without him did M. accede. The threat of separation was a strong weapon. They founded the business with an investment of $7,000: $500 borrowed from their father, the bulk in the form of credit extended by the manufacturers who knew and trusted M., and the remainder what they could scrape between them. The first year volume was $75,000. S. built the display racks and installed the fixtures himself. He worked seven days a week, driving on weekends to the coal camps to sell blankets on credit in order to encourage the establishment of accounts which would bring customers into the store to make payments and hopefully to buy additional merchandise. He was a one-man show, a portrait of a traditional entrepreneur.

The business prospered and grew to an operation which in 1977 grossed $25,000,000 (see Business History: Figure B). Ownership passed to the second generation and the business outlasted the average lifetime for a family firm. It is difficult to determine whether the prime motivating factor was to create a family-owned business or a business for the family. S. reports that there was never any consideration given to bringing in outsiders. "One account outfits the entire family" was adopted as the slogan--a family business designed to serve the needs of family.

Numerous family members worked in the business for varying periods of time. (Those who worked in the business are denoted by a check-mark in the Genogram, Figure 13.) The business was a gathering ground and focal point for family. Those who were not in the business often received benefits in the form of clothing or short term jobs. Overall, there was great pride in the accomplishment. As A. has said:

> You look up and there are a lot of guys above you; you look down and you left a lot of guys at the starting gate. I think it's a hell of a story.

In 1944, the first of the credit clothing stores was opened. At that time, credit cards were not widely used, and payment in department stores was on a cash basis. The credit clothing store had been flourishing since the mid-Thirties.

Figure B

Business History - S. Bros.

Date	Event	Finances
1944	R.Founded Wheeling, W.Va. First of three credit clothing stores	Investment $7,000 First year volume $75,000
1946	Opened Store II Weirton, W.Va.	Investment $55,000 First year volume $60,000
1951	Purchased Store III Chester, Pa.	Investment $75,000 First year volume $125,000
1954	Fire at Store III	No net loss
1958	Began discount operations	Investment $25,000 First year volume $375,000
1959-1961	Credit clothing stores sold	For $80,000 in accounts receivable; received $.60 per $1.00
1967	Dissolution of S&S	Division of assets
1960-1967	Expansion to 7 departments	Volume $3,000,000
1968	Merger with B.L. Inc.,N.Y.,N.Y. Ladies ready-to-wear; established men's and boy's division	Salary plus 15% ownership of corporation - Volume: Corporate $45,000,000 Men's Division $ 4,500,000
1975	R. enters B.L.,Inc.	30 departments
1977	Merger II	141 departments--nationwide Volume: Corporate
$75,000,000		Men's Div.
$25,000,000		
1977	M. Retires	
1979	S. Retires	Transfers stock to R.
1980	R. begins entrepreneurial ventures	
1983	Dissolution	

Despite unequal investment of money, assets were divided equally between M. and S. In 1945, A. returned from the war and was undecided about career directions. His first choice was professional baseball, but his return to the States coincided with off-season, and he needed to find a way to earn money. His two older brothers suggested to him that he work in the store. It appears that the goal of the suggestion was to engage him in a training process. The amount of work available did not demand additional help.

In 1945, the second store was opened with A. as the manager. He was offered one-third of the profits, and no investment of money was required. In a sense, A. entered the business by defualt, just as S. had, and as S.'s son would. When asked why those three brothers had been selected for the business, all three responded that the rest of the siblings were involved and taken care of. Ownership, however, was limited to the three brothers and the son of the entrepreneur. In a sense, the business was a shelter; it offered protection and a way for the brothers to continue the family norm of taking care of each other. It was an Alma Mater.

In 1951, a third store was purchased and A. moved to Eastern Pennsylvania to manage it. Professional management was hired for the Weirton store and that individual remained with the company until its final merger in 1977. Other employees remained with the business for more than twenty-five years.

Loyalty seemed to engender loyalty.

By 1957, department stores were offering credit accounts and the age of plastic money had arrived. The country had experienced a recession in the early Fifties and consumers were becoming more price conscious. With the increase in available credit and competitive pricing, credit clothing stores began to die out as the prime supplier of soft goods to low-middle and lower income families. S. was the strategist and planner of the three brothers. He attended business seminars and followed market trends. By the mid-Fifties a new concept in soft goods merchandising was beginning to appear: discounting. Merchandise in large lots or overstock was purchased from manufacturers. The retailer offered the consumer a lower price, sometimes on name-brand items which drew the customer to the store. The operation was on a cash basis only and did not offer personalized attention to the customer, thus reducing the work force and overhead.

S. learned of the planned opening of a discounting operation in Wheeling and approached the owners with a proposal of partnership, which was accepted. In 1958, the brothers opened their first leased department selling men's wear. During the next nine years, seven such departments were opened in various parts of the country.

In 1967, the partnership with a Columbus discounting magnet which launched the brothers into the discounting phase, was dissolved. All the brothers agreed that they could have made a lot of money by remaining associated. However, evidence of lack of loyalty on the part of the Columbus partner enraged S., and despite overtures and promises, the partnership was dissolved. S. reportedly said, "Look, you have your family and we have ours." Also, in 1967, the brothers turned down an offer to merge with a national discounting chain, which was "on the fast track." They refused the offer because the prospect "wanted to send S. to Texas, A. to California, and M. to New York. "We weren't ready for that" (S., 1982). Issues of loyalty, protection, and togetherness seemingly influenced the decisions as much as profit making capabilities which seemed secondary.

Additional financial resources were needed in order to insure expansion. Volume purchased from the manufacturers meant lower prices and increased profit margin per item. In 1968, S. Bros. merged with B. L., Inc., a public company. Again, it is suspected that the importance of profit was balanced by the importance of maintaining autonomy which in turn was a means to keep the family forces undiluted. The unamimous reason for accepting the offer despite overtures from other corporations, was that the proposal offered autonomy. The brothers would oversee the establishment of a newly formed men's division in a hitherto women's wear business. Eventually, it offered them a way to continue to function as they had in the past without violation of family values. There is some question about the purchase price. It has been suggested that the brothers might have sold short. Indeed, the realized gross was considerably more than the projected gross nine years later.

Although they gained resources through the merger with the B. L. Company, they sacrified control. In 1977, that company merged with another. The decision making process did not include the brothers. That merger brought with it the termination of a informal organization with a high degree of autonomy. A formal reporting system was instituted. Difficulties with other executives in the organization were reported, and level of conflict throughout the organization increased.

M.'s retirement in 1977 occurred immediately after Merger II. S. retired two years later in 1979, earlier than expected by the family. The various sources of discomfort for S. are not wholly identifiable, but they were forceful enough to encourage this man who had been enmeshed with the business to leave it. It is notable that A. experienced mild depression during the year after S.'s retirement. S. transferred his stock to his son, R., who had entered the business in 1975, thus passing the mantle to the second generation of the family to enter the business.

Management Succession

The history of the interrelations of the business and the nuclear family of S. is one which demonstrates the conflicts and difficulties of management succession. As reported previously, R.'s, Inc., the first of the clothing stores, was established three years after S. left New York and two years after the birth of his only son, R., for whom the store was named. It is also notable that S.'s first episode with low back problems occurred within a year of the opening of the store. In large part, physical symptoms in the family take the form of orthopedic maladies. R. also has back complaints.

S. admits that his vision in founding R.'s, Inc. included the development of a chain of stores that would be valuable enough to bequeath to his son. When asked what thoughts he had regarding the fact that the store and he had the same name, R. responded, "I never knew which came first."

R. recalls that he always knew he would wind up in the family business. It is notable that the expansion into discounting occurred when R. was sixteen and shortly after the marriage of S.'s only daughter, two important family life cycle events. R. recalls hoping that somebody would "kick him in the ass" (R., 1982) so that he would seek other options. His mother pushed him toward areas outside the business, while S. pulled toward the business. This also mirrored some conflict in the marriage, which was frequently played out in issues related to the business.

R. proceeded to engage in the floundering which had been requisite for entrance into the family business. It appeared that being taken care of was a part of the function of the business and a way to enter it. R. had difficulties in college, and spent time in Europe. He returned to college, and after graduation, entered the business. This proved unsatisfactory, and he decided that law school would provide an escape. However, entrance into law school did not materialize; he spent time in Denver where he opened his own business with some financial backing from S. Encountering financial problems, he re-entered the family business for the third time. Reportedly, there was considerable father-son conflict during R.'s orientation to the business and the mentoring responsibilities were given to A. After S. left the business, R. began his own entrepreneurial ventures. He remains single but has recently formed an ongoing relationship.

None of the three offspring of A. evidenced interest in entering the business. As in the nuclear family of the entrepreneur, the mother discouraged participation and urged careers in the professions. All three followed that path. In 1983, the business was sold, leaving A. and R. faced with decisions about career directions.

Observations and Implications for Research

The S. Bros. Corporation had no written purpose or sets of goals. There existed a charter which was pro forma, drawn by the attorney using language of convenience to describe intended operation. No statement or organization intent was drawn. It may be hypothesized that the absence of intentionality left the boundaries of the task system highly permeable to the values and dynamics of the family system. In other words, the organizing principles of the family substituted for organizational purposes and goals. Loyalty, togetherness, protection, equality, charity, achievement, and the motto, "I am my brother's keeper" which were the rallying points for the family became the guiding forces for the business. The business became an extension of the family and a way of keeping the family together and supporting it. Both S. and A. were reportedly not profit motivated, and A. has commented that he just wanted to earn enough to take care of the family. The influence of togetherness was a driving force and may have been related to the immigration process in the family origin. Profits were important, but family had priority.

Congruency of business and family organizing principles seemed to support the functioning of the business. This congruency was evident in the decision making processes and in the low degree of conflict. Additionally, for most of the life of the business, until the late Seventies, the marketplace also was supportive. The management was not faced with meeting disparate demands from business needs, family values, and the marketplace.

There was not an intentional assumption of work functions within the business. The brothers gravitated to responsibilities that were congruent with their talents, most comfortable, and also created balance. S. was the visionary, A. the energizer, and M. the stabilizer. Entry into the business was based upon need for protection rather than upon individual choice.

Preservation of autonomy both as individuals and as an organization received high priority. Each brother had his own area of responsibility. S. and A. each oversaw the management of particular stores and M. was the buyer. It was expected that the "figures", i.e., information about profits, losses, what was selling and what wasn't, would be reported weekly. Sheets of figures would be spread out on the dining room table in the Bronx when the brothers would meet for buying trips and planning. On a day to day basis, they functioned independently.

S. Bros. was a non-hierarchical, flat organization. It was informal as opposed to formal and intuitive more than strategic. No one held the title of president or chief executive officer. Although S. was the acknowledged entrepreneur and driving force, he said, "I never felt in myself that I was head of the outfit" (S. 1982). With regard to sibling position, it is important to remember that S. was fourth of seven; M., the oldest, probably functioned as a father figure; and A. was the youngest. It is conceivable that the flat organization resulted from the need not to undercut M.'s family position. It also is congruent with the family principle of equality.

The informal system was powerful. Although the least energetic and active of the brothers, M's influence was significant. Decisions were dependent upon his participation. In later years, the two younger brothers became protective of him, sparing him "worry." His influence at that point declined.

One of the sources of pride for all three brothers was the minimal conflict that existed among them. It was also a source of amazement to their associates in the retailing trade. Most family observers agree that the combination of M., A., and S. was the least likely to be able to work together successfully. The erasure of differences and the assumption of confluence became the hallmark. Reportedly, the family of origin did not have a peace-agree mode; conversely, conflict was common. M. found S. difficult to manage in early years, and A. has been physically aggressive in social settings. S. has been known for his explosive temper, both in the nuclear family and with employees in the business. He was a boxer in his twenties.

It is conceivable that the lack of expression of conflict is a vehicle for maintenance of the organizing principles of family togetherness, loyalty, and protection. Occasional expression of conflict between the wives may have balanced the lack of conflict between the brothers. An insider-outsider polarity developed between those who were involved in the business and those who were not, but did not de-stabilize the system. While lack of conflict helped to maintain the business there is also a possibility that it detracted. To be productive, the process of decision making requires dissent.

In 1977, the second merger occurred, and the brothers had little part in the decision making process. The merger brought with it requirements for a formal reporting system, loss of autonomy, and enlightened conflict throughout the organization. Additionally, the marketplace was beginning to show the effects of inflation, creating additional pressures for the business. The new parent organization was not supportive of established family values and functions. It was at this point, that two of the three brothers retired. The system had become de-stabilized by hostile forces in the environmental field.

The dissolution of the business left R., the son of S., with the opportunity of choice in his career. Interestingly, he sought an entrepreneurial venture. His participation in the family-business had been determined by the injunctions of the family messages, and the triangular dynamic that existed between him and his parents.

Issues emerged from the preliminary study of the S. Bros. which were similar to those in the major case. They included the following: the use of the business as an Alma Mater, valuing closeness and unity, and matriarchal inculcation of values. Female offspring did not participate in management. Both families came from immigrant experiences and both businesses had dual purposes: for profit and for family. Issues of autonomy, inclusion and exclusion, and growth around nodal events were inherent to both. The power of the informal system and low conflict as it affected dissent and therefore decision making were also common. Management succession heightened intensity in both studies. Functionality of the businesses was high in times of congruency between family values, the marketplace and business needs; concommitantly, functionality decreased when incongruency among the three occurred leading to uncertainty.

Appendix E

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