
**THE WHARTON SCHOOL
OF THE UNIVERSITY OF PENNSYLVANIA
PHILADELPHIA PA**

Strategies and Practices of Family-Controlled Companies

Management 233

**COURSE SYLLABUS
Spring 2009**

INSTRUCTOR:

Mr. William H. Alexander – Lecturer

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OFFICE HOURS:

Tuesday and Thursday 10:30 AM to 12:00 Noon

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Course Description

Family-controlled private and public companies are the dominant form of enterprise worldwide, comprising more than 90% of all businesses. They are currently undergoing intense competitive transition in form and function and more than three trillion dollars of assets will change generational management during the next ten years. This course is designed for those persons who desire to understand the distinct strategies and practices of family-controlled companies and family wealth management. It will focus on shareholder decision-making; financial and market-driven options for long-run competitiveness, organizational structures, and management team issues; strategic planning from a resource-based perspective; transition planning for the corporate entity, family dynamics and communication issues; and leadership empowerment. The course is intended for those who plan to consult or provide professional services to family-controlled companies and for those contemplating a career in a family firm. It will present both a theoretical framework for understanding the family form of business organization and a practice perspective on consulting to family firms and/or working as a family member in the family business.

Course Learning Objectives

- A. *Develop a Theoretical Framework:* Students should develop a theoretical framework for understanding and assessing the unique performance requirements and capabilities of the family form of business organization. They will meet this objective through course readings, lectures, and open dialogue comparing their current organizational and management understanding with the framework presented in the course.
- B. *Develop a Practice Perspective:* Students should move beyond theory to develop a working knowledge of how to address the idiosyncratic organizational, management, financial and relational dynamics present in family-controlled companies. This practice perspective will be gained through case study preparation and class exchange, interaction with family business professionals during living cases and through open dialogue with the class instructor and guests who have active consulting practices with family-controlled firms.
- C. *Improve Personal Skill Set:* Students should be challenged to improve their personal skills in the areas of communication, conflict resolution, diagnostic assessment, solutions finding, and writing case based materials. The class is intended to be very interactive and to encourage students to look first at themselves and then at how to lead others toward change (the order for all change efforts).

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- D. *Expand Personal Knowledge Base:* Students should view this class as an opportunity to greatly expand their personal knowledge base through exposure to new and diverse management theories, organizational practices and structures, relationship dynamics, and transition strategies. No other class at Wharton will present students with a comprehensive theoretical and practical understanding of the predominant form of business organization in the world.

Course Format

The class is structured around topical lectures and guest presentations that explain the strategies and practices for managing and transitioning the organizational, human process and financial resources of family-controlled companies. The lectures are brought to life through the dialogue of students with the professor's framework for managing family-controlled firms, case applications, and interaction with family business professionals and service providers. Classes and assignments will provide students with the following opportunities:

- To gain an academic and practice framework for assessing the long-run performance capabilities of family-controlled companies.
- To hear lectures from and interact with academics, family business practitioners, and psychologists.
- To participate in living cases with family member owners and managers.
- To examine in-depth case studies which address various aspects of the management and transition of family-controlled enterprises.
- To prepare written analysis and recommendations concerning family-controlled companies.

Course Requirements

The course is open to all Penn undergraduate students. There are no prerequisites for taking the class.

The following outline presents the course requirements:

A. *Term Project*- Students will be required to submit a field research oriented paper (approximately 15- 20 pages), from a specific area of interest to the student because of a known situation. Examples of potential projects include:

- ❑ An implementation plan including procedures to overcoming resistance to change for professionalizing and restructuring the governance systems of a family-controlled company.
- ❑ An analysis of the health, differentiation, and communication capabilities of a family ownership group with a diagnostic plan to address the dysfunctional aspects of the family and business.
- ❑ An analysis of the organizational and financial options open to a family ownership group with an implementation plan for motivating and moving them into the future.
- ❑ The development of a plan to empower oneself in a future business endeavor.
- ❑ The development of a manual of best practices for consulting with a family business

Paper due May 4, 2009

B. *Case Papers* – Students will be required to prepare three individual and one group written case presentations (3 to 5 pages) during the course of the semester. Case papers will be due the day the case is discussed in class and no exceptions will be made for late papers due to the nature of case presentations. An optional case may be submitted if the student desires to improve his/her grade. The instructor will utilize the 4 highest case study grades in determining the final grade if the optional case is submitted

- J. Perez Foods (A) – 2/10*
- Salvatore Ferragamo Case – 2/26*
- Ottawa Devices, Inc – 4/9 (Group Project)*
- Franklin Harris & Sons – 4/16*
- Steinberg A & B Case – 4/23&4/28(Optional)*

C. *Attendance and Class Participation*- The success of this course is based on the Student’s consistent preparation, regular attendance, and active participation in all class discussions. The student’s informed contributions to the learning process are expected on a regular basis, therefore, attendance is mandatory The Instructor reserves the right to drop from the rolls any student missing four (4) or more classes in accordance with University regulations.

D. *Evaluation and Grade* – Student grades will be determined in the following manner:

Term Paper	50%
Case Write-Ups (4 ea. @ 10%)	40%
Class Participation:	
Communications Exercise	3%
Conflict Exercise	2%
Attendance and Participation	<u>5%</u>
TOTAL	100%

Course Materials

REQUIRED AND BACKGROUND READING FOR CLASS DISCUSSION AND QUIZZES:

1. Coursepack (Wharton Reprographics)
2. Family Business Source Book, 3rd Edition, Aronoff, Astrachan & Ward

RECOMMENDED FURTHER READING:

3. Strategic Planning for the Family Business: Parallel Planning for Family and Business Unity, Carlock & Ward
4. Generation to Generation, Gersick et al.
5. Working with the Ones You Love, Jaffee
6. The Hero's Farewell, Sonnenfeld
7. Getting to Yes, Ury & Fisher
8. Keeping the Family Business Healthy, Ward
9. Creating Effective Boards for Private Enterprise, Ward
10. The Speed of Trust, Covey

MGMT 233 Strategies and Practices of Family-Controlled Companies

Spring 2009

PART 1: THE THEORETICAL FRAMEWORK

1/15 **INTRODUCTION: THE STEWARDSHIP OF A FAMILY BUSINESS**

Session One: will introduce the student to the study of family-owned business. The student will receive an overview of the course contents and requirements and will be introduced to the concept of **STEWARDSHIP** upon which all successful family businesses are built.

Readings:

1. *The Copper River Salmon Run(Course Pack)(Pg 1)*
2. *The Critical Value of Stewardship, Aronoff. Ward (Sourcebook, pg 713)*
3. *Stewardship and Ownership, Blethen (Course Pack)(Pg 3)*

1/20 **THE THEORETICAL FRAMEWORK – STEWARDSHIP**

Session Two: will present the stakeholder perspective of managing family controlled companies for long-term success.

Reading (Course Pack)

1. *Toward a Stewardship Theory of Management, David, Schoorman & Donaldson(Pg 7)*
2. *Case Study: Succession and Continuity For Johnson Family Enterprises(A)(Pg 35)*
3. *Article: How the Bancrofts Blew It, New York Times(Pg 49)*

1/22

THE THEORETICAL FRAMEWORK: THE RESOURCE BASED APPROACH

Session Three: will introduce “familiness” which is the resource-based framework from the field of strategic management that measures the competitive capabilities of family controlled firms.

Readings (All in Course Pack)

1. *Firm Resources and Sustained Competitive Advantage(Pg 51)*
2. *Case Study: Of Jams and Family, Malcolm(Pg 63)*
3. *Case Study: Father-Son Struggle Splinters Dynasty(Pg 67)*

1/27 THE THEORETICAL FRAMEWORK: CASE STUDY

Session Four: will explore how a family brings both distinctive and constrictive resources to a business.

Reading:

1. *Case Study: Lee Kum Kee Co. LTD (B)(Pg 75)*
2. *Case Study: Sweet Smell of Succession (Course Pack)(Pg 81)*

PART II: THE GOVERNANCE TOOLS FOR RESOURCE PRESERVATION

1/29 GOVERNANCE: INTRODUCTION

Session Five: will introduce how and why the complex system of inter-related parts requires constant intervention with tools of governance and why trust is essential to any implementation of these governance tools.

Readings:

1. *The Trust Catalyst in Family-Owned Businesses, LaChapelle & Barnes (Sourcebook, pg. 446)*
2. *The Enemies of Trust, (Course Pack)(Pg 103)*
3. *Governing the Business Owning Family, Lank and Ward(Sourcebook, pg. 462)*
4. *The High Cost of Low Trust, Allred (Course Pack)(Pg 113)*
5. *Case Study: Iggy's Bread of the World(Course Pack)(Pg 89)*

2/03 GOVERNANCE: THE FAMILY MEETING

Session Six: will explore the importance of a family meeting with good process in removing ambiguity from the family business model.

Readings

1. *The Family Council: How Families Plan for the Business(Course Pack)Read pages 117-124, scan pages 125-131*
2. *Perceptions are Reality: How Family Meetings Lead to Collective Action, Habbershon & Astrachan(Sourcebook, pg. 470)*

2/05 GOVERNANCE: THE FAMILY CHARTER

Session Seven: will introduce the concept of a doctrine agreed to by the family for insuring long-term stability in the system.

Reading (All in Course Pack)

1. *Case Study: Corbin Pacific(Pg 133)*
2. *Questions to be Answered in a Family Charter, Ward(Pg153)*
3. *Family Charter, Patino (Scan)(Pg 155)*

2/10 GOVERNANCE: THE FAMILY-INVOLVEMENT POLICY

Session Eight: will present models and discuss the policies for managing family member involvement in all levels of the company. It will explore why policies such as shareholder opportunity doctrines, and procedures such as employment committees are both necessary and worth the effort over the long run.

Readings:

1. **Graded Case Study: J Perez Foods (Course Pack)(Pg 173)**
2. *Family Involvement Policy, Wiszniak(Course Pack)(Pg189)*
3. *Managing Human Resources in Family Firms, Lansberg (Sourcebook, pg245)*
4. *Working with Relatives in the Family Firm, Taguiri (Course Pack)(Pg195)*
5. *Implementing a Policy for In-Law Involvement in a Family Business, Mcguire(Course Pack)(Scan)(Pg 201)*

2/12 GOVERNANCE: THE SHAREHOLDER MEETING

Session Nine: will explore the role of family ownership and how the shareholder meetings can be an asset in preserving family wealth.

Readings

1. *Responsibilities & Rights of Family Shareholders of a Family Business, Davis (Course Pack)(Pg221)*
2. *Developing Effective Ownership in the Family Controlled Business, Ward (Sourcebook ,pgs174-179)*

2/17 GOVERNANCE: THE BUY-SELL AGREEMENT

Session Ten: will introduce the unique aspects of financial planning in privately held and/or family-controlled companies. It will discuss strategies and mechanisms for addressing the transition planning needs of both the business and family.

Readings

1. *Buy-Sell Agreements for Privately-Held Corporations, Block (Course Pack)(Pg223)*
2. *Share Restrictive Agreement, Alexander, Inc(Course Pack)(Scan)(Pg 233)*
3. *Understanding Buy-Sell Agreements, Carlson (Sourcebook, pg. 189).*

2/19 GOVERNANCE: THE BOARD OF DIRECTORS

Session Eleven: will detail the well-constituted Board of Directors that enables family-ownership groups to provide effective accountability over the operating company and/or the family's investable assets. It will discuss the relationship between the Board and organizational efficiency when there is family ownership and management.

Readings

1. *Case Study: Stevenson Industries (A) (Course Pack)(Pg247)*
2. *Ten Myths About Outside Boards, Ward and Aronoff (Sourcebook, pg252)*
3. *Outside Boards & Family Businesses: Another Look, Schwartz & Barnes(Sourcebook, pg. 267)*
4. *Board of Directors of the Family Firm (Course Pack)(Pg271)*

2/24 GOVERNANCE: THE HUMAN RESOURCES PLAN

Session Twelve: will discuss how to build a management team when there are family owners and non-family members on the team. It will present models for how to compensate, provide objective incentives, and evaluate top managers in a family-owned and managed company.

Readings:

1. *Case Study: Ireka Construction Berhad (Course Pack)(Pg 287)*
2. *Case Study: George Barker (Course Pack)(Pg 297)*
3. *How Do You Compensate Your Children?, Rivers (Course Pack)(Pg 299)*
4. *Family Business Compensation, Rivers (Course Pack)(Pg 301)*
5. *The Compensation Plan, Alexander(Course Pack)(Scan and bring to class for reference)(Pg303)*

2/26 GOVERNANCE: GRADED CASE STUDY

Session Thirteen: *Graded Case Study: Salvatore Ferragamo, SpA (Course Pack)(Pg 319)*

3/03 GOVERNANCE: LIVING CASE STUDY

Session Fourteen : Peter Francis, CEO of the J. M. Huber Company, one of America's largest family owned businesses, will explain how a family business with more than 100 shareholders, most of whom are inactive, governs itself.

PART III: THE REQUIRED SKILL RESOURCES

SKILL I – STRATEGIC PLANNING

3/05 Session Fifteen: will present an overview of the unique components of the strategic planning process for family-controlled firms. It will discuss how to move companies to a planning readiness stage and how to use the planning process as a transition tool for leaders, the management team, and the shareholder group.

Readings

1. *Case Study: Anderson Steel Services, Inc.(Course Pack)(Pg 343)*
2. *The Special Role of Strategic Planning for Family Businesses, Ward, (Sourcebook, pg. 126)*
3. *Strategies for Family Firms ,Nelton (Sourcebook, pg. 119)*
4. *Planning Note, Alexander (Course Pack)(Pg 351)*

3/17 SKILL II – CONFLICT RESOLUTION

Session Sixteen: will focus on specific skills and strategies that future leaders need to utilize in order to communicate and resolve conflicts inherent in ownership and leadership transitions. T

Readings:

1. *Different Drummers (Course Pack)(Pg353)*
2. *The New Science of Siblings, Kluger (Course Pack)(Pg 369)*

3/19 SKILL III - CHANGE MANAGEMENT

Session Seventeen: will discuss the change process in family-controlled companies. It will analyze the cultural, organizational, and human life cycle aspects of change and develop strategies for assisting family groups in transitioning over time.

Readings (All in Course Pack)

1. *Case Study: Precista Tools AG (A)(Pg 377)*
2. *Meeting the Challenges of Disruptive Change, Christensen & Overdorf(Pg 385)*
3. *Executing Change: Seven Key Considerations, Nohria & Khuran(Pg397)*
4. *Principles of Family Business System Change, Davis (Pg 407)*

3/24 SKILL IV - COMMUNICATIONS: THE DIFFERENTIATED COMMUNICATION

Session Eighteen: will explore strategies for how to empower leaders on multi-generational teams. It will distinguish between being empowered and having power with a particular emphasis on moving from a parent-child to a peer relationship.

Readings

1. *Getting Things Straight, Jaffe (Course Pack)(Pg 409)*

3/26 SKILL 1V - COMMUNICATIONS: (Continued) LEADERSHIP EMPOWERMENT AND MULTI-GENERATIONAL TEAMS

Session Nineteen: will focus on the role of the process agent to establish safety in the family for speaking on issues of importance to a family member. The student will analyze what experiences in their life have affected their ability to communicate clearly.

Readings:

1. *Review "Getting Things Straight"(Pg 409)*

3/31 COMMUNICATIONS, CHANGE MANAGEMENT, and CONFLICT RESOLUTION EXERCISE

Session Twenty: To practically apply the communications skills presented in the preceding two classes as well the other skills presented in this course; students will utilize a case study to address issues within a family business.

Readings

1. *Case Study: Bhiwar Enterprises (Pg 427)*
2. *Different Drummers (Course Pack)(Review)(Pg 353)*
3. *Meeting the Challenge of Disruptive Change (Course Pack)(Review)(Pg 385)*

4/02 SKILL V: DRIVING THE VALUES, VISION, AND MISSION OF THE FAMILY INTO THE FIRM.

Session Twenty-One: will examine Hatfield Quality Meats, a firm that is driven by clear ownership values, vision, and mission. It will provide students with an opportunity to explore the definition of "value creation" in closely held companies and discuss the tensions between maximizing economic behavior and firm level socio-economic issues with the CEO of the firm, Mr. Phil Clemens.

Readings

1. *Vision: The Key to Leadership, Nanus (Course Pack)(Pg 439)*
2. *Hatfield Quality Meats: "Just Taking Care of the Place"(Sourcebook, pg. 710)*
3. *Case Study: Clemens Family Corporation (B), (Course Pack)(Pg 455)*

PART IV – TRANSITION OF RESOURCES

4/07 **TRANSITION: OWNERSHIP SUCCESSION**

Session Twenty-Two: will detail the need to plan the succession of ownership, which will not interfere with the succession of leadership. The concept of an ESOP and other trust documents will be analyzed as possible tools to achieve ownership succession.

Readings

1. *Case Study: Atherton Clothing Company (A) (Course Pack)(Pg 461)*
2. *Distinguishing Ownership Succession From Management Succession, Cohn (Course Pack) (Pg 473)*

4/09 **TRANSITION: OWNERSHIP SUCCESSION (Continued) FINANCIAL STRATEGIES AND SOURCES OF CAPITAL FOR MULTI-GENERATIONAL SUCCESS**

Session Twenty-Three: will present the concept of family ownership groups functioning as economic unit for long-run wealth creation. It will discuss how families identify their range of options on their “ownership options continuum” and look at operating versus harvest alternatives.

Readings

1. **Graded Case Study:** *Ottawa Devices, Inc (Course Pack)(Pg 481)*
2. *Why We’ll Never Go Public, Johnson(Sourcebook, pg 154)(Scan)*
3. *Creating Liquidity for Family Business Shareholders, Davidson(Course Pack)(Pg 499)*

4/14 **TRANSITION: Ownership Succession (Continued) FINANCIAL OPTIONS: A LIVING CASE STUDY – THE WOLF ORGANIZATION**

Session Twenty Four: will expose the student to the unique way a fifth generation business, the Wolf Organization, undertakes ownership succession from generation to generation. Mr. Tom Wolf, former CEO of the company, will lead the class discussion.

4/16 **TRANSITION: EMPOWERING THE SUCCESSOR FOR LEADERSHIP**

Session Twenty-Five: will focus on the leadership empowerment process for successors. It will utilize a case to discuss the career perspectives of successors and present various empowerment/mentoring models for transitioning successors into leadership.

Readings (All in Course Pack)

1. **Graded Case Study:** *Franklin Harris and Son, HBR Case(Pg 517)*
2. *Early Career: Developing an Adequate Power Base, Kotter(Pg537)*
3. *Power Dynamics in Organizations, Hill(Pg 553)*
4. *Exercising Influence, Hill(Pg 567)*
5. *Negotiating Your Way into Your Family Business, Davis(Pg 581)*

4/21 TRANSITION: THE NEEDS OF THE OLDER GENERATION

Session Twenty-Six: will focus on the particular life-cycle needs of the entrepreneur founder and/or senior generation leader, presenting various models for transition and exit.

Readings

1. *Case Study: At Cablevision, Father-Son Split Looms Over Future (Course Pack) (Pg 583)*
2. *The Hero's Reluctant Farewell, Sonnenfeld.(Course Pack)(Pg 587)*
3. *Life Stages and Their Tasks, Tagiuri (Course Pack)(Pg 599)*
4. *The Succession Conspiracy, Lansberg (Sourcebook, pg.45)*
5. *Overcoming a Major Obstacle to Succession, Ward, (Course Pack) (Scan)(Pg 603)*

4/23 TRANSITION: CASE STUDIES

Session Twenty-Seven: will permit the student to compare the exit strategies of Sam Steinberg and Jay Cleveland from their respective businesses. More importantly, the student will be able to probe into why the significant differences in departure style.

Readings:

1. **Optional Graded Case Study: Steinberg A & B (Course Pack)(Pg 605)**
2. *The First Generation: How the Founder Shapes the Culture, Dyer(Course Pack)(Pg 623)*
3. *Ten Most Prevalent Obstacles to Family Business Succession Planning, Hubler (Sourcebook, pg. 67)*

4/28 TRANSITION: STAGES OF THE TRANSITION PROCESS

Session Twenty-Eight: will detail an ideal transition plan with emphasis on the transfer of resources and the empowerment of the successor generation.

Readings

1. *What Succession Planning is All About, Cohn (Course Pack)(Pg 635)*