THE PRIVATE SECTOR ORGANISATION OF JAMAICA

DEVELOPMENT OF MODERN FAMILY BUSINESS IN JAMAICA

The PSOJ has applied to the Multilateral Investment Fund (MIF) of the Inter American Development Bank (IADB) for a grant to finance a project to develop family businesses in Jamaica.

The Project's main objective is to contribute to increasing the competitiveness and sustainability of family-controlled micro, small and medium-sized enterprises (MSMEs) of Jamaica. The specific objective is to incorporate corporate governance and other sound managerial practices in selected MSMEs in Jamaica.

Family-controlled businesses (FB) remain the predominant form of enterprise around the globe. Conservative estimates suggest that 65% to 80% of all the businesses in the world are family-controlled, including many of the largest companies. Fully two out of five companies in the Fortune 500 are family-controlled, and in several middle-income countries (particularly in Asia) larger family businesses in networked groups are a powerful force in national economies. In Latin America and the Caribbean (LAC), the most powerful corporate groups continue to be controlled by families.[1]

Despite the persistence of FBs, a wealth of scholarship points to the steady decline of family control (particularly in larger firms) in tandem with the evolution of the modern corporations. The rise of large-scale and hierarchical corporate structures continues to drive the separation of ownership and control. Further, the tectonic pressures of global integration and rapid changes in markets and technology spur the demand for professional managers. Such a shift from private ownership to professional management control has been interpreted as an irreversible evolution into modern enterprises.[2]

Problems of Family Business in Emerging Markets

FBs in emerging markets have come under increasing scrutiny since the late 1990s. In Asia, weak corporate governance in many FBs was seen as a major causal factor in that financial crisis, thereby prompting the IMF and the World Bank to launch reforms that culminated in buyouts and the consolidation of FBs by multinational corporations. Those FBs that did survive underwent a wrenching process of restructuring.

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[1] The top 10 FBs (in terms of revenue) in the world are: Wal-Mart, Toyota, Ford, Koch, Samsung, Arcelor, Santander, Peugeot-Citroen, Cargill, and SK (*Family Business Magazine,* September 2008*).* FB is here defined as an enterprise in which a family has significant ownership and control, regardless of the size of the family holdings. Many of the most important dilemmas faced by FBs have more to do with the distinction between the owners and the managers than between the family and the business (K Gersik, J. Davis. *Generation to Generation.* HBS Press, 1997).

[2] A. Chandler examined the rise of American modern business enterprise and its salaried managers, focusing on the changing ways in which they have been managed: large enterprises administered by salaried managers replaced the small traditional family businesses as the primary instrument for managing production and distribution He stressed the importance of large-scale investment in production facilities, marketing and distribution channels, and more fundamentally, in salaried executives who monitor, coordinate, and take strategic decisions in resource allocations (*The Visible Hands*, Harvard University Press, 1997).

In LAC, global integration is having a similar impact, albeit through processes that have taken place over a rather long time span. During recent decades, repeated economic crises have forced surviving FBs to undertake restructuring.

There are two basic reasons for such restructuring. One is due to a change of the external environment. As globalization proceeds, the protection provided to FBs by the public sector declines, thereby removing the shield that had sustained the emergence and development of these firms. Secondly, there are constraints of managerial resources, including finance, human resources and technologies. As FBs aim to grow, internal fund-raising becomes increasingly difficult. However, if forced to depend on external financing, these businesses find themselves in a situation where it is extremely difficult to grow without separation of management from ownership.

On the other hand, those "evolved" FBs that have avoided elimination from the market are expanding their businesses worldwide. While intimacy among owner-managers in FBs may seem contrary to the professionalism of modern executive behavior, the "organizational uniqueness" can confer a special strength as well. For example, in families nonverbal communication is often used effectively, and the fact that the family members rely on the business for their livelihood usually means high levels of dedication and effort. The prerequisites for such success, however, appear to be adaptation to the external environment as well as to the maximization of use of their limited resources.

Family Business in Jamaica

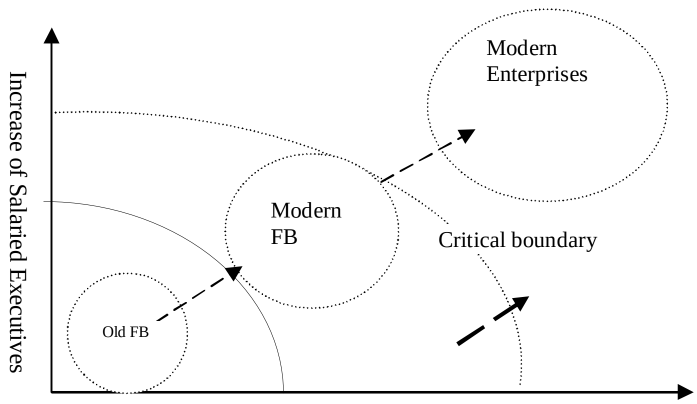
The comprehensive list of Jamaican FBs contains 2,961 firms; 315 of which are family owned and women owned businesses at the same time. The highest numbers are in the Kingston and St. Andrew metropolitan areas. Sole proprietorship and partnership dominate FB landscape, as is the case with the United States. Over 82% of FBs have 15 or fewer employees. FBs are dominated by service industries with wholesale and retail (50%). Over 58% and 32% of FBs have been in operation for over 10 years and 20 years respectively. Inheritance accounted for just 12%, while over 73% of FBs were started by the present owners. Interestingly, approximately 77% of founders-owners had worked elsewhere before starting up businesses, and over 90% of founders/owners of FBs in Jamaica had some form of work experience before entering business. There is a strong correlation between the high percentage of current owners who are also founders of the business and the high percentage of those who indicated that they have no plans to retire.[3]

Justification

In many industries and sectors of developed economies, managerial capitalism rapidly replaced family capitalism. As firms grow in size, capital requirements and age, the functions of owners and managers diverge. This holds true in FBs, as they also become more managerial over time. In LAC, given underdeveloped markets, high risk and uncertainties have made "interlocking economic groups" composed of FBs a *logical* creation for maximizing the utility of scarce human and financial resources. Moreover, FBs enjoy rapid and functional decision making and flexible resource mobilization, and hence hold a competitive edge over rivals, particularly in the early stages of industrialization. FBs in LAC continue to exist and play a significant role in the private sector development.

[3] Mona School of Business, Univ. of the West Indies. *Survey of Family-owned and Women-owned Businesses,* 2006.

The hypothesis of a "critical boundary of family business" is useful here.[4] FBs face two basic constraints: (i) succession induced by generational changes; and (ii) limited managerial and financing resources as a result of expansion and diversification of the business. The upward limit that FBs face as they grow (as a result of constrained investment resources, human resources, production technology and information) is described as a "critical boundary" - a boundary beyond which FBs must abandon their existing business model. The hypothesis suggests the possibility of modernizing FBs through expansion, diversification and by partial introduction of non-family professional managers and financing. This hypothesis indicates that it is possible for FBs to surpass the critical boundary through internal management upgrading and adapting to external environments. In this sense, FBs can be modernized while maintaining the relationship between ownership and management, thereby preserving the uniqueness and strength of FBs.



Source: Suehiro (2006)

*X axis and Y axis are not showing causal relationship; it is rather empirical correlation

To achieve the project's objectives, four (4) components will be implemented.

1. Component 1: A series of promotional events at which family business governance concepts and experiences will be disseminated to about 100 family businesses, discussing general problems confronting such businesses that jeopardize their sustainability, and promoting corporate governance and family protocol tools, while awakening interest in embarking on the processes to change family business strategies and governance systems.

2. Component 2: From among the group participating in Component 1, 30 family businesses will be selected to participate in hands-on training workshops that will include the following topics:
    a. Family protocol, including establishing positions of responsibility for both management and governance of business, development of financial and dividend policies vis-à-vis family members, regulation of the transfer of shares, information access to non-business family group, and formation of family council or assembly.
    b. Succession planning: including the development of clear and definitive succession plans.
    c. Leveraging the strength of family business. An important feature of family enterprises is the asset to the company that the special bond between the members creates. Families tend to take a long-term view of their businesses. Specialized consulting will focus on the way of achieving benefit from close relationships with suppliers and customers, focusing their values on reliability, quality, and specialized goods and services.
3. Component 3: For those family businesses that are interested in expanding their business by procuring external professional management and financial (equity) resources, this component will

[4] Akira Suehiro, *On family business* (Japanese), Nagoya University Press, 2006.

provide consulting services on how to adapt and implement corporate governance involving such external resources. The project will provide technical assistance on business strategies and capacity building in order to address specific challenges that these businesses face. About ten (10) family businesses are expected to participate in this component.

4. Component 4: The project outcomes will be documented and published in order to raise awareness about to how to promote the corporate growth and development of family businesses. The activities include dissemination events and case studies.

To be eligible for participation in the Project, family businesses must meet the following criteria:

(i) The business must be a legally established business operating in Jamaica;
(ii) Owner/operators must be capable of participating in the project and committing time to project activities;
(iii) The business must be a small or medium enterprise with an annual turnover of less than US$3 million;
(iv) The business must have less than 100 employees;
(v) The business must have been in operation for a minimum of two years;
(vi) The business must have minimum levels of communication mechanisms available such as electronic mail, fax, and/or telephone to ensure fluid communication; and
(vii) The enterprise must share the project's objective of increasing the competitiveness and sustainability of family-controlled small and medium enterprises (SMEs) in Jamaica.

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