

**ELECTRONIC JOURNAL OF  
FAMILY BUSINESS STUDIES**

**EDITOR OF THE ELECTRONIC JOURNAL OF FAMILY BUSINESS STUDIES (EJFBS)**

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## EDITORIAL NOTES

The aim of the EJFBS is to publish theoretical and empirical articles, case studies, and book reviews on family business topics. The EJFBS will be available with open access at the journal home page.

In this issue, we will have the following family business contributions:

*Patricia Fitzgerald, Robert G. Blunden, and John Chamard: The Impact of Life-Stage-Fit between the Incumbent and the Successor in Effective Intergeneration Successions: Three Case Studies (pages 82-96)*

*Naomi Birdthistle: Splitting Heirs – Divorce Planning and Prenuptial Agreements for Family Businesses in Ireland (pages 97-117)*

*Ilona Ebbers, Claudia Krämer-Gerdes, Reinhard Schulte, and Miriam Seitz: Activity-Based Start-Up Simulations in Entrepreneurship Education at the German Universities (pages 118-134) and*

*Alam Mahbulul and Yasushi Furukawa: Cane (Rattan) Enterprises as Family Business in Bangladesh: A Case Study (pages 135-144).*

Call for Papers (including information for authors and submission format) can be found at the end of the EJFBS.

26 January 2009

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**THE IMPACT OF LIFE-STAGE-FIT BETWEEN THE  
INCUMBENT AND THE SUCCESSOR IN EFFECTIVE  
INTERGENERATION SUCCESSIONS:  
THREE CASE STUDIES<sup>1</sup>**

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<sup>1</sup> A previous version of this paper was presented in Studies on Family Business and Entrepreneurship Education: FBE Conference Proceedings, University of Jyväskylä, Finland.

## **Abstract**

This paper suggests that the success of intergenerational successions in family businesses often depends on the life stages of the generations involved. The premise may be so evident that it is easy to overlook its importance in determining what contributes to successful transitions. Readiness of the senior generation to pass the baton of responsibility and leadership for the family business is influenced by a number of factors including age, health, other interests, the desire to retire or move on, and the availability of a suitable successor. The willingness of successors to accept the baton is similarly influenced by their interest in running the family business, experience, age and other factors. Of course the willing successor requires a senior generation willing to let go.

The paper presents three case studies. They focus on successful fits between the life-stages of the incumbent and the successor. In each situation age plays a major role but there are also other variables impacting the successful transfer. The cases are meant to raise awareness that even with differences in cultures, industries, financial conditions, life cycle of the industry in which the firm is participating, how success is measured, as well as other factors life stage is an important variable in successful inter-generation successions.

## **INTRODUCTION**

The aim of this paper is to focus on the importance of the “fit” between the life stage of the incumbent leader of a family business and the successor’s life stage and how this “fit” impacts on the successful transition of the business as leadership/control moves from one generation to another. In effect this “fit” focuses on the readiness of the leader to hand over the control/direction of the business and the readiness of the successor to accept it. The paper does not deal with the “fit” as a process, but rather as something that happens at a fixed point in time. The paper begins with a brief discussion of the importance and impact of family businesses on their communities and thus why successful transitions are so important. It then outlines research related to successful and unsuccessful transitions from one generation to the next. This is followed by the experiences of three distinct family businesses, in very different industries, and different settings. The authors believe that by emphasizing the idea of “fit” between the life-stage of the incumbent and life-stage of the successor that other variables explored in the literature can be appreciated with new insights.

## **BACKGROUND**

It is to be expected that much research attention has focused on succession in family businesses. Family business remains a dominant force and key contributor in today’s global economy. Although different research studies use different definitions for what constitutes a family business each concludes that family businesses are major contributors to every economy where private enterprise is permitted. Gersick, Davis, Hampton and Lansberg (1997) estimated that 65—80 percent of all businesses were family businesses. Astrachan and Shanker (2003) using a broader definition of family business concluded that 89 percent of businesses in the United States should be considered family businesses. Astrachan and Shanker (2003) also noted that some studies suggest that family businesses employ almost two-thirds of the United States work

force and their output makes up more than two-thirds of the gross domestic product (GDP) of the country.

Family firms make major contributions to the world economy. Estimates vary on their contribution to employment and GDP but range from 45—75 percent of each (Cabrera-Suarez, 2004.) Neubauer and Lank (1998) concluded that the majority of new jobs created during the 1990s were within family businesses. Family businesses range in size. Casual observers may think of family businesses as being relatively small however family businesses make up 35—47 percent of the Fortune 500 (Jetha, 1993; Ward, 1987; and Burch, 1972) as well as 32—35 percent of the S&P 500 (Weber, 2003; Anderson and Reeb, 2003.) Some researchers suggest that large family businesses may be even more common in Western Europe, South America and Asia than in the United States and Canada (La Porta, Lopez-de-Silanes and Shleifer, 1999; Faccio and Lang, 2002; and Blondel, Rowell and Van der Heyden, 2002). Miller and LeBreton-Miller (2005) summarized the research on the prevalence of large scale family firms and concluded that they have a major impact throughout the world.

Family firms are often well rooted in their immediate communities and are major contributors to them. They often begin life to meet immediate needs in their environments and they build their prosperity on how effectively they continue to be valued by those around them as well as others further afield. Bombardier started as a small firm in Quebec's Eastern Townships and is now a major employer in that region as well as a supporter of cultural initiatives and charitable organizations within that geographic area. The firm has expanded its operations to other areas of the world but maintains a strong support system in the area where it began. Walmart retains its roots in Arkansas. Many other examples come readily to mind.

Successful succession remains as a central concern in most family businesses. There have been high failure rates as reflected in the colloquial saying, "Going from shirt-sleeves to shirtsleeves in three generations" (Grote, 2008). It is generally accepted that the success rate for transition from the first to the second generation is about 30 percent and to the third generation is about 10—15 percent (Beckhard and Dyer, 1983; Ward, 1987).

As a result, planning for effective transition from one generation of family managers to the next remains a central theme in family business research as this is seen as central to the ongoing success of family firms and indeed of healthy families. This area of research takes on particular importance in North America when one considers that US Census data suggests that a large number of family business leaders will retire within the next decade (Sharma, Chrisman, Chua, 2003.)

Much of the research on executive succession has been summarized by Kesner and Sebra (1994) and Giambatista, Rowe, and Riaz (2005.) The most common variables examined include successor origin, organization size, rate of succession, succession and incumbent characteristics, succession and successor characteristics, succession and boards, stock market reaction to top management change, succession planning, succession process and post-succession performance, firm characteristics, and leader characteristics and actions.

Family business presents a complex playing field as it encompasses not only the interactions experienced by public companies but it is influenced by the family's culture and family members. Handler (1994) and Le Breton-Miller, Miller, and Steier (2004) provide a detailed review of family business succession literature. Ibrahim, Angelidis, and Parsa (2008) outline the directions research has taken in relation to family business and effective succession as well as areas that deserve more attention in the future. They differentiate research related to internal factors within the firm and research on external factors of the family business that impact on successful intergenerational succession. Blunden, Chamard, and Fitzgerald (2008) present a conceptual model that combines these influences.

## **OVERVIEW OF CASE-STUDY FIRMS**

This paper outlines succession experiences in three family businesses. The firms are each healthy, successful enterprises in very distinct industries and environments. Copies of each of these cases are included in the appendix.

The Blunden family business evolved from a construction business to one that encompassed both a construction business and a building-materials-retail business and before refocusing on construction. It is located in Nova Scotia, Canada and continues to be a vibrant contributor to that economy.

Laer Inc. was a successful family business in the processing, manufacture, and distribution of fish oils originally focused on the animal supplement market that evolved into the more lucrative human supplement market. They were able to gain competitive advantage in this market as they were the first Canadian firm permitted to promote Omega 3 and Omega 6 in their products just as consumers were becoming aware of the benefits of these ingredients. By 1993 Laer was a profitable business with national recognition, strong local government support, and strong research support. It was purchased in 1995 by a firm with much deeper pockets. The new owner invested more than \$100 million in the enterprise and the firm has become a leading researcher in fish oil products. The research done in its \$50 million laboratory in Dartmouth, Nova Scotia is recognized as preeminent in its field.

Gully Wines is located in South Australia. The business began with Dr. Alan Ansell's migration to Australia from the U.K. in the late nineteenth century. In Australia he missed the ready supply of wine and brandy that he had prescribed to his patients in the U.K. He founded Gully Wines PTY, Ltd. which is recognized as one of the leading wineries in Australia with broad international distribution of its products. The company has been built on research and development in the growing and processing of its grapes as well as on its business acumen.

## **INTERGENERATIONAL SUCCESSION**

Each of these firms experienced successful intergenerational transitions; that is, the transfer of ownership and management from one generation of the family to the next. Each had its own specialized circumstances but there was a strong similarity among the firms in that succession took place when the incumbent appeared ready to hand over the baton of leadership to the next generation and the successor felt ready to take over.

### **Blunden Construction**

George and his father Harry Blunden began Blunden Supplies in 1949. Harry was 59, George 17. George became Managing Director in 1953 at the age of 21. In 1968 they acquired Brookfield Brothers, a building supplies retailer. Harry retired in 1968 and George remained as CEO of both operations.

George married Audrey in 1952 and they had four children. The oldest, Bob, completed his Master of Management from Northwestern University and joined the firm in 1976 at the age of 23. He effectively revitalized the building-materials-retailing division of the family business which had been in difficulty. George continued to run the construction arm of the company. By 1981 the retail operation was once again in difficulty as construction stalled due to a sharp rise on mortgage interest rates which had climbed beyond 20 percent. It was determined that Brookfield Bros. should be liquidated. This was completed successfully and Bob left the business.

Ten years later Bob's younger brother moved back to Nova Scotia and joined George in the family business. At 36 he had been president of a successful wine and spirits distribution company in Bermuda. He worked in Blunden Construction with his father for five years. Then George retired and Doug, the younger brother, bought the firm which has continued to be very successful under his direction.

### **Laer Products, Inc.**

Andre Boudreau was in management at the local pulp mill. He satisfied his entrepreneurial drive by buying and selling real estate in rural Cape Breton, Nova Scotia. He developed an interest in fish oil processing in 1982 when one of his horses developed a skin condition and the veterinarian suggested that he feed the horse halibut oil. He recognized an opportunity for a business when he saw how expensive the retail oil was and he knew that he could get unprocessed fish oil free at the local wharf. With the help of government grants he developed a number of products and began selling them to local veterinarian shops and pet shops as he continued in his full-time position at the mill. Laer's reputation soon expanded to a national level and there was demand from across Canada for the fish oil processed in their plant.

In 1991 Andre, now 59, was offered an early retirement package from the mill. The success of Laer to date had really been very much a family operation with his wife and their four children sharing in the development of the firm. By 1991 the two older children had already completed graduate degrees in science and were advancing in their professions. Jacques, the third child, was finishing a degree in commerce and, after much consideration, joined the firm as the Vice-president of Marketing with a well-defined role in the organization. He thus became the recognized successor and was trained to take over the firm.

In 1995 a very attractive buyout offer was made for Laer. The Boudreaus agreed to sell 50 percent of the firm to John Risley and to rename the firm Ocean Nutrition Canada. The next year Risley bought the remaining 50 percent of the firm. Jacques remained with the new firm as Marketing Director for three years but he has since moved on to a successful career with another firm.



### **Gully Wines PTY. Ltd.**

The founder of Gully wines, Alan Ansell, was a medical doctor who migrated to Australia with his family late in the 19<sup>th</sup> century. He was used to prescribing wine and brandy for his patients and was frustrated by the lack of wine and brandy in Australia at that time. As a result he started his own winery which still exists today as Gully Wines PTY. Ltd.

Tom, Ansell's oldest son, trained as an oenologist and was the obvious successor to take over the firm. He did so at the age of 30. He not only expanded their product variety and volume but successfully developed international sales. Tom felt very comfortable handing the business over to his son, who was a university-trained oenologist, when David was 32. David was also very successful in running the business and revolutionized the packaging of wines with the introduction of the bag-in-the-box. He is recognized in Australia as a major contributor to the success of Australian wines and the wine industry. David remains as the public face of the firm and occupies the corner office but his son John has been CEO of the firm for more than 25 years. John was 36 when the handover was completed and he has had free reign within the firm, making decisions of relevance in all areas of the business, since then. John is now ready to retire. His choice for the fifth generation leader of the firm is his daughter Eva who has established a successful reputation in marketing wines domestically and internationally and is considered by most to be very competent and ready to take over the family business. Her grandfather, David, is adamant that a woman is not an appropriate choice to head up a wine business. John is ready to retire, Eva is ready to assume leadership of the firm, but neither is ready to go against David.

### **CONCLUSIONS**

In each of these cases the incumbent leaders of the family business have made a strong imprint on the identity of the firm and how it is run.

In the Blunden Construction case there were two opportunities for George to hand over the business to a son. In the first instance Bob had proved himself as an effective contributor to the business and he appeared ready to assume leadership of the firm. It appears that George was not ready to pass the baton at that time. He was fully involved in the running of the business, relatively young, and in good health. Ten years later, the second son came into the business. He had experience as a successful CEO in another firm. He demonstrated his ability in the construction industry. George was now older and he was ready to hand the business to his son Doug. The timing and circumstances fit both George and Doug.

In the Laer case Andre Boudreau built a small family business into one that had acquired a national identity and had a promising future. By the time that the business was viable his first two children had begun establishing themselves in careers that were removed from Andre's fish-oil business. The third child Jacques was just beginning his career as the firm was beginning to go from a very small operation to one of more substance. Jacques proved himself in the industry and with his family. Andre and the rest of the family recognized him as Andre's successor.

An outside investor came offering financial support that would allow the firm to go farther much faster in enhancing its competitive advantage and capturing more of the market. Andre and Jacques decided to sell part of the firm. At that point Andre, in effect, retired and Jacques remained as the family member in a key management position within the new firm, Ocean Nutrition Canada. Not long after the Boudreaus' remaining ownership of the firm was sold to the new investor Jacques left Ocean Nutrition Canada for a position with another firm. It can be argued that a successful intergenerational succession took place between Andre and Jacques. The fit was appropriate. The removal of the Boudreau family from the firm was the result of industry dynamics and other external influences.

Gully Wines is particularly interesting in considering the impact of life-stage-fit of the incumbent and the successor. The firm has had three very successful intergeneration transfers: from Alan to Tom, Tom to David, David to John. Now John is ready to pass the baton to his daughter Eva and Eva is ready to assume leadership. A strongly held view of David that a woman should not be the head of any winery, even Gully Wines, is holding up the transition at this point. In this situation family culture and values from the previous generation have limited the fourth intergenerational transfer.

### **CONTRIBUTION OF THE RESEARCH**

This research can make a significant contribution on at least two levels. It builds toward a better understanding of the role of incumbent-successor life-stage-fit in family firm succession outcomes. It therefore helps us develop a broader understanding of family firm succession.

On a practical level it helps both incumbents and successors in intergenerational transfers recognize the importance of the readiness factor in making the transition successful. It can contribute to the preparation and planning of such transitions in both the practical decisions related to the timing of intergeneration successions and to the preparations necessary to make them successful. Recognizing what one can expect as the transfer happens helps both the incumbent and the successor to deal with the changes each experiences. It also helps them prepare family members and managers active within the organization so that they can know how some of the changes in management are likely to affect each of them or not.

It can also assist consultants as they help family firms deal with effective transfer of power/control/leadership from one generation to the next. Consultants can better prepare to predict and meet the needs of the outgoing incumbent and the incoming successor so that they can be comfortable with the change and they can be effective in their dealings with stakeholders within the family and within the business organization as well as its customers and its suppliers.

## APPENDIX—THREE CASES



### ONE FAMILY, TWO STRATEGIES FOR ENTERING THE FAMILY BUSINESS

The Blunden Family was active in the construction and building material retailing businesses in Halifax, Nova Scotia. George and his father, Harry, had started Blunden Supplies together in 1949; Harry was 59 and George 17. In 1953 George became Managing Director. In 1968 they acquired Brookfield Bros. Ltd., a well established building material retailer, and separated the construction and retail operations into Blunden Construction and Brookfield Bros. (1968) Ltd. That same year Harry retired at the age of 78; and he died a year later.

George had married Audrey in 1952 and they had four children – Bob in 1953, Doug in 1955, Peter in 1957 and Carolyn in 1962. All of the children worked in the family business weekends and summers through their high school and university years.

In 1976, at the age of 23, Bob graduated with his Master of Management from Northwestern University and joined Brookfield Bros. as Marketing Manager. The business was in trouble and his task was to determine if it could be turned around and if so to develop a plan to do so. George provided executive oversight but was primarily focused on running the construction business; a non-family manager ran the retail operations. After concluding that the business was viable Bob assumed operating responsibility for Brookfield Bros. and successfully turned the business around. However, by 1981 the business was once again in trouble and they liquidated the business. George focused on the construction business and Bob moved on to an academic career.

Also in 1976, at the age of 21, Doug completed his Bachelor of Commerce at Dalhousie University and joined his girlfriend's family wine and spirits distribution business, Gosling Brothers in Bermuda. At the time his father-in-law-to-be, who was president, was 55 years old. In 1986, upon his father-in-law's retirement, Doug became president of Gosling Brothers.

In 1991, Doug left Gosling Brothers and returned to Halifax and Blunden Construction. He was 36 and George was 59 years old. Doug worked with George for six years and upon George's retirement in 1997 bought the business.

The family business had new leadership; from Harry to George to Doug in 48 years. Under Doug's direction the business has thrived.

Questions:

1. What can we learn from these alternative entry situations?
2. How do the ages of the senior and successor generations influence the nature and success of entry?
3. What are some of the other factors that may influence the nature and success of entry?
4. What might we hypothesize about senior and successor generations and the influence of age on entry strategies from these situations?

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This case was written by Robert Blunden of Dalhousie University for the purpose of stimulating discussion. It is not meant to represent appropriate or inappropriate managerial behaviour.

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### **Laer Products Inc transformed to Ocean Nutrition Canada**

Laer Products, a fish-oil processing company, began in Arichat, Nova Scotia in 1982. Andre Boudreau was advised by the local veterinarian that he should feed his horse halibut-fish-oil capsules because he suffered from a dry skin condition. Andre was surprised at how expensive the pills were especially as there was a ready supply of excess fish oil from the fishers down at the local wharf.

Andre was able to garner support from local government agencies and from local universities and by 1987 had a viable pet food supplement business with a full-scale production facility, a growing national recognition, and increasing sales to local veterinarians and pet shops. His wife Sylvia was the firm's secretary and managed the business full time. Each member of the family were involved in making contacts with customers and worked on the development of new products. They discussed each development of the market and the firm. Jacques, the third child, was particularly involved in Laer as his older brother and sister were already in university and into their own career paths by 1987 while Jacques was finishing high school.

Jacques graduated from Saint Mary's University in 1991. By now his two older siblings had completed graduate degrees in science. Jacques' parents strongly encouraged him to join the company as the Vice President of Marketing. The idea was tempting. Andre, now 59, had just accepted an early retirement package from the paper mill where he worked full time and would be fully involved in the firm. Laer now had products for humans and for pets. They had yet to make a profit but sales were growing at a very encouraging rate. Jacques agreed to join Laer and over the next five years he and Andre were very successful building the firm. Laer was the first firm in Canada to receive government permission to market the health benefits of Omega 3 in their fish oil products. They had exclusive rights to a mini-encapsulation method that allowed fish-oil and its benefits to be added to a wide variety of products to increase their nutritional value without the taste of the fish.

By the end of 1995 it was apparent that in order to take advantage of the opportunities that were open to Laer that they would need a large infusion of capital. They were approached by a number of established entrepreneurs about the possibility of investing. In 1995 Jacques and Andre agreed to sell a 50 per cent share of Laer to John Risley and to rename the firm Ocean Nutrition Canada (ONC), that Jacques would stay with ONC, and that if he were to leave that he would not compete directly with ONC for a period of five years. At the end of 1996 Risley bought the remaining shares of the company. Jacques stayed with the firm for three more years and then moved on to other business opportunities.

Ocean Nutrition Canada is a very different firm today than it was in 1996. Risley has invested in excess of \$100 million. It is recognized as a leading researcher and supplier of quality marine-based ingredients for both dietary supplements and health food markets in the world. ONC has received and continues to receive a number of awards from various groups around the world. The research done in its \$50 million laboratory in Dartmouth, Nova Scotia is recognized as preeminent in its field.

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This case was written by Patricia A. Fitzgerald of Saint Mary's University for the purpose of stimulating discussion. It is not meant to represent appropriate or inappropriate managerial behavior.

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#### Gully Wines PTY. Ltd.

In the second half of the 19<sup>th</sup> Century, Dr. Alan Ansell immigrated to South Australia from his native Cornwall with his young family.

He set up as a general practitioner and combined an interest in chemistry and an interest in providing wine and brandy for his patients by founding a vineyard, winery and distillery which has grown and developed into one of Australia's largest family businesses, Gully Winery PTY. Ltd.

Ansell's oldest son Tom was a trained oenologist who took over the company shortly before Alan's death, and built it by expanding its range from fortified wines and brandies into table wines and by seeking out export markets. His son David obtained university training as an oenologist and used it to dramatically increase the size of the business by creating new vineyards and by introducing the "bag-in-box" for packaging wine. David has been recognized as one of the major builders of the Australian wine industry and is an Order of Australia recipient.

Now almost 100 years old, he has not been active in Gully management for almost 25 years, but he still comes into the office most days and is consulted on all major corporate decisions. His son John, the great grandson of Alan Ansell the founder, is now CEO. John has added to the growing and winemaking capacity of Gully and has built the brand internationally in over 30 countries.

The three generational transitions, from first to second, second to third, and third to fourth all proceeded very smoothly. The first two took place shortly before the death of the older generation, and while the successor was still relatively young: 30 years old for the second generation and 32 for the third.

The third transfer took place when John was 36. His father David has been involved but not active for 25 years. This sort of situation is potentially very difficult with the possibility of parental interference in the management of the successor. But the Ansell family (specifically David and John) appeared to have agreed to and lived with a very workable arrangement.

John is CEO and makes all decisions of any relevance. David still occupies the corner office and is consulted on major issues. He is often the public face of the company, particularly with employees and their families and with local townspeople. In short, he has little or no real power but is accorded the respect due his years and his Order of Australia. The company moves forward under John's leadership.

The fifth generation to be involved in the business is John's daughter Eva. Eva has been active in the business from an early age. Now 30, she has built successful marketing relationships both domestically and internationally and is not only the obvious successor to John but is widely recognized as a worthy one who can lead the company to further success. John is ready and anxious to retire and Eva is ready and anxious to take over.

Alas, David is adamant that women, even his grandchildren, do not belong at the top of wine companies.

John and Eva (and other family members) are in a quandary. On the one hand, now is the appropriate time to make the inter-generational transfer. On the other hand, they have no wish to antagonize David or, more important, to be seen to disrespect his strongly-held views.

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## **SPLITTING HEIRS - DIVORCE PLANNING AND PRE-NUPTIAL AGREEMENTS FOR FAMILY BUSINESSES IN IRELAND**

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### **Abstract**

**Objectives:** The main aim of this paper is to examine what can be done to plan for divorce should divorce arise for members of a family business in Ireland. A number of objectives have been formulated; firstly the research will examine the issue of divorce and what the law states pertaining to it. Next what support there is for family businesses when it comes to divorce and what preparations could be made should divorce occur will be identified. Prenuptial agreements will be examined and the views and opinions of owner/managers of family businesses will also be examined.

**Prior work:** Little to no research has been conducted in Ireland to examine the views and opinions of family owned businesses and the implications divorce may have on the business. Since divorce is still a fairly new concept in Ireland this will be a seminal piece of research.

**Approach:** Primary data from a stratified random sample of independent unquoted businesses was collected. The study relied upon a single key informant per family business for obtaining self-reported data.

**Results:** The interim results indicate that divorce has not been planned for by family businesses in Ireland. There are mixed feelings as to prenuptial agreements. Some respondents have indicated that prenuptial agreements are just for 'rich' people and aren't necessary in Ireland. Others want the law to be changed so as to enable prenuptial agreements to be legal.

**Implications:** This research is of value to the owner/managers of family businesses as it gives an indication as to what should be included in a prenuptial agreement. Furthermore, since the Irish government has established an executive committee to examine prenuptial agreements the results of this research will be invaluable to them.

**Value:** Little to no research has been conducted in Ireland pertaining to the impact of divorce on family businesses. Therefore, the importance of this research is that it fills a gap in the literature.

**Keywords:** Family business, divorce, prenuptial agreement, Ireland, planning.

## INTRODUCTION

The objective of this paper is to examine the concept of divorce and the implications it has on the family business in Ireland. Divorce is unpleasant for everyone, but for the owners of a family business, it can be a disaster. A couple not only has to dissolve the family as it once was, they also have to sell or divide their business. Divorce in Ireland is still a relatively new concept, it being a mere ten years since it was first introduced. A large number of small and medium-sized enterprises in Ireland are being run by husband and wife teams, also known as copreneurs and by multi-generational family businesses. Divorce in these businesses will obviously have serious ramifications for the business itself, its employees and the local environment it operates. Research has found that most businesses that go through a divorce fail to continue after the divorce due to poor management and uncertainty, which can cause irreversible damage in the process (Cole and Johnson, 2007). In order to answer the aim of this paper –the concept of divorce and its implications on family businesses – a number of objectives have been devised. Firstly, the paper aims to examine the issue of divorce and what the law states pertaining to it. Next what support there is for family businesses when it comes to divorce and what preparations could be made should divorce occur will be identified. Members of family businesses will be questioned as to garner their views and opinions on the issue of divorce and prenuptial agreements. Furthermore, since divorce is a fairly new concept in Ireland it is essential to look elsewhere to identify best practices for the preparation of agreements prior to a ‘marriage’ occurring that then can be used by either party should a divorce occur.

### Family Business Defined

The field of family business is a rather young academic field of inquiry, uniting a diverse group of people such as family therapists, psychologists, family business owners, family business members, consultants, solicitors, accountants, academics, and researchers. Academics, consultants, professionals, and practitioners struggled to define these terms even before the field of study emerged in the 1980s. One indication that a research paradigm’s development is still nascent is if it lacks agreement on the basic definitions (Lakatos, 1970). The field of entrepreneurship went through much debate regarding the definition of ‘entrepreneur’ and ‘entrepreneurship’ although little agreement was reached, a sort of academic pragmatism with each researcher specifically stating his or her own definition (Katz *et al.*, 1993). Unfortunately this makes any kind of constructive and comparative effort practically impossible. The developments in the family business arena are similarly frustrating.

The definitional problem is compounded by a lack of consensus about what constitutes a family: whether it should include only parents and children or all blood relations and in-laws. The difficulty with the definition of a family business is compounded with the finding that family-business relationship changes according to the structure and size of the business (Birley, 2000). The husband-wife business is largely different from a large family company considering the participation of family members in ownership and day-to-day management. Gersick *et al.*, (1997) proposed a three-dimensional view of the family business taking account of the position of a company in terms of family, ownership and business life cycles. Birley (2000) maintained that without family involvement in both the ownership and the management of the business one does not have a family business.

Handler (1989) identified four dimensions used by writers in the family business literature to define the family firm: (1) degree of ownership and management by family members, (2) interdependent sub-systems, (3) generational transfer, and (4) multiple conditions. She observed that although there is no consensus as to what uniquely defines a family business, there seems to be a general agreement that the dimensions to be considered are the first three. Some authors use only one of the aforementioned dimensions to define a family business although their writings do recognise the importance of the others. If all of these dimensions are important in defining the family business, then a definition must incorporate them all to be widely acceptable. Handler's (1989) attempt provides a conceptual clarification of the dimensions involved in defining the family business.

For the purpose of this study, the family business is defined as:

*“A proprietorship, partnership, corporation, or any form of business association, which is classified as an SME and where the majority ownership is held by the family and family members are employed in the family business and/or the family is represented on the Board of Directors”* (Birdthistle, 2003, p.76).

Based on the presentation of Handler's four dimensions, some dimensions are treated as variables for the definition of the unit of analysis presented in this paper, most notably ownership, structure, and family size. Therefore the unit of analysis for this study is a business, which is classified as an SME and where the family holds the majority ownership of the business, the business is a source of employment for family members and the Board of Directors is composed of at least one family member.

### **Family Businesses In Ireland**

With the exception of the ever fewer socialist economies, family businesses are the predominant form of enterprise throughout the world (Lank, 1994). There is no official registrar of family businesses in Ireland and as a result of this it is hard to quantify how many businesses are family businesses. However, in 2004 respondents to the Annual Services Inquiry (ASI) were asked to indicate whether or not the enterprise was a family business. A total of 12,451 statutory ASI forms were issued to the sampled enterprises from the Business Register and a valid response of 78% was received (n=9,701). The findings indicate that family businesses accounted for 47% of service sector enterprises, they also account for 28% of turnover, 39% of persons engaged and 24% of gross value added for the services sector (Central Statistics Office, 2004). These results indicate that family businesses in Ireland make very important contributions to gross national product and to employment. The economic value provided by family businesses is enhanced by their tendency toward long-term strategies rather than a need for quarterly results and aversion to debt and their inclination to reinvest dividends. A family business therefore by its very nature is more inclined than other types of companies to re-invest in itself, to support and perpetuate wealth of future generations.

Research conducted by Birdthistle (2003, 2004) has identified that family businesses in Ireland come in all shapes and sizes, ranging from the sole trader to the multi-member incorporated business. Many family businesses are single-member compa-

nies, where the member is the husband, and the directors are the husband and wife. Often the husband may hold 99 per cent of the issued share capital, and the wife the remaining one per cent. However, due to a change in legislation one member can now be the sole shareholder, owning 100% of the shares. More often than not, the family business is intimately entwined in a couple's life, with the husband as managing director, the wife as company secretary and other family members also employed. Often the business is run from the family home. Typically, the utility and motor expenses are put through the business, either directly or via the business credit cards. It is not unusual for the husband to pay himself and his wife modest salaries or directors' fees, while at the same time making substantial drawings from the business. This frequently causes difficulty in marital breakdown, not only because of the effect on values and individual liabilities, but also because of improper Revenue compliance. Often the company will have made substantial pension contributions on the husband's behalf, but very rarely on the wife's.

## **DIVORCE**

### **Meaning of Divorce**

Divorce has been defined as 'the dissolution of a marriage contracted between a man and a woman, by the judgment of a court of competent jurisdiction (Letric Law 2007). The Family Law (Divorce) Act was introduced in 1996 but did not come into operation until 27<sup>th</sup> February 1997. [See Appendix A for the components of the Family Law (Divorce) Act 1996]. In order to be granted a divorce both parties must meet the following conditions:

- the spouses must have lived apart for at least four of the previous five years;
- there is no possibility of reconciliation and
- there is proper provision for spouses and dependent family members.
- Additionally, one spouse must be domiciled in the Republic of Ireland (this means having residence in Ireland with the intention of living here permanently) or have lived in the country for one year before bringing proceedings.

Once these conditions have been met, either party to the marriage may apply to court for a decree of divorce, and once the court is satisfied that these conditions are fulfilled a decree will be granted, thereby dissolving the marriage.

### **Divorce Procedure In Ireland:**

The first step when seeking a divorce is to consult a solicitor. A person can bring the action in his or her own right but the legislation is difficult to understand without the aid of a solicitor. The Family Law (Divorce) Act 1996 requires a solicitor to inform the couple of the other possibilities of reconciliation, mediation and separation agreements and judicial separation. Collaborative practice is a new way of working out an agreement between a couple whose marriage has broken down. At the outset the spouses and their respective lawyers commit themselves not to go to court or threaten to do so for the duration of the collaborative process. Both parties must also undertake to be completely honest and open about all matters and to make full and frank disclosure of all their assets. Talks between the parties and their lawyers are face-to-face and parties must accept that the aim of the process is to reach an agreement that is fair

to everyone. The hope is that a couple will sort out a workable agreement that is more effective and less stressful than the court process or the decisions which can be imposed on a couple by a court. A court at the end of the process must approve the agreement. Both spouses work with a specially trained collaborative lawyer who provides legal advice and guidance. These two lawyers cannot act for either spouse in any later court proceedings if the collaborative process does not work out.

Where the parties are unable to resolve the issues between them, they can turn to the courts for a determination of the terms of their divorce. A court must grant all divorces. As mentioned previously, the person who makes the application for divorce is known as the applicant in court documents. Their spouse is known as the respondent. This is the person who must reply through the court to the divorce application. To apply for a divorce in Ireland four documents must be submitted to the Circuit Court:

1. An application form (known as a Family Law Civil Bill). This describes both spouses, what they do for a living, where they live, when they were married, how long they have lived apart and the names and birthdates of children (if any).
2. A sworn statement of means including: assets, income, debts or liabilities and outgoings.
3. A sworn statement regarding the welfare of any children. This sets out the child's background including where and with whom they live, their education, health, childcare arrangements and any maintenance and access arrangements already in place.
4. A document that certifies they have been advised of the alternatives to divorce. This is signed by a solicitor, and certifies that both spouses have discussed the possibilities of reconciliation, mediation and separation.

Once all documents are filed, a date will be given for the court hearing, in which it will need to be shown, to the court, that the requirements of the Family Law (Divorce) Act 1996 have been met. A person may have to wait for a considerable amount of time (sometimes up to a year) before their case is heard. In the meantime, either spouse is entitled to apply for an Interim Order, which will remain in place until the full hearing. These orders can arrange such matters as: maintenance; custody of children; safety/barring orders; and the entitlement of one spouse to sole occupancy of the family home. All cases in the Family Law Courts are heard *in camera* (in private). Therefore, members of the general public are not permitted to enter the court.

### **The Effect of a Decree of Divorce**

The result of receiving a decree of divorce means that the marriage is dissolved and the parties are no longer spouses, so they are free to remarry. Spouses lose their Succession Act (inheritance) rights in relation to each other. Some rights survive including: parties remain spouses for the purposes of the Domestic Violence Act, both spouses remain guardians of their children, and spouses are not deprived of a widow's/widower's pension. While a couple remain married the Family Home Protection Act 1976 is relevant even when the home is held in the name of one spouse only. Any sale, loan against or mortgage of the property will, under this law, require the formal consent of both spouses. So even where the property is not in their joint

names, one spouse cannot dispose of the family home or borrow against it without the proper consent of the other.

### Divorce Figures for Ireland

It was thought that there would be a deluge of applications when divorce was first introduced, but in the first five months after the introduction of the legislation, only 431 couples applied and 95 were granted a divorce. Since then, the numbers have increased (see Table 1). A total of 3,347 divorces were granted by the Courts in Ireland during 2005. Each year about 5,000 people consult a solicitor to end their marriages. Of these, about 4,000 are processed through the courts. Many marriages end with separation agreements arranged between solicitors. These agreements are not recorded unless they are subsequently "ruled" in court. There were 7,653 judicial separation applications between 1996 and 2001. Almost 5,000 judicial separations were granted between July 1996 and December 2000. Based on official marriage statistics however, Ireland's divorce rate of 16% remains low, compared to other EU countries.

**Table 1. Divorce and Separation Applications Since 1995.**

Year	Judicial separation applications	Divorce applications	Nulity applications
	Received-Granted	Received-Granted	Received-Granted
Year ending July 2001	1,592-310*	3,339-953*	n/a
Year ending July 2000	1,621-1,035	3,346-2,623	98-56
Year ending July 1999	1,595-999	3,316-2,333	91-54
Year ending July 1998	1,581-946	2,761-1,421	75-70
Year ending July 1997	1,263-1,481	431-95	48-53
		divorce introduced Feb'97	
Year ending July 1996	1,740-1,215	divorce not avail- able	86-47
Year ending July 1995	1,449-951	divorce not avail- able	67-32

\*granted up to December 31,2000

Source: Carswell 2002

## DIVORCE AND FAMILY BUSINESSES

### Ensuring Continuity Of The Family Business Even After Divorce

No one enters into a marriage or business with the intention of eventually divorcing or splitting up the business. Therefore, very few people have a plan in place, or have given any real thought to the consequences of such an action until divorce is imminent. Unlike death or disability, where one can easily purchase insurance to cover the unforeseen loss of a partner or spouse, insurance policies to protect oneself against the hazard of divorce and the resultant economic hardships are not available.

In today's environment, however, it is not uncommon for first or subsequent generation owners of family-owned businesses to ask their children's intended spouses to



sign prenuptial agreements in order to protect the family business assets from the potentially adverse financial consequences that a divorce may bring.

Typically only one spouse holds title to the business interest. However, situations wherein both spouses hold a certain percentage of a closely held business entity frequently occur as well. One spouse is usually more active in the business than the other, generally because that spouse started the business, because the business had been in that spouse's family for several generations, or for parenting and other family-related reasons. In recent years, it is sometimes the case that both spouses are intimately involved in starting and operating a family business. In the case of a pending divorce, very different approaches are called for when planning the future of the business entity, dependent on the varying degrees of involvement by the respective spouses and the manner in which ownership is held.

In cases where only one spouse holds title and actively participates in the management of the business entity, the inactive non-titled spouse is often "bought out" by virtue of an unequal allocation of the non-business assets that are included in the marital estate. In situations where both spouses hold an ownership interest or both spouses are active in the daily management of the business, issues formerly discussed in the dining room are now moved to the boardroom or courtroom. In such instances, the issue of who will own and control the business after the divorce becomes equal in importance to the issue of valuing and dividing the assets.

In cases where both spouses want to continue operating the business following the divorce, 50-50 ownership structures are oftentimes unworkable. Majority ownership allows for easier and more effective implementation of management decisions, but can create other problems. When divorced spouses determine that they will continue to jointly operate a business enterprise, careful planning, formal documentation of agreements, policies and procedures, and a provision for independent oversight and dispute resolution are critical. The business will almost always stagnate and be held hostage to differences of opinion unless carefully planned and agreed-to procedures are put in place to facilitate the profitable continuation of the enterprise.

Many businesspeople are wondering can anything be done to protect the assets that an entrepreneur may bring to a marriage. As unromantic as it sounds, an entrepreneur may wish to consider the execution of a prenuptial agreement. Currently the Irish government does not recognise the legality of prenuptial agreements. However, the Tanaiste established a Study Group on prenuptial agreements in December 2006. The Group concluded that prenuptial agreements do not offend against the constitutional protection accorded to the institution of marriage and the right to marry (Department of Justice, Equality and Law Reform, 2007). The Group's core recommendation is that separate provision be made in both the Family Law Act 1995 and Family Law (Divorce) Act 1996 to provide that the courts be required to have regard to existing prenuptial agreements when making ancillary relief order in judicial separation and divorce proceedings. The Study Group is of the view that prenuptial agreements are enforceable and capable of variation under existing Irish statute law. Therefore, should prenuptial agreements become legal in Ireland, entrepreneurs who have a wedding on the horizon should consider writing a prenuptial agreement. This is particularly true if the entrepreneur is bringing significant assets into the marriage, or if

he/she might own the business outright, or have family money and wishes to protect it should the relationship breakdown.

### **Plans That Can Be Made: Prenuptial Agreements**

A prenuptial agreement is an agreement that is entered into by a couple prior to marriage so as to determine their rights and responsibilities in the event of a divorce. An agreement that is entered into during marriage is called an antenuptial agreement. Basically, a prenuptial agreement determines how spouses define equality in their partnership. It is important that the agreement is not designed to promote divorce, nor should it be written or signed with the intention of divorcing. The agreement must be created fairly and agreed upon by both parties. As a result of drawing up a prenuptial agreement many of the difficulties of divorce are avoided should the marriage end. Prenuptial agreements can be modified after a marriage, once it is written and signed by both parties. However, it is important to note that while the original decisions made prior to the marriage can be added to, no subtractions can be made. Given the success of Irish businesses during the Celtic Tiger, there is now a stronger need for these formal agreements as people tend to marry later in life after they have achieved professional success and accumulated substantial financial assets.

Prenuptial agreements are not for everyone; however there are a number of people who should take it into consideration. Firstly, a couple who have between them a significant amount of assets by which the current divorce rule of 50/50 is not an option especially if a spouse has significantly more assets than the other. Secondly, if one partner is concerned about a future spouses' current debt, by drawing up such an agreement, then one spouse would not be held liable for the debts of the other should a marriage fail. Finally, and most importantly, family businesses with whom a partner is to marry into should consider this approach before the marriage. This is especially true if they want to keep the business within the family and should a divorce occur the division of assets does not financially affect other members of the family business during divorce proceedings. Prenuptial agreements can be modified after a marriage once it is written and signed by both parties. It is important to note that where it can be added to, it cannot be subtracted from the original decisions made prior to the marriage.

### **Guidelines On Writing Prenuptial Agreements**

If one is considering writing a prenuptial agreement the following guidelines should be adhered to. Additionally refer to Appendix B for a sample prenuptial agreement:

- **Engage in candid discussions prior to hiring a solicitor.**  
Don't simply spring the idea on your loved one. The process of negotiating and drafting a prenuptial agreement proceeds more smoothly if the couple has had forthright discussions about the financial implications of their marriage and the general concept of a prenuptial agreement. Try to avoid, however, negotiating specific terms with your potential spouse prior to seeking legal counsel, so that you are not locked into a promise, which, upon guidance of counsel, may not be advisable. One will want to make it very clear from the beginning that one's desire for a prenuptial agreement is not related to your love or your commitment to your fiancé/fiancée. Most likely, one is asking for a prenuptial agreement because

one has been hurt or burned in a previous marriage so its really about your own issues.

- **Enter into the process well in advance of your wedding date.**  
This avoids the stress of one party later claiming duress due to the pressure created by the time constraint.
- **Hire separate solicitors.**  
Each party should have his or her own solicitor who can explain property rights upon divorce and death and any waivers of those rights that are made in the agreement. Both parties should have a full understanding of their rights upon divorce as well as upon the death of the other party, so that any waiver of those rights is made by informed decision.
- **Prepare detailed financial disclosure statements.**  
This should include a statement of all assets and liabilities. Each party should disclose their annual gross income, interests in family trusts, and potential inheritances. This helps defend against a challenge by either party that he or she did not understand the value or extent of the financial rights that were waived.
- **Keep in mind that the process of negotiating and signing a prenuptial agreement can often lead to tension, even for mature couples.**  
The most difficult aspect of a prenuptial agreement is that it is essentially a business transaction negotiated between two parties who are in love. In addition, in order to protect their respective clients, the solicitors involved must negotiate and draft the agreement as if a divorce will occur. Inevitably, the process of drafting a prenuptial agreement brings up emotional issues for one or both parties. If you decide that you want to have a prenuptial agreement, you, your potential spouse, and your solicitor should all be attuned to the potential emotional issues that may surface.

### **The Benefits and Criticisms of Prenuptial Agreements**

Many people prefer an amiable separation to courtroom confrontations during a divorce. Some people simply wish to have certainty as to property rights and maintenance payments upon a potential divorce. By entering into a prenuptial agreement, they eliminate much of the financial uncertainty associated with a divorce. A fairly negotiated prenuptial agreement can provide some assurance to the wealthier spouse as to the extent of the financial impact of a divorce, while at the same time, providing the less wealthy spouse with some guarantee of his or her entitlement to a property distribution and/or maintenance upon a divorce. Whether you have a lot of valuable assets or are just starting out, have or do not have children, there are many reasons a prenuptial agreement can be beneficial to you and your spouse. Other reasons include:

1. To determine how you and your spouse define equality in your partnership.
2. To establish the value of non-monetary contributions to a marriage, such as being a stay-at-home spouse.
3. To cover your pre-marriage nest egg, such as your home, pension plan, stock portfolio, or property with emotional value.
4. To protect gifts and inheritances you receive.
5. To ensure that in the event of death or divorce, you will avoid difficult disputes over property, such as family businesses, stock options, professional degrees, licenses and practices, pension plans, and copyrights.
6. To protect and preserve the rights of children of an earlier marriage.

There are however many criticisms regarding prenuptial agreements. Many of these criticisms focus on maintaining the value and sanctity of a marriage. However, having a prenuptial agreement is a very personal choice and one that should certainly not be taken lightly. Some fear that it raises the thought of divorce before a marriage takes place and discourages people from getting married. While it is difficult to predict the future about how potential issues should be handled, such a discussion could put a strain on the relationship. However, it has also been said that a prenuptial agreement can facilitate a marriage. An agreement as to future property settlement or spousal support payments can provide the wealthier spouse with financial protection.

### **Alternatives To Prenuptial Agreements**

However, there are also other alternatives to a prenuptial agreement that can be enforced by the owner of a family business in Ireland. A starting point for the owner of the family business would be to include in the Articles of Association of the company a proviso that prohibits the transfer of shares to spouses and if there is a shareholders agreement to include such a proviso as well. There should also be a pre-emption provision in the Articles of Association, which requires shareholders who dispose of their shares to offer them first to existing shareholders. Having all family members sign a family charter, which emphasises that the family business is principally an income generator and the members of the family are custodians of the family assets for future generations is another alternative to a prenuptial agreement. The other alternative is for the family business to establish a trust. It is essential that the family business receive legal and financial advice about the establishment of trusts.

## **EXPLORATORY RESEARCH FINDINGS**

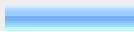
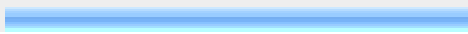
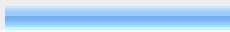

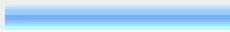
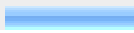
### **Method And Data Collection**

Exploratory research was conducted on family businesses in Ireland, which questioned the views and opinions of a member of a family business on the issue of divorce and prenuptial agreements. A database of family businesses was compiled from the Kompass database. In order to minimise costs it was decided to administer the questionnaire through an online survey, thus surveymonkey.com was utilised to design and administer the questionnaire. In total 104 questionnaires were emailed to family businesses and 34 valid responses were received, giving an overall response rate of 33%. All respondents adhered to the definition of family businesses proposed for this study.






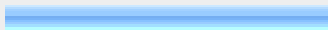
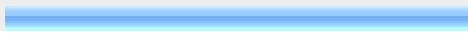
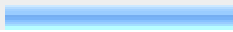
### **Research findings**

#### **Family business description**

Of the respondents, 53% employed less than 10 employees (thus classified as a micro family business). Some 23% employed between 10 and less than 50 employees (thus classified as a small family businesses). Medium sized family businesses accounted for 15% of respondents (between 50 and 250 employees) and large family businesses (greater than 250 employees) accounted for 9% of respondents. As Table 2 below indicates retailing was the most common sector the respondents were involved in.

<b>Table 2. Business Sector Respondents were Operating In.</b>		<b>Response Percent</b>	<b>Response Count</b>
Service Sector		20.6%	7
<b>Retailing</b>		<b>35.3%</b>	12
Agriculture		14.7%	5
Professional Services		5.9%	2
Construction		14.7%	5
Manufacturing		8.8%	3
<i>answered question</i>			<b>34</b>

Respondents were asked how active the family were in the business in terms of employment. The average number of full-time employed family members were 2 and on a part-time basis, 1 family member. As Table 3 indicates the majority of respondents family business were established post 1970. However, the results also indicate that Ireland has family businesses that are quite old.

<b>Table 3. Year the Business Was Established.</b>		<b>Response Percent</b>	<b>Response Count</b>
1900<1910		3%	1
1930<1940		6%	2
1940<1950		3%	1
1950<1960		3%	1
1960<1970		3%	1
1970<1980		26%	9
1980<1990		35%	12
1990<2000		21%	7
<i>answered question</i>			<b>34</b>

Respondents were questioned as to how many family members involved in the family business were either married or co-habiting. Some 88% replied there were family members involved in the business who were either married or co-habiting and 12% were not.

### **Respondents Knowledge and Awareness of the Divorce Act**

Respondents were asked to rate on a scale of one to five (1 being very familiar and 5 being very unfamiliar) how familiar they are with the Divorce Act of 1996 and Table

4 below indicates the results. The exploratory findings from Table 4 are very worrying for family businesses in Ireland, since 47.1% of respondents are very unfamiliar and 17.7% are unfamiliar with the Divorce Act of 1996 and thus are unaware of the implications this Act can have on their family business. What is interesting to note is that 82.4% of respondents agreed that divorce is an issue of concern for family businesses in Ireland, however when asked if it was a concern for *their* family business, 70% said no it was not a concern whereby only 30% said it was.

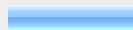
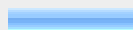
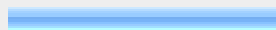
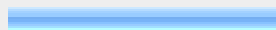
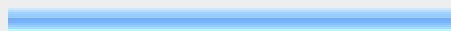
<b>Table 4. Familiarity with the Divorce Act 1996?</b>		<b>Response Percent</b>	<b>Response Count</b>
1 Very familiar		8.8%	3
2 Familiar		8.8%	3
3 No opinion		17.7%	6
4 Unfamiliar		17.7%	6
<b>5 Very unfamiliar</b>		<b>47.1%</b>	<b>16</b>
		<i>answered question</i>	<b>34</b>

Table 5 below provides some anecdotal responses for why respondents believe divorce is an issue of concern for their family business.

**Table 5. Anecdotal Responses To Why Divorce is An Issue of Concern.**

- Could lose half your business if divorced. Then if spouse remarried - great fun!
- It breaks down the family unit.
- You end up with nothing
- It could end the business
- Distribution and ownership of company assets
- It causes disruption
- Division of assets and equipment is very likely. All concerned end up losing out
- Divorce can reduce the liquidity of the business
- Divorce requires the division of assets
- Divorce will cause financial problems for small businesses.
- Divorce costs money as you have to half business.
- I know farmers who are afraid to get married as they reckon you come back down the aisle with 50% of the farm.
- Divorce can lead to asset dilution
- If divorce occurs one may have to sell the business to divide the money
- The obvious division of assets between a couple due to divorce may create problems.

From the above responses one can see that the major issue of concern concerning the issue of divorce are the financial implications associated with it. However, [if and when] prenuptial agreements are legalised in Ireland, signing this could reduce the financial hardship faced by family businesses. Respondents were then asked if they have made any provisions for the possibility of divorce occurring i.e. preparing an agreement prior to marriage, changing the Articles of Association so as to protect the family business etc. Only one respondent replied that they had made provisions and those provisions were that his “*Wife would have income from the business but no shareholding and that the children get the business*”.

Some anecdotal responses were received from respondents who explained why they have not made provisions and Table 6 below indicates the results.

**Table 6. Anecdotal Responses For Why No Provisions Have Been Made.**

Haven't considered it till now. Will probably put a stipulation in my will.

They are happily married!

The question does not arise.

Divorce is an expensive process.

Do not know what provisions I could make

No risk of occurrence.

Only one family member is a shareholder so far.

I will not be getting a divorce.

Table 6 indicates a mixed response as to why provisions have not been made, reasons like divorce will not happen to us; happily married; and no understanding of how to make provisions were given. Respondents were then asked, if in the unfortunate event of a divorce occurring where would they seek assistance. The overwhelming response was that they would get assistance from their solicitor; however 9 respondents identified their accountant and/or financial advisor.

### **Respondents Views of Prenuptial Agreements**

Respondents were asked if they were aware that in Ireland prenuptial agreements were not available. Some 59% of respondents were aware that there are currently no prenuptial agreements in Ireland, however 41% were unaware. Furthermore, respondents were questioned as to their awareness of the Irish government trying to introduce prenuptial agreements. Only 29.4% of respondents were aware of this with the remaining 70.6% being unaware. When asked if they thought the introduction of prenuptial agreements was a good thing, an overwhelming 87.5% of respondents indicated yes and only 12.5% indicated no. This therefore means that family businesses in Ireland would be agreeable to the introduction of prenuptial agreements.

To conclude this section of the questionnaire, respondents were asked if prenuptial agreements became legal in Ireland would it be something their business might avail of, only 39.4% of respondents indicated it would be and the majority, 60.6% said it would not. This sounds like a contradiction since the majority would be in favour of

the introduction of prenuptial agreements, but when it came to their business they would not have them.

Lastly the respondents were asked if they have any further opinions on the subject under discussion in the questionnaire and Table 7 indicates the anecdotal responses to this question.

**Table 7. Further Opinions on the Subject Under Discussion.**

Open ended divorce very unfair. Should be a final settlement.

I think you should marry for love and honour your marriage vows.

More information would be useful.

I was not aware there are no prenuptial agreements in Ireland and I found this surprising. My main concern is that as a family business I hope my children will one day carry on. It would be sad to think that maybe one day due to divorce in their marriage a lot of what I have worked for and achieved would leave the family.

It is time that prenuptial agreements are legalised.

This only applies to wealthy people who have plenty of property and assets

I think the implications of divorce are devastating on people concerned. It is a double blow when the finances and security of the business are also implicated

While pre nuptials may be a good protection for businesses. I think it is terrible reflection of our society particularly our courts and government.

I think all young people getting married especially with their own business should have an agreement to be honoured.

**DISCUSSION**

As previously mentioned, the main aim of this research was to examine what can be done to plan for divorce should divorce arise for members of a family business. As outlined in the paper, the issue of divorce is now very much entrenched in the Irish legal system and members of family businesses are aware of the concept of divorce but not necessarily its detailed components. Furthermore, the research conducted and presented in this paper outlines the importance of changing the current legislation so as to enable prenuptial agreements to be deemed a legal document in Ireland. This was echoed by the Expert Group that was established by the Irish Government in 2006. To recap, they concluded that prenuptial agreements do not offend against the constitutional protection accorded to the institution of marriage and the right to marry. Thus the Group's core recommendation is that separate provision be made in both the Family Law Act 1995 and Family Law (Divorce) Act 1996 to provide that the courts be required to have regard to existing prenuptial agreements when making ancillary relief order in judicial separation and divorce proceedings. The Study Group is of the view that prenuptial agreements are enforceable and capable of variation under existing Irish statute law. Furthermore, the respondents of the primary research overwhelmingly agreed that the introduction of prenuptial agreements would be a good thing. The primary exploratory research conducted thus far indicates the acceptance of members of family businesses to the issue of prenuptial agreements. However, this



acceptance does not mean that they themselves will adopt prenuptial agreements for their family business.

## **Conclusion**

The primary research conducted however does indicate the lack of communication to the business world about the importance of planning for divorce in Ireland. Based on the anecdotal responses one can see the Irish culture, religion and history still influence people's views on divorce. Some respondents would not consider divorce, no matter what, due to religious reasons (according to the Catholic Church divorce is a sin and over 95% of the Irish population are Catholic). Others were of the belief that divorce was not an issue for them due to the fact they were not millionaires.

The subject of a prenuptial agreement is a difficult one to broach. Quite easily it could raise a red flag screaming 'I don't trust you' or 'I have my doubts about this marriage will work'. To proceed tactfully one should develop the right mindset. Understand that a prenuptial agreement is a way of protecting assets one brings into a marriage in the unlikely event of divorce or death. The protection applies to both spouses although it is likely that one or the other has greater assets.

For the moment, the situation facing businesses in Ireland concerning the legality of prenuptial agreements is very much a 'wait and see' approach. If prenuptial agreements do not become part of Irish law the implications for the family business owner is that one party is awarded the business and ordered to pay the other for his/her share in the business.

## **Further Research**

The absence of research on family businesses in Ireland is noticeable even though research on this form of enterprise has shown considerable international expansion over the past number of years. Other research on SMEs and new business start-ups has expanded rapidly in Ireland in parallel with the increasing recognition of the importance of SMEs and small business start-ups in modern economies. However, research on family businesses in Ireland has shown no comparable expansion over this period. The findings of this paper therefore point to several further research opportunities. These research opportunities are posed as possible questions for further research.

- Does the customer relations strategy differ when a family business is run by a divorced family member?
- Is the profitability of the family business affected as a result of divorce?
- Are family businesses which are operated by divorced family members more likely to engage non-family members on the Board of Directors?
- In light of the discussion on prenuptial agreements, are family businesses more aware of the implications of prenuptial agreements?
- Will family businesses utilise prenuptial agreements should they become legal?
- Do family businesses amend their organisational structure once a key family member becomes divorced?

A repeat of this study, either in Ireland or internationally, would allow for the comparison of findings.

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## Appendix A

### Components of The Family Law (Divorce) Act 1996

The Family Law (Divorce) Act consists of five main areas namely:

#### 1. *Preliminary*

This area consists mainly of an interpretation of the main provisions under the Divorce Act. One section which is particularly relevant to family businesses who want to keep things private is section 3 of the Act, which states that the media are restricted in publishing full details of divorce, nullity or separation cases. This means that the name and reputation of the business will not be splashed on the front pages of newspapers and hence will not ruin the reputation of well-established firms.

#### 2. *Obtaining a decree of divorce*

This area outlines the basic assumptions of the Divorce Act. The person applying for the divorce is known as the applicant and the other spouse is known as the respondent. This area also outlines what the solicitors of each spouse must discuss with their client before divorce proceedings begin i.e. the possibility of reconciling and mediating, or a written separation agreement. If the application is successful a decree of divorce is given to the spouses, which dissolves the marriage and spouses are free to marry, this does not however affect the right of joint guardianship of children.

#### 3. *Preliminary and ancillary orders during or after divorce proceedings*

Section eleven to thirty state what orders can be made during court proceedings which apply to separation of assets and property, the family home, custody of children and what happens if one of the spouses remarries. This section also states how payments can be made which include a periodical payments order, secured periodical payments order or a lump sum order for one spouse to make payments to the other.

Section eleven states that the court can make a number of orders before a divorce is granted including (a) safety, barring, temporary or protection orders, (b) custody, access or maintenance orders of a dependant child or (c) orders to protect the home, its contents or any money for its sale. Section fifteen states that the court can give one spouse the right to live in the family home and also gives direction on the sales of the assets and division of the proceeds. Section eighteen describes how a spouse may be provided for if a divorced spouse dies. This is based on the condition that (a) the application is made within six months of the death, (b) the other spouse has not remarried since the divorce and (c) the spouse informs the personal representative of the deceased spouse of their intention to apply for an order within one month or else the assets will be distributed among the people entitled to them.

Section twenty states that the court must ensure that the spouse and dependent children are provided for in all cases. The court will consider such things as income, financial resources, property, financial needs, standards of living in the past, age of the spouses, duration of marriage, disabilities of either spouse, the contribution of each spouse to the welfare of the family – financial or other, the conduct of either spouse and the rights of anybody else e.g. new husband or wife.

4. *Income tax, capital acquisitions tax, capital gains tax, probate tax and stamp duty.*

This area details if tax is payable under the provisions of the Act. Income Tax will not be deducted under the Act with the exception of pensions. Stamp Duty will not apply to property transfers. Any other gifts or inheritance that the court orders one spouse to pay is exempt from capital acquisitions tax.

5. *Miscellaneous*

The court can restrain a spouse from disposing of property or transferring it out of the State before proceedings have been decided. If the disposal of any property has occurred less than three years before the application, the court will presume the intention was to defeat the claim. The Circuit Family Court, the High Court and the Circuit Court can hear proceedings under the Family Law (Divorce) Act. Section forty-five to fifty-three details amendments to previous Acts such as the Succession Act, Family Law Act and Maintenance Act.

## Appendix B

### Adapted Prenuptial Agreement from Aaron Larson (USA)

This pre-marital agreement is made on this \_\_\_\_ day of \_\_\_\_\_, 200\_\_, between \_\_\_\_\_ and \_\_\_\_\_ .

Whereas the parties intend to marry under Irish Law

and wish to set forth in advance of their marriage the rights and privileges that each will have in the property of the other in the event of death, divorce, or other circumstance which results in the termination of their marriage;

Whereas the parties have made to each other a full and complete disclosure of their assets,

Whereas both parties have been represented by independent counsel of their own choosing, and whereas both parties have received a full and complete explanation of their legal rights, the consequences of entering into this pre-marital agreement, and the rights they would possess were it not for their voluntary entry into this agreement; and

Whereas both parties acknowledge that they have read and understand this agreement, have not been subjected to any form of coercion, duress, or pressure, and believe this agreement to be fair and to represent their intentions with regard to their assets and to any estate that shall result from their marriage;

The parties hereby agree as follows:

1. Each party shall separately retain all of his or her rights in his or her separate property, free and clear of any claim of the other party, without regard to any time or effort invested during the course of the marriage in the maintenance, management, or improvement of that separate property.
2. At all times, the parties shall enjoy the full right and authority with regard to their separate property as each would have had if not married, including but not limited to the right and authority to use, sell, enjoy, manage, gift and convey the separate property. Both parties agree to execute any documentation necessary to permit the other to exercise these rights, provided the act of executing the documentation does not impose upon them any legal or financial responsibility for the separate property of the other.
3. The parties agree that each shall be responsible for any tax obligations associated with their separate property.
4. The parties agree that neither shall contest the validity or provisions of any will, account, trust agreement, or other instrument executed by the other which disposes of his or her separate property or which creates any interest therein in another. To the extent that such an action would create any right or interest in the separate property of the other, both parties hereby waive any right in the property of the other, whether created by statute or common law, including but not limited to any right to elect against the will of the other, or to take an intestate share of the other's property.

The wife hereby waives any dower interest in the husband's separate property, and the husband hereby waives any courtesy interest in the wife's separate property.

5. In the event of separation or divorce, the parties shall have no right against each other for division of property existing of this date.

6. Both parties acknowledge that they possess sufficient education and job skills to adequately provide for their own support, and hereby waive any claim to spousal support (alimony) except in the event that:

i. One of the parties suffers medical disability and the other remains both employed and physically able, in which case the disabled party may receive reasonable spousal support consistent with Irish law until such time as the disability is resolved, or the other spouse retires or becomes disabled from working, either by agreement or by judicial determination;

ii. The parties mutually agree that one of the parties shall reduce his or her work hours, or shall refrain from working, in order to care for any children born during the course of the marriage, in which case, if the parent's employability is affected by this full or partial withdrawal from employment, that parent may receive reasonable remedial spousal support consistent with Irish law for a period of not more than two years, either by agreement or judicial determination.

7. In the event of separation or divorce, marital property acquired after marriage shall remain subject to division, either by agreement or by judicial determination.

8. This agreement shall be binding and inure to the benefit of the parties, their successors, assigns, and legal representatives.

9. Without regard to the location of any property affected by this agreement, this agreement shall be interpreted and enforced under Irish law. In the event that any portion of this agreement shall be held invalid or unenforceable, it is the intent of the parties that all provisions of this agreement be regarded as separable, and that all remaining provisions remain in full force and effect. It is further the desire of the parties that all provisions of this agreement be considered as evidence of their intentions by any court, arbitrator, mediator, or other authority which seeks to divide their estate, and that their intentions be respected whatever the legal status of this agreement or any of its terms.

10. This Agreement and the exhibits attached hereto contain the entire agreement of the parties. This Agreement may only be amended by a written document duly executed by both parties.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_

\_\_\_\_\_  
Fiancée

\_\_\_\_\_  
Fiancé

Signed in the presence of:

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Witness

### **Post-Marital Endorsement**

The parties, having entered into this prenuptial agreement in advance of their wedding, which was held on the \_\_\_\_ day of \_\_\_\_\_, 200\_\_, hereby reaffirm that they entered into this agreement voluntarily, free from coercion, duress, or pressure, with the benefit of the advice of independent counsel of their own choosing, and continue to believe this agreement to be fair and to represent their intentions with regard to their assets and to any estate that shall result from their marriage.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_

\_\_\_\_\_

\_\_\_\_\_

Husband

Wife

Signed in the presence of:

\_\_\_\_\_

\_\_\_\_\_

Witness

Witness

This prenuptial agreement is to be used for illustrative purposes only. Legal advice must be sought in order to determine the content of this agreement.

(source:[http://www.expertlaw.com/library/family\\_law/prenuptial\\_agreement\\_form.html](http://www.expertlaw.com/library/family_law/prenuptial_agreement_form.html))

**ACTIVITY-BASED START-UP SIMULATIONS  
IN ENTREPRENEURSHIP EDUCATION  
AT THE GERMAN UNIVERSITIES**

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## **Abstract**

Only 30% (bga, 2007, p. 8) of all business start-ups are attributed to women. In the area of self-employment gender gaps have a negative effect, both qualitatively and quantitatively. However, universities that want to prepare students for self-employment as part of their curriculum are also confronted with the question of an adequate methodology which helps students to be able to immediately understand and learn entrepreneurial actions. Activity-based course concepts become increasingly important in entrepreneurship education in this context (cf. Ebbers, 2004, p. 26). The DIANA research and development project deals with these aspects. Its aim is to further develop the teaching/learning method of a "practice firm" into a start-up simulation for the tertiary field. At the same time, the development of sensitivity for gender and diversity management in the participants is an important qualification aim. Therefore activity-based simulation seminars in entrepreneurship education were researched by means of internet research and a multi-level investigation method. Based on the results of the investigations as well as on the theoretical concepts of simulation methods and the "doing gender"- approach, it was possible to plan an activity-based and holistic business start-up simulation.

## **PROBLEM OUTLINE AND OBJECTIVES**

While the proportion of women's employment has risen continuously in the past few years in spite of gender-specific division of labour and prevailing gender stereotypes, and today amounts to 45% (Federal Employment Office, 2008), only 30% (bga, 2007, p. 8) of all business start-ups are attributed to women. This fact shows that in the area of self-employment gender gaps have negative effects, both qualitatively and quantitatively, on the desire to start a business and on start-up activities particularly as regards women.

However, universities that want to prepare students for self-employment as part of their curriculum are not only confronted with this phenomenon. In view of making the transfer of knowledge and the sustainability of knowledge acquisition as realistic as possible, it is important to provide an adequate methodology by means of which students can immediately understand and learn entrepreneurial actions. Activity-based concepts for lectures which are holistic, appealing, participant-oriented and promoting reflection become increasingly important in entrepreneurship education in this context (cf. Ebbers, 2004, p. 26).

The DIANA<sup>2</sup> research and development project deals with these aspects. Its aim is to further develop the teaching/learning method "practice firm" into a start-up simulation for the tertiary field; the concept is based on simulation and up to now has been well-known rather in the area of commercial professional education.

At the same time, the development of gender and diversity sensitivity in the participants is an important aim of the qualification. In the context of the qualification scheme described above especially female students gain the opportunity to act as potential company founders in a gender-equitable learning process. The project intends to investigate to what extent the designed general conditions influence the willingness of female students to set up a company in a positive way

## **THEORETICAL FOUNDATION**

### **Professional skills and competences and concepts of activity-based learning**

The concept of the activity-based and holistic business start-up simulation is intended to consist of several modular components that integrate "managing gender and diversity" as a cross-sectoral theme.

This chapter is going to consider more closely activity-based learning as a basic and central concept for the development of the qualification modules. For the development of the qualification modules economic-didactic simulation methods in general and simulation in the sense of practice firm concepts in particular as well as the "doing-gender" approach and the "managing gender and diversity" approach is of importance. They will be presented in the chapters to follow.

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<sup>2</sup> The project underlying this paper was funded by the Federal Ministry of Education and Research; grant number FKZ 01 FP0623 and FKZ 01 FP0624. The submitting authors of this article hold responsible authorship.

The social demand to develop and promote so-called key qualifications in the qualification modules in addition to expert knowledge required a closer look at activity-based teaching methods. These are imputed to promote extra functional competences in particular (cf. Ebbers, 2004, S. 26 and Esser/Twardy, 1998, p.14).

The term "(basic) professional skills and competence" describes the competence of a given person to understand his/her professional environment that is becoming more and more complex and undefined and "*ziel- und selbstbewusstes, flexibles, rationales, kritisch-reflektiertes und verantwortliches Handeln [zu gestalten]*" [*help construct it by purposeful, self-reliant, flexible, rational, critically-reflecting and responsible action*] (Pätzold, 1999, p. 57). The subsidiary skills of basic professional skills and competences comprise expert knowledge and multidisciplinary elements going beyond, the so-called key qualifications (cf. Gonon, 1999, p.341). The latter can be divided into competences as regards methodological competences (e.g. the competence to solve problems) and social competences (e.g. the competence to interact and to take responsibility) (cf. Braukmann, 2001, p.84; Halfpap, 1991, p. 242). In addition to these other systematizations have been published in the field of basic professional skills and competences (cf. Arnold 1995, p. 70-71; Reetz, 1990, p. 22). Esser and Twardy describe the three subsidiary skills as regards a profile of competences for start-up businesses as typical possible behaviour of a founder of a new business. The expert knowledge of a future founder personality might for example show in the ability to draw up an investment plan. In the context of business start-ups the competence as regards methodological competences can be considered as problem-solving heuristics. The social competences of a founder on the other hand might show in negotiating a bank loan (cf. Esser/Twardy, 1998, p.12). As a consequence it is the assignment of universities in this field to adequately teach these business start-up skills to students (cf. Schulte/Klandt, 1996, p.1). Esser and Twardy come to the conclusion that learning at universities should include all facets of basic professional skills and competence. For them the prevailing forms of learning and teaching at universities that predominately concentrate on the university lecturer is inadequate for the required profile of business start-up qualifications (cf. Esser/Twardy, 1998, p.14). In the following business didactics and the activity-based simulation method will be examined more closely.

### **Methods of simulation and the practice firm concept**

The business-didactic method of simulation belongs to the concept of activity-based didactics. According to Ewig it means a blanket term for all those activities that convey practical experience in economics by imitating reality in a model (cf. Ewig, 1991, p. 130). For the learner, this method provides an opportunity to experience and evaluate the consequences of risky and cost-intensive transactions in a situation that reproduces the reality in a simplified reproduction without actually being exposed to any risks (cf. Buddensiek, 1999, p. 353; Bonz, 1999, p. 125). In this active teaching/learning process learners actively look into the actual subject within a given learning environment (cf. Dörner, 1982, p. 142) and thus have the possibility to enlarge their professional skills (cf. Buddensiek, 1999; p. 354). Simulation methods in this sense can be planned in a variety of configurations with respect to setting and different levels of freedom of action. Concepts for simulation are manifold and versatile. In this context they are sometimes over-lapping as regards content, they comprise for

example role plays, planning games, case studies, practice firms, junior companies and computer simulations (cf. Ewig, 1991, p. 130).

The practice firm concept belongs to the group of more comprehensive methods, as it includes less complex simulation methods such as role plays, case studies and planning games. It is well-known in particular in the area of professional education in business (cf. Bonz, 1999, p. 127; Achternhagen, 1997, p. 625). The varied composition of methods enables learners to experience activity-based teaching/learning processes and thus to gain a deep insight into the entrepreneurial reality (cf. Ebbbers, 2004, p. 42). The practice firm represents a dynamic simulation model of a given company and it reconstructs a model of a business enterprise (cf. Kaiser/Weitz, 1992, p. 90; Reetz, 1986, p. 38). As model it does not reproduce the original true-to-life but reduces reality in certain aspects in order to emphasise relevant and interesting aspects in a given seminar. In doing so, complex processes become comprehensible, interdependencies and strategies of entrepreneurial processes can be identified and thus professional active skills can be encouraged. Experience gained in these simulation seminars can be transferred to real-life situations (cf. Gummersbach, 1989, p. 38-39).

The construction of the model, which is the central process in the design of a practice firm, is planned in two sequential processes of transformation according to Reetz. These are transformations against the background of personal experience of the person who designs the model and the forms of representation of entrepreneurial reality. The first process of transformation deals with a situational representation of concrete pictures of enterprises in particular cases obtained from real-life economy in form of documents, case studies etc (casuistics). In addition to that, this first transformation process includes a scientific representation of the concrete entrepreneurial reality as a system of scientific theories and models from business studies and sociology. The business representation can be carried out according to approaches inherent in the system or decision-oriented. In the approach focussing on system inherent circumstances a given company is represented in form of abstract theories and models as a socio-technical system. The decision-oriented approaches focus on the carrying out of entrepreneurial actions and decisions of a firm. This first process of transformation is the basis for the reconstruction of the model enterprise which is planned to become the practice firm.

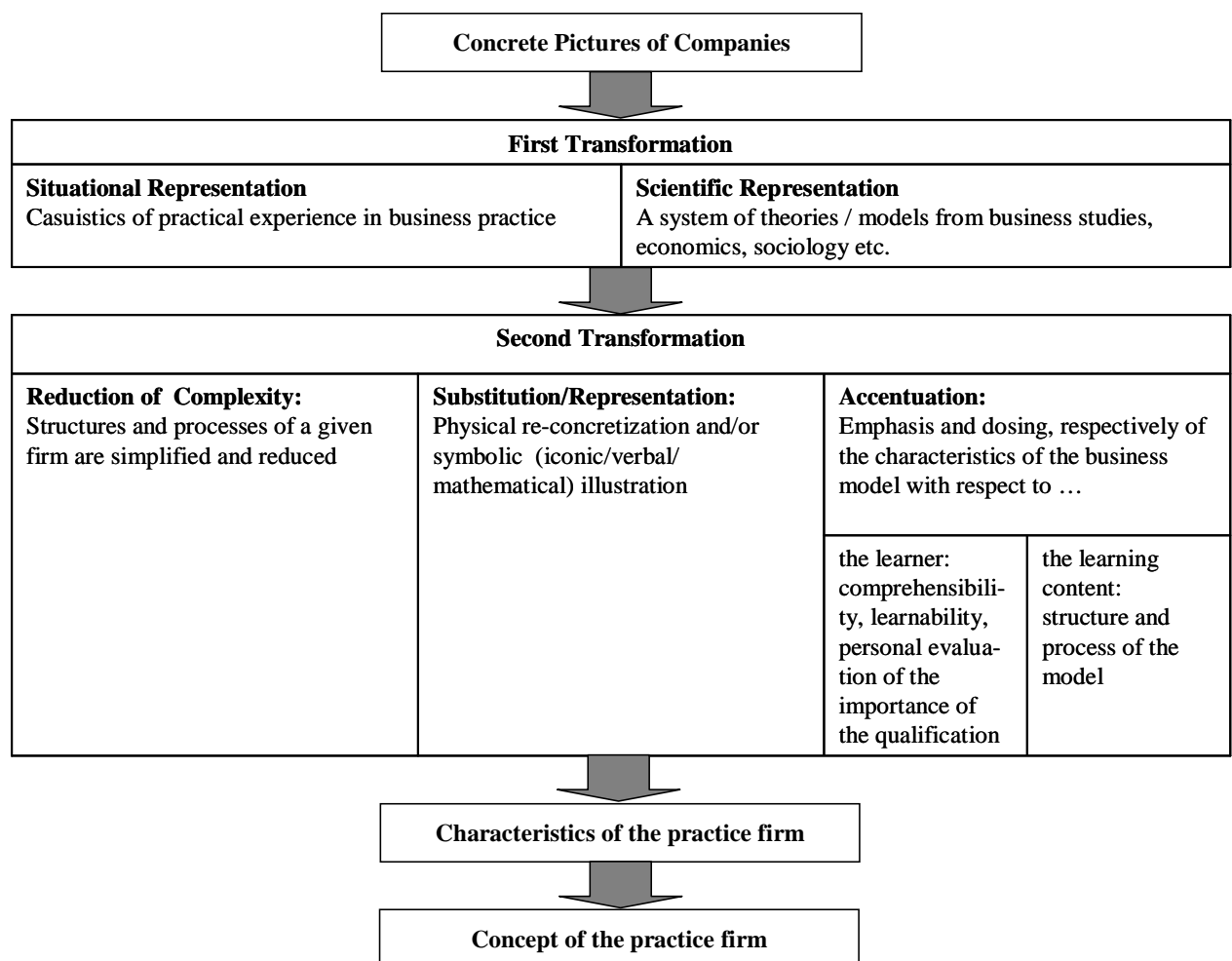
According to Reetz, the second process of transformation which is the building of a model from precise entrepreneurial ideas can be arranged in three simultaneously proceeding steps. These are simplification by reduction, substitution and accentuation (cf. Reetz, 1986, p. 353-354).

The step of simplification means a reduction of the complex original. In order to do so, interactions of departments and work stations can be simplified or reduced in number. This also means that the number and variety of activities inside one and between several enterprises are reduced compared to the processes in the original firm (cf. Reetz, 1986, S. 353-354).

Substitution refers to the replacement of real-life elements or just symbolically to true-to-life representations in the model. Physical representations in practice firm concepts are often open-plan offices. Stores or manufacturing sites in most cases are only symbolically represented. This is due to competing conceptions of learning. On

the one hand there are concepts that are based on environmental and behaviouristic approaches; they focus on true to original physical representation of stimuli. As a consequence they provoke patterns of behaviour that can be applied in other situations. The cognitive concept of learning, on the other hand, favours a reduction of reality in order to obtain a higher degree of transparency. According to the latter, learners achieve a sort of cognitive map when they are confronted with a transparent design of the learning environment. Knowledge is stored and can be transferred to new situations in form of patterns of action.

The step of accentuation highlights precise characteristic features of the company's model with respect to the learner and the learning content. Practical learning and the development of corresponding competences play an important role in this context. The qualification process in the model on hand is meant to meet the learners' needs. The accentuation in this context should be realized with respect to the importance of qualifications for the learner as well as to the comprehensibility and learnability, meaning the didactic treatment of contents. The feature characteristics of the learning content "practice firm" are linked to the learner-oriented accentuation. These in particular relate to the entrepreneurial model structure and inherent processes (cf. Reetz, 1986, P. 351-354). The design of the model according to Reetz:



**Figure 1. Construction of a practice firm (place, where students train entrepreneurship) as business model (according to Reetz, 1986, p. 354).**

## **The Doing-Gender-Approach and the Managing Gender and Diversity Approach**

The "doing gender" approach has become a synonym for the social construction of gender in gender research. In this context, "doing gender" means that it is not the gender or the gender identity of the individual itself that is being considered but the fact that "gender" is reproduced in social processes. This concept has to be differentiated from former approaches that implicitly assumed that there is a naturally given difference of genders and cultural specifications are regarded as simple reactions of society on the facts of life (cf. West/Zimmermann 1987). "Gender" in this context is considered to be a continuous process of formation caused by human socialisation (cf. Gildemeister, 2004, p. 132). The "doing-gender" approach emanates from the sociology of interaction. In order to understand its point of view it is necessary to examine theories of interaction in sociology. An interaction takes place when people are physically present and notice and react to each other (cf. Gildemeister, 2004, p. 133). It also represents a formative process which may contain constraints, and in which persons take actions without being able to escape these constraints. In this context the gender identity becomes significant since "doing gender" stimulates processes that show interaction. *"Jede Interaktion basiert auf Typisierung und Klassifikation. Klassifikationen sind in umfassendere Wissenssysteme und in eine Vielzahl institutioneller Arrangements eingelassen, über die Verhaltensregelmäßigkeiten und situativ angemessene Handlungsmuster zuverlässig erwartbar werden."* [Each form of interaction is based on typing and classification. Classifications are embedded in more extensive knowledge systems and in numerous institutional arrangements, through which behavioural regularities and patterns of action which are appropriate to the situation are reliably expected] (Gildemeister, 2004, S. 133). "Gender" in this context becomes a category that minimally differentiates one person from another and that is based on developed stereotypes of the female and the male within an assumed different institutionalization. The category "gender" thus provides systematization and regulation for the surrounding world. The process of systematization is determined by the institutional conditions that are surrounding us (cf. Gildemeister, 2004, p. 133). This general sociological approach concerning the category gender was chosen to direct the social perspective towards the issue of gender and foundation of an enterprise without explicitly addressing the topic foundation. This general perspective rather highlights how sexes are shaped in general social, western orientated institutions, which facilitates the transfer to foundation institutions.

The managing gender and diversity approach is particularly suitable for reflecting on and deconstructing processes like this. It recognises the heterogeneity of the members of staff as a strategic instrument. The existing diversity in a company is not only tolerated, but strategically used to increase the success of the company (cf. Koall/Bruchhaben, 2005, p.17). "Diversity" deals with the individual personality, thus with persons' differences and similarities. Due to growing internationalization diversity of staff members has become the centre of interest of numerous organisations. By this strategic approach individual abilities, experience, competences and qualification are meant to increase the success of companies. However, it is often a big challenge to overcome monocultural ideas, prejudices and resistance to change. Obviously there is a necessity to include these processes in qualification seminars (cf. Vedder, 2006, p. 7).

The appreciation of diversity in staff members aims at achieving a productive overall atmosphere in the company, preventing discrimination of minorities as well as improving equal opportunities – particularly as regards gender.

The list of differences that should be taken into consideration in gender and diversity management is long. It starts with personality traits goes via demographic data such as marital status and age to organizational characteristics such as staff membership in the company and status in the company's hierarchy. The list takes into account differences in outer appearance such as gender, ethnic background, age and physical handicaps as well as individual differences such as character, sexual orientation, religion, competences and life style of a given person (cf. Koall/Bruchhagen, 2005, p.17, also Vedder, 2006, p.9-10). Stuber considers the focussing on perceivable differences as a too strong reduction of complexity which might lead to the elimination and ignoring of certain factors, in particular since not all perceivable differences can be observed but can only be assumed in a given situation, take the sexual orientation of a person as an example. Moreover it is the particular cultural and social background that determines the relevance of these differences (cf. Stuber, 2004, p.18). Stuber describes this risk as follows: *"Ein besonderes Risiko besteht in der Reduzierung der ausgewählten Unterscheidungsfaktoren bei gleichzeitiger Betonung von Unterschiedlichkeit im Sinne von (trennendem) Anderssein. So entstehen allzu leicht klassische Feindbilder zwischen einigen wenigen Gruppen: denjenigen, die der Norm entsprechen, also „normal“ sind, und denen die sich unterscheiden“* [There is a particular risk in the reduction of a selected number of differentiating factors and at the same time emphasis on dissimilarity in the sense of separatively being different. Thus, well-known or traditional concepts of the enemy between some groups occur: those who correspond, meaning they are normal, and those who are different] (Stuber, 2004, p.18).

As a conclusion it can be stated that diversity in the sense of variety picks out several factors of dissimilarity as a central theme. In Germany aspects such as gender, age, moral concepts and education are central factors. Remarkably, the ethnic background plays an inferior role only (cf. Stuber, 2004, p.19).

In activity-based simulations the "doing gender" phenomenon can be uncovered by means of reflective phases and thus be integrated into the managing gender and diversity concept. Persons interested in the qualification thus can be effectively sensitized for the topic of start-up businesses. Furthermore, the platform of gender and diversity sensitized learning provides a deep insight into gender specific questions on start-ups.

## **RESULTS AND DEVELOPMENT OF THE MODULE**

### **Course of investigation and first results**

To be able to advance the teaching/learning method "practice firm" into a start-up simulation for universities that includes gender and diversity sensitiveness an investigation was carried out into activity-based simulations in entrepreneurship education: This chapter discusses the investigation and its results. The following chapter focuses on the development of the modules and their application. The emphasis of the following description of the survey is predominantly on the investigation of the general use of action-orientated seminars at universities. This first step is significant to interrogate the basis for a simulation of gender specific situations in regards to business start-ups.

If this basis was inexistent the fundament for experiencing gender-specific processes would be missing. The investigation was carried out by means of a multi-level investigation method including forms of knowledge transfer between universities and companies, chairs in entrepreneurship and business start-up related initiatives at universities and by additional internet enquiries. In doing so it was possible to form a comprehensive picture of present training firms resp. of the current state of simulation methods used at universities for the development of didactic innovations.

A first investigation was carried out by an e-mail questionnaire among 197 relevant persons involved in entrepreneurship education at universities; the questions that were asked referred to the potential carrying out of the simulation method "practice firm" and its implementation in those university seminars that met the criteria of a practice firm. This method was chosen to receive a first impression concerning action-orientated seminars at universities. As there were no up-to-date studies available. A general conspectus was gained by the use of the questionnaires. In order to be able to categorize a given lecture as a "practice firm" or business start-up simulation the following aspects were defined as determining factors:

- A high proportion of active learning which is necessary in order to enable problem-solving, self-reliant and self-reflective working and learning.
- All kinds of activities are initiated by persons; in contrast to computer simulations this means that any kind of activity will be initiated by persons who are physically present (above all by students).
- No computer induced activities; Computer induced activities were defined as a disqualifying criterion since it is essential for successful learning by means of a training firm that the method focuses on the interaction of students and on the importance of their independent decisions.
- Active role taking by students; the concept of a pre-defined role might ease the identification with the business start-up and the involved persons. In addition to that it allows reflecting decisions as well the achieved results irrespectively of one's own person (cf. Baur/Marti, 2000, p.41f).
- The university teacher as initiator / observer / moderator. Lecturers should control or 'navigate' only in the exceptional case (cf. Ebbers, 2004, p.156).

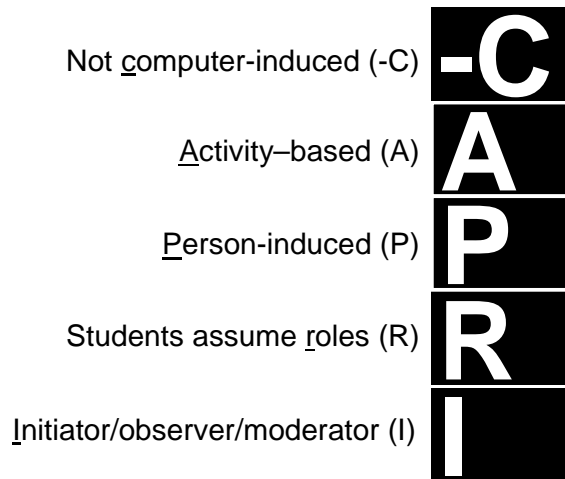
89 universities answered the e-mail, 57 of which had filled in the questionnaires referring to a total of 138 seminars. A further number of 32 universities gave information via e-mail that there no similar learning opportunities are available. The results of this first investigation can be summarized as follows:

- There is a very high diversity of concepts in the field of business start-up qualifications at German universities.
- The methodology in general is rather vague and the application of a specific method or other is hardly ever tied to a particular basic theory.
- The term "simulation" is used in a too general way, hardly any theoretical references can be found. There is a wide range of what is called "simulation", reaching from project work in cooperation with people from real-life business via business plan design in individual work to complex business games and training firms.
- Numerous lectures meet single criteria of a practice firm, only some of them, though, combine all of them.



- There is a wide field of definitions of what the term "practice firm" actually means.

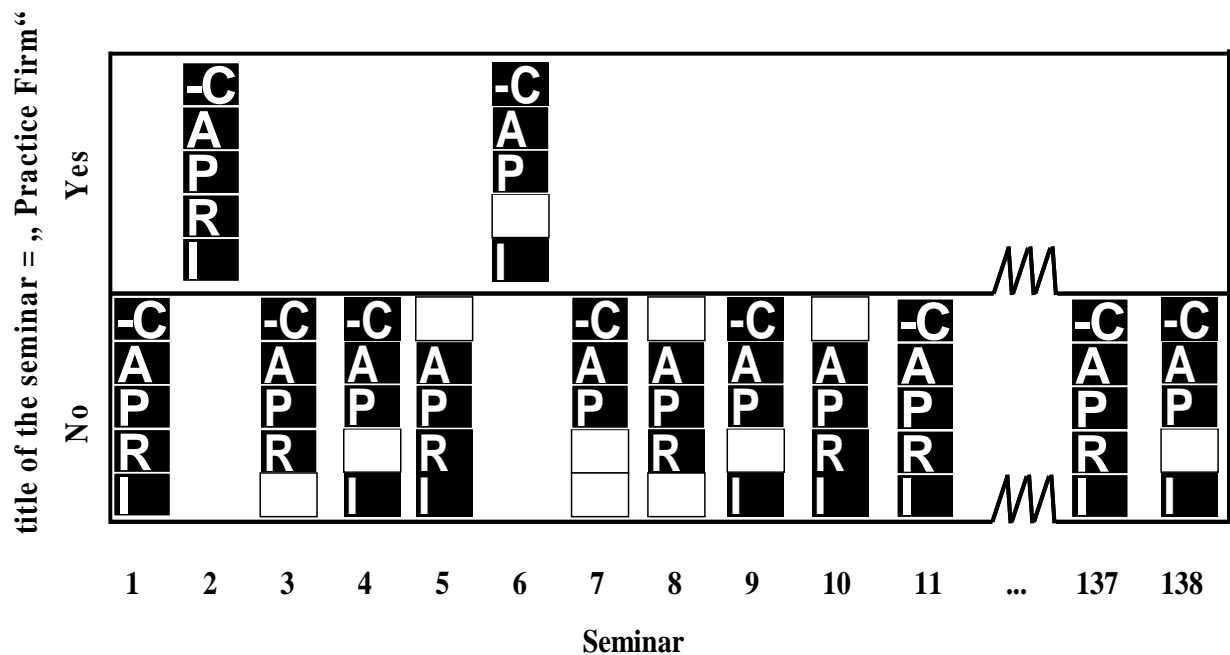
According to these results, the authors will try to categorize the investigated seminars with respect to the above mentioned criteria of a practice firm and by examining if in fact the seminar is called practice firm. The following figure shows a graph of one event that combines all important characteristics of a practice firm. A black bar is allocated to each criterion that was met. Criteria that were not met remain white.



**Figure 2. Example of a university course that meets all the criteria of a practice firm (illustration provided by the authors).**

By categorizing all seminars according to the following illustration the obtained research results that were summarized above become obvious. The following illustration represents only an extract. It becomes obvious that only a small number of seminars are actually called "practice firms"; these can be found in the upper part of the illustration (seminars Nos 2 and 6). However, not all seminars that call themselves "practice firms" do actually meet all the necessary criteria (seminar No 6). The bottom of the illustration shows the seminars that are not entitled "practice firm" and it becomes obvious that they form the majority of the researched seminars. This group includes some seminars that meet all the criteria (seminar Nos 1, 11 and 137) and a range of seminars that meet them only partially, for example in case that students do not assume roles or the lecturer is not only initiator, observer or moderator.

The illustration clearly depicts the discord in terminology with respect to the term "practice firm". However, in both groups, i.e. in those that call themselves "practice firm" and in those that do not, there are certain seminars that meet up with all criteria. The fact that a seminar is entitled "practice firm", however, does not necessarily mean that it actually meets the criteria. Thus the upper and the lower part of the illustration provide the opportunity to depict all possible combinations of criteria. Moreover, it becomes obvious that only a relatively small number of seminars meet up with all the criteria (seminars Nos 1, 2, 11 and 137) and that there is a large variety of very different concepts of seminars in this field.



**Figure 3. Classification of seminars according to company style and number of criteria met (illustration by the authors).**

Due to the general disconcert in terminology concerning the term "practice firm" the term "activity-based business-start-up simulation" will be employed in the following. It is worth mentioning that the investigations could find some very interesting business start-up simulations in other fields of activity, such as gardening and landscaping or in the field of personnel management and organization. This shows that issues in the field of business start-ups turn out to be relevant for a lot of disciplines.

In a second round of questionnaires only those events were analysed in detail that met the criteria of practice firms to the greatest extent. This meant that computer-induced events were excluded from the start. Another prerequisite was that participating and observable interaction were possible according to the answers given on applied methods in the first questionnaire. Seminars that applied the activity-based simulation method only in group work and off lectures were not taken into account.

Thus, 31 institutions and 47 simulation seminars were selected for the second investigation. Interviewees received a questionnaire in order to describe their simulation seminar for a closer analysis of Best Practice Examples with respect to

- general conditions
- target group and overall aim
- aspects as regards content
- use of methods and
- Management style in the start-up simulation.

17 universities returned their questionnaires on 26 seminars. Nine simulations were chosen that met the criteria of the practice firm method and

- offered the opportunity to observe the students in this simulation as regards the doing gender and managing gender and diversity (MGD) approach and
- were planned to take place in the summer term 2007 respectively in the winter term 2007/08.

Another six lecturers were chosen for expert interviews. These were carried out only in case that it had become obvious in the second, more detailed investigation that the events corresponded to the concepts and criteria of practice firms and

- that the seminar is essential for a comprehensive analysis of practice firms at federal universities , **but**
- is not suitable for participant observation due to internal reasons **or**
- is no longer available (in most cases internal reasons, personnel-wise or organizational, were given; another reason was that the project practice firm was so successful that it directly turned into a real-life firm to the market).

The following figure provides a survey of the most important aspects during the participant observation and expert interviews:

<b>Observation</b>	<b>Expert interviews</b>
(The study of the following aspects was carried out by taking into account the MGD-approach, activity-based learning and simulation)	
- Overall aim and educational objective	- Overall aim and educational objective
- Target group and its members	- Target group and its members
- Aspects as regards content	- Aspects as regards content
- Application of methods	- Application of methods
- Processes in working	- Significance of active learning
- Media equipment and use of media	- Experience close to reality and simulation
- Communication	- Aspects of Managing Gender and Diversity
- Role-taking and group dynamics	

**Figure 4. Aspects of participant observation and expert interviews (illustration provided by the authors).**

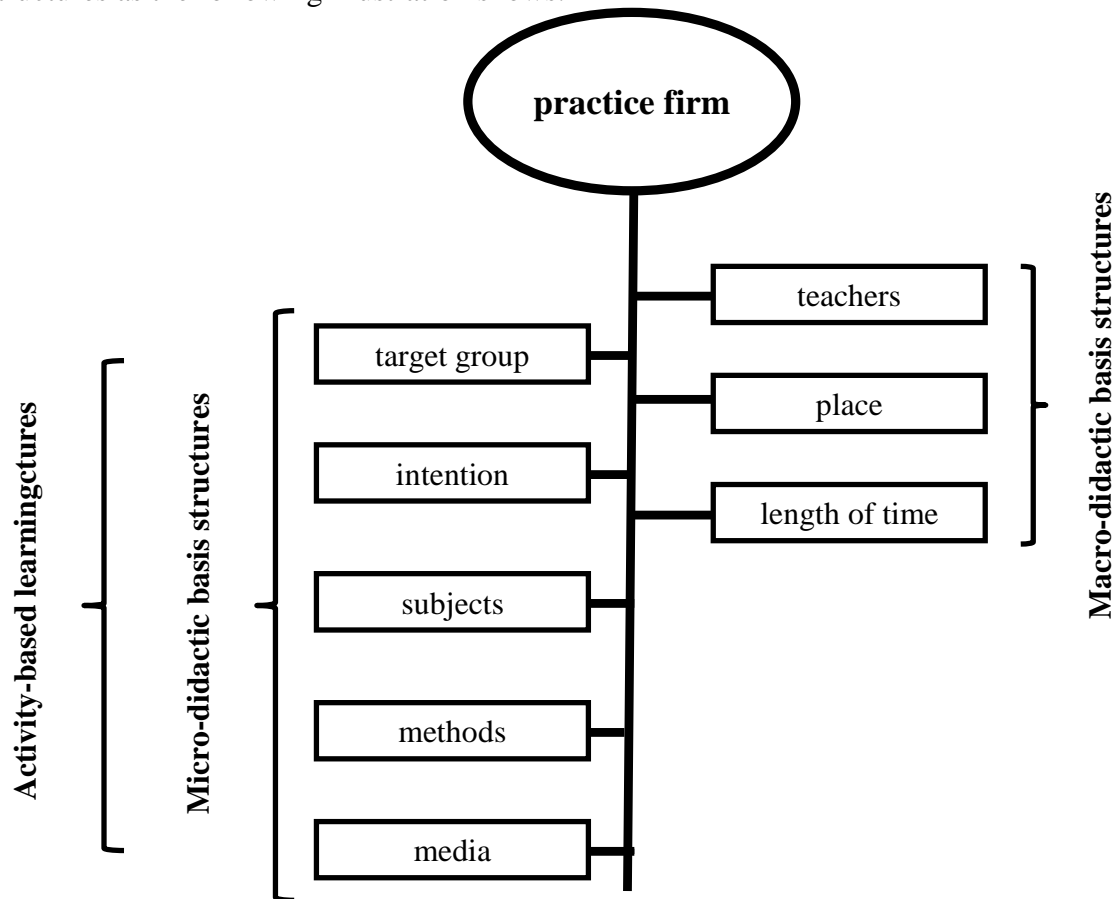
The first result of the second round of investigation including active observation and expert interviews once more is the inconsistent understanding of the concept of active learning as well as of the term 'method' in general and in particular of the method of simulation and the "practice firm" method in particular. Nevertheless the variety of concepts provided valuable impulses for a further development of modules for the DIANA project. Within the context of the analysis of the questionnaires also the question concerning consideration of gender and diversity aspects in the conception of seminars should be answered. However the result was disillusioning. There are, though, no prototypes for the integration of the managing gender and diversity approach in business start-up education. In fact, it became obvious that "gender" does not play a significant role in the seminars. More detailed analyses of the collected data in the future will probably provide more results.

### **Development and application of modules**

The essential element of the project is the conception of an activity-based and holistic business start-up simulation in the form of six modular components. The development of the qualification modules is based on a literature research and on the results of the

investigation (analysis of potentials) – and thus on the particularities and strengths of existing activity-based seminars. The theoretical setting of the development of modules is based on concepts of active learning, simulation methods and the doing-gender approach.

For the conception of a specific practice firm it is important to take into consideration formally constant and according to contents variable micro- and macro-didactic basic structures as the following illustration shows.



**Figure 5. Basic setting for the development of modular components (according to Ebbbers, 2004, p. 213).**

Since the development of modules is based on these basic structures, the fundamental considerations as regards content configuration will be explained more in detail in the following.

The focal points as regards the content of these components are the seed phase and the start-up phase comprising the six topics: cooperation/networks/teambuilding, form of organization, marketing/sales, financing, taxes and succession. The six modules are supposed to be sequential but can also be applied separately.

On the basis of these previously mentioned considerations a first business start-up simulation was carried out at the university of Hildesheim in the winter term 2007/08. The modular components were chosen and applied according to didactic considerations such as target group, educational objective, required examination results, time-frame, general conditions and availability of media. On the basis of the evaluation results obtained from this first application, a further development of the modules for a

future implementation at the universities of Lüneburg and Hildesheim in the summer term 2008 is being planned.

The managing gender and diversity concept is represented in all modules as a cross-sectoral topic. Each component includes a particular introductory presentation which can be used as a topical introduction to each seminar in general. The decision to use this introduction or not depends on the participants' previous knowledge. In order to be able to use the modular components in a flexible way and well-adjusted to a specific target group, we developed a compendium that provides questions and answers on important business start-up topics. This enables lecturers a more flexible structuring and focussing and at the same time provides background knowledge. Apart from instructions how to apply the offered simulation and methods in the sense of sequential simulation seminars this material will soon be published in a reference book for lecturers.

The methodical frame of the modular components as regards content is built up by the so-called setting. The setting determines a variety of business areas and thus includes a number of potential business ideas. Besides the setting predetermines profiles of persons – males and females - who want to become self-employed. For the development of these profiles it was important to take into account the important aspect of diversity. Students assume the roles of potential entrepreneurs and are challenged to cope with identifying and dealing with the facets of this profile, possibly even of the opposite sex.

In principle, both the setting and the profile descriptions can be readjusted to any specific target group. In this context it is important to point out that the professional competences and skills gained in the qualification modules with respect to setting and business idea can be transferred to any other business idea. Moreover the development of professional competences is only one of the objectives of the qualification. As was mentioned before, the focus is on the forming of methodical and social competences (gender and diversity competence) and on the awareness of professional self-employment as an alternative to dependent employment. The qualification modules are expected to evoke a greater variety and a more multi-faceted picture of entrepreneurship. It is in particular the focus on the aspects of gender and diversity-sensitivity of the teaching/learning modules that contributes to the students' reflecting and questioning their own behaviour in the process of work at any time in the simulation process. In doing so, gender stereotype attributions are uncovered and thus can be reconstructed. This is intended to promote self-aware entrepreneurial behaviour in female students in particular. It is especially the group of female potential entrepreneurs that can profit from experiences gained during the simulations.

## **CONCLUSION**

The authors of this paper assume that an increased awareness of the individual opportunities and risks of entrepreneurship can be achieved by means of the described innovative form of activity-based and practice-oriented qualifications, be it through a business start-up or succession. Above all, it will be easier for female students to estimate their potential business start-up more realistically. The possibility of reflecting "doing-gender" within the simulation sequences means that male students can be made aware of this process and, as a consequence, can become more aware of their

own behaviour in their future real-life business start-up and thus may profit from the diversity of the business start-up network more efficiently. For this reason it will be necessary to implement more action-orientated seminars at universities. The surveyed result clarifies that universities rather veer away from practice-orientated teaching methods than approximating them. But the simulation process is the only way of exposing gender gaps within the context of business start-ups. Therefore the issue of gender is almost disregarded. It does not seem classified as relevant so far anyway, although the result of the survey concerning the willingness to found a company shows its significance. The implementation of the modules introduced in chapter 3.2 might be a starting point to initiate change concerning teachings at universities. The opening of seminars regarding the reflection of gender gaps in the context of business start-ups could sensitize the students for the gender-issue. Changes in the behavior of the participants due to the introduced modules will be closely observed in the future. The intention is to identify a way to raise the awareness for the reality of business start-ups concerning gender aspects.

The option of becoming self-employed can thus be purposefully decided upon, based on a reflected socio-cultural perspective according to circumstances at the end of university studies or at any other chosen point in time in the individual life or career plan of a given person.

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# **CANE (RATTAN) ENTERPRISES AS FAMILY BUSINESS IN BANGLADESH: A CASE STUDY**

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## **Abstract**

Cane (*Calamus spp*), also known as rattan, is an important non-timber forest product used extensively all over Bangladesh as a raw material for making furniture, handi-craft and other household articles. The study has attempted to generate information on existing state of cane based family business, identify problems, and recommend solutions. Structured questionnaire has been employed in the field survey. During survey it was found that about 80% enterprises are traditionally inherited to the entrepreneurs from forefathers. Family members contribute about 30% of the total labor force. Thousands of people are engaged in collecting, processing, manufacturing of cane and cane products in the study area. Running cane enterprises has become an important income generating business for poor people. SWOT analysis of cane based cottage enterprises as a whole indicates that the best level of strength is low labor cost while the availability of substitutes is the top-level threat to cane products. Recommendations to improve this sector include government supports in quality raw material procurement, financing and creating awareness among people to use extensively these environment friendly products.

**Keywords:** labor, raw material, production, marketing, SWOT analysis.

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## INTRODUCTION

Family business is the predominant form of enterprise (Gersick et al 1997) and comprises a very significant proportion of business throughout the world (CLR 2005). Chua et al (1999) defined family business as a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families. A number of family businesses in the form of small and medium enterprises (SMEs) are operating in Bangladesh. These SMEs, mainly based in rural areas, provide direct economic opportunities for the poor or the middle-income section of people through employment and income generation schemes throughout the countries. Bangladesh Small and Cottage Industries Corporation (BSCIC) conducted a survey in 1981, according to which there were 322,000 cottage industry units in Bangladesh engaged in producing 160 different types of goods (Banglapedia 2008). Prominent among the cottage industries are fruit processing, fish processing, molasses making, apiculture and honey processing, silk and silk goods, rope making, bag making, wooden toy making, boat making, and bamboo goods, stick making, musical instruments, agricultural implements, and timber sawing. Cane based enterprises are one of the most flourished business in the northeastern region of Bangladesh.

Canes (rattans) are mostly trailing or climbing palms (Anon, 1972; Krishnamurty, 1993 Moore, 1973; Gupta and Guleria, 1992) with characteristic scaly fruits, classified in *Calameae* of subfamily *Calamoideae* (Uhl and Dransfield, 1987) of the palm family *Arecaceae* (*Palmae*) (Anon, 1980). About 600 species of 13 genera are found in the tropical forest ecosystems of the world. Out of them, Bangladesh is a home of only two genera; *Calamus* and *Daemonorops*. Cane is one of the most important forest products after timber and bamboos (Alam, 1990). In Asia, the rattan furniture industry represents substantially more than 25 percent in value of all furniture industry output, and it is growing remarkably (UNIDO, 1983; ESCAP, 1991). In Bangladesh too, cane is one of the most important raw materials for cottage industries. Canes are used for making furniture frames, walking sticks, umbrella handles, baskets, handicrafts and various fancy articles. Today small-scale cane industries play an important role in developing socioeconomic condition of villagers and rural lives. Thousands of people are engaged in collecting, processing, manufacturing of cane and cane products in different parts of the country. On the other hand, well-processed, good quality cane products have great demand in foreign market (Choudhury, 1984; Anon, 1980 appearing in Azad, 2002). Hence, there is a great scope to earn foreign exchange and also to solve unemployment problem by cultivating cane and by producing cane products in our country. Despite high socio-economic importance, little attention has been paid by researchers to study different aspects of cane and cane based cottage industry in Bangladesh. Under such a context, efforts have been made to explore current situation including production, management, and marketing of rattan-based cottage industry in the northeastern region of Bangladesh.

## MATERIALS AND METHODS

The study was conducted at Sylhet town situated in the northeastern region of Bangladesh. A semi-structured questionnaire was developed, having a combination of closed and open-ended questions, covering the socio-economic profiles of entrepreneurs and workers, production, and marketing information. Open-ended questions were used to seek entrepreneurs' perception of existing problems facing the family business and recommendations for overcoming those. Face-to-face interview were conducted subsequent visits were made where entrepreneurs were not available on the first visit. Other family members associated with the business were interviewed in the cases when the entrepreneur was not available. Weekly local markets of the raw rattan were also visited to accomplish required information from the buyer and seller.

## RESULTS AND DISCUSSION

### Demographic and socioeconomic characteristics of the entrepreneurs

Age of most of the entrepreneurs (40%) belonged to the age group 40 to 50 years (Table 1) and none of them belonged to age group below 20 years. About 55% entrepreneurs received secondary education (6 to 10 years of formal schooling) followed by 40% having primary education. Only 5% respondents received higher secondary education (>10 years of schooling) and nobody was illiterate. In fact, it is difficult or impossible to run a business like cane enterprise without having at least basic education. About 80% respondents informed that they were running family business that had been inherited from forefathers and rest of the entrepreneurs started the business in the study area by themselves.

**Table 1 Demographic and socioeconomic characteristics of entrepreneurs.**

Characteristics	Percentage
<i>Ownership type</i>	
Self initiated	20
Family tradition (inherited)	80
<i>Age (years)</i>	
<20	0
20 to 30	10
30 to 40	35
40 to 50	40
>50	15
<i>Education (years of schooling)</i>	
Illiterate	0
1 to 5	40
6 to 10	55
> 10	5

## Employment and labor

Labor size varies from industry to industry depending on the size and scale of production capacity and from season to season. During high production season (October – December), maximum labors work in these industries, because raw materials are available at this time and drying, processing, marketing of cane products are done mainly in this season (Sharma and Choudhary, 1987). Labor size of enterprises of the study area was found to vary from less than 2 to greater than 7 with the highest percentage (45%) having 3 to 4 labor followed by 5 to 7 labor in 35% enterprises. About 70% labor was hired and the rest was family members engaged as employee. Total number of males (85%) clearly dominated over total number of female (15%) labor in the study area. Skill and extent of experience were the determinants of monthly payments of the employees. Fifty percent of the labor was skilled and had experience to some extent in cane production, where as the rest were both semiskilled (30%) and unskilled (20%).

**Table 2. Labor characteristics of cane enterprises.**

Labor characteristics	Percentage
<i>Labor size</i>	
<3	5
3-4	45
5-7	35
>7	15
<i>Labor type</i>	
Family	30
Hired	70
<i>Gender</i>	
Male	85
Female	15
<i>Skillness</i>	
Unskilled	20
Semi-skilled	30
Skilled	50

## Family implications of the business

According to Three-Circle Model (Gersick et al 1997), family business is described as three independent but overlapping subsystems: family, business and ownership. Any individual in a family business can be placed in one of the seven sectors that are formed by overlapping the subsystems. For example, all owners (partners or shareholders), and only owners, will be somewhere within the top circle (Figure 1). Simi-

larly, all family members are somewhere in the bottom left circle and all employees, in the bottom right. A shareholder, who is not a family member and not an employee, belongs in sector 2-inside the ownership circle, but outside the others. A family member who is neither an owner nor an employee will be in sector 1. For the cane business enterprises of Bangladesh, about 80% entrepreneurs belong to the sector 7 (figure 1) meaning that they are family members and owning the business. The rest of the entrepreneurs belong to the sector 5 meaning that they are owners but do not run the enterprises as a family business. In case of the labor, 70% are hired from outside and so belong to the sector 3. About 20% labor belongs to the sector 6 meaning that this labor force comes from the family members, but do not have any share in the business. The rest 10% labor force, belonging to the sector 7, is family member of that particular family business, has ownership and contributes labor in the enterprises.

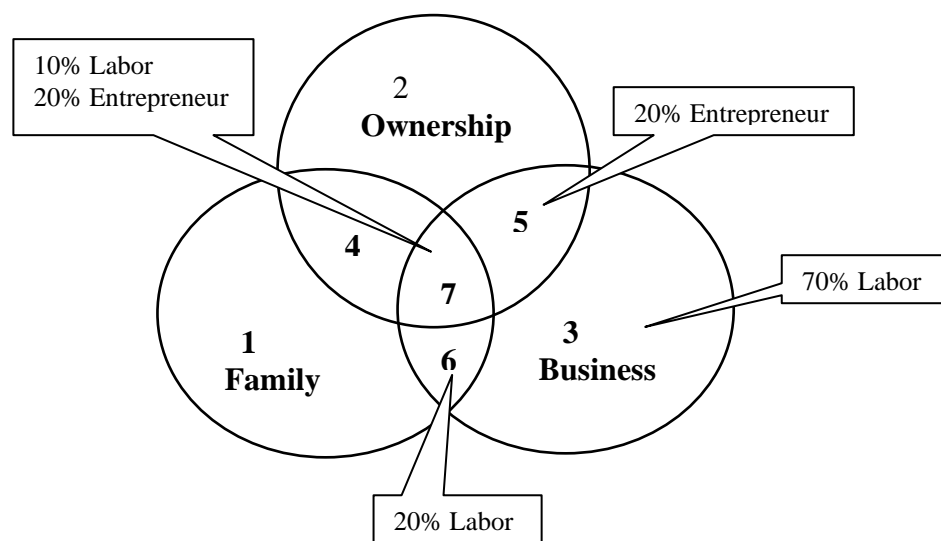


Figure 1: Three-Circle model of family business

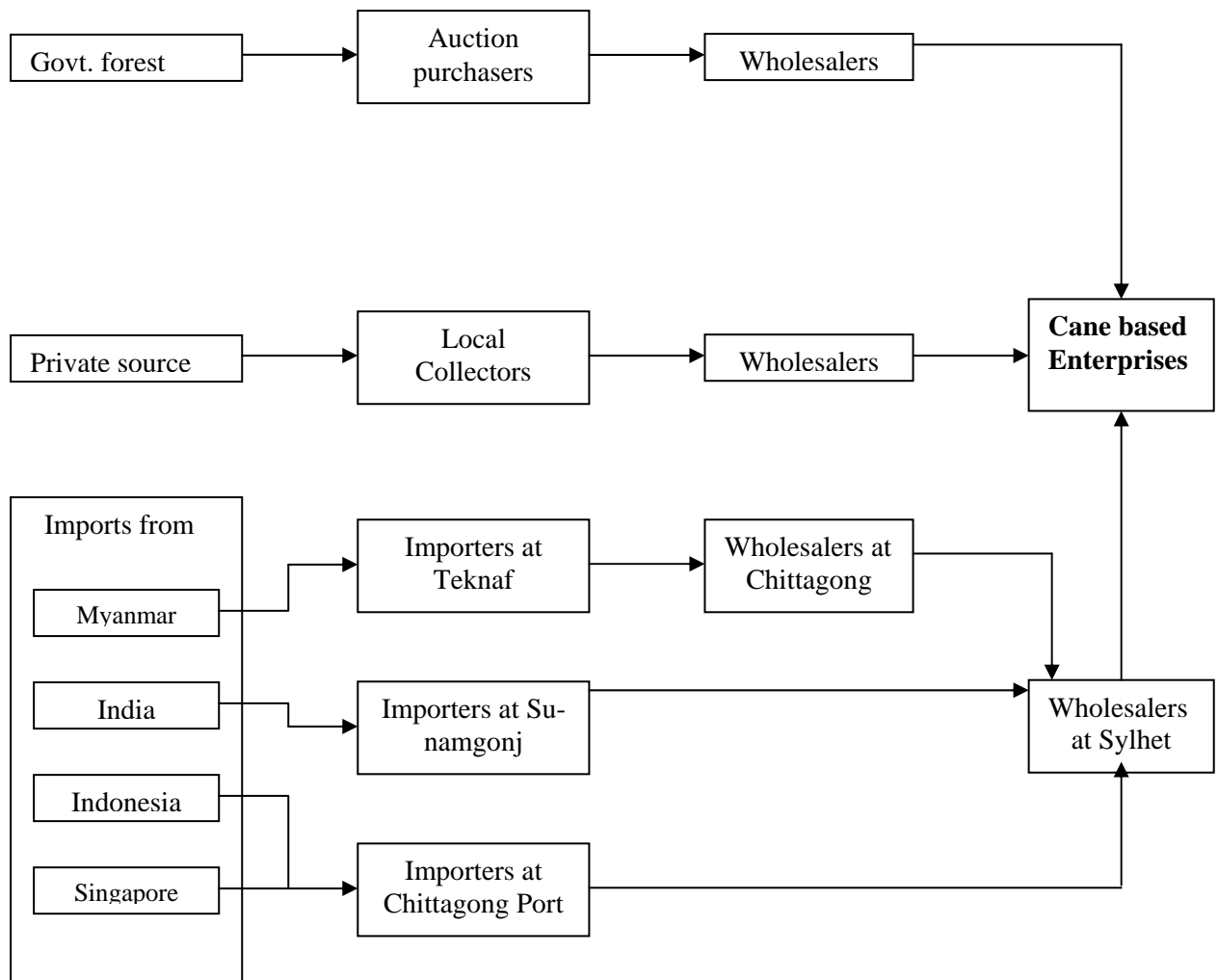
### Procurement of raw materials

Among various species of cane, Golla (*Daemonorops jenkisianus*) is used in largest numbers; other species include Jali (*Calamus tenuis*), Karak (*Calamus latifolius*) and Sundhi (*Calamus guruba*). Golla and Karak are used for structuring mainframe of products whereas others are used as binding materials, in designing – mainly creating *beni* (weaving) and *chati* (matting) required in the production process. Some enterprise owners also use bamboo and patipata (*Schumannianthus dichotoma*) in small quantity as raw material mixed with cane. Now-a-days, synthetic binding materials are also used in the cane enterprises since these last longer and cheaper in price.

Raw materials are procured from local, regional and international sources. The major market channels for the raw materials from all sources are shown in Figure 2. The international sources of cane include India, Indonesia, Myanmar and Singapore.

Regional sources include Chittagong, Sunamgonj and Teknaf where as locally raw materials are procured from government forests and private sources and also from the reed growing areas of greater Sylhet region.

The private sources of raw cane include the marshy areas of Sylhet where cane grows naturally. Swamp forest of Sylhet region is the home ground for naturally grown cane. Reed lands of Gowainghat, Jaintapur, Companigonj, Jakigonj and Jaflong areas are rich in cane. The local cane market in the greater Sylhet region exists at Ghassitula, Sunamgong, Haripur bazaar, Baralekha, Srimangal and Salutikor. The traders procure the raw material through local collectors, which are then transported to Sylhet city and then distributed to various cane based enterprises across the study area.



**Figure 2. Market channel for the raw materials of cane based enterprises.**

**Production and marketing**

Production of articles in the cane enterprises of all kinds and size include various furniture and household articles of daily use and novelties. Most common outputs are sofa set, dinning set, bed set, chairs, tables, divan, cradle, shelf and lamp stand. The price of the cane products varies from enterprise to enterprise and depends on number of labor involved, labor wage, cost of raw materials, cost of transportation, visual at-

traction and quality of products (Chaudhury, 1984; Mehta, 1981). A broad range of production cost, selling price and net average profit of different articles is given in Table 3. It shows that Production cost of a large size sofa set is about US\$ 124 to 218 and net average profit is US\$ 36. Chairs of different types and sizes are also produced at different costs (starting from US\$ 17) and sold at a margin of about US\$ 5. Other articles are sold at average profit margin of US\$ 4-10.

**Table 3. Production cost, selling price and net profit of different cane products.**

Articles	Production cost (US\$) <sup>4</sup>	Average selling price per article (US\$)	Net average profit per article (US\$)
Sofa set	124-218	146-262	36
Dining set	11-17	14-15	3
Bed set	30-80	50-109	30
Arm chair	17-30	20-32	8
Rocking chair	26-43	30-45	10
Easy chair	30-42	32-45	6
Tea table	3-4	3.5-5	1.5
Book shelf	15-43	18-45	5
Dressing table	72-116	90-150	3
Divan	65-72	88-102	10
Cradle	21	25	4
Glass frame	3-15	4-18	8
Lamp stand	4-7	6-10	3
Magazine rack	3-4	3.5-5	1
Corner shelf	10-22	12-30	10

Both production and selling is done at the same place but larger enterprises have their own outlets in different market place of the city. Almost all enterprises produce their products on order basis from customers. Larger enterprises get production orders from different parts of the country and even from abroad. In terms of product demand winter is better since, tourists come from all around and thus the market demand is increased manifold. During these days the enterprises employ more labor force to meet the increased demand of products.

### SWOT analysis

SWOT analysis of cane based cottage industry sector (Table 4) in the study area shows that the highest level of strength is low labor cost. Considering the present unemployment situation of the country it is easily understood why labor cost is low. Next to it is the innovativeness of the entrepreneurs and the employees. They easily understand customer satisfaction and design new articles in new style accordingly. Weakness remains in the lack of finance and institutional support. Sometimes the owners cannot expand their business because of lack in capital. Moreover, there is always addition of technologies in different stages of production of cane products in the world. But the entrepreneurs are not exposed to state-of-the-art technologies required to improve their production. Lack of proper marketing facility is also an im-

4 1 US\$ = Tk. 68.5 (as of December 2008)

pediment to expansion of this industry. Availability of substitutes is top-level threat to cane products. Substitutes like plastic furniture are sold comparatively in lower cost; as a result, many customers move towards those of cheap articles. Other threats include lack in consistent raw material supply, higher raw material collection and processing price and increasing utility payments.

**Table 4 SWOT analysis of cane based cottage industry in Bangladesh.**

Strength	Weakness	Opportunity	Threat
-Low labor cost	-Lack of finance	-Training	-Substitutes
-Skillness of labor	-Lack of institutional support	-Market development	-Supply of raw materials
-Innovativeness	-Managerial capacity	-Improved technology	-Raw material price
-Uniqueness	-Marketing	-Research	-Utility payment
-Environment friendly	-Technology		

## CONCLUSION

Cane based cottage industry as family business can play a crucial role in the socio-economic upliftment of rural as well as urban poor. The industry has a number of desirable attributes of appropriateness in the context of prevailing socioeconomic conditions of the country. But because of various constraints, this industry is not flourishing at a desired pace. Moreover, cheap substitutes are threatening its growth at an increasing rate. In addition, the industry has been suffering from a number of problems: financial, instability of market demand, a decline in the availability of quality raw materials, lack of skill and managerial capability and technological backwardness. If these obstacles are addressed, cane based cottage industry will definitely find deserved position. The following recommendations can be made to improve the cane industry sector in Bangladesh in general, and in the study area in particular:

- i. The government agencies (i.e. Forest Department) should ensure sustainable supply of quality raw material by raising cane plantation.
- ii. Government can establish separate institute to carry research, training for the workers on various aspects of product development and marketing, including the improved processing technology.
- iii. Financial and marketing support should be ensured both by government and by private sectors. Fund allocation in favor of artisans engaged in cane industries can be increased. Mechanism can be developed to finance the entrepreneurs, especially in financially hard situations.
- iv. Awareness should be created among the people in favor of cane-based cottage industry and their products. In this case mass media can play prime role. Bangladesh Small and Cottage Industries Corporation (BSCIC) and other organization can arrange trade fairs for these products throughout the country to help develop and expand a local market.



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