



The MBA Dilemma

Most of the big business schools now offer courses around the family business model. But are MBAs useful to businesses where the founding family member is unlikely to have one?
Jeremy Hazlehurst investigates



IF YOU were asked to list the words most commonly used on an MBA course then “love” would probably come in pretty low, way beneath, say, “structured investment vehicle” or “collateralised debt obligation”. But when it comes to MBAs specialising in family business, you would be wrong. Professor Cristina Cruz who teaches family business at the IE Business School in Madrid, says that the first thing she shows a new class is a pair of scales with the word “work” in one side and “heart” in the other. She tells her classes that they are going to spend “a lot of time talking about emotions”.

Business schools have taught families how to better run their businesses for generations. Family businesses have always been high on the agenda at Harvard, Wharton and Kellogg in America and INSEAD in France, and in recent years others have got in on the act.

IMD in Lausanne, London Business School and IE now also run in-depth courses for families, including MBAs that are designed especially for those family businesses and electives on the general MBA course that focus on family business or special departments such as INSEAD’s Family Enterprise Challenge and IMD’s Family Centre.

In the coming years the focus on family business is only going to get bigger at business schools as the economies grow in the Middle East and Asia, where family businesses are the dominant model.

Given that family businesses tend to value education – and especially in Indian and Chinese culture – these MBAs are proving increasingly popular.

So if you are in a family business, what can a business school teach you? Is it worth investing in an MBA for one or a number of family members? Isn't on-the-job learning better than some fancy university course?

For a start, there is the central issue of transition. Randel Carlock, a professor who teaches family business courses at INSEAD in Paris and Singapore – and who combines a 25-year history as a chief executive and a career as a psychotherapist – says that at the start a family business can be likened to a game of golf, with one person doing everything. As time goes by it becomes more like a game of basketball, then football, then a marathon, “with lots of people with different aims and abilities with their own, individual aims.” It is vital for their survival that family businesses learn how to successfully make this transition. Of course, this brings us back to emotions. “Developing a product is the same in any business, but the difference is that in a family business if you have two cousins who don't get along, then you've got a mess,” he says. Carlock adds that he makes use of role-play “psychodramas”, as he calls them, on his course.

Then there is the issue of values. “When your parents started the business, every time you make a decision you think: ‘What would mum and dad think?’ This can be a powerful reinforcer of values, but it also brings a lot of pressure,” says Carlock. “You can buy and sell stock in 15 minutes, but if your grandfather started the business, then it's different.”

Cristina Cruz from IE Business School agrees. “In normal companies you have financial goals, but in family businesses there are also emotional goals,” she says. “Sometimes you sacrifice growth to maintain family harmony. The family business is about creating long-term values, and that means sometimes you can do things that other businesses wouldn't, like stop paying dividends for two or three years

because that will be better in the long-term.”

The question of time-scales is also key for Professor Joachim Schwass from IMD. “In a family business the ultimate motivation is to create a sustainable and healthy business to pass on to your children,” he says. “Think about a family-owned cork producer in Portugal. It takes 50 years for a cork tree to grow.” As a manager in a non-family business you would be crazy to make an investment that would not pay off for half a century.

“If your grandfather started the business it's different”

This is related to the difference between management, which is about making business decisions to maximise profit, and ownership, a far more nebulous concept that involves communicating the family's values to non-family managers who often run a business. This tension between ownership and management is fundamental to understanding a family business. So far so conceptual. But what does it all mean in practice?

Matthew Cannon left university and

Cristina Cruz: “Sometimes you sacrifice growth to maintain family harmony”



played professional rugby for London Irish rugby team for four years before at the age of 24 joining the family construction business, British engineering firm The Clancy Group, which was founded by his grandfather and is currently run by two of his uncles.

He is the oldest of his generation and the first family member to do an MBA, having recently finished a full-time course at Cass Business School in London. “In some ways it's an accelerator,” he says. “You can be in the business and get exposure and it will take years to get some of what you get on the MBA. It's a way to widen your skill-set in a short time, it gives you a broad-based understanding of business.”

Rena Kirdar, who recently finished an Executive MBA at Cambridge's Judge Business School, agrees that taking the course gave her the business education she needed to maximise her skills. “Studying for the MBA gave me the financial tools to better understand business,” she says.

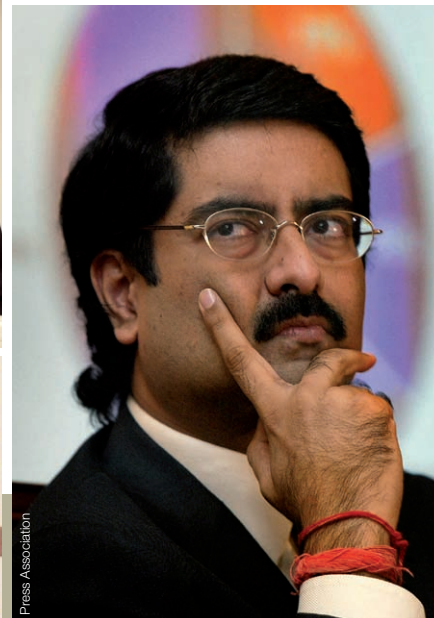
Kirdar is from the family behind Investcorp, and prior to starting the EMBA course she ran her own events company. “When I was running my own business I sometimes felt at a disadvantage when I didn't have enough business knowledge. The course gave me the ability to understand all aspects of the business. But most importantly it taught me how to marry up all my own skills, even those I didn't know I had.”

Cannon says that he learned at least as much from the other people on the course than the lectures. “Fifty percent of the course is group work, and you have a mixture of people in their late 40s who want to start a business, to young guys who have set up computer companies in other countries, getting that different perspective is hugely beneficial,” he says.

One of the worries owners sometimes have about young family members taking MBAs is that they will come back and want to change everything. So did he? “If you thought that you could go and change things overnight, then you probably hadn't been paying attention,” he says. “I'd say



Family leaders with MBAs. Clockwise from left to right: **Andre Hoffmann**, Roche Holding, INSEAD; **Adi Godrej**, Godrej Group, MIT Sloan; **Kumar Mangalam Birla**, Aditya Birla Group, London Business School; **Daniel Servitje Montull**, Grupo Bimbo, Stanford University



that it has given me a more critical eye. We are a reasonably large organisation and there are things that are in play, and you can see them with a new perspective. It helps to support changes that the business is already making, rather than forcing change.” In practical terms, he says that the MBA has given him confidence. He says that he was recently looking over a set of accounts that had been seen by several senior people, and spotted a mistake. “In the past I probably wouldn’t have had the confidence to say anything, but having done the MBA I did,” he says. It turns out he was right.

Nak Vladimir is studying for an MBA at IE, with a view to taking a role in the Russian construction, engineering and real estate conglomerate Yamaltransstroy, which was privatized in 1995 with his family as the main shareholder.

He says that doing the MBA made him contemplate change in his family’s business. “I see that often family businesses are dependent on some historically formed practices which are often outdated,” he says, and there is a need for a family member to be a “change agent”.

He has also understood far more clearly the problems of succession. “The succession process in my view should start from the very beginning, when the member of a new generation of the family enters the company. For non-family businesses this process can take a few years, for the family business – due to higher responsibility and higher complexity related to the running of the business – this process can sometimes take a decade.”

“There is a need for a family member to be a change agent”

He also found the focus on emotion very useful. “The course also helps you to separate emotions and business. I would call it professionalisation of your relations with your family business. The course in particular helped me understand that my

situation and my concerns are not unique.”

Rupa Patel’s family already had a good experience with MBAs before she decided to take a part-time one at Cass, which she is currently studying. Her father founded the Day Lewis chain of pharmacies – the largest independent pharmacy chain in the south of England, with 187 branches and 1,300 employees and a turnover of €224 million – in the 70s and puts his success down to the MBA he did in the early 90s.

“He got to 15 or 20 shops and realised that he didn’t know as much about business as pharmacy, and so he did a part-time MBA. He says that is why the business survived the recession of the early 90s, when he cut back on non-performing shops,” said Rupa.

Rupa worked for three years as a dentist before coming into the family business, where she has now been for four years and works on the property side. “The MBA gives you a broad overview of business – marketing, HR, finance – and I can literally come back and apply it straight to my business. I can now go and speak to the IT manager, say, and implement changes.” She has realised that family businesses can



Family Business MBA specialists:
INSEAD, France;
IMD, Switzerland;
 and **Judge Business School**,
 Cambridge University, UK



be quite undisciplined, she says, and likes to use the example of data management. “In a family business you take it for granted that you understand your business, so data is not rigidly documented, but in corporate retail you can reel off the sales daily whereas we probably look at it monthly.”

She echoes what Cannon says about confidence. “The MBA gives me more standing to guide decisions,” she says, which is especially useful, “when you have a manager who had known you since you were five years old.”

So is an MBA an undisputable boon? Despite the apparent benefits of MBAs for family businesses, there can be

ambivalence in the family. Sometimes the original entrepreneur can be sceptical about the value, on the grounds that they didn’t need one. But part of the struggle for family businesses, if they want to achieve longevity, is that they have to manage the move from unconventionality to conventionality without destroying what gives the business its competitive advantage, says IMD’s Schwass. In most cases that isn’t easy.

Penny Webb is a managing partner of consultancy Familias & Co, and a senior associate at the John Ward family consulting group in Chicago who advises family businesses across the world. She

says that MBAs are important in family businesses, but should be part of a larger programme for planning succession and the benefits should be weighed carefully.

“There can be a cost to sending somebody away from the business for a year,” she says. “If you can get two or three family members to study MBAs, then that might be a more powerful resource.” Before you decide that an MBA is the right course, a number of questions have to be asked. “Does it teach the emotional intelligence needed to deal with the emotional side of a family business? The ability to manage conflict? To deal with multiple stakeholders across the business?” Only an MBA that ticks these boxes is good value, she says.

The benefits of an MBA, she says, are that it builds your commercial acumen, which increases credibility and respect. It allows you to learn from fellow students, which can give you choice. It provides you with frameworks that can bring freshness to staid family businesses – if you are running a family business that is worth \$7 billion with the same strategy it had 40 years ago they can get into trouble, so somebody with an MBA at the top can be “a fantastic help”. And it generates self-esteem – family members are often held to a higher standard than an outsider.

However, Webb says that several other things have to be in place for you to maximise the value of an MBA. Firstly, there should be mentors who help those coming into the business. Secondly, the potential MBA should have enough work experience to give the course contextual meaning, and preferably should allow as much teaching as possible about non-family businesses. And thirdly, there should be a definite role waiting for the person – an MBA should not be used as a delaying tactic because you don’t know what the family member is going to do.

All MBAs are not equal then, when it comes to family businesses. But perhaps the best advertisement for them is that following Rupa Patel and Matthew Cannon’s experiences, both have a sibling who is currently also taking an MBA. **FB**