ENTREPRENEURSHIP AND MANAGEMENT
FAMILY ENTREPRENEURSHIP
Exam: 10.3.2010
Examinator: Jan Sten
Maximum points: 40 points
Minimum points required for passing the exam: 20 points
Maximum time for writing: 4 hours

Please answer every question.

1. **Strategic planning in family businesses.** Family business owners, like any other owners, are encouraged to do strategic planning. Do you think that strategic planning in family businesses is different from strategic planning in non-family businesses? If there are differences, what kinds of differences are there? (9 points)

2. **Thinking about hiring non-family members.** In this example, we have a family business, where only family members are employees. However, the business is expanding and it needs more people. For the first time it is thinking about hiring non-family members, but the family is hesitating. "So much will change when we start to also have non-family members working for us", some of the family members say. Yes, what will actually change in a family business when also non-family members start to work in the family business, and how should the family business owners handle these changes successfully? (9 points)

3. **Case question.** Read through the material about Mackay Golf Ltd and answer the following two sub-questions: (10 points)

   a) No shareholders agreement here. The general advice is to have a shareholder´s agreement if there are two or more shareholders in a company. Consequently, why is a shareholder´s agreement a good thing and what should it include?

   b) What do you think the shareholders should do with the shares in this specific case? Why?

4. **Boards in family businesses**. A business family has so far only had a paper board consisting of three family members: the father, a daughter and a son. Now they have decided to turn it into a professional board. What are all the crucial aspects to think about during such a process? (12 points)

Good luck!

14.7.2 Succession issues at Mackay Golf Ltd

Duncan Mackay founded Mackay Golf in 1948, when golf was beginning to emerge not only as a professional sport but also as a lucrative, international business. He built up the company gradually over the years, specializing in high quality clubs and accessories for the discerning player who was prepared to pay a little more for hand-made Scottish golf equipment. By the 1990s the company had grown to employ over 70 staff with a turnover of £4 million and net profits of £200,000. The company survived 50 years in business, but the founder did not. He died after a heart attack on one of his favourite courses, a month before the planned half-century celebrations. His widow, family and colleagues were left to contemplate the next steps for the business.

The family

For the first 35 years of the business, Duncan Mackay seemed a typical, family-business owner. He married his childhood sweetheart, Mary, and their only son, Malcolm, joined the company on completion of his business and finance degree. Malcolm proved an asset not only for his aptitude at sales and marketing, but also for his love of golf. A regular participant in amateur tournaments, Malcolm was a well-known figure in many clubhouses.

But 15 years before his death, Duncan turned his family and business world upside down by leaving his wife for his secretary, Isabel Stuart. After an acrimonious separation and divorce, Duncan remarried and had a second son, Kenneth, by Isabel. Although Malcolm stayed on in the business, he found relationships with his father difficult through the strain of these family pressures and he used every opportunity to spend more time on the golf course.

The shareholding of the business had become equally complicated. Duncan and Mary Mackay were the original shareholders in 1948 with 50 per cent of the shares each. When Malcolm joined the business, his mother transferred 30 per cent of the shares from her name to his in recognition of his contribution to the business and her own lack of involvement. Duncan's will came as a shock, particularly to Malcolm. He left 40 per cent of the company's shares to his second son Kenneth, to be held in trust by his mother, Isabel, until he was eighteen. The remaining 10 per cent went to Bill Warren, General Manager of Mackay Golf.

The management

When Kenneth was born in 1985, Duncan Mackay was 60 years old. He promised his new wife that he would shorten his 65-hour working week to spend more time with his new family. He hired a manager, Bill Warren to take over some of the responsibilities. Bill had enjoyed a successful career in the leisure industry in a variety of administrative and management posts. He was drawn to Mackay Golf for the quality of life offered by its location, the promise of shares in the business at some future date, and the opportunity to run a smaller company. He was happy to leave Malcolm to manage the sales effort with customers as his own strengths lay in running an efficient operation back at base. Bill had been running the administrative, financial and production functions of the business for the last decade or more, advised by Duncan.

The market

The sports equipment market is still sufficiently fragmented to allow smaller companies such as Mackay Golf to survive in an increasingly competitive arena. Golf is the largest market for personal sports equipment and is growing quite strongly as the population ages and more golf courses are built. The UK market for golf equipment probably exceeds £250 million, with an estimated 3.5 million regular and 1.5 million occasional players. However, it is also the most competitive sports equipment sector, with strong branding linked to high levels of promotional expenditure, particularly on endorsements. This has favoured the larger suppliers of well-known, international brands. Imports have increased substantially, mainly from the USA, Taiwan and Hong Kong. Traditionally strong European export markets for UK golf producers have been undermined by the strength of the pound. Mackay Golf sales had declined for the two years prior to Duncan's death. Although their products were widely respected as quality leaders, their distributors in the USA and Europe were concerned at their high prices, lack of point-of-sale material and publicity in the retail outlets, and low investment in research and development for new products.

The shareholders' meeting

Soon after Duncan's death, the shareholders of Mackay Golf met to review the situation. After rather strained formalities, Bill Warren opened the meeting.

'I know we all have Duncan's passing on our minds, but I am sure he would have wanted us to take decisions based on what is best for the business. It seems to me we have two basic options: one is to carry on and hope we can fight our way through the difficult competitive situation we are in. The second option is to sell the business so that shareholders can realize what is still a valuable asset before it devalues any further.'

Isabel nodded her agreement to the second option. 'I for one would like to realize some capital. Duncan did not have many assets to leave in his will after the divorce settlement', she said, looking pointedly at Mary Mackay, 'which is why he left me and Kenneth the shares – it's all we have.'

'This is very defeatist talk.' Malcolm could restrain himself no longer. 'If you feel like out Bill, that's OK. I'll happily take over the helm totally now. It's what Dad wanted originally anyway. I strongly believe we can survive and grow. We have made good profits in the past and we can again – which will give you the money you need in dividend payments, Isabel. Selling now is admitting defeat, and we would not get the best price for the business.'

'And I know it's not what Duncan would have wanted. This was his life's work', said Mary.

Activities