Thoughts and reasoning in family businesses

- Founders thoughts and reasoning behind decisions during the expansion phase in a first generation family business with few owners

Authors: Peter Enhörning
         Christoffer Lindgren
         Linnéa Nilsson

Enterprising & Business Development

Tutor: Henrietta Nilson
Examiner: Richard Nakamura
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Abstract

This thesis focuses on the decision making in the most common business form: family businesses. A well-established theoretical model within the family business field is *The three circle-model*, which is based on three different dimensions: family, ownership and business. Most of the family businesses stay small but the ones expanding face the dilemma of balancing the best development of the dimensions. However, these three dimensions can contradict each other and as a result the founders are forced to choose which of the dimensions to prioritize when taking decisions.

The purpose of this thesis is to create an understanding of how the family, the ownership and the business dimensions affect founders thoughts and reasoning behind decisions in the expansion phase in first generation family firms with few owners.

We have reached the conclusions with a qualitative approach using case studies. We have gathered the empirical data by using *Life story* and *Critical incident* to define expansion decisions in two companies. Furthermore we used semi-structured interviews with the aim of creating an understanding of the founders thoughts and reasoning behind the taken decisions.

Our conclusion shows that business opportunities and the objective to remain in control of the family business highly influence the decision making during the expansion phase. Another conclusion is that the family has been affected far more by the decisions than it has had an impact on the decisions. The thesis gives insight about an area within the family business field, which previously has been neglected by researchers.

**Key words:** Family business, Expansion, Decision-making, The three-circle model, First generation
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Peter Enhörning  Linnéa Nilsson  Christoffer Lindgren
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1. Introduction

1.1 Background
An enterprise can have different structures, forms and characteristics, which will have an impact on how a company conducts its operations (Johansson, 2005). For example, there are various types of ownership forms; sole traders, private limited companies or public limited companies to name a few (Graham, Smart & Megginson 2009). A family business is a predominant form of enterprise (Gersick et. al, 1997) and according to Casillas & Acedo (2007) family businesses consists of a number of characteristics, which distinguish these kinds of businesses from non-family businesses. Leach (1994) argues that family businesses often consist of a unique, friendly atmosphere, which creates a feeling of belonging. Moreover, family businesses are commonly associated with having low or no risk capital and a relatively slow growth rate (Gandemo, 2000).

Defining a family firm is not easy since there is not one clear definition (Gandemo 2000; Gersick, et al., 1997). Tidåsen (2008) claims that different definitions of a family business can be used either alone or in combination. One definition of a family firm that is commonly used is: "a company that is owned by one family who have a big impact on a tactic, strategic and operational level. The family shall also see itself as a family business" (Tidåsen, 2008, p. 42). Johansson (2005, p.18) presents another definition: “A family firm is a business which is owned by one or a couple of persons/families who also are active in the management decisions of the firm”.

The importance of family business is stated by a numerous amount of authors and Johansson (2005) points out the family businesses have a major impact on the society. Gersick et al. (1997) explain that 65-80 % of the companies in the world are family businesses. Bjuggren, Johansson and Sjöggren (2011) have studied family businesses in Sweden and the result of their study shows that more than 75 % of the firms in Sweden are family businesses. These companies account for approximately 16 % of Sweden’s gross domestic product (GDP) and employs a fifth of the work force, numbers that have increase during the last years. Similarly, studies conducted in the US shows that the family businesses account for an even larger portion than in Sweden with a major impact on the overall economy (Astrachan & Shankers, 2003).
Despite the impact family businesses have on national economies it is a relatively new research area (Gersick et al., 1997; Casillas & Acedo, 2007). The studies started to increase during early 60s when research started to emerge from the two different angles: family and business. From a business perspective, researchers have applied models and ideas from management and organizational studies as compared to family therapists who have applied a concept of differentiation, enmeshments and disengagement when studying family businesses. The combining of main topics with the work of researchers within subtopics such as psychology, economics, law and sociology have created the foundation of conceptual modeling specific for family businesses (Gersick et al., 1997).

In 1960s -70s the research of family businesses was focused on the typical hinder for family firms; nepotism, generational and sibling rivalry and unprofessional management. The research led to a widely accepted model using two circles to describe and evaluate the problems within family business which mainly concerned the family and business angle (Gersick et al., 1997).

Gersick et al. (1997) describe that Tagiuri and Davis elaborated the “two-system” theory in early 1980s. The authors argued that the business “circle” was not distinct enough since they claimed that there were differences between ownership and management. For example, some family members can hold shares in a company without being involved in the core business. Accordingly, others can work for a company but not hold any shares. This led to the development of the three-circle model where ownership and business were separated into two different circles.

In line with Tagiuri and Davis thoughts, Lansberg (1983) also pointed out the need for further distinction in the business circle. The author especially expressed the need for this when involving family members in the business. From a management point of view the main importance is that the family members posses the accurate skill for the job. From an ownership point of view the family member can be sponsored and educated into developing these skills. The different ways of conducting a company will affect the business in different ways, which means that these types of issues are hard to describe through the “two circle model” (Lansberg, 1983).
The thoughts of the complexity between management and ownership were further enhanced by Gersick et al. (1997). The overlapping three-circle model (see figure 1.1), developed by Tagiuri and Davis in 1982, was used as a tool to understand the conflicts that may arise between individuals in a family business due to the overlapping dimensions of family, ownership and business.

Gersick et al. (1997) argued that the three-circle model was only useful when analyzing the family business in a snapshot, excluding the element of time. To include the element of time the authors presented The Three-dimensional developmental model. This mainly because the authors argued that development in the family, the ownership and the business can cause problems and opportunities regarding the basic structure and management. As the firm develops from a small start-up business to a mature business the family members will grow older and new members might change the dynamics. The ownership might grow from a single owner to several owners within the family either through siblings or generations.

1.2 Discussion of problem area

“The family is never free of the business; all conversation and relationships seem to be built around it. Nor is the business ever free of the family”

(Levinson, 1983, p.74).

Gersick et al. (1997) point out that most of the problems within family businesses lie in the overlapping areas of family, ownership and business. Hall (2003) describes the specific dilemmas facing family businesses in the interrelation between the business and the family since the interconnected parts of the business and the family is usually operated by different logics, which are not always compatible. Habbershon, Williams and MacMillan (2003)
believe that it is important to understand this relationship between the family members and the business in order to understand the family firms.

“For these firms, competing successfully with the outside world is only the beginning. Intra- and interfamily conflict and rivalry must be managed as well”

(Hall, 1997 p. 42 referring to Kets de Vries, 1996)

Family businesses usually face the same problem areas and management issues as non-family businesses. However, Chrisman, Chua and Sharma (2003) describe that they also have to manage and deal with the problems regarding the family status. Kaslow (2006) argues that functions such as missions, objectives and dynamics differ between family and non-family businesses. Samuelsson (1999) explains that the different objectives are most likely to be within the areas of strategic orientations and stated objectives.

Within the field of family business, a common thought is that goals such as family well-being and work balance are commonly used, which furthermore, separates this type of business from non-family businesses (Debicki et al., 2009). Gersick et al. (1997) also point out that the basic goals for the owners of family businesses in general are a profitable business and a good standard of living for the family members. To be able to achieve one specific goal the family business sometimes has to choose not to achieve the other goal. It is these kinds of choices family businesses have to face that do not affect non-family businesses in the same way. These dilemmas are shown in various situations where the owners have to make a decision. Samuelsson (1999) concludes in his study of 273 non-family, family and multi-generation businesses in Sweden that there are no significant differences between the non-financial objectives of family businesses, except for the employment security which family businesses value higher. Another conclusion shows that family businesses tend to make decisions with the objective to keep control to a further extent than non-family businesses. Melin and Nordqvist (2000) describe the objective to keep control as a barrier that often occur as a result of the family wanting to keep the control as the firm growth.

It is important to point out that all family firms do not want to grow. Gersick et al. (1997) state that most family businesses only consist of one person. Studies made by Bjuggren, Johansson and Sjögren (2011) and Astrachan and Shanker (2003) support the fact that most family businesses stay small. Astrachan and Shankers (2003) study shows less than 1 % of the
family businesses were considered as big businesses with more than 500 employees. Ward (1997) points out the popular perception that most family businesses never grow. The reason for this is that family businesses do not make the decisions needed to develop the business in the ever-changing complex world.

Despite the fact that most family business stay small it has become more and more common that the businesses are being sold to an internal or external stakeholder instead of the owners expanding the business themselves. It can be questioned if it is a matter of funding, control or interest in keeping the business alive. Johansson (2005) argues that the decision to keep or sell the business mostly concerns how the founder valuates the future of the business and what available resources the business has at the moment.

The dilemma of keeping control, satisfying the family’s well being and making the right business decisions are described by Gersick et al. (1997) as a tension between the areas of ownership, family and business. While the company develops it will most likely face tougher competition and a need for internal restructure will arise. Thus, this creates a tension between the different areas with the result of the business not being restructured. Flamholtz and Randle (2000) also agree that the decisions made by the management changes along with the growth.

1.3 Research question
How is the founders’ decision making in a first generation family firm with few owners affected by the different dimensions: family, ownership and business during the expansion phase?

1.4 Research purpose
The purpose of the thesis is to create an understanding of how the family, the ownership and the business dimensions affect founders’ thoughts and reasoning behind decisions in the expansion phase in first generation family firms with few owners.

1.5 Delimitation
We are delimiting this thesis from studying the cultural context that the family businesses operate in, since we want to study how the founders thought and reasoned and not why.
2. Methodology
In this chapter this thesis methodology will be presented. Figure 2.1 is an overview of the methodology used in this thesis. Our scientific approach and the chosen quality criteria affect the different decisions we have taken throughout the research process. In the end of the chapter we reflect and discuss upon our specific methodology.

![Figure 2.1. Overview of the study’s methodology (Own creation)](image)

2.1 Scientific approach
2.1.1 Ontological and epistemological considerations
Ontological issues deal with aspects concerning the nature of the world. That is, if the social world is regarded to exists due to the interactions between man and world (constructionism) or as something external to social actors (objectivism). Epistemological issues mainly concerns what is regarded as relevant knowledge about the social world. Two different positions of epistemology are positivism and hermeneutics. Positivism means that the world is “out there” and can be depicted through language. On the contrary, a hermeneutic position argues that the world is not out there and is therefore, not possible to depict through language. In a hermeneutic position knowledge is created through the interaction between individuals where the main goal is to explain what happens in the surroundings, without creating an understanding of the behavior of the involved people (Bryman & Bell, 2011).

Our assumption is of an ontological, constructive nature. We believe that the world and the people in it are connected and affect each other. Furthermore, our position is hermeneutic since we want to create an understanding of thoughts and reasoning behind expansion decisions taken by the founders of the research companies. We assume that there is not an
objective truth about the reasons regarding the different decisions, as we believe that it is a result of interaction between individuals.

2.1.2 Qualitative method
A qualitative method is, compared to the quantitative method, based on data which are most likely gathered from interviews and interpretive analysis (Davidson & Patel, 2011). Another factor that distinguishes the different methods is the formulation of the problem area. In a qualitative method the research question is usually based on the context of social situations as this research design emphasizes an ontological position described as constructionism. This scientific approach implies that interactions between individuals are the key for the outcome of social properties (Bryman & Bell, 2011).

Based on the research question and purpose taken up in this thesis we have used a qualitative method. Since we have chosen an ontological, constructional position, this method enables a better understanding of the thoughts and reasoning behind the decisions that form the basis of the phenomenon we are studying. Based on our research question a quantitative method would not be suitable since we want to focus on the thoughts and reasoning behind the expansion decisions. Through a qualitative research with interviews as our data collecting method, we have focused on putting a great deal of work on interpreting the words and descriptions of how the owners have thought and reasoned concerning expansion decisions.

2.1.3 Abductive research approach
The relationship between theory and reality is best explained through either deductive or inductive perceptions, which are applicable by using existing knowledge of theory and empirical data. Deductive reasoning starts with a theory, creating hypotheses about the topic of interest. By using observations these hypotheses are being confirmed or not. On the contrary, inductive reasoning starts with specific observations and measurements in order to detect patterns, which are being turned into hypotheses, which will develop some general, theory (Bryman & Bell, 2011).

Alvesson and Sköldberg (2008) claim that an abductive method is a mix of induction and deduction and can therefore be seen as a third research option. The authors refer to Sköldberg (1991) who argues that an abductive method is the most appropriate method when using case studies. This because, the analysis of the empirical data can be combined with previous empirical studies and theory. According to Bryman and Bell (2011) the abductive process is iterative which means that the researcher alternates between theoretical and empirical data.
In this thesis, the empirical and theoretical data have continuously been developed and refined through an iterative process. We chose an abductive approach, as we wanted to use theory in order to set some initial perspectives before we gathered our empirical data. We chose not to use an inductive approach because it would be more difficult to narrow down the research area. Furthermore, the abductive approach gave us an opportunity to gather additional theory as the process proceeded which would not been possible in a deductive approach.

2.2 Research process

2.2.1 Case study
When conducting social science research, the case study is one alternative of several research methods. Different research methods have its own systematic way of collecting and analyzing empirical and theoretical data (Yin, 2012). Case studies as a research design provide the researcher with in-depth knowledge of a particular business or individual. One advantage with this specific research design is that case studies can give the researcher an overall impression of the research area (Patel & Davidson, 2011). Depending on the situation, case studies can be conducted either alone or in combination with other research methods. Moreover, case studies are suitable when conducting a qualitative research since observations and interviews are usually the basis of this method (Bryman & Bell, 2011). Yin (2012) explains that case studies are an appropriate research method when the study is descriptive where the collection of the data takes place in a natural context or similarly, when the data shall be evaluated.

Since our thesis focuses on the different decisions the owners of family-owned businesses face and the reasoning behind these decisions, we believe that a case study based research methodology was suitable. We have conducted intense and detailed case study of two family-owned businesses in order to create an understanding of the founders thoughts and reasoning behind decisions in the expansion phase. To define and create an understanding of the decisions the founders face in different phases our research method is based on a combination of empirical and theoretical data. The research method of collecting the empirical data is divided into two parts (see figure 2.2).
The first part mainly concerns identifying critical decisions within the expansion phase. In this stage we made an initial open interview with the owners using a Life story method (see chapter 2.2.3). From this, we obtained an overview of the overall development and crossroads the owners faced during the development of the firm. Afterwards we decided to focus on three important decisions in each company using the criteria stated in 2.2.2. In order to collect additional information concerning these decisions we used semi-structured interviews and the critical incident technique.

2.2.2 Sampling
There are different types and techniques which a researcher can choose from when deciding how to sample. For instance there is probability sampling, snowball sampling and convenience sampling. Convenience samples often focus on the objects that are currently available to the researcher. One major advantage with this type of sample method is that the response rate tends to be high (Bryman & Bell, 2011).

Before using the convenience sampling we decided on a few criteria, which had to match the case companies;
• a family business as Tidåsen (2008, p. 43) defines it;”a company that is owned by one family who have a big impact on a tactic, strategic and operational level. The family shall also see itself as a family business”
• the core foundation of the business has gone through the development phases; start-up and expansion.
• the company employs more than 250 persons, which makes the company a large corporation according to the European Commission's definition.
• the company only have a few owners.
• access to talk to the owner about the developments of the firm.

After the criteria were set we looked within our network to find companies that matched our requirements. We found two family-owned businesses by using convenience sampling. One of the author’s cousins was the owner and founder of a company meeting the criteria. Through an assistant professor at the university we obtained access to a company in Taiwan.
One of the companies agreed to be a part of this study if they could be anonymous and we have therefore chosen to anonymize both companies and the involved persons.

The company in Taiwan is a Chinese medicine company with a number of self-owned clinics. We have talked to the owner and founder of the business. In this study this company will be called by the figurative name Gao Gang and the founder will be called by the figurative name Dr. Wong.

The Swedish company is a staffing company focusing on the hiring of medical staff to clinics. At this family business we interviewed the co-founder and CEO. We have used the figurative names of Anders Lundberg and RP Care for the founder and company.

**Sampling for relevant decisions**

In this study we have focused on the decisions during the expansion phase of a family business. Gersick et al. (1997) define two characteristics for this phase:

- the company expands in different areas and number of employees rise.
- more formalized structure and processes take place.

The decisions we have included in this study are decisions that according to Gersick et al. (1997) defined as a part of the expansion phase of a family business. Furthermore, the decisions had to have an impact on the development of the firm. After the *Life story* we reviewed our collected data and decided to examine three decisions more in detail in the semi-structured interview. The chosen decisions is motivated by highlighting the importance they had on the future development of the firm. By using quotes from the founders to support the chosen decision we want to point out that the founder also saw this decision as vital for the development in the expansion phase.

### 2.2.3 Primary data collection

Bryman and Bell (2011) presents unstructured and semi-structured interviews as the two most common types of interviews in qualitative research. In an unstructured interview the researcher uses a brief set of open-ended questions in order to initiate the conversation allowing the interviewee to speak freely. The interviewer has the possibility to follow up with questions that seem important to point out. On the contrary, semi-structured interviews usually include a number of different themes and list of questions that needs to be covered.
The interviewee can afterwards, similar to an unstructured interview, talk freely about the specific topic.

*Life story method* is a type of qualitative interview where the interviewee is encouraged to talk about her/his life in general. The subject can look back in time and an understanding on how the individual interprets, analyze and understand its social reality can be created. A major advantage is that a life story methodology is focused on what the person has experienced and why. This type of interview may also be combined with e.g. diaries, letters or other material in order to create a better understanding of the actions (Bryman & Bell, 2011).

*Critical incident* is a technique when the interview is based on a number of predetermined events. The approach is often used when examining the relationship and interactions between small and large companies and their local economies (Curran & Blackburn, 1994 in Bryman & Bell, 2011). The interviews describe the first event briefly and the researcher lets the interviewee describe how they have experienced the specific incident in detail (Bryman & Bell, 2011).

We began the collection of the empirical data with unstructured interviews with the founders of the two companies. We used the life story technique in order to obtain as much information as possible regarding the business life cycle. During the interviews the founders were asked to describe the development of the family-firm without any interference from us.

In the second interview specific decisions were discussed using a semi-structured interview based on the critical incident technique. With each decision in focus we asked questions regarding the influence of family, control, business, time, and finance.

The collecting of relevant theory involved an in-depth review of literature with emphasis on family-owned businesses. Our theory has mainly been collected from the Linnaeus University library in Växjö and through the databases *One Search*, *DiVA*, *Emerald*. For refining the thesis research, we used keywords such as: Family business, Expansion, decision- making, The Three-circle model, Key challenges, Ownership, Business stages: expansion and maturity, Business Development. We have strived to collect theory from the original source as far as possible.
According to Acedo and Casillas (2007) *Family Business Review* is one of the most common publications among family business literature. We have reviewed various articles in *Family Business Review* since we believe that this is a reliable source that is important for our thesis. Great emphasis has also been placed on the book *"Generation to Generation"* by Gersick et al. (1997), which we believe is an important theory and base for our research area.

2.2.4 Secondary data collection
Bryman and Bell (2011) explains that secondary data is considered data that has been collected by other authors, scholars or government agencies. When using secondary data, the researcher should take into account how and more specific, on what basis the data was produced and how it was coded.

In this study, we have used secondary data in the form of information obtained from our case companies webpages, e.g company descriptions. Moreover, we have used scientific articles and reports. Emphasis has been put on reviewing and carefully evaluating the secondary data in order to ensure the quality of the study.

2.2.5 Methods for analysis of the empirical data
To analyze the empirical data concerning the decisions we have used an approach Yin (2012) refers to as rivaled patterns. This method is suitable when the outcome is already set and furthermore, when examining how and why the result turned out as it did. In order to do so a number of theoretical explanations for the result must be decided.

We have used a revised version of the three-circle model to analyze the empirical data with a rival pattern approach. The original use for the three-circle model is, according to Gersick et al. (1997), to study the interrelations between persons within a family business. This specific model is divided into three overlapping circles family, ownership and business creating a total of seven sectors. A member in the family business can only be part of one of the sectors.

Firstly, there are persons only belonging to one of the outer circles (1, 2 and 3), for example an employee in the business who neither is a family member or owning shares in the company. Secondly, we have individuals involved in two of the circles (4, 5 and 6), for example a family member who also posses stocks but is not working for the company. Thirdly, we
have people involved in all circles meaning they are a part of the family, posses stocks and is also working for the company (7).

The original three-circle model is a good tool when creating an understanding for the underlying motives to interpersonal conflicts (Gersick et al., 1997). However, the model is not originally constructed to study the issues companies face in their life cycle. In our analysis of family business we have used a revised three-circle model to analyze if the reasoning behind decisions is mainly concerning family, ownership or business. By asking questions based on issues within each dimension we examined the reasons the founder had to make that specific decision at that specific time. This lead to a few reasons being stronger than others and by evaluating the reasons we were able to use the model to categorize what influenced the founder to make the decision.

The coding of the reasons behind the decisions are what Yin (2012) refers to as theoretical explanations and are made in regards to the main reasons behind the identified decisions in this study. As Yin (2012) explains the different explanations are independent variables, which means that only one of them can be used to explain the reasoning behind each decision. In our research this means that the reasons behind the decision can only be placed in one of the seven sectors in figure 2.4.

Below, the seven sectors of our revised three-circle model are listed together with an example of a possible quote that will lead to the specific sector.

1. **The family is the main reason behind the decision taken.** Priority means putting the well being, the time together and the convenience of the family first. The decision is taken to improve the family’s well being. “We had a good opportunity to expand aggressively but my wife was pregnant so we decided to wait”

2. **The ownership is the main reason behind the decision.** Ownership also refers to the control of the firm. If the ownership is being prioritized, a vital point is to keep control or

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Figure 2.4. Process of analyzing the empirical data (Own creation).
stock within the family. “We decided a less aggressive approach because we did not want to bring in capital through external shareholders”

3. The business is the main reason behind the decision. If the business is being prioritized, decisions are being made with only the best possible development of the firm in mind. Resources such as capital and time from the owners are invested in the firm in order for it to develop. “We were in a difficult position privately but the business opportunity was too good to postpone”

4. The family and ownership are equally important as reasons behind the decision, business is not as important. The well being of the family and to keep control is more important than developing the firm and the revenue in the best financial way “I decided to keep the company within our region in order to keep the control and stay close to my family”

5. The ownership and business are the most important reasons behind the decision, the family is not as important. Best way for the business under the terms that the control is kept within the family is chosen. “Business were increasing rapidly so in order to keep growing I decided to get back earlier from paternity leave to run the business as a CEO”

6. The family and business are the most important reasons behind the decision, the ownership is not as important. It is important to develop the firm in the best possible way without affecting the family’s well-being. “We decided to bring in a CEO from outside to fill a knowledge gap and for me to be able to spend more time with our newborn child”

7. The family, ownership and business are equally the reason to the decision. The medium way where the decision is taken to meet the needs of family and business while keeping control. “We decided to keep grow using our own money in order to keep control but also took in external competence in order to free more time to spend with the family.”

2.3 Quality criteria
In this study, we aim to use the four different quality criteria that Guba and Lincoln (1994), in Bryman and Bell (2011), presents as important for achieving credibility in a report.

2.3.1 Credibility
To ensure that a study contains a high credibility it is important that the research is carried out correctly. Moreover, it is required that the description is accepted by members of the social world. Triangulation and respondent validation is two techniques that can be used to increase the trustworthiness of the study (Bryman & Bell 2011).

When the interviews had been transcribed we sent the information to Lundberg at RP Care and the interpreter of the interviews at Gao Gang so they could validate it. In this study we
have to some extent used triangulation to increase the reliability. According to Bryman and Bell (2011) triangulation involves that more than one data collection method is being used when gathering empirical data. As a result, we have used both unstructured and semi-structured interviews with the company’s founders, studied published articles about the companies and also reviewed their annual reports.

2.3.2 Transferability
Qualitative studies often go in-depth and are in general being conducted in a special environment. This makes it difficult to later carry out the same study with the same result, as the particular context, including persons and organizations, change over time and will most likely never exist again (Bryman & Bell 2011).

To enable the reader to see how we have conducted our study, we have put great emphasis on the owners' descriptions and the reasoning behind the various decisions. Based on the description, the reader can form an idea of what depended on the environment and what might be transferable to another context.

2.3.3 Dependability
Bryman and Bell (2011) explain that in order to create dependability of a study the researcher must ensure that he or she describe and presents all the different stages a report has gone through in detail. This is important, in order for others to conduct the same study.

We have described, as detailed as possible, how we gathered our theoretical and empirical data. Through our methodology chapter it should be possible for others to review all phases and steps of the study.

2.3.4 Confirmability
According to Bryman and Bell (2011) it is important to ensure that the researcher has acted in good faith and in an objective way that has not let her/his own interest influence the outcome of the result.

With this methodology chapter, we have declared how we have conducted our study and showed that we have not let our personal values affect the result. We have also taken a number of ethical issues into account before conducting our study. For instance, we presented the thesis purpose for the case companies’ founders and explained how we planned to collect the empirical data. This, because we wanted to inform the respondents about the structure of
the interviews and in order to find out if there were any issues concerning confidentiality and/or anonymity. One of the companies wanted to be anonymous and we therefore took the decision to make both companies anonymous.

2.4 Methodology reflection
One of the authors is the cousin of the founder of RP Care, Anders Lundberg. Also the interpreter, Jen, knew Dr. Wong and his business Gao Gang very well before the interviews. We believe that the use of convenience sampling has not affected the interviews and the conclusion of the study. Since the purpose is to create an understanding of the reasoning behind the decisions and not if the decisions were good or bad we have no reason to try to steer the study in any direction.

One problem we faced during our research process was that the founder of the family business in Taiwan did not speak English. To overcome the language barrier the assistant professor Shang-Jen Li (Jen) supported us as an interpreter. Jen do not only have knowledge in the Chinese language, he also had been in contact with Dr. Wong for several years during his previous work within the university. We think that Jen’s previous contact with Dr. Wong helped us to get better connection with Dr. Wong with the result of a more personal interview. On the other hand Jen’s knowledge about both Gao Gang and the family business area might have affected the translation. He might have told more than Dr. Wong said or made some own analysis before he translated it to us. This might have affected the sentences that he translated but we believe that the overall translation still reflected what Dr. Wong said.

One obstacle that we faced after the first interviews were the fact that they were conducted in Swedish and this thesis is written in English. When translating the interviews we have tried to translate it thorough with great emphasis on keeping the actual meaning of the interviewee.

3. Theory

3.1 Conceptual modeling of family business

3.1.1 The Three-circle model
Gersick et al. (1997) clarify the differences between family businesses and non-family businesses using the The three-circle model. In a family business it is not ideal to only consider the best for the business because of the relationship with owners and family. In The three-circle model, Gersick et al. (1997) explain that the family business consists of three
independent but overlapping subsystems: family, ownership and business. All in all, this creates seven different sectors (see figure 3.1) in which all members of the business can be classified into. A member with a single-point connection will be classified into one of the outer circles (1, 2 or 3) and if there is a two-point connection place the member will be classified into the overlapping areas (4, 5 or 6). If an individual is a member of the family, an owner and also involved in the business he/she will be categorized as a seven. However, every member of the family business system can only be categorized into one of the sectors depending on the number of connection points.

![Figure 3.1. The Three-circle model (Gersick et.al. 1997, p:6)](image)

### 3.1.2 The Three dimensional developmental model
The Three-circle model is useful when understanding the main issues within running a family business. However, as the model is focused on analyzing on a specific time is not applicable when analyzing the development of a business during a period of time. For this reason Gersick et al. (1997) developed the Three dimensional developmental model (see figure 3.2). The model is based on the three key structures of the family business, family, ownership and business and it also brings in the element of time. Instead of using circles, this model contains three axes with different phases, which the business, family and ownership pass.

![Figure 3.2. The Three-Dimensional Developmental Model (Gersick et.al. 1997, p.17).](image)
The family developmental dimension

A family business is in the beginning, often run only by a few individuals, usually a couple. In this “Young business family” stage the development mainly concerns establishing a marital partnership and to decide whether or not to have children. Problems are likely to involve the time spent on family matters compared to time spent on the business. After a decade or two the family tend to enter the “The business” stage. As time goes by the children are brought up and the family concern whether to involve them into the family business and also how to involve them. If or when the children have entered the business properly the business enters the next stage: “Working together”. In this stage a complex relationship emerge between the parents and children that involves both a working relationship a family relationship. In the final stage “Passing the baton” it is time for the founders to let go of the control to the younger generation. It can be difficult to decide when to hand over the responsibility to the next generation and this is a vital part for success in the family business (Gersick et al., 1997).

The ownership developmental dimension

The development of ownership is complex to examine since it can vary between different businesses. Usually though, it starts with one or a few persons in the “Controlling owner” stage. As the family grows it develops to a “Sibling partnership” where the control is shared between a few siblings, often together with the original founders. As a new generation is born more relatives will be interacted in the ownership family and the axis moves to “Cousin Consortium” and a large number of family members share the business creating a complex ownership structure (Gersick et al., 1997).

The ownership axis is closely linked with the development of the family and besides the internal family ownership development, external investors can be introduced as owners for a part of the company creating an even more complex structure (Gersick et al., 1997).

The business development dimension

The “Start-up” phase regards to the early years of the company where surviving and establishing a foundation for the firm is vital. Once the company has established in the market it moves to the “Expansion/Formalization” phase. The duration of this stage could last for a long time as it can expand through generations of the owning family. When the firm progressively grows it becomes more complex and as a result the need for organizational
structures occurs. Moreover, the expansion can lead to an increasing numbers of workers within the family business for the family to handle. It is clear that this phase invites to a numerous of opportunities but also a series of problems which often put a pressure of the founding family to set out objectives for the firms’ growth based on the need within the areas of ownership and family. When the growth rate of the business decline the firm enters the “Maturity” phase. The business activities become more of a routine and the objectives for the business most likely changes. Since the changing forces of the world are inevitable companies are facing either a renewal phase with expansion or the death of the family business Gersick et al. (1997).

3.2 Expanding a family business
The complicated dynamic in a family business will, according to Olson et al. (2003), not only affect the business performance but also the growth of the firm and the ability to change over time. Gersick et al. (1997) state that both ownership and the family affect the development of a family business. Depending on which stage the family, the ownership and the business is in the Three-dimensional development model will affect and put a light on different aspects the owner of the family business has to take into account.

Characteristics for a firm, which has entered the expansion phase, is for example an increasingly functional structure and development of new products or business lines. General key challenges in this stage is the cash management, evolving the owner-manager role and professionalizing the business. The expansion is not always noticeable to the owners they therefore tend to recognize the start-up face is in the past when they notice that the company is viable and facing new challenges (Gersick et al., 1997). Johansson and Lewin (1992) claim that companies, with a fast growth rate, usually are characterized by chaos. Nonetheless, the companies that will succeed in the long run are the ones who manage to balance between flexibility and control.

3.2.1 Evolving the owner-manager role and professionalizing the business
In the expansion phase most businesses change from a structure where the founder is in a centralized position to a more hierarchic structure with different functions. Since the founder and the family cannot handle all of the management by themselves it can lead to that professionals and specialist take care of some management roles. Gersick et al. (1997) explain that a major problem when non-family members are hired into the business the founder has a hard time to let go of the day-to-day operations and do not delegate the tasks which often times can lead to confusion among the new staff.
When a company has grown to a substantial size it has to diversify its business in order to keep growing. By seeking opportunities in other markets than the initial core business new possibilities can be identified. This can lead to new management positions which, according to Ward and Kenyon-Rouvinez (2005), involves that the family members are assigned different authority position as head of subdivisions.

One obstacle a growing family business often face is the lack of diversified competence within the family. When the family cannot provide family members with the right knowledge and experience to all the positions in the growing firm it will force the business to look for professionals outside the family which can bring the right skills to help the business to continue its’ growth (Dyer, 1989). The importance of non-family managers is increasing when the business evolves through the different business phases and Gersick et al. (1997) explain that the lack of non-family managers might affect the staffs’ vision to grow within the company.

Dyer (1989) presents three options a family business can consider when taking in professional management skill into the firm. The different alternatives aim to educate both family and non-family members and hire professionals. Since the alternatives are not mutually exclusive more than one alternative can be chosen.

3.2.2 Financing expansion
Gersick et al. (1997) explain that the founder often has to deal with the dilemma of splitting financial capital between the family and reinvestment in the business. According to Ward (1988) reinvestments are important and required by family businesses as it makes them able to grow and secure an income for the family in the long run.

Family businesses tend to have a desire to be independent from external shareholders as this makes the founders free to make their own decisions. As a result, the unwillingness to bring in capital from external stakeholders might affect the development of the firm negatively (Gandemo, 2000). Poutziouris (2002) believes that family firms tend to be skeptic about external investors, as they do not want to depend on others. Frank argues in Johansson (2005) that one reason why family businesses value the financial independency is due to their desire for the business to stay within the family and to survive in the long-term.
However, Johansson (2005) explains that the decision of how to fund a business expansion can be a sensitive question since a company’s result and cash flow rarely is enough. Gersick et al. (1997) describe that in first-generation firms, where the manager also is the founder, the main source of capital usually comes from the family or friends. Non-family shareholders in family firms are unusual, especially when the company is small.

If the family business do not have the solid financial foundation in its equity in order to fund the growth and, at the same time, keep the overall balance the management have the two following options. They can either ignore the growth issue or broaden their capital base through external funding (Johansson, 2005).

### 3.3 Decisions in a family business

Decision is something that most individuals in management position have to take. In the literature there is an agreement that each decision is a choice that someone have done. In a classic view, decision-making is to choose from a number of alternatives (Holsapple & Whinston, 1996).

"Decision making is an activity that lies at the heart of the management”

(Jennings & Wattam, 1994, p.1)

Kelly, Athanassiou and Crittenden (2000) state that the founder’s legacy will have a major impact on the strategy and which decisions that will be taken. This impact might come from both a formal and an informal manner.

Fama and Jensen (1983) argue that businesses where one individual is in charge for both the control and the risk of the decisions it will lead to different decisions compared to firms where these tasks are divided into two separate positions. When the decision maker and the bearer of the risk are separated into two positions it leads to a decision system with a separation of decision management and decision control. A company with this separation has to deal with the structure of decision taking and the agency cost that comes with it. Smaller companies usually combine the two roles, which lead to a narrow decision structure.

Harvey (1999) points out that the most optimized decision in a family business is the not made just from an economic point of view. The decisions are taken with the entire family and future family members in mind which, according to Harvey (1999), leads to more effective
management decisions. Drozdow and Carroll (1997) believe that family businesses can plan and make good decisions with the right tools and experience.

3.3.1 The influence of goals on decisions

“The initial strategic goal of a business is to survive”

(Ward and Kenyon-Rouvinez, 2005, p 19)

When a business is established most entrepreneurs seek to extract wealth from the firm. Despite this, many owners continue to sacrifice, take risk and invest in the firm seeking to optimize the future outcome. These founders usually have an intense identification with the business. The long-term vision usually concerns development of their company seeking benefits for both the family and the business (Ward & Kenyon-Rouvinez, 2005).

Distelberg and Sorenson (2009) present a more systematic view of the influence of goals as they argue that the way a family firm conducts its business is highly affected by the underlying goals of the business system. By business system the authors are referring to the conceptual model of the three overlapping groups of family, business and ownership. The underlying goals of the system will lead to either a family-first or a business-first orientation. In a family first oriented business the main objective with the business is to provide the family with opportunities. The development of the firm is not as important as the development of the family. One example of family-first orientation is that in the past Chinese immigrants owned small shops with the main objective to raise resources to be able to send their children to college in order to build a professional career. In a business-first oriented business the development of the firm is the main objective when conducting business.

However, these objectives could also be in harmony creating what Distelberg and Sorenson (2009) describe as an adaptive orientation. This means that the objectives, as time pass, will swift between a family-first and a business-first orientation depending on the need at the current time. The ownership circle is in an overall view seen more as a mediate that facilitate and create the opportunities for a family-first or business-first orientation. An orientation towards either family or business does not mean that the other orientation is not valued as it only explains how the overall goal is weighted towards one or the other, which affects the decisions regarding resources and employment.
The underlying goal of a business leads the management towards one of the three states family-first, business-first or adaptive is most likely to take expression in the allocating of the family resources. In family-first orientation the resources are likely to flow from the business towards the family with the result of time and money withdrawn from the company and will instead be invested in the family. On the contrary, in a business-first orientation the flow will be the opposite with the family investing money and time in order to make the firm grow. Distelberg and Sorenson (2009) refer to a number of studies (Haynes, Walker, Rowe, & Hong, 1999; Kaye, 1991; Stafford et al. 1999) which shows that in times of trouble within the family business, the family tend to put in more resources and in good times less resources. This creates a natural flow of resources, which makes it necessary to view the current financial state of the business before evaluating if the orientation leans towards family- or business-first.

One example of how the underlying goal of the owner affects the business decision is the view of hiring family members into the firm. As Gersick et al. (1997) described in the Three-circle model, this can create interpersonal conflicts between persons in the different sectors of the model. Distelberg and Sorenson (2009) explain that it is likely for a family-first business to hire from their own family since the success of the family is more important than the success of the firm. This is normally displayed in the ownership structure and board of directors with a larger per portion being from the family instead of non-family members.

When analyzing if a family firm is successful or not it becomes more complicated when the underlying goals are taken into account. Previous studies have focused on the success of the firm and not accounting for the success within the family dimension. Figures such as return on assets, annual return and growth in sales has been the main objectives for the measurements of a successful family firm. Within the family business circle it is difficult to measure success since it is subjective and depending on the individuals’ goals. In order to understand the success of a family business a person needs to view the goal formation and the resources needed to achieve these goals (Distelberg & Sorenson, 2009).
4. Empirics

4.1 RP Care

4.1.1 Life story of RP Care
In 2001 Anders Lundberg and Rebecka Johansson were working as nurses within the Swedish health care system in Stockholm. While working they realized that the need for nurses fluctuated with time and they took the decision to start the staffing company RP Care. In the beginning the couple were the only two employees in the company as they hired out themselves to different care centers and hospitals. When they saw an increasing demand for nurses they started to employ nurses into the business.

To be able to handle the increasing administrative work they decided to decrease their own time working as nurses to 75%.

The business developed rapidly the first few years with an establishment of an own office premise and a tenfold of employees. Despite this, the business was highly dependent on the need for additional resources in the health sector, which could fluctuate. In 2004 the government in Sweden restrained the staffing companies within the health care sector by disallowing temporary hiring of staff to run day-to-day health care operations. Since RP Care’s business idea was based on hiring out staff the company had to downsize their operations. At this time Lundberg was hired to work at a health and rehabilitation center where they performed a service creating documents for driving licenses for former drug and alcohol abusers. One day Lundberg got the information that this specific service was about to close down and he saw an opportunity to take over this service. Closely after this, Lundberg decided to hire a doctor to perform the services at RP Cares’ current office premises. At this moment, the company had two different business ideas: the reception and the declining staffing operations.

As the business was dependent on the fluctuating demand for additional help Lundberg started to think of new health care areas to expand the business into in order to create a more secure income for the company. In 2005 two new areas emerged; School health care and Company health care. The concept of school health care evolved through a job interview.
Lundberg had with a former school nurse who he later gave the opportunity to start up School health care. As the number of free schools in Sweden was increasing, RP Care got a request to outsource their health care obligation stated by the school law. The concept of School health care quickly proved to be successful and several other schools, mainly free schools, joined in which created a more stable income for RP Care.

At the same time RP Care’s health care sector was developed with the business idea involving health related services and tests such as cholesterol of employees. RP Care spent a large amount of money on advertising and campaigns promoting their new service, but it eventually seemed there was no market for their business concept. As a result, Lundberg and Johansson decided to close down this particular sector of the company after one year.

In late 2006 the business focused on the reception, the staffing and the School health care sector. The reception gave a rather constant income while the School health care sector grew at a stable pace. The staffing part emerged as the restriction of temporary staff improved. In 2007 the founders of RP Care took the decision to once again focus on the growth of their core business, staffing, with an increasing turnover as a result.

In 2010 a major opportunity emerged as the government regional office in Stockholm was renegotiating their contracts for temporary staffing in the home nursing sector in eight of their districts. Over a night the company had increased its’ size substantially as the company won the contracts in the five districts they bid in.

At the current moment RP Care employs over 600 people. The School health care sector has developed to a national business with local offices, while the Staffing sector is still located mainly in the Stockholm region. The company moved into a newly restored office in 2011 and the administrative staff has grown to a total of approximately 25 persons. The company initially seeks to professionalize the business by various certificates and also by establishing distinct work roles and responsibilities in the main office.
4.1.2 Selecting critical decisions in RP Care  
From the "life story" three decisions have been selected according to the criteria mentioned in the methodology chapter (see 2.2.2).

The start-up of a reception in 2004  
In 2004 RP Care faced a huge setback to their current rapid expansion. The government of Sweden proclaimed a restriction of using temporary staff in day-to-day business. At this point RP Care faced two options; either give up their current expansion or find a new source of income. “We could not continue to bounce our heads into a brick wall that would not fall” .CEO Lundberg explained, referring to the restricted staffing business at that time. “We survived because of the start-up of a clinic approving driving license documents for drug and alcoholic abusers whom lost their licenses and needed a medical check up to be able to retain their licenses. The clinic brought in a lot of revenue to the firm.” This particular decision has been chosen since the founders took the decision to expand into a new business area. Furthermore, this decision proved to be the foundation of a new expansion for the firm.

The expansion into new business areas in 2005  
In 2005 RP Care decided to expand their business into two new sectors: School health care and Company health care. This decision proved to both expand and endanger the business. “We needed a more stable stream of income and stumbled over these two interesting tracks”. The School health care sector has steadily developed from one school in the start-up phase to approximately 80 schools in various cities in Sweden. “Today we are the biggest private health care company when it comes to School health care but we have had a very slow approach to the expansions within this business segment”.

The campaign for company health care proved not to be as successful as the School health care concept. “We put a lot of money into advertising health and drug tests for companies to offer their employees as we thought people were willing to pay to assure they were in good health. Quite soon we realized that people preferred going to the doctor when they were ill and pay that cost instead of being pre-cautious and pay 1500 for a health test”. The aggressive campaign almost caused the company to go into bankruptcy. “We were in real bad shape because of our investment in company health care. Of course I would prefer this investment to be unmade but it has also provided us with the experience of moving towards the end of the month not being sure if we have enough money to pay our employees. It was close but we managed to pull it through”.

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The decision to expand into the new business areas in 2005 was the first time RP Care expanded into two completely new business areas. The result was mixed but the decision was, in terms of expansion, vital for the company’s growth.

The bid for “Home nursing” in 2010

Over a night in 2010 the business expanded substantially. RP Care took over the contracts for approximately 100 full-time workers and around 200 part-time workers as the company won the contracts for home nursing in all five districts they bid for. “We went from a turnover of 30 to 130 millions over a night with the winning bid for home nursing”. The business area involved activities that RP Care had done before, but nonetheless it proved to be a big difference between supplying the staff for another health care company and being responsible for the health care themselves. "We needed to bring in new staff and there were a lot of rules and regulations from the Swedish State that we needed to learn in order to conduct the health care in the right manner”.

“No one believes me when I say we were only three people and you might have opinions about how responsible that was. I guess that’s part of the entrepreneur gene that speaks to you saying, yes we can do this”. The expansion through home nursing has led the company towards a more professional approach to business with attempts to certificate the company in various environmental and quality categories. “Today our turnover is roughly 130 millions and we employ around 700 persons in various forms and about half if recalculated into full time jobs”.

The decision to bid for the home nursing sector in 2010 made the company grow from a small/middle-sized company to a large company. It was the single most important decision in terms of growth and expansion.

4.1.3 Thoughts and reasoning behind decisions at RP Care

The start-up of a reception in 2004

In 2004 there was, as previously stated, a major restriction in hiring temporary medical staff. The CEO of RP Care, Anders Lundberg describes this period as a depression in their business sector.

"For a company with the business idea of hiring out staff it was tough. I think RP Care managed the crisis quite well since we could downsize our business without any major efforts”.

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Lundberg knew that one of the fourth most rapidly growing staffing companies in Sweden went into bankruptcy three months after the restriction in 2004. Lundberg believes that the main reason for this was that the company had a great deal of fixed costs, for example salaries for the full time employees.

During this time it was only Lundberg and Johansson who were fully employed at RP Care. The staffing area contained a number of employees, but they were only temporarily employed and hired as they got a job request from another company. Despite the fact that RP Care could downsize their business in more difficult times, Johansson questioned whether she wanted to continue to run RP Care or not. "Rebecka was on the edge of quitting due to the restriction and she questioned why we should keep on with the business. She asked: Why live on bread and water, when we easily can get a job tomorrow"?

At that point Lundberg worked as a temporary employee at a health and rehabilitation center through RP Care. He explained that there were rumors that the government was thinking about closing down their reception for medical certificate and the alcohol and drug attestations. "A lot of people, including a couple of doctors talked about starting up their own businesses and there were many speculations during this period. Rebecka and I did not discuss the decision that much. I think that it was mostly me who wanted to start up quite immediately and give it a try".

Lundberg knew that in order for RP Care to provide the service they needed a doctor who could sign the certificates. From the beginning Lundberg and Johansson wanted to keep away from activities, which depended on other people. "A problem is that the doctors are key actor in this type of business because the competency stops there". Despite this, Lundberg and Johansson knew that they had to hire doctors since they were crucial for their business. Since Lundberg had worked at the health and rehabilitation center before he had contacts with a few doctors and he soon contracted the chief doctor to sign the certificates for RP Care.

Even though the reception depended on the work of the doctors Lundberg and Johansson did not want them to be a part of the core of their organization. Similarly, the doctors did not have any interest in being partner in the firm since they had other jobs in addition to the work at the reception.
In order to start up the reception Lundberg also knew that he needed to invest some money to purchase medical devices, marketing their new service and furthermore to pay the rent for the facilities. RP Care did not feel the need to apply for a loan at the bank since they wanted to use their own personal savings to funding the reception. "We were aware of the risk that if we invested in this there would be limited possibilities to take out salary or time off for a family vacation". “To be honest it was not much preparation before the start up of the reception. We just did it”.

**The expansion into new business areas in 2005**

In 2005 RP Care still struggled with the restriction from the government in Sweden for staffing companies within the health care sector. Lundberg explained that even though the restriction limited the business, this part still required a great deal of work. For instance, the company had to supply nurses when their customers requested it. Lundberg and Johansson were especially tired of the late night phone calls from their customers who often requested a nurse for the next day. "At that time it felt like we either close down the business or find something new that we could do within RP Care”.

With the previous experience from hiring out nurses Lundberg wanted to create a stable income that was not as affected by fluctuating demand as the staffing business. Lundberg thought that it would be a good idea for RP Care to find some contract-businesses within the health care sector.

The investment in School health care started with a proposal from a Swedish free school. The company wanted RP Care to take care of the health care for their students. This, even though RP Care lacked the experience from providing this kind of service before. During a job interview for a nurse employment, Lundberg began to talk about the request from the school and the interviewee, who previously worked as a school nurse, directly showed interest and excitement for this assignment.

Lundberg explained that even though they knew that they lacked experience and knowledge about the specific market and law texts concerning School health care they knew this was something that they could learn along the way.
The decision to invest in school health care was not discussed much with his partner, Johansson. After the interview with the former nurse it all happened relatively fast and he wanted to give the new employee a great deal of responsibility for the area from her first day at RP Care. Lundberg thought that it was a good idea to let another person be responsible for the new sector as it allowed him to act as a mentor. "I had no problem to let her take most of the control of that part of the business". Lundberg explains that the ability to share responsibility is important for a founder of a family business and has affected the overall development of RP Care positively.

Lundberg knew that the investment to start up School health care would financially be easy to fund, as it did not require any large investments. After a short discussion about the possibility to bring in financial capital from an external part Lundberg and Johansson decided to reinvest the already existing money in RP Care. Furthermore, both Lundberg and Johansson knew exactly what they would earn when they signed a contract with a school because of the fixed price, which enabled them to hire personnel according to the agreement. If they developed the School health care sector in a slow and steady pace there would be no need to bring in capital from external stakeholders.

The other area where RP Care decided to invest in 2005 was in Company health care as they saw this as another alternative to create a more stable income for the company. "I actually believed more in the Company health care than in the School health care". At this time, RP Care already had a reception and thought that they could find something more to do within the facility. They talked about doing different health care tests for both private persons and businesses in order to bring in more income to the company. Lundberg had some discussions about this with one employee whom later became responsible for this area. "Through the discussions we found an interesting business concept that I decided we should go for".

Lundberg knew that they needed to make some financial investments in the company health care sector in order to make profit. They already had the facilities where they could make all the examinations but Lundberg understood that they would have to spend money on staff and advertisements. Lundberg and Johansson had contacts with a local taxi company and thought that it would be a good idea to let them try their new service for a good price in order for them to use them as a reference. Lundberg and Johansson wanted to fund this expansion with their
own money and not take in external capital in the business. "We never talked about the possibility to take a loan for this investment".

The bid for “Home nursing” in 2010
Between the years 2006 and 2010 RP Care focused on the expansion of their current areas school health care, reception and staffing. The founders had decided to drop the Company health care sector as it was not profitable and focus on the expansion of the core business. “We had grown a lot the years before (2008 to 2010) and saw an increasing demand for temporary staffing during the weekends mainly from the care center’s since the district nurses only wanted to work during the weekdays”.

In 2010 the County council released a new offering that concerned home nursing. The contracts from the County council usually last 3-5 years before others can place new bids. Lundberg had previously had some thoughts about expanding the business. “I subscribed for a newsletter which informed about current offerings but I had previously only looked for offerings within staffing and Company health care”.

When the offering for the home nursing was released Lundberg was intrigued and saw the potential. “It was kind of a long shot. I had the opportunity to speak to a guy whom had this contract before and he was very encouraging and thought we should go for it”.

In 2008 Johansson was home with their newborn child. “It was a major work load for her at that time and since we did not have anyone to cover for her she had to work from home”. Although Johansson was at home taking care of their first-born son there were no hesitation about the decision to bid for home nursing contract from her side according to Lundberg. “Just go with it, she said”.

Before making the bid for the home nursing contract, Lundberg sat down and made a brief calculation. “The staffing part was quite thankful, we knew how to calculate the cost for a single employee and had a hunch of how many visits each person could do. Cost for facilities was also available. However, consumer goods like cars and gas, which is a huge expense we had to make extra room for in the budget. With this information we made some kind of a budget”.
Prior to taking the final decision about the bid Lundberg considered what margins the competitors had within the home nursing business. “We found that the smaller companies had big margins, up towards 20 % which implied that there was room for bargaining”.

With the positive financially results from the previous three years, Lundberg knew that RP Care had the financial muscles to do most of the investments needed if they would win the bid. Lundberg and Johansson knew that if they won the bid some further capital would be needed to do the initial investments. However, Lundberg did not want to bring in capital from an external investor as he thought it would be too complicated. “To work with shares in a small company is complicated and something I am very reluctant to”. Both Lundberg and Johansson felt that a better option to ensure their financial possibilities was to sign up for a credit at the bank together with using the common equity within RP Care.

The initial investments would be needed in order to strengthen the administrative part of the business. “I have always been reluctant to bring in staff that is not directly involved in bringing in revenue since I do not want our costume to grow too much”. When they thought of making the bid he knew that new competences and administrative areas would be necessary in order to run the business.

“We only bid for five of eight districts since we needed to restrain ourselves. I guess it was some kind of plausibility test of what we were able to handle. The five districts are geographically linked and I think it was good that we did not bid for all eight districts. We thought about RP Care’s current position and I think a big portion of my gut feeling played a part”.

Lundberg’s gut feeling has played a part in many of the expansion decisions in RP Care, according to himself. “It is rather strange how things end up in certain ways. A friend told me that I was just sitting in the couch twirling a glass of red wine telling him that this might be worth aiming for”. Lundberg describes this rapid decision-making as characteristic for how decisions are taken at RP Care.
4.2 Gao Gang

4.2.1 Life story of Gao Gang

The Traditional Chinese Medicine (TCM) company, Gao Gang, operates a tenfold of clinics in Taiwan, Singapore, Malaysia and mainland China. The company is founded by the three brothers, Dr. Wong (first) Dr. Jong (second) and Dr. Chen (third) and the ownership of the company’s clinics has always been divided in a distinct way between them meaning that they never owned clinics together. Our thesis will follow the development of Dr. Wong’s business in Taiwan.

Dr. Wong and his wife, Dr. Ming had been working as doctors in Dr. Wong’s third brother’s clinic since they graduated from medical college and the mid 90s Dr. Wong was asked to run a clinic in southern Taiwan, previously owned by his third brother. Even though Dr. Wong lacked management experience at this time he was excited to try out his business. After a few months of being in charge of the clinic, Dr. Wong and his wife felt that they could run the clinic in a better and more efficient way and bought the clinic from his third brother.

One or two years later Dr. Wong bought his second clinic from his second brother, Dr. Jong. The clinic had run a deficit for several months in a row and Dr. Wong was convinced to buy the clinic by his brothers. His wife was at this time not very fond of buying another clinic but Dr. Wong saw potential in the clinic and thought he could make it profitable. After a successful turnaround of the second clinic Dr. Wong was inspired to start up his first clinic from scratch. Furthermore, he knew that his two other brothers had plans on opening up new clinics, which lead to a rival competition between the brothers.

After the start up of the new clinic in 2002, Dr. Wong owned three clinics and was satisfied. His wife, Dr. Ming, was very reluctant to keep expanding and together they felt that it was enough with running three clinics. Two years later troubles emerged in a clinic owned by the second brother, Dr. Jong. As the clinic lost money each month the other brothers tried to convince Dr. Wong to buy it. He was reluctant to buy this clinic since his wife had threatened him with a divorce if he went through with it but after a month his brothers convinced him.
He told his wife that he had to buy the clinic for the sake of his brother and gave her the signed divorce papers. Despite her previous threats about divorce Dr. Ming forgave him and Dr. Wong’s business had expanded to four clinics.

In 2004 Dr. Wong was convinced to enroll in the EMBA program at the University. His third brother had previously passed a similar program and told Dr. Wong about the advantages of this specific program. Dr. Chen explained that the program gives the students a chance to gain managerial knowledge alongside a manager role in a company.

In 2007 another business expansion took place as Dr. Wong was asked to manage two more clinics. Shortly after this he bought additional two clinics in southern Taiwan. During the years of expanding Dr. Wong developed a major interest in interior design and he wanted to learn how he could cultivate and make his staff happy.

At this time Dr Wong owned and/or managed 14 clinics in Taiwan and a shift in focus in 2010 lead to developing the clinics within the business instead of expanding. During 2010 and 2011 Dr. Wong renovated three of these clinics with the new business concept of bringing in the four elements (water, fire, wind and earth) and Chinese medicine into the design of the clinics.

4.2.2 Selecting critical decisions in Gao Gang
From the Life story three decisions have been selected according to the criteria mentioned in the method chapter (see 2.2.2).

Opening of the first clinic from scratch

Dr. Wong opened his first clinic from scratch in 2002. Previously he had managed and taken over two clinics from his brothers. The clinics he had taken over were already established and up and running. The decision to open the first clinic was a vital step in the development of Gao Gang. The new clinic was a chance to try his ideas regarding management and design in reality. The experience can be seen as an encouragement for him to later continue the expansion. With this decision Dr. Wong went from being a doctor who owned a clinic to being a manager who could practice as a doctor. Although he still worked as a doctor for an hour a week his focus had shifted towards managing. “I had an inner desire to try my own thoughts in a clinic and the brotherhood rivalry inspired me to do so”. The successful
turnarounds in the previous two clinics and the successful start up of the third clinic lay a foundation to the Gao Gang we see today.

The decision to start his first own clinic has been chosen since it was the first step towards building a large company. Since this clinic proved to be a success Dr. Wong was encouraged to continue Gao Gangs expansion.

**Enrolling in the EMBA program**

The decision to enroll in the EMBA program in 2004 proved to change the management style of Dr. Wong. “Before EMBA I had more of a short-term perspective with more focus on efficiency and profits”. Until 2004 Dr. Wong had run his business solely on his own experience and by reading management books. He felt he had the right tools and resources to work with but could not quite put them into long-term practice. After he graduate from the EMBA program he began to change the way Gao Gang conducted business. He developed the concept of three overlapping circles: profits, happiness and individual achievement, which changed the focus of the firm. "Before EMBA I could earn more, but now since I want to reach this balanced harmony I need to bring up the cost. I want to provide a happy and joyful environment for the staff”.

The decision to enroll in the EMBA program has proved to change Gao Gang’s way of conducting business. From clinics run with short-term profits in focus to clinics run with a long-term vision with a broader objective.

**Development of a new concept**

Since 2010 the expansions of Gao Gang has slowed down since only one new clinic has been opened. Instead four clinics have been re-opened in new modern facilities in order to create harmony between the three circles (profits, happiness and individual achievements). This change of perspective will have a major impact of the future development of Gao Gang. The new clinics are costly renovated with innovative design and spacious environment. Dr. Wong explained his managing style: “I am not sure if it is the right or the wrong way, but earnings is just a figure on a sheet. I have no plan to squeeze the most out of the staff. The staff is not expandable”. The view of the staff is clearly seen in the events held by Dr. Wong each year. The annual “year-end meal” is a huge celebration, which cost approximately 2 million Taiwanese dollars. The renovation of the clinics has been made with a focus on the four elements (earth, water, fire and wind) together with a strong focus on traditional Chinese
medicine. Alongside the renovation and focus on the staffs well being Dr. Wong has tried to integrate the clinics more into the local society.

4.2.3 Thoughts and reasoning behind decisions at Gao Gang

Decision to open up his first clinic from scratch

In 2002 Dr. Wong had taken over two clinics, one from each brother and managed them successfully in terms of revenue. Since he only had worked as a doctor before he had an inner desire of improving his management talents. He knew that his brothers wanted to open up new medical clinics in Taiwan in the near future and the discussions among the brothers initiated a sort of competition between them and Dr. Wong felt that if his brothers could open up new clinics so could he; "I saw it as a great opportunity to put some of my business ideas into reality".

When managing the first two clinics Dr. Wong had thought about the way they were designed. In Dr. Wong's opinion the clinics were dark and often had a limited amount of space. In comparison, he wanted to create a unique clinic with large windows in order to bring in light but also to allow the pedestrians walking by to see what was going on inside the clinic. "I wanted the new clinic to be different and unique". In addition, Dr. Wong had an idea of lowering the counter in front of the pharmacy to create transparency and to create a stronger bond between the staff and the customer.

His wife, Dr. Ming, worked as a doctor at one of his two clinics during this time and she also spent time taking care of their family since their second child was born in 2000. Dr. Ming did not want him to open a third clinic since she believed that it was better to focus on the two existing clinics in order to achieve a sustainable business. "She was reluctant to start up this clinic from scratch since she considered that two clinics were enough to bring in money to the family in order to cover the daily expenses".

Dr. Wong knew that he had to convince his wife that his ideas concerning the design and business concept of his new clinic would be successful. Furthermore, he argued that since his two other clinics had recovered from loss in one or two months after he took over the management the risk would be low that they would lose the money he needed to invest.

Dr. Wong knew that he probably would earn more money by taking over an existing clinic compared to open up a new one. "When taking over a clinic all the resources are already in
place compared to open up a new one where everything has to be built up from scratch”. Dr. Wong had no intentions of taking a bank loan since he planned to fund the third clinic with his private money. "I had the money from the existing clinics so there was no need for me to go to bank and ask for money”.

He considered the potential risk that he could lose his invested money but he believed that the risk was bearable. “The worst case scenario would be to lose 5-6 million which was the total investment for me if I wanted to start up my own clinic from scratch”.

Dr. Wong knew that he had to do a lot of work before opening the clinic. He did not employ any doctors or nurses before taking the decision, which made it necessary to recruit along the way. “I did not think much before I took the decision to open up the clinic. I was excited and focused on the current moment”. The excitement led to an initial plan to build up the trust among the local inhabitants.

**Enrolling in the EMBA program**

In 2006 the owner Dr. Wong decided to enroll in the EMBA program at a well-known university in Taiwan. Previously he had learned to conduct business through practical field experience and by reading management books on his own. As the business continued to expand as he took over or bought additional clinics he felt an increasing need for retrieving business knowledge in a more professional way. “In the beginning focus was to turn deficits into profits for the clinics but I felt that we needed to run the business in a more systematic way”.

When he took over the first clinic from his brother a concept of three circles: profit, happiness and individual achievement was emerged. Dr. Wong tried to put the thoughts regarding this into practice but found difficulties in sustaining long-term harmony between the circles. “I tried to raise the salary every half year but after two or three times I failed to do it because it was not reasonable. When I raised the salary the employees only wanted more and more. In short, I had the concept in mind when I thought of starting the EMBA program because I could not find a systematic way to use it in practice”.

He came to the understanding that he needed to learn more about being a manager since he, at the time, owned several clinics and had not received any education on managing operations in
medical school. His third brother, Dr. Chen, acted as an inspiration as he had finished a similar business program in Singapore the same year. Dr. Chen told Dr. Wong about the knowledge he had gained in the program and he felt that this was something that he would need to run Gao Gang in a better way. “From the dialog with my brother I felt that it would be useful and beneficial for the business”.

Before enrolling at the university, Dr. Wong knew he needed to invest both money and time in the education. As the EMBA program only had classes every second weekend it enabled the participants to combine both work and study. “I didn’t think it would take much time from managing the clinics, although I reduced the time spent on practicing as a doctor.

Even though the tuition fee for the EMBA program was quite high Dr. Wong felt that the investment would pay off because of the exchange it would give him in terms of practical and theoretical knowledge.

In 2006 he had two daughters, six and ten years old, which according to his wife did not object the educating alongside the current management of the business. He believed that the EMBA program would not change his time with the family significantly: “Previous I had dealt with events in the Regional Doctor Association and they were at the weekends. My wife was quite used to the fact that I did not spend that much time home each weekend. She only asked me to be home during the weekdays so that we could spend time together”.

**Development of a new concept**

When Dr. Wong started to manage his first clinic he felt that there were a lot of aspects that would be possible to develop within the Traditional Chinese medicine. During the EMBA program he retrieved new ideas for how he wanted to conduct his business concept and further developed his ideas with the three circles (profit, happiness and individual achievement).

Prior to his studies he could not find a long-term solution to create harmony between the three circles but after the EMBA program he managed to develop his concept. “One of the business core values is that employers should be able to work with enthusiasm and happiness”. “I want the employees working at Gao Gang to see the job like a lifestyle and not a job”.
One goal that emerged during this period was to educate people more about the Traditional Chinese medicine in order to give back to the society. Furthermore he wanted the clinics to be a place for both physical and psychological peace where the patients could. “The re-openings are highly correlated to the harmony of the three circles that I had developed further at the EMBA program. For example, the main reason for the reopening of two of my clinics was that the feeling the facilities created did not suit the feeling I wanted to create”.

When Dr. Wong’s concept for Gao Gang started to take form he realized that it did not match how the clinics were designed. He thought that the clinics were too small and did not offer the patients the feeling that he wanted them to create when they entered the clinic. Dr. Wong realized that if he would be able to bring his new ideas to reality, reinvestments would be needed either in the already existing the facilities or in new facilities.

Dr. Wong felt that Gao Gang had a decent profit and he had enough capital in the firm to reinvest. He did not feel the need to bring in capital from either inside or outside the family to be able to start with these investments. Moreover, he thought that since he had his own idea about the concept he did not want someone else to interfere with what he wanted to create. To ask his brother for a loan was never an alternative because of his focus on profits and high profit margin, which did not correspond with Dr. Wong’s own philosophy. “Me and my brother have totally different views on business since he has such a focus on profits”

Already from the beginning Dr. Wong was aware of the capital needed to do the investments in the facilities. He knew that the investments would not lead to higher profits but this was a risk he was more than willing to take. He felt that Gao Gang had a decent profit and he was ready to give up some of that profit to be able to have clinics which created the right feeling for both the patients and the staff. Dr. Wong said; “I knew that each re-opening probably would lead to higher costs and lower profits but I thought that the risk was acceptable”. He was sure that the re-investments would not payoff in the short run but he hoped that it might payoff in the long-run even though this was not the main reason for the re-investments.

Dr. Wong’s thoughts about the work load for re-investments in the clinics was that it would not take so much more time from his free-time with his family. He thought that it would take time from the normal business assignments but he felt that this was something that he really wanted to work with. Dr. Wong did not consider taking time from his assignments at the
company to spend more time with his family. He wanted to have spacious facilities and felt that it was worth to spend time in planning in order to get the design and layout in the best possible way.

5. Analysis of the reasoning behind the decisions

5.1 RP Care

The start-up of a reception in 2004

When RP Care faced a tougher market in the staffing sector due to the restriction in 2004 Lundberg and Johansson needed to take the decision to either expand their business or close down their operations within the staffing sector. According to Lundberg they were on the verge of giving up and especially Johansson questioned why they should continue to struggle with the business when they could earn more money by being employed.

As the initial and main strategic goal of a business is to survive (Ward & Kenyon-Rouvinez, 2005) Lundberg felt that they needed a new source of income in order to keep the business alive. To seek opportunity outside the core business is a natural and necessary step when expanding a business (Ward & Kenyon-Rouvinez, 2005). In order to verify and sign documents for new driving licenses Lundberg knew that they needed to employ doctors who could perform this service. Even though he was reluctant to engage in activities, which involved that RP Care became dependent on others, he took the decision to proceed with the plan to start-up the reception.

A business-first company is distinguished by resources, within the business, moves from the family to the business in terms of workload and capital (Distelberg & Sorenson, 2008). In order to start up the new business area the founders did not need to put in a significant amount of money but Lundberg knew that it would demand hard work from both him and Johansson.
Moreover, they understood that it was not possible to withdraw any salary the first months after the expansion. In times of troubles the resources might temporary shift between family and business to overcome critical situations (Distelberg & Sorenson, 2008). Despite the knowledge and understanding that it would be a tough first time with the new business area the decision was taken rather quick and mostly due to the business opportunity seen by Lundberg.

![Figure 5.1 Analysis model for the start-up of a reception in 2004 (Own creation)](image)

The decision to start up a clinic in 2004 was made mainly from a business and an ownership point of view. The family was put aside, which is exemplified by the partners understanding that it initially would result in less spare time and money. Moreover, Lundberg saw the potential in the business and a possibility for RP Care to grow. Needless to say this was a crucial decision in order to keep control over their employment and to continue to conduct a family business.

**Expansion into new business areas in 2005**

In many young family businesses there are no structured plans for how to develop the business (Kenyon-Rouvinez & Ward, 2005) and the main objective is to simply keep the company alive. During 2005 Lundberg and Johansson wanted to find a more stable income and thought that a contract-business might be a good way to get away from the fluctuating demand that they experienced from hiring out nurses. At this point a Swedish free school, offered RP Care to take care of the health care for their students. According to Dyer (1989), lack of knowledge and know-how within a family business can restrain the growth of the firm, as the persons within the family may not have the knowledge or experience for all of the new positions and areas in the growing firm.
Lundberg and his colleagues did not have the knowledge to conduct this type of business. The lack of competence within the family forced the firm to look for persons outside the family with the right competence that could help the business to continue to grow. In a job interview Lundberg found a person with the right experience and competence to lead an expansion such as School health care.

During an expansion there is often a need for the founders to let external professionals into the management. Gersick et al. (1997) explain that a major issue when individuals are hired to management roles is that the founder is often reluctant to give up the control of the operations. Before the start-up of the School health care Lundberg reasoned that it was necessary to make another person responsible for the sector in order for him to focus on the core business and only act as a mentor for the new manager. He explained that he did not feel any anxiety. "I had no problem to let her take most of the control of that part of the business”.

A problem family businesses often face when developing its business is, according to Landsberg (1988), that most founders only have knowledge about one specific type of business. This can restrain the family businesses growth rate due to a reluctance to expand into new business areas. Lundberg believed that they could pick up the needed knowledge as the process proceeded. Lundberg had the same thoughts before expanding into the sector: Company health care. Even though Lundberg knew that the new employee might lack the know-how in the new sector Lundberg had a strong belief that they could gain it along the way.

In order for the family business and to the income for the family in the long run reinvestments from the owners are needed (Ward, 1988 and Gersick et al., 1997). Lundberg knew that some investments would have to be made to be able to start up the School health care and the Company health care. As the owners have to deal with the dilemma of splitting the money between the family and the reinvesting in the firm (Ward, 1988) Lundberg reasoned that the best way for RP Care would be to invest previous profits. Lundberg suspected that they would have to live on a smaller private budget for a while and by reinvesting their earlier profits it would then result in a more passive growth strategy within School health care.
The decision to diversify the business into new areas was taken with the business best in mind. In order to continue the growth of RP Care they needed to expand into new business areas in order to find new sources of revenue. They knew that the decision would mean hard work and less money to spend on the family, at least for a period of time. The ownership was not a major concern since there was not really a choice to bring in other funders. On the other hand, this might have affected Lundberg to choose a less aggressive approach compared to if he had chosen another source of capital. Another aspect of the ownership variable is that Lundberg developed a manager role for both the areas in order to reduce his own importance and responsibility in the firm.

**The bid for “Home nursing” in 2010**

As a business grows it becomes more complex and a need for organizational structures often occurs as a result of an increasing numbers of workers within the family business (Gersick et al., 1997). Even though RP Care had grown within their different business areas the company still had a relatively small administrative sector. Lundberg explained that he tried to be careful employing staff which not directly involved bringing in income for the firm; “I do not want our costume to grow to much” referring to the problem of having a large administrative part in the business. Before the decision to bid in 2010 he knew that a substantial growth in administrative staff was crucial in order to perform the service. Dyer (1989) believes that growing family business often lack competence within the family and are forced to search for the right competence outside the family.

In order to make the bid for Home nursing in 2010 Lundberg knew that he needed to strengthen their financial situation. Instead of looking for an external investor he went to the bank and signed up for a credit, which made it possible for them to keep the ownership within the family. Lundberg calculated that the credit along with reinvesting earlier profits would be
enough to make the initial investments. Both Gandemo (2000) and Poutziouris (2002) claim that family businesses are reluctant to bring in external capital into the firm, mostly due to a prioritizing of keeping ownership and independency rather than a fast growth. The lack of other funders the owners are free to make their own decisions. However, the unwillingness to bring in money from outside the family might affect the growth of the firm negatively.

The way resources flows between the family and the business is, according to Distelberg and Sorenson (2008), a sign of the underlying goals in a company. A resource flow from the firm towards the family indicated that a business support the success and well being of the family. A resource flow from the family to the business is a sign of a family firm with the objective to develop the business as much as possible. Lundberg knew that Home nursing would lead to an increase in working hours from his side. At home he and Johansson had a one and a half year old son, which Johansson took care of at that moment. Despite this, Lundberg thought that the business opportunity was to good to miss out on as he saw a margin of up to 20 % from previous companies holding the Home nursing contract. “There was room for bargaining”.

![Figure 5.3 Analysis model for the bid for “Home nursing” in 2010 (Own creation)](image)

The decision to bid for the Home nursing in 2010 was taken with the business best in interest. From a family point of view the timing was not optimal since the couple had a young son at home. Lundberg knew that the business opportunity was too good and made the bid with the business best development in mind. On the contrary, a solution with external investors would have made it possible to increase the family wealth and lower the risk of the new operations. But Lundberg states it is hard to work with shares in smaller companies and to divide the ownership and the decision-making. This way it would be possible to do the expansion, keeping the complete ownership but it would consume time which could have been used at home with the family.
5.2 Gao Gang
Decision to open up the first clinic from scratch

After Dr. Wong took over two of his brother’s clinics and made them profitable he felt that it was time for a new challenge. As explained by Olson et al (2003) the dynamic of a family business will have a major impact of the growth of the firm and how it will change over time. When Dr. Wong was informed that his brothers had plans of expanding their businesses with new clinics he felt inspired to open up an own clinic from scratch. Furthermore, it would give him the opportunity to put his thoughts and ideas, which he had developed during his time as a manager into reality.

According to Harvey (1999) the most optimized decision in a family business is not taken only concerning the financial aspect of the business. Dr. Wong knew that it would be more costly to start up a business from scratch than to take over an existing clinic but he felt if his brothers could start up a clinic from scratch, so could he.

To be able to grow and to secure the future income of the family Ward (1988) and Gersick et al. (1997) claim that family businesses are required to do reinvestments. Dr. Wong was aware of the fact that he needed to do some major investments and risk his family’s own private money in order to open his first clinic from scratch.

When making reinvestments in a family business a common problem is how the founder split the revenue between the business and the family (Gersick et al., 1997). Dr. Wong’s wife was reluctant and did not want him to do further expansions. She pointed out that it would be better for them if he focused on the two clinics as they provided the family with enough money. Still Dr. Wong wanted to start up a new clinic and knew that he had to convince her in order to get her approval.

As family businesses have a tendency to strive for independency from external funders (Gandemo, 2000) Dr. Wong never considered applying for a loan at the bank or going into joint venture with one of his brothers. Decisions regarding how to fund a business expansion can be sensitive since it usually is not enough with private savings (Johansson, 2005). Dr. Wong knew that his other two clinics were making profit and felt that the risk of loosing his invested capital of 6 million Taiwanese dollars was bearable.
Ward and Kenyon-Rouvinez (2005) state that founders, who are willing to sacrifice, take risks and do investments in order to optimize the future outcome often have an intense identification with their business. Dr. Wong’s strive to prove both his brothers and his wife that he could start up his own clinic from scratch was a major motivation for him. In addition, he wanted to create something that, by this time, was unique and different from the more traditional Chinese medicine clinics in Taiwan.

The decision to open up his first clinic was taken concerning all dimensions. His wife, Dr. Ming, did not want him to continue to expand the business but Dr. Wong wanted to try his own business ideas. In spite of his wife being reluctant one of the main reason for the decision was the brotherhood rivalry. Another reason was concerning ownership. He wanted to do it on his own, without the interference or money from his brothers or external investors. From a business point of view the decision could lead to higher profits.

**Enrolling in the EMBA program**

In the expansion phase most businesses change from the founders being in the centre to a more hierarchical structure with different functions. This change can, according to Gersick et al. (1997), lead to the need of professionals and specialist in some management roles. Dr. Wong felt that his responsibility as a manager was growing as the number of clinics in the company increased. Previously he had gain knowledge through experience and by reading management books on his own but felt that he needed to gain knowledge in a more systematic way in order to manage his growing business. His third brother had recently finished a similar program and convinced Dr. Wong of the advantages the program would give him.

According to Dyer (1989) the lack of competence is common in growing family businesses. The author points at three options when closing the competence gap: educating family
members, educate non-family members and hire professionals. For Dr. Wong it was never an option to retain knowledge from non-family members. He strived to professionalize the business through educating himself into performing better as a manager.

Since the EMBA program is costly Dr. Wong was aware that he needed to invest money in order to retrieve the degree. In family businesses the optimized decision is not entirely made from an economic point of view according to Harvey (1999). Distelberg and Sorensson (2009) discuss the problem of measuring success when taking other dimensions into account than the economic. The underlying goals of a company are important in order to understand the success of a family business. When Dr. Wong enrolled in the EMBA program he wanted to learn how to develop his business from creating short-term profits to a long-term sustainable business where the happiness of his staff and individual achievement were important. Ward and Kenyon-Rouvinez (2005) believe that most entrepreneurs seek to extract wealth from their businesses once they have established in the market. Dr. Wong’s decision to enroll in the EMBA program in order to create a sustainable business can be seen as the opposite as he had the chance to retract money from a profitable business but wanted to create something else than only a profitable business. These types of diversified goals are according to Distelberg and Sorensson (2009) affecting the way the business is conducted. They can also affect the time and money invested in the firm by the family members.

![Figure 5.5 Analysis model for the strive to professionalize the business (Own creation)](image)

The decision to strive for a more professional business through enrolling in the EMBA program was taken with the business and management in mind. Dr. Wong had to invest money and time into this change, which made it possible for Dr. Wong to develop the business in his own way. Retrieving the knowledge allowed him to develop the management of the firm into a higher and more professional level but still keep the control within the
family. His brother was an influence since he told Dr. Wong about the advantages to enroll in the program. Dr. Wong did not believe it would take additional time away from his family since he used to be away on business trips during the weekends.

**Development of a new concept**

Gersick et al. (1997) state that during the expansion phase, when the business is growing, cash is needed in order to make reinvestments. Similarly, Ward (1988) states that reinvestments are required by family businesses to be able to develop the firms and to secure an income to the family in the long run. Dr. Wong knew that additional capital would be needed to do the investments in the facilities and to change the exterior and interior to his new standards. He felt that the reinvestments was not needed from a business point of view since the clinics he had at that time were profitable.

Most family businesses tend to have a desire to be independent from other funders (Gandemo, 2000) as this enables them to make their own decisions. Frank (2005) adds on by explaining that they do it because the founders want the business to stay within the family. Dr. Wong felt that Gao Gang had a decent amount of capital within the business and did not feel the need to take in resources from external investors. He knew that his vision did not correspond to how others would run Traditional Chinese medicine clinics and for that reason he did not want to depend on someone else. He felt that especially his brother who was focused on profits and profit margins would not appreciate his business concept.

In family businesses the most optimized decision is not made from just an economic point of view. Harvey (1999) states that the decisions are taken with the entire family and future family members in mind. Dr. Wong knew from the beginning that there was a risk that the investments would not lead to higher profits but this was a risk that he was willing to take. He felt that he could give up some of the profits to be able to have clinics, which created the right feeling for both the patients and the staff. From Dr. Wong’s perspective this was not the most optimized decision from an economic point of view but it was important for him that Gao Gangs’ clinics were designed with the nature in the centre and give the patients a good feeling. Dr. Wong did not have his family’s best in mind as it mainly concerned the way he wanted the clinics to appear.
Ward and Kenyon-Rouvinez (2005) explain that when a business is established most entrepreneurs seek to extract wealth from the firm. Despite that, many owners continue to sacrifice, take risk and invest in the firm seeking to optimize the future outcome. These founders usually have an intense identification with their firm and a long-term vision to seek benefits for both the family and the business. Dr. Wong felt that he wanted to create clinics, which corresponded to his vision about how a Chinese medicine clinic could help people to reach physical and psychological peace.

Dr. Wong ran a successful business in terms of revenue prior to renovating the facilities and focus on the staff’s individual achievements and happiness. Distelberg and Sorensson (2009) discuss the problem of measuring success when taking other dimensions into account than the economic. The authors explain the difficulty to measure values like happiness or family well-being. Dr. Wong decided it was worth to give up some of the profit to create harmony between the three overlapping circles of profit, happiness and individual achievement. By making this decision Dr. Wong knew that the economic figures would not be as good as before but he hoped to gain revenues in terms of staff happiness and self-fulfilment.

![Figure 5.6 Analysis model for the development of a new concept (Own creation)](image)

By using our analysis-model it is not possible to place Dr. Wong’s reasoning before investing in the existing clinics in one of the sectors. The decision was not taken from a business point of view since Dr. Wong knew that it would not be the most profitable way to develop the business. It was neither taken from a family point of view since he gave up money that could be invested in the family. From an ownership point of view the decision to renovate the existing clinics instead of expanding by building new ones did not affect the issue of keeping control within the family. Bringing in other shareholders was never an option since Dr. Wong believed that his business concept would not be attractive to external shareholders and furthermore, he had enough money to fund it himself.
6. Conclusion

Family dimension
In general the family has had a minor impact on the decisions taken in the expansion phase. The family has always been present in the discussions but it has not been obstructing the development of the firm. The family has affected the decisions in the following way:

- The decisions to expand have not been affected by the partner’s reluctance. In both case companies the partner have been reluctant to the expansion in the earlier steps. RP Cares decision to open up the reception in 2004 was made despite Johansson’s desire to close down the business. The same conflict took place in Gao Gang before the opening of the first clinic from scratch.

- The family situation in terms of being a parent has not affected the decision-making. At no point does Dr. Wong mention that his current family situation and the fact that he was father to two daughters affected his decision-making when he reflects over his decisions. Lundberg and Johansson’s son was born in 2008. Even though Johansson was home on maternity leave the founders took the decision to bid for Home nursing even if they were aware that it would lead to an increase of working hours.

- The family has been seen as a resource to facilitate the expansion rather than a limitation. Funding has in all decisions been made with reinvestment of previous revenue or private capital. Money, which could have been kept within the family. At the same time the owners have made decisions, which they knew would demand them to put in more of their own time into the business.

- The family has been a source of inspiration to develop the business. The sibling rivalry and friendship in Gao Gang has inspired Dr. Wong. Both the start up of his first clinic from scratch and the decision to enroll in the EMBA program was a result of discussions and encouragement from his brothers.

- There has been no short term objective to enrich the family. Both founders have chose to fund the expansion with private money, instead of withdraw them to increase the family’s wealth. RP Care could have looked for a external founder when
they bid in 2010 which would have lowered the risk and increased the family wealth. The same applies for Dr. Wong who continued to reinvest money in the company instead of the family.

Ownership dimension
The strive to run a company of their own has in general affected the decisions in the expansion phase. The ownership has affected the decisions in the following way:

- The founders’ identification with the firm has affected the decisions. Since the companies started the owners have always had a strong identification with the firms. RP Care was on the verge of bankruptcy in 2004 and 2005 but the urge to keep the business running made them look for new business opportunities. The renovating of the clinics is an example of how Dr. Wong tried to put his personal touch on the design.

- The founders avoid external owners
The founders feel strongly for their way to run the business. Dr. Wong believed that it would not be possible to focus on the harmony of the three circles (profit, happiness and individual achievement) with external partners. Both firms have funded their expansions through reinvesting their revenue and investing their own capital. Lundberg has avoided external capital because he believed it would complicate the decision-making. Instead of external investors both company have turned to the bank when they have been in need of external funding.

- The founders lack of competence was a restrain for the development
Both companies have felt the need to broaden the competence within the firm. Lundberg had a desire to expand into new business areas but it was not until he found a person with the right competence that he felt that he could take the decision. Dr. Wong took the decision to enroll in the EMBA program in order to retain the manager knowledge he thought was needed to achieve a sustainable business.

Business dimension
Overall the business dimension has strongly influenced the founders when taking decisions regarding expansion. The business has affected the decisions in the following way:
• Business opportunities have been the main drive
Both companies have in an entrepreneurial way taken advantage of the business opportunities that have emerged. The three highlighted decisions in RP Care’s development are all results of opportunities that suddenly arose and rather quick decisions to take advantage of them from the founders. Gao Gang’s stable development of new clinics is a result of Dr. Wong’s ability to take advantage of the opportunities that arose rather than a chase for opportunities.

• No long-term strategic planning has influenced the decisions
Neither of the case companies have made long term plans for their expansion. In both cases it has been the result of opportunities that has arisen along the way. Lundberg describes the rapid decision-making and the use of gut feeling as characteristics for how he conducts business.

• The business best has been in mind
In most of the decisions during the expansion phase the companies have had the best development of the company in mind. They have been willing to compromise on family time and money with the objective to develop the firm. In RP Care decisions have been made even though the timing has not been optimal. Gao Gang has changed its objective from short-term profit to a long-term harmony with more emphasis put on the staff’s well being in order to create a sustainable business.

7. Discussion
Our conclusion shows that the family and its members are affected by the decisions regarding expansion far more than they affect them. The fact that decisions were taken even though all the family members did not support the decision questions the family’s impact on the business given by existing family business theory. One of the reasons the theory within the field of family business tend to put emphasis on the family’s impact on the decisions is, according to us, that it presuppose that more family members are involved in the business. The existing theory also tend to focus on the succession in family firms than it does on the expansion from an early stage, which is shown by the review of the research field made by Debicki et al. (2009). Since most family businesses remains with only a few owners and only a third is passed on to the second generation (Niedermeyer et. al., 2012) we believe that the first generation family businesses with few owners have been surpassed by the researchers within the field. One of the reasons might be that young, growing family businesses with few
owners have more similarities with theory regarding entrepreneurship than it has with the existing theory.

One of our conclusions is that business opportunities have been the main drive behind the decisions in the expansion phase. Like an entrepreneur the best alternative for the business has been chosen when facing tough decisions disregarding the family’s short-term interest. What the best alternative for the business is has to be examined together with the founder’s objectives according to Distelberg and Sorenson (2008). A general thought within family business theory is that family firms pursue other goals than just economic success (see for example; Harvey 1999, Chrisman et al. 2005). The desire to extract money from the firm in order to achieve family well-being is according to Chrisman et al. (2004) and Ward and Kenyon-Rouvinez (2005) a common objective for the founders of family businesses. This is contradictory to our result. In neither of the companies in our research have the family’s short term well-being influence the decisions, instead, the objective has been to develop the firm. Even if the family wealth has not been an objective the decisions have been made with the influence of non-economic goals, especially in Gao Gang. The objectives in Gao Gang changed from short term profit to long term stability and harmony. This led to a change in the decisions taken and more money was invested in the staff and facilities.

The founder’s in both RP Care and Gao Gang always had in mind that they wanted to remain the sole owners and therefore chose to reinvest their revenues in order to expand. Founders that keep risking their capital through reinvestments, have according to Ward and Kenyon-Rouvinez (2005) a strong identification with their firms. We concluded that Lundberg and Dr. Wong’s identification with their businesses have influenced the decisions in the expansion phase. Since there are only a few owners in the firms the founders’ personalities and values directly affected the way the business was conducted. This is proven by the fast, unstructured and uncomplicated way that Lundberg reasoned before the vital decision to bid for the home nursing in 2010. Dr. Wong’s decision to make large investments in design and the happiness of the staff also proves how a founders personality and values can influence the decision-making. This is also why both companies have been reluctant to bring in external shareholders.

The Three-circle model has previously been used to study the conflicts between individuals emerging because of the overlapping dimensions of family, business and ownership. With our
study we showed that it could also be used to examine specific events in a company’s development. The use of the model facilitated the analysis of the events. By analyzing the reasoning behind the decisions we were able to highlight the dilemmas between the dimensions that family businesses have to take into account when making decisions, for instance, the conflict of reinvesting the revenue into the firm or use it to increase the family’s wealth. Although the model facilitates the analysis of family businesses it pre assumes that all reasons behind a decision can be categorized as family, ownership or business. In our research reasons concerning the individuals’ ambition and entrepreneurial drive fell outside the dimensions although they influenced the decision. In first generation family businesses with few owners each family members’ personalities will affect the way the business is conducted. If one of the members has a high entrepreneurial spirit this will lead the company forward. For that reason we believe that the model would be better to use when studying family businesses with more owners since they would likely have more complex family and ownership structure.

8. Reflection

In this study two family businesses from different countries have been interviewed. We delimitated the context including culture since we wanted to study the founders’ thoughts and reasoning from a family business perspective. We wanted to study how they thought and not why they thought like they did which might be influenced by culture, context and personal experience etc.

The conclusion shows various ways that the dimensions family, ownership and business have influenced the reasoning behind the decisions. The business dimension has been the most significant dimension behind the decisions in the expansion phase, which emphasize that family businesses have the best interest of the firm in mind when making decisions. One aspect that tends to be missed when focusing on specific decisions is the influence the family and ownership dimensions have on an overall level. By this we mean that the family and ownership dimensions can indirectly influence decisions by limiting the options the founders’ choose from. For instance, both Lundberg and Dr. Wong only looked for business opportunities within the surrounding area. This might be due to business knowledge but might as well depend on the founders’ desire to keep the business close to the family. The same logic applies regarding the ownership dimension. Since both founders want to keep the business within the family they do not reflect on the possibility to involve external
shareholders. This even they knew that it could have been a more profitable option from a business perspective. To sum up, the pre assumptions excludes some of the factors from the family and ownership dimensions before the reasoning behind the decisions even begins.

When studying specific decisions that were taken a few years ago another issue is that the founders already know the outcome of the decisions. This led to a problem that the founders unwillingly spoke more about the outcome of the decisions rather than the reasoning before. We also suspect that the founders might have refined their answers in order to appear in a better way.

Putting these two issues aside, we still believe this area within family business field is neglected and should be the subject of further research. As existing theory regarding this subject tend to focus on the outcome instead of reasons to the outcome the theories will only describe what but not how and why. Therefore, we believe further studies examining the how and the why would complement the existing family business theory.
9. References

9.1 Articles


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9.3 Figure references

Figure 1.1 Two and three circle models. Own creation based on: Habbershon, T., Williams, M. & MacMillan, I. (2003) ”A unified systems perspective of family firm performance” Journal of Business Venture, 18(4), 451-465
Figure 2.1. Overview of the study’s methodology (Own creation)
Figure 2.2. Process of collecting this thesis empirical data (Own creation)
Figure 2.4. Process of analyzing the empirical data (Own creation)


Figure 5.1 Analysis model for the start-up of a reception in 2004 (Own creation)
Figure 5.2 Analysis model for expansion into new business areas in 2005 (Own creation)
Figure 5.3 Analysis model for the bid for “Home nursing” in 2010 (Own creation)
Figure 5.4 Analysis model for the Decision to open up the first clinic (Own creation)
Figure 5.5 Analysis model for the strive to professionalize the business (Own creation)
Figure 5.6 Analysis model for the development of a new concept (Own creation)

9.4 Interviews
Lundberg, Anders; CEO RP Care, Interview 2012-04-11 and 2012-04-13
Dr. Wong; CEO Gao Gang. Interview 2012-05-04 and 2012-05-07