# *Small Business Management An Entrepreneurs Guidebook 8th edition Byrd Test Bank*

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# Chapter 02

# Family-Owned Businesses

## Multiple Choice Questions

1. Which agency is responsible for estimating the percentage of family-owned businesses in the North American business enterprise?

   A. The Conway Center for Family Business
   B. The American Family Business Institute
   C. Wendel International Center for Family Enterprise
   D. Vantage Business Center

2. _____ businesses are considered the backbone of the American business industry.

   A. Family-owned
   B. Nonfamily
   C. Public sector
   D. Professionally run

3. Which of the following statements is true of family-owned businesses in the United States?

   A. They have less potential financial risks.
   B. They can be a source of unresolved family conflicts.
   C. They can remove all obstacles to achieving the basic business goals.
   D. They rarely have family members with differing value systems.


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4. In order to cope with the daily challenges of a family-owned business, the family should:

A. hire all relatives regardless of their ability.
B. keep children out of the decision-making process.
C. reduce time spent on home activities.
D. develop an appropriate family mission statement.

5. A developing trend in family businesses is that young people:

A. offer an executive position to their parents in their company in return for funding.
B. are not interested in continuing the work of their parents.
C. show a great amount of enthusiasm in financing their own business enterprises.
D. are not interested in gaining experience by working part-time.

6. _____ refer to family-owned businesses run by husband-and-wife teams.

A. Appreneurs
B. Intrapreneurs
C. Copreneurs
D. Ecopreneurs

7. Which of the following situations should copreneurs avoid?

A. Agreeing to disagree on several business issues
B. Ignoring business conflicts in an attempt to save the relationship
C. Setting aside time for the family and sticking to it
D. Defining each person's role and accentuating each other's talents


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8. How can copreneurs efficiently manage their family-owned business?

A. By talking to a marriage counselor about how the business will affect their relationship
B. By letting one spouse work for the other as an employee
C. By making major decisions independently, without consulting the other
D. By spending most of their time tending to the business and less time in personal matters

9. Conflicts are likely to arise in a small family-owned business when:

A. each family member has a different perspective, leading to dissension.
B. one family member is clearly in command, at least in a given area of management.
C. the role of each family member is distinct, based on sound business practices.
D. family members agree to disagree and set ground rules.

10. A way to deal with incompetent family members in a family-owned business is to:

A. allow them to take special privileges.
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C. place them in responsible positions to encourage them to work.
D. assign jobs to them that allow minimal contact with other employees.

11. Which of the following steps should a family-owned business take to compensate family members?

A. Every relative who wishes to work for the business should be hired.
B. Family members should be financially rewarded on the basis of their position in the family.
C. A managerial title should be offered to motivate a productive family member.
D. Relatives should be offered positions according to their status in the family.


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12. A limitation of a small family-owned business is that a family manager may:

A. refuse to hire family members who want to enter the business.
B. lack general management skills in spite of specializing in a specific activity.
C. ignore top family members when a matter needs to be cleared.
D. give more importance to a family member's ability rather than his or her age.

13. Which of the following is an advantage of hiring professional managers to run family-owned businesses?

A. More employment opportunities for family members
B. Retained "personal touch"
C. Fair treatment of employees
D. Concentration of power in small cliques

14. A disadvantage of organizing a family business into a corporation and hiring professional managers is the:

A. concentration of power in small cliques.
B. unfair treatment of employees.
C. loss of family time for other purposes.
D. increasing sense of unwanted "personal touch."

15. A home-based business is an attractive option for working mothers because:

A. most corporations encourage telecommuting.
B. there has been a decrease in job sharing in many businesses.
C. many companies are adopting flextime.
D. daycare services are relatively inexpensive.


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16. Expansion of small family-owned businesses may be limited by:

A. the size of the family.
B. the low motivational level of employees.
C. the amount of family assets available.
D. the retirement age of the owner.

17. How can children be prepared to enter a family-owned business?

A. By allowing them to work in senior management positions and make important decisions
B. By giving them a permanent leadership position in the business
C. By promoting them rapidly in the business out of turn
D. By letting them work for another company to gain suitable work experience

18. Which of the following statements is true of the findings of a classic survey of owners of family-owned businesses with two or more children working for the company?

A. One child is groomed from an early age to take over the business.
B. Children are discouraged from choosing their own successor.
C. Only one child is included in all future ownership and management decisions.
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19. Why are a number of entrepreneurs turning to formal succession plans for their family-owned businesses?

A. To ensure that they get proper returns on their investment
B. To allow themselves to go on a short leave
C. To prevent endless disputes over ownership between their heirs
D. To devote time to face-to-face teaching and training


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20. A(n) _____ is a document that contains instructions about what should be done with a family-owned business if the owner suddenly dies or becomes incapacitated.

A. bequest
B. will
C. estoppel
D. claim

21. If a family-owned business is a corporation, replacement of ownership is decided by:

A. the spouse of the former owner.
B. a court-appointed attorney.
C. the board of directors.
D. the nonfamily employees.

22. Which of the following is an advantage of selling a family-owned business to family members?

A. Fewer family members are hired in the business.
B. There is relief from further responsibility attached to the business.
C. Family bonds are strengthened, and additional friction is reduced.
D. The family tension that was previously linked to owning the business is released.

23. An advantage of selling a family-owned business to outsiders is that:

A. the former owner receives an assured income.
B. it provides a constant source of income to all the family and nonfamily members.
C. the stature of the family is maintained.
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24. The transition of a family-owned business to a successor can be made easier for the former owner by:

A. devoting less time to hobbies and other outside activities.
B. keeping the owner engaged in a top management position.
C. narrowing his or her skills to focus on a single task.
D. handing over the business to the successor in phases.

25. What is estate planning?

A. Planning for a new buyer of a family-owned business that is up for sale
B. Compensating the owner of a family-owned business when the family wants to sell it
C. Preparing for the orderly transfer of an owner's equity when death occurs
D. Assessing the real-estate value of a family-owned business before it is sold

26. A family limited partnership allows business owners to:

A. choose people who could be considered owners of the business in their absence.
B. remain part of the ownership group when the business is sold to an outsider.
C. pass assets to heirs with a minimum of income and estate tax costs while retaining control of assets during their lifetime.
D. name a family member as the successor when their business is up for sale.

27. A _____ provides for a corporation to repurchase a shareholder's stock when he/she leaves the company.

A. nondisclosure agreement
B. buy-sell agreement
C. family limited partnership
D. recovery fund


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28. In the context of family-owned businesses, which of the following can be used to minimize estate taxes?

A. Buy-sell agreements
B. Family limited partnerships
C. Formal succession planning
D. Selling stock to outsiders

29. A(n) _____ resembles a will, but, in addition to providing for distributing personal assets on the maker's death, it also contains instructions for managing those assets should a person become disabled.

A. living trust
B. promissory note
C. estoppel
D. attestation

30. In the context of a family-owned business, which of the following is a disadvantage of a living trust?

A. The business goes to the designated heirs without going through probate court.
B. Property can be put into the trust while the owner is alive.
C. The ownership still remains with the owner after transferring the title to the trust.
D. The title on real estate and securities must be changed to the name of the trust.

## True / False Questions


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31. According to the Conway Center for Family Business, family-owned businesses account for a majority of North American business enterprises.

True False

32. Most people-related challenges faced by family-owned businesses result from interactions of business necessity with family values and relationships.

True False

33. All family-owned businesses need an appropriate mission statement to cope with the demands of business operation.

True False

34. Due to their inexperience, children must be excluded when making important decisions and setting goals for a family-owned business.

True False

35. Family-owned businesses often run smoothly without any conflicts among family members.

True False

36. A recent trend seen in the operation of a family business is that of retired parents wanting to work full time for their children's businesses.

True False

37. Family-owned businesses run by husband-and-wife teams are referred to as copreneurs.

True False

38. In family-owned businesses run by copreneurs, both partners have equal roles in all management areas.

True False


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39. The involvement of relatives in a family-owned business should always be based on their family status.

True False

40. Daughters who are interested in leading a family business should begin by gaining experience outside of the family business.

True False

41. Incompetent family members working in a family-owned business may be handled by placing them in jobs that involve frequent interaction with other employees.

True False

42. The attitudes of incompetent relatives working in a family-owned business can be changed by formal or informal education.

True False

43. Incompetent family members may be responsible for the high turnover rate of top-notch nonfamily managers and employees.

True False

44. Setting up of deferred profit-sharing plans is an effective method to placate dissatisfied family members in a family-owned business.

True False

45. When success leads a family-owned business into the second generation, younger relatives begin to lose interest in job titles.

True False


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46. Family-owned business entrepreneurs usually make good general managers and do not specialize in any specific activity.

True False

47. A person's age must determine the lines of authority in a family-owned business.

True False

48. Managers of family-owned businesses must agree to hire any family member who shows an interest in joining the business.

True False

49. As the leader of a family-owned business grows older, he/she must guard against letting past successes lead to trying to maintain the status quo.

True False

50. Employees find themselves treated less fairly in a family-owned business that is organized into a corporation.

True False

51. Prenuptial agreements pose a problem when a couple running a family-owned business gets divorced.

True False

52. The borrowing power of a family-owned business is limited by the amount of family assets.

True False

53. In order to prepare children to take over the family-owned business, it is essential to hire them for higher-level positions in the business.

True False


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54. In a small family business, it is not necessary for management succession planning to start early.

True False

55. Moving a family member into a family business at a higher level can be justified if he/she has worked for another company to broaden his/her training and background.

True False

56. In order to learn to manage a family-owned business, a new family member interested in joining the business should be given true responsibility.

True False

57. When the choice of replacements is limited in a family-owned business, the owner may broaden a manager's job specification in order to utilize him/her effectively.

True False

58. Estate planning involves preparing for the orderly transfer of the owner's equity in a business when death occurs.

True False

59. A buy-sell agreement provides for the corporation to buy back a shareholder's stock when he/she leaves the company.

True False

60. A family limited partnership resembles a will and contains instructions for managing personal assets.

True False


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## Essay Questions

61. What causes conflicts in a family-owned business?

62. Explain how a small family business owner must deal with incompetent family members working in the business.

63. How can family members working in a family-owned business be compensated?


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64. What are the limitations faced by a family-owned business?

65. What are the advantages and disadvantages of organizing a family-owned business into a corporation?

66. If you were a working mother, why would you prefer to establish a home-based business instead of looking for a corporate position?


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67. How can family business owners prepare their children to manage the business?

68. Describe how a family-owned business may prepare for management succession in case the owner departs suddenly.

69. Compare the advantages of selling a family business to family members with the advantages of selling the business to outsiders.


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70. Discuss the different ways in which estate taxes can be minimized.


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# Chapter 02 Family-Owned Businesses Answer Key

## Multiple Choice Questions

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*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

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   A. Family-owned
   B. Nonfamily
   C. Public sector
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*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*


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3. Which of the following statements is true of family-owned businesses in the United States?

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*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
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C. show a great amount of enthusiasm in financing their own business enterprises.
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*Difficulty: 2 Medium*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*


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6. _____ refer to family-owned businesses run by husband-and-wife teams.

A. Appreneurs
B. Intrapreneurs
C. Copreneurs
D. Ecopreneurs

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*Difficulty: 1 Easy*
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7. Which of the following situations should copreneurs avoid?

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*Difficulty: 2 Medium*
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8. How can copreneurs efficiently manage their family-owned business?

A. By talking to a marriage counselor about how the business will affect their relationship
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D. By spending most of their time tending to the business and less time in personal matters

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*Difficulty: 2 Medium*
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*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

10. A way to deal with incompetent family members in a family-owned business is to:

A. allow them to take special privileges.
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*Difficulty: 2 Medium*
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12. A limitation of a small family-owned business is that a family manager may:

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*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
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13. Which of the following is an advantage of hiring professional managers to run family-owned businesses?

A. More employment opportunities for family members
B. Retained "personal touch"
C. Fair treatment of employees
D. Concentration of power in small cliques

*Accessibility: Keyboard Navigation*
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D. the retirement age of the owner.

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*Difficulty: 2 Medium*
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*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Describe the activities needed to prepare the next generation to enter the firm.*


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18. Which of the following statements is true of the findings of a classic survey of owners of family-owned businesses with two or more children working for the company?

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*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*

19. Why are a number of entrepreneurs turning to formal succession plans for their family-owned businesses?

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20. A(n) _____ is a document that contains instructions about what should be done with a family-owned business if the owner suddenly dies or becomes incapacitated.

A. bequest
B. will
C. estoppel
D. claim

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*


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21. If a family-owned business is a corporation, replacement of ownership is decided by:

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B. a court-appointed attorney.
C. the board of directors.
D. the nonfamily employees.

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*

22. Which of the following is an advantage of selling a family-owned business to family members?

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C. Family bonds are strengthened, and additional friction is reduced.
D. The family tension that was previously linked to owning the business is released.

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*

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*Difficulty: 2 Medium*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*


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*Difficulty: 2 Medium*
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25. What is estate planning?

A. Planning for a new buyer of a family-owned business that is up for sale
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*Difficulty: 1 Easy*
*Learning Objective: 02-05 Discuss the need for tax and estate planning in small companies.*

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*Difficulty: 2 Medium*
*Learning Objective: 02-05 Discuss the need for tax and estate planning in small companies.*


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27. A ____ provides for a corporation to repurchase a shareholder's stock when he/she leaves the company.

A. nondisclosure agreement
**B.** buy-sell agreement
C. family limited partnership
D. recovery fund

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28. In the context of family-owned businesses, which of the following can be used to minimize estate taxes?

A. Buy-sell agreements
**B.** Family limited partnerships
C. Formal succession planning
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**A.** living trust
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*Learning Objective: 02-05 Discuss the need for tax and estate planning in small companies.*


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D. The title on real estate and securities must be changed to the name of the trust.

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-05 Discuss the need for tax and estate planning in small companies.*

## True / False Questions

31. According to the Conway Center for Family Business, family-owned businesses account for a majority of North American business enterprises.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

32. Most people-related challenges faced by family-owned businesses result from interactions of business necessity with family values and relationships.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*


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33. All family-owned businesses need an appropriate mission statement to cope with the demands of business operation.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

34. Due to their inexperience, children must be excluded when making important decisions and setting goals for a family-owned business.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

35. Family-owned businesses often run smoothly without any conflicts among family members.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

36. A recent trend seen in the operation of a family business is that of retired parents wanting to work full time for their children's businesses.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

37. Family-owned businesses run by husband-and-wife teams are referred to as copreneurs.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*


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*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

38. In family-owned businesses run by copreneurs, both partners have equal roles in all management areas.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

39. The involvement of relatives in a family-owned business should always be based on their family status.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

40. Daughters who are interested in leading a family business should begin by gaining experience outside of the family business.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Discuss some problems involved in organizing and operating small family-owned businesses.*

41. Incompetent family members working in a family-owned business may be handled by placing them in jobs that involve frequent interaction with other employees.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*


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42. The attitudes of incompetent relatives working in a family-owned business can be changed by formal or informal education.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

43. Incompetent family members may be responsible for the high turnover rate of top-notch nonfamily managers and employees.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

44. Setting up of deferred profit-sharing plans is an effective method to placate dissatisfied family members in a family-owned business.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

45. When success leads a family-owned business into the second generation, younger relatives begin to lose interest in job titles.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*


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46. Family-owned business entrepreneurs usually make good general managers and do not specialize in any specific activity.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

47. A person's age must determine the lines of authority in a family-owned business.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

48. Managers of family-owned businesses must agree to hire any family member who shows an interest in joining the business.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

49. As the leader of a family-owned business grows older, he/she must guard against letting past successes lead to trying to maintain the status quo.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

50. Employees find themselves treated less fairly in a family-owned business that is organized into a corporation.

FALSE

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*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

51. Prenuptial agreements pose a problem when a couple running a family-owned business gets divorced.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

52. The borrowing power of a family-owned business is limited by the amount of family assets.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

53. In order to prepare children to take over the family-owned business, it is essential to hire them for higher-level positions in the business.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-03 Describe the activities needed to prepare the next generation to enter the firm.*

54. In a small family business, it is not necessary for management succession planning to start early.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Describe the activities needed to prepare the next generation to enter the firm.*


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55. Moving a family member into a family business at a higher level can be justified if he/she has worked for another company to broaden his/her training and background.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Describe the activities needed to prepare the next generation to enter the firm.*

56. In order to learn to manage a family-owned business, a new family member interested in joining the business should be given true responsibility.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Describe the activities needed to prepare the next generation to enter the firm.*

57. When the choice of replacements is limited in a family-owned business, the owner may broaden a manager's job specification in order to utilize him/her effectively.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*

58. Estate planning involves preparing for the orderly transfer of the owner's equity in a business when death occurs.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-05 Discuss the need for tax and estate planning in small companies.*


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59. A buy-sell agreement provides for the corporation to buy back a shareholder's stock when he/she leaves the company.

TRUE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-05 Discuss the need for tax and estate planning in small companies.*

60. A family limited partnership resembles a will and contains instructions for managing personal assets.

FALSE

*Accessibility: Keyboard Navigation*
*Difficulty: 1 Easy*
*Learning Objective: 02-05 Discuss the need for tax and estate planning in small companies.*

## Essay Questions

61. What causes conflicts in a family-owned business?

Family businesses are the backbone of America, but they can also be a source of unresolved family tensions and conflicts, which can create obstacles to achieving even the most basic business goals. When close relatives work together, emotions often interfere with business decisions. Also, unique problems, such as the departure of the founder-owner, develop in family-owned firms. When more than one family member is involved, emotions and differing value systems can cause conflicts between members. In fact, most people-related challenges faced by family businesses—small or large—result from the interactions of business necessity with family values and relationships.

*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*


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62. Explain how a small family business owner must deal with incompetent family members working in the business.

Some family members want to become the head of the business but do not have the talents or training needed. Others may have the talents, but because of their youth or inexperience, these talents may not be recognized by other family members. Family members with little ability to contribute to the firm can be placed in jobs in which they do not disturb other employees. Sometimes, though, relatives can demoralize the business by their dealings with other employees or customers or by loafing on the job, avoiding unpleasant tasks, or taking special privileges. They may be responsible for the high turnover rate of top-notch nonfamily managers and employees. Such relatives should be assigned to jobs allowing minimal contact with other employees. In some cases, attitudes may be changed by formal or informal education.

*Difficulty: 3 Hard*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

63. How can family members working in a family-owned business be compensated?

Compensating family members and dividing profits among them can be difficult because some of them may feel they contribute more to the success of the firm than others. Compensation should be based on job performance, not family position. Fringe benefits can be useful as financial rewards, but they must conform to those given to nonfamily employees. Stock can be established as part of the compensation plan. Deferred profit-sharing plans, pension plans, insurance programs, and stock purchase programs can all be effective in placating disgruntled family members, as can a managerial title—if deserved. When success leads a company into the second generation, titles start to matter to the younger relatives. A title is perceived as a confirmation of a job well done and also tends to serve as a motivator. This technique must be used carefully, however, to avoid counterproductive behavior in the future.

*Difficulty: 3 Hard*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*


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64. What are the limitations faced by a family-owned business?

Entrepreneurs tend to be specialists in an activity such as marketing, production, or finance, so they usually do not make good general managers. Another problem is that family managers may feel it is necessary to clear routine matters with the top family member, regardless of his/her position or ability. Also, bottlenecks that work against efficient operations can be caused by personality clashes and emotional reactions. The number of competent family members from whom to choose the managers of the company is usually limited.

*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

65. What are the advantages and disadvantages of organizing a family-owned business into a corporation?

Some families organize their businesses into corporations and hire professional managers to run them when no family members are in a position to manage, or no agreement can be reached on who should run the company. This solution has the advantages of using professional management, freeing family time for other purposes, reducing friction, and having employees treated more fairly.
The disadvantages of this arrangement, however, may be reduced family employment, lower income, concentration of power in small cliques, difficulties in finding and keeping a good management team, and loss of the "personal touch."

*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*


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66. If you were a working mother, why would you prefer to establish a home-based business instead of looking for a corporate position?

In our "family-friendly" business environment many businesses are cutting back on flextime, job sharing, and paid family leave in order to continue to be profitable. This is a major reason mothers are quitting their current jobs and positions. One study of 400 employers indicates that job sharing, four-day workweeks, and telecommuting are decreasing. This creates an incentive for working mothers to establish a home-based business.

*Difficulty: 2 Medium*
*Learning Objective: 02-02 Explain how family relationships can affect the business.*

67. How can family business owners prepare their children to manage the business?

Often, children raised in a small business become bored or uninterested, or simply lack the drive and desire to succeed that had motivated their parents. The two primary reasons children follow in their parents business are to make money and that they like the business. One way to prepare children to take over the family business is to let them work on simple jobs, or on a part-time basis, which provides insights that may influence them into—or away from—the company. Children can also prepare by working for another company in order to broaden their training. Such experience helps justify moving a family member into the family business at a higher level. It is not a good policy for a son or daughter to work in senior management until he or she has worked for someone else for at least two years. Children should be rotated in varying positions within the business. Finally, if the newcomer is ready to learn the business, true responsibility must be given.

*Difficulty: 3 Hard*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*


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68. Describe how a family-owned business may prepare for management succession in case the owner departs suddenly.

A successful business must continue to operate even when the owner-manager leaves. If the owner leaves on vacation, plans can be easily made because few decisions need to be made and the vacationer is available, if required. When the owner takes a vacation, a form of on-the-job training is provided for those left in charge. Those persons can take over temporarily under those circumstances. The sudden death of the owner can be very disruptive if not adequately provided for. If the owner has left no will or instructions on what to do, family members will probably have conflicting opinions about what should be done. For this reason, an owner should make a will and keep it current, including instructions about what should be done in-or with-the business. The firm can take out life insurance on the owners, the proceeds from which will go to the company in case of death. This money can be used to help the business operate until it recovers from the loss of its owner-manager.

*Difficulty: 3 Hard*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*

69. Compare the advantages of selling a family business to family members with the advantages of selling the business to outsiders.

Selling to family members: Business stays in the family, provides a source of employment for family members, the family's stature is maintained, the former owner is free to relax or travel, there is pleasure when the successor is successful, it can strengthen family bonds, and finally, it can be sold to outsiders and later be repurchased by one or more family members.
Selling to outsiders: Owner is assured income, does not have to worry as to what happens with the business, owner has a possibility to consult, release of family tension, and further release from further responsibility; however, selling to someone outside the family can hurt the family since it marks the loss of something the founder built.

*Difficulty: 3 Hard*
*Learning Objective: 02-04 Discuss the importance and method of preparing for management succession.*


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70. Discuss the different ways in which estate taxes can be minimized.

Estate taxes can be minimized using family gifts, family partnerships, stock sales to family members, and living trusts.
Family gifts: Parts of the estate may be given as gifts to family members as soon as feasible. The gifts must be of "present interest," such as direct cash gift, rather than "future interest," such as gifts of cash that can go into a trust fund for later distribution.
Family partnerships: A family limited partnership allows one to take money out of the business at lower tax rates. It must be a passive partnership that owns some type of property but does not operate the business.
Stock sales to family members: This method is complicated because family members must have a source of income to make nondeductible payments to the owner for the stock. Also, the owner must pay capital gains tax on the stock he/she sells.
Living trusts: A living trust resembles a will, but, in addition to providing for distributing personal assets on the maker's death, it also contains instructions for managing those assets should the person become disabled.

*Difficulty: 2 Medium*
*Learning Objective: 02-05 Discuss the need for tax and estate planning in small companies.*


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