GENERAL MANAGEMENT

“MANAGING FAMILY BUSINESS - { A CRITICAL STUDY OF SIX FAMILY BUSINESSES }

PROF. S. D. BAGADE
PROFESSOR,
AIMS, PUNE

The study of family owned businesses is restricted only to the enterprises indicated above The opinion/s are based on the discussions with the members of the respective families and the observations made during the stay of the learner in those firms. Expressions communicated by the concerned are authentic However assurance was given by the learner to maintain the confidentiality and secrecy. Hence names[s] are not indicated.

One senior member of one of the family owned businesses vindicated that: Do not always produce discord in a family-owned business, but they are more apt to cause sparks to fly. Emotion is the added dimension as brothers and sisters, uncles and aunts, nephews and nieces, and parents and children work together. The individual managing such a business must recognize the emotional dimension and make the necessary objective decisions to ensure smooth functioning. Keeping apart the family syndrome. Among members of a family who is active in a business, it may be hard to be objective about one another's skills and abilities.

If emotional outbursts affected only the family, the manager might knock a few heads together and move along. But quarrels and ill feelings among relatives affect non-family employees as well. The manager's challenge is to keep the bickering from interfering with work. In an emotional atmosphere non family employees may be tempted to base their decisions on family tensions - they know how their bosses react and are influenced by this knowledge. But the organization cannot become a warring camp. All employees must understand that their interests are best served by a profitable organization, not by allegiance to particular family members. But this is ideal in reality it does not happen. The leader of the family business must not take sides with any member of the family, but rather must demonstrate that disagreements will not be permitted to affect the business. This attitude discourages non-family employees from politicking for position. When the family leader demonstrates respect for the family and an understanding of the differences, non-family employees are not tempted to play politics. Almost all family members of the business opined that generally brothers are amicable with each other But when they get married ; their better half is from other family { Her culture, priority, ambition, aspirations, belief system and most important attitude as well as career goals are different } If that person is having the difficulty in becoming homogeneous with the latter family members then problem is aggravated.

- **IS THE MANAGER REALLY IN CONTROL ?**

The Head of a small family-owned organization is not necessarily the person in charge. The family elder statesman may be in charge of the business but day-to-day management may be in the hands of other family members.

The ceiling may be too low on the amount of money that can be spent without permission from too many members. Unrealistic or unnecessary clearance procedures may result in missed opportunities for increased profits, such as failing to take advantage of a good price on raw materials or sales inventory.

Personalities and emotional reactions work against efficient operation. For example, even routine matters must be authorized by top family members because Uncle Bill never lets you forget your mistakes.

Efficiency may be reduced by relatives' engaging in excessive family talk during working hours. The manager must set an example and insist relatives refrain from chit-chat on the job.

Managers may owe their positions to their age or to the amount of capital they have invested and may lack leadership ability.

Some family managers may hinder progress because they do not know how to listen.

Family members in charge of operations must be capable of using efficient management techniques.

Thick-skinned enough to live with family bickering.

Tough enough to make decisions stick.

Definite lines of authority are essential when a member of the family manages operations and other relatives fill various jobs. Family employees must discipline themselves to work within the lines of authority and the responsibilities of family members should be spelled out. Even then, it is wise to have a non-family employee highly involved in operations, to help resolve problems.

One solution to management problems is to let someone else - a hired manager - run the day to-day show. The family member retains a title and some authority, but the hired assistant acts as a buffer between the family and the organization. The assistant might be executive vice president or chief operating officer and the family member, president or chief executive officer.

With a hired manager, the family leaders are free to work on future strategy, basic policy and growth, while the non-family employee guides day-to-day operations. The authority of the manager, whether family or non-family, to suspend or discharge flagrant violators of company rules must be clear. Management control is weakened if family employees are exempt from rules.

CONSIDERATION ON THE AGENDA SHOULD BE GIVEN TO

Family goals for the future.

Plans of next-generation family members.

- Who is interested in staying with the business?
- Who has the most aptitude for leadership?
- What if several able younger family members aspire to lead the business ?
- What role will other younger members play?
- What if next-generation family members are not interested in the business?

Grooming of future leaders.

The most likely time's major transitions will occur, barring unexpected illness or death.

Preparations of present leaders for stepping down.

Financial aspects of leadership transitions.

The importance of preparing for succession before a new leader must take over cannot be emphasized too strongly.

PERSONNEL PROBLEMS

A common challenge to family-owned companies is high turnover among top non-family employees. Some relatives resent outside talent and can make things unpleasant for non-family executives. Also, top-notch managers and workers may leave if most promotions go to family members. Exit interviews are useful to find the cause of high turnover. A departing key employee may tell you enough to help you develop a positive course of action.

Again, it is wise to counsel non-family employees to not take sides in family disputes. Outside employees who demonstrate fairness and compatibility become a stabilizing force in the company. The family needs these people and should assure them of a future with the firm. Confronting a trouble-causing relative is difficult at best, and firing one may be out of the question. Consider these alternatives:

Counsel the family member on the responsibility to set an example.

Encourage the relative to start a business in a noncompeting line, if he or she has the management ability necessary for success.

Transfer the relative to a branch office.

Find him or her job with another company.

In short, if you are unable to fire troublemakers, try to change their attitudes or change their jobs.

SPENDING TO SAVE MONEY

In all the above businesses under study the long term capital intensive decisions are taken amicably by involving every member in the family. During the stretched meeting all pros and cons are considered with transparency. It is confirmed and conformed that this will lead to family business growth and development. When acceded to by all; then only further steps are taken. Out of the above mentioned seven firms the members of the family reside together in very big house / farm hose / bungalow. The kitchen, dining hall, drawing hall is common. However every member is having a separate [bed] room. In case the ladies are having difference of opinions or disputes; the male gender candidates do not interfere and become static spectators. Result yielded is the disputed members amicably adjust, accommodate and resolve the issue at their end. In one family owned business the members get Rs. 10'000/- equally The expenses on account of provisional household items, education, tuition fees, health and hospital etc is spent on 'common' basis. At the time of festival season a fixed amount is given to every member. At any times, as owner-manager, a specific investment will improve efficiency or profits, but other family members may see the move as just another expense. They view such expenditures as encroachments on year-end dividends. It is important that these relatives understand the concept of spending money to make money. Base your arguments on facts and figures gathered by nonfamily employees.

Suggest that the matter be settled on a bottom-line basis by demonstrating how Spending "$x for this machine will increase our profits by $y annually and will return our money in four years."

Should opposing relatives reject your projection, enlist the help of outside advisers. Relatives may be more likely to believe a banker, accountant or attorney than to accept your judgment.

Keep in mind that it is unwise to have outside advisers who are personally close to other family members.

In other situations, paid consultants can help prove the worth of an opportunity. Such help is particularly valuable with projects requiring specific expertise or intensive research.

MAINTAINING THE STATUS QUO BLOCKS GROWTH

As relatives in a family-owned business grow older, they may develop a preference for maintaining the status quo. They become wary of change and afraid of risk. This attitude can, and often does, block business growth.

The solution: Encourage status quo members to gradually retire from the scene of operations. ! Dilute their influence in management decisions. For example, give them an opportunity to convert their investment in the organization to preferred stock.

Engage estate planners who may suggest tax incentives for giving or selling some of their stock to younger relatives.

Encourage them to take a larger role in community activities or in an industry association.

Encourage their involvement in other directions, such as pursuit of personal hobbies and interests.

Explore the possibility of restructuring the business, with a new partnership agreement, for example. (Proper legal advice is essential in restructuring.)

Such actions recognize the contributions of retreating members and assist them in recovering their equity. At the same time, the manager and active relatives can plan for the future. In the aforesaid survey it is noticed that diversification is systematically done. E. g. The organization which was earlier concentrating on 'handloom & power loom 'added a new activity of manufacturing while cloth. As the members of family became major; the business was diversified in to real estate, sale? Purchase of plots, garden restaurant, chemist and druggist, wholesale pharmaceutical agency one member entered in politics who was instrumental in using his good office to straighten the problems concerned and connected with different offices & financial institutes. However the brand name / banner were not disturbed. Entire opportunity vests with those who are operating that segment. The family looking after 'timber merchandizing; opened one branch of manufacturing the furniture 9 on made to order) and the other branch was dealing with steel furniture. One family who was manufacturing the electrical equipment; allotted the geographical area and specified the jurisdiction of operation for member's crystal clearly and the others were not interfering outside their business defined.

HOW IS THE PIE DIVIDED ?

Paying family members and dividing profits among them can be a challenge.

Many people feel they are underpaid, but the complaints may be more specific and more personal in the family-owned business. Uncle Jack just sits around and he makes more than I do. Aunt Sue goes to Europe on the returns of money her husband put into the business before he died ten years ago. Your brother goofs off and makes more than you do. How do you resolve these complaints? You can't entirely, but you can be as fair as possible.

Equity that recognizes contributions can be distributed by restructuring the company.

Salaries are best handled by matching them to industry guidelines. Determine local salary ranges for various jobs and use these as a guide for paying both family and non-family personnel. When you tie pay to a job description you recognize the value the industry puts on jobs and you treat all employees fairly.

Fringe benefits can also be useful in establishing equity among family members. Deferred profit-sharing plans, pension plans, insurance programs and stock purchase programs offer excellent means to placate family members and, at the same time, help them build personal assets. Own the profit pie is divided is vital to growth in a small business. Profits are the seedbed for expansion, and lenders are influenced by what is done with them. Relatives should know the consequences to the business if all profits are converted into dividends. The learner got an opportunity to witness the business of an organization the partners were father and five brothers. They appointed a Diwanji (Accountant). The net profit was distributed @ 12% to each partner. 12% was reserved as 'reserve for emergency' balance 16 % of net profit was ploughed back for expansion of the business.

WHERE DO YOU FIND MONEY ?

Another major challenge in managing a family business is obtaining money for growth.

Generally speaking, if the company is profitable, you can borrow from your local lender, but when growth is substantial, the company may outgrow its local bank. When you see prospects for expansion, you should begin to plan for it and consider techniques for financing. Planned financing may be a combination of :

Taking or refinancing a mortgage using the company's assets as collateral.

Asking suppliers to extend credit on purchases.

Factoring (selling) the company's receivables.

Inventory financing.

Borrowing from friends on a personal note basis.

Borrowing the cash surrender value of life insurance policies owned by relatives.

Obtaining a long-term loan from an insurance company.

Working with a lender and the U.S. Small Business Administration (SBA) to get a business loan.

Financing with a Small Business Investment Company licensed by SBA.

If the business is a small corporation, the following techniques also offer possible sources of money:

Selling a portion of the stock for cash to the company's employees.

Selling some of the stock for cash to another company. In a merger, you can use the credit of the larger company.

Contacting a regional investment banker who may privately find a lender, using some of the company's stock as collateral.

Contacting a national investment banker who will underwrite some of the company's stock. This is called going public.

Effective budgetary controls are important in seeking growth funds. Such controls help the managing relative determine the company's needs, and lenders regard them as evidence of good management.

20 CHALLENGES FOR THE FAMILY BUSINESS

1. Emotions. Family problems will affect the business. Divorce, separations, health or financial problems also create difficult political situations for the family members.

2. Informality. Absence of clear policies and business norms for family members.

3. Tunnel vision. Lack of outside opinions and diversity on how to operate the business.

4. Lack of written strategy. No documented plan or long term planning.

5. Compensation problems for family members. Dividends, salaries, benefits and compensation for non-participating family members are not clearly defined and justified.

6. Role confusion. Roles and responsibilities must be clearly defined.

7. Lack of talent. Hiring family members who are not qualified or lack the skills and abilities for the organization. Inability to fire them when it is clear they are not working out.

8. High turnover of non-family members. When employees feel that the family "mafia" will always advance over outsiders and when employees realize that management is incompetent.

9. Succession Planning. Most family organizations do not have a plan for handing the power to the next generation, leading to great political conflicts and divisions.

10. Retirement and estate planning. Long term planning to cover the necessities and realities of older members when they leave the company.

11. Training. There should be a specific training program when you integrate family members into the company. This should provide specific information that related to the goals, expectations and obligations of the position.

12. Paternalistic. Control is centralized and influenced by tradition instead of good management practices.

13. Overly Conservative. Older family members try to preserve the status quo and resist change. Especially resistance to ideas and change proposed by the younger generation.

14. Communication problems. Provoked by role confusion, emotions (envy, fear, and anger), political divisions or other relationship problems.

15. Systematic thinking. Decisions are made day-to-day in response to problems. No long-term planning or strategic planning.

16. Exit strategy. No clear plan on how to sell, close or walk away from the business.

17. Business valuation. No knowledge of the worth of the business, and the factors that make it valuable or decrease its value.

18. Growth. Problems due to lack of capital and new investment or resistance to re-investment in the business.

19. Vision. Each family member has a different vision of the business and different goals.

20. Control of operations. Difficult to control other members of the family. Lack of participation in the day-to-day work and supervision required.

LEARN HOW TO MANAGE FAMILY IN A FAMILY BUSINESS

1. KEEP AN OPEN AND CLEAR LINE OF COMMUNICATION

When it comes to any business, communication is key. In a family business it is absolutely crucial to your success. Make sure before you start a business with a family member or hire a family member, discuss individual roles and responsibilities, clearly define expectations, and make sure everyone is in agreement, before you proceed. If you take the time to do this, you will avoid potential threats down the road.

2. BE LOGICAL, NOT EMOTIONAL

It is often difficult to be objective when you are dealing with family. Feelings are hurt easily, and it is a common reaction to get defensive instead of taking the time to look at the issue from a logical perspective. Before you make a decision or comment, try asking yourself, "How would I handle this situation if I were dealing with a non-family member." Ask yourself that same question every time you need to make a decision regarding a family member. The goal is to train your mind to be more logical when dealing with emotional situations. Be sure to clearly explain your decision to your family member as you would to a non-family member.

3. REWARD COMPETENCE, NOT GENETICS

A good business owner or manager will reward their employees based on performance, family members should be held to the same standard. If a family member is not qualified to be the VP of your company, hire someone who is. You may think you are doing a good thing by providing a family member with a job, but if they are not qualified, they can do more damage than good when it comes to the success of your business. Not to mention that nepotism is a fast way to alienate the non-family members that work for you.

4. BE FAIR, NOT BIASED

Family feuds are better left at home. If you have conflict between family members at work, encourage them to work it out, outside of the office. If they are unable to do that, treat the situation as you would if it were between non-family members. In some cases you may need to discipline them or ask them to go home for the day. Under no circumstances should you engage in the conflict. If you take sides, you are now part of the conflict. The same rule applies if you are dealing with a situation involving a family member and a non-family member. To be an effective manager you need to have the ability to be fair and rational when running your business.

5. TAKE TIME FOR EACH OTHER OUTSIDE OF THE OFFICE

Believe it or not, all work and no play will drive your business and relationships into the red. Make sure you not only nurture your business, but take time to nurture your family relationships as well. Try going out to dinner together one night during the week, taking a weekend trip away from your home and office, or trying to plan at least one longer vacation each year to get away from it all. Be sure that no matter what you do, have fun, and do not discuss the business. Take the time for yourself and your family, and as a result it will be better for your business.

The success of family business inevitably comes down to the fine art of integrating and balancing the needs between ownership, family and business. Here are ten reasons why family businesses struggle.

CONCLUSION

Successful management of the family business depends upon the able leadership who cements the bonds of loyalty amongst all concerned members. The decision taken should be appropriate after considering all details minutely. S/he must be transparent and must take every one in the confidence. 'Trust' and 'Patience' are the most important aspects. There must be consistent innovate be ideation to implement the same, the head should organize the right teams and inflame them with the right spirit to take the decisions and implement them in the large interest of the partners.

REFERENCES

1. Managing Family Business Edited by Rajender Singh Rathore ICFI Books 2008.
2. www.google.com
3. Personal observations and experience.
4. Discussion with the concerned authorities from the family members of the sample.