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**“FIVE MUST HAVE INGREDIENTS FOR SUCCESS
FULL FAMILY BUSINESS”**

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“Five Must Have Ingredients for Success Full Family Business”

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Abstract – Family business is the oldest form, how the business is being managed. Not only in India, world over, has it occupied an important position. Reliance, Tata, Aditya Birla groups in India and Walmart, Ford Motor Co. Hyundai, LG, Samsung, are some of the family businesses. In this article the author, list five of the essential ingredients, for a successful family business.

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INTRODUCTION

Family businesses form an important part of the Indian business environment. What to say of Indian business environment, one third of all companies in the S & P 500 index and 40 percent of 250 largest companies in France and Germany are defined as family businesses. There are a number of Family-owned businesses, operating in different parts of the world, which are house hold names and include Benetton, Walmart Co, Samsung, LG, Playboy, Gucci, Fiat Motor Co., Harley-Davidsons Inc., PSA Peugeot Citron, France, Hyundai, Forbes Inc., Ford Motor Co., Novartis Group, News Corp., L'Oreal, France, Ikea are a few big names which we know. These are some of the big family businesses. The role played by particularly, the small-to-medium sized, are the grassroots of the global economy, and are clearly the majority of all the businesses in the world (Heck & Trent, 1999), and are as old as civilization (Aronoff, 1998). The estimates of the percentage of family businesses relative to total businesses in the United States range anywhere from 42% to 95% (Davis & Stern, 1980; Dyer, 1986; Kanter, 1989; Larsen, 2006; Ward & Sorenson, 1987). Few other writes have estimated that family business represent 90% to 98% of all US businesses (Beckhard & Dyer, 1983a; Herson 1975; Stren, 1986). However not more than 30% of the family businesses pass on the batten to the third generation. A family business has to struggle to survive twice as compared to business run by professionals. Once the normal business survival challenges, be it competition, risk management, quality, human resources etc. The other one, governance of family, in the business. To be a successful business, the family business must be successful as business and also be well netted family, on the family front.

With the increase in the number of family members, a new type of challenge is faced by family businesses, which is not there in the businesses run by professionals, the challenge of governance of family members. Birth of a member gives him/her right to manage the family business, irrespective of his/her ability and qualification to do so. The family business however, rises to the top, only on one factor which is missing from the professional business, is 'trust'. It is human psychology to trust the family members than those who are non-family members. The reverse also kills a successful business.

There are family businesses and business run by professional. There certain prerequisites to be a successful family business, which are not common with the businesses being run on professional lines. Murphy (2005) conducted a study in which the author attempts to provide information in regards to the complexities of private family businesses. These are not only the ingredients of success, but these are essentials for success of family businesses.

1. SUCCESSION PLANNING

While 90 percent of businesses in the U.S. are family-owned, only about 30 percent of family businesses survive the transition from first generation to second, and about 15 percent make it to the third generation, (U.S. Small Business Administration.). Attempt has been made to reveal various dimensions and phases of the succession process, differentiating between successful and unsuccessful successions and identifying the factors that contribute to the effective successions. (Cadieux et al.,2002: Davis and Harveston, 1998: Gersick et al., 1997: Moris et al., 1997: Murrey, 2003: Poza et al.,1997: Sharma et al., 2001: Sharma et al., 2003a.

Parallel efforts have been directed toward understanding the reasons that successions fail when failure is defined as successor dismissal or firm bankruptcy (Dyck et al., 2002; Miller et al., 2003). Based on their study of 16 failed successions, D Miller et al. (2003), note that the heart of the failed successions is the misalignment between an organisational past and future.

Thus the first requirement for the success of family business is succession planning and it has to start fairly early, so that successor is under the guidance of the founder. We have a live example of Cyrus Mistry, was under the active guidance of Rattan Tata for one year, before taking over the charge as successor.

In majority of cases succession planning may be a complex but not complicated exercise. But it may be a complicated problem in certain cases, where the key strategist in a family business must consider, complicated personal relations, while formulating succession plan of the family business. Followings can be very complicated family situations, putting even the existence of the family business in jeopardy:-

- i. Starting of divorce proceedings between the founder of the business and the spouse.
- ii. In case the founder member dies interstate without any will, how the shares of the founder will be distributed among the legal heirs, those in the business and not in the business.
- iii. How the continuing members will react to situation, when the founder member wants to leave the business.
- iv. As stated in ii. Above, how can continuing members purchase the interest of the deceased member, without disrupting the normal business workings?
- v. Method of valuing the share of a family member, who wishes to retire from the business.

2. DINING TABLE MEETINGS

It is said that the way to get connected to a human being passes through stomach. In any business two way communications is must. The flow of instructions from the top and flow of practical problems and suggestions from the down the line is important ingredient of successful communication in the business. The founder of the business or any other member, appointed by the founder can be the convener of the family meetings and call meetings as per scheduled fixed or on requirements basis, of the family. All the active members, irrespective of their place the hierarchy, must attend these meetings, exclusion create animosity. If the family business is being run by the second and third generation, then the collective experience and wisdom of the own family will

be a big collection and not using it will be a big opportunity loss. Even if the business is not that much standing, it will be worthwhile to expect valuable input from all the members of the family, to develop a feeling that all the family members are important. All the issues relating to business, such as production targets, performance targets, quality issues, can be assigned as responsibilities to the members of the family. The founder can make rules or a manual, specifying the rules for the conduct of the meetings and who can speak, so that everyone has chance to participate in the discussion and has a right to be heard. All barriers to speak are left outside the venue of the meeting. The meeting should allow the family members to speak even on the subject of lower payment of the salary or hiring of relatives of the family who are not qualified.

3. DEFINING ROLES & RESPONSIBILITIES OF FAMILY MEMBERS

It is essential for the family business, to allocate clear roles and responsibilities of the each members of the family. The feeling of belongingness to the family business is essential for the success of the business. It is natural to have the feeling of ‘my business’ or it is ‘our business’. Allocation of the job responsibility among the family members is important, or everyone has right and no one has responsibility. Job specifications prevent every one from jumping in to handle the problem or no one owns the problem.

Another problem which gets automatically killed by specific job allocation is overpayment of salaries to family members. The founder generally pampers the next generation by paying them more than their market value or every one equally. Both the situations are harmful for the business. The longer it persists, more difficult it will be to set it right.

The ‘pay as per responsibility’, also ensures that unqualified relatives are not hired. To survive in business and also do some charity, the way out is to get the family members trained and place them in job, they are capable to handle based on their qualification.

4. MUST HAVE ARBITRATOR OR DISPUTE RESOLUTION PROCEDURE

If there are more than one person, there will be difference of opinions. Business disputes happen and when difference of opinion is between the family members, it can go out of control, very quickly, like road rage. The business should avoid litigation by all means, as it brings disrepute and irreparable damage to both family and business. Management of the dispute between the family members is more urgent and critical, because it affects the moral of other non-family employees. Whenever there is a dispute among the family members, they should try to resolve it at home and put up as a single united family at business meetings. In a business, in which

only two generations are working, generally the founder has a veto power, to overrule any awkward situation. But in a situation, where third generation or later generation play an important role, resolution of conflicts, it is important that dispute resolution mechanism is in place, which is acceptable to all and conflict among the family members is resolved at the earliest available opportunity.

Conflicts between the family members be it husband wife, brothers and sisters or among the brothers, is one of the major concern of the family businesses. When the conflicts reach a flash point, threatens the future of the business, it becomes imperative to hire an outside professional to handle the situation.

The essential of the conflicts resolution is a strong communication among the family members, systematic conduct of the family business dispute resolution. How the family members behave among other members of the family sets the tone for their behaviour with other stake holders in the business. It is duty of the seniors members of the family, who are the helm of the affairs, to foresee the scenarios where a conflict is expected and plan out some proactive measures, which defuses such situations and business does not costs strained relations between the loved ones, rather builds bonds in family, which lasts for generations.

5. TREATMENT TO FAMILY AND NON FAMILY EMPLOYEES.

In family business, which grows from small business, run by founder, towards a medium sized business, basking on its own success ignores or gives lesser treatment to the outside employees, as compared to family members. Two classes of employees are created in the business, family and non-family. Special favours are given to family members and family friends, they are prompted out of turn, and their failures are either ignored or linked to work of non-family employees. This behaviour of the founder members creates two classes of the employees, family and non-family, thereby demotivating the non-family employees.

Like non family employee, every family member should be given a specific job, a designation and like any other non-family workers and should be put to annual reviews. The rewards and promotions should be linked to performance and no credit for the family connection.

To conclude, the family business should have a clear and robust system on the five key essential, i.e. Succession planning, a two communication, roles and responsibilities of the family members, dispute resolution procedure and fair policy for treatment of family and non-family members.

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