3. FACTORS AFFECTING FAMILY MANAGED BUSINESSES

3.1 Succession Planning

“A lot of people do not understand that family businesses are social organizations and need to be treated as such. We in India still have a feudal set up, with succession planning by the family patriarch being done too late in the life span of the business when such planning should actually happen in the first generation itself. Businesses are meant to create wealth and this wealth should be shared by all in the family.”

Gautam Thapar

It is observed that etymologically the word succession has originated from the Latin word “successionem” meaning “a following after, a coming into another’s place”. It pertains to the action or process of inheriting a title, office, property, etc from the incumbent/predecessor by the inheritor successor – whether an individual or a team. In other words, succession implies change in ownership and control structure of business, arising from leadership and management succession. The willingness of family business owners to plan for their succession is often a decisive factor determining whether the business survives or falls. Succession in Indian business houses usually means inter-generational transfer of ownership, control and management of business.

It is a well documented fact which makes for shocking reading, that worldwide, only about one-third of businesses successfully make the transition from one generation to the next, and some studies have further suggested that only around 5 per cent of family firms have managed to succeed in creating value for the share-holders beyond

1 Thapar, Gautam (2004), Managing Director – Ballarpur Industries, as quoted to Hindu Business Line Nov 26, 2004
2 Online Etymology Dictionary – www.etymonline.com
the third generation. While many family business owners recognize that succession planning is an important issue, studies show they are not actively planning succession, be it management or ownership succession. For example, a survey of Australian family businesses found that some 70% of family business owners thought succession and retirement planning was important but only 12% had a documented plan. Expert opinion on the subject holds that whether you pass on your business to the family, or sell your business to employees or third parties, the transfer of your business is a process, rather than an event. In other words, business succession is not a game of inches—it is a game of options.

India is no stranger to succession and the accompanying issues it brings with it. In the past, we have witnessed succession issues even amongst kings. For example, we have seen diametrically opposite succession issues in our epics Ramayana and Mahabharata. Majority of the private sector listed companies in India are family-owned and family-run companies. According to an empirical study conducted in 2008, in India, there were 224 billion $ listed companies accounting for 81% of the total market cap of all the companies listed on the Bombay Stock Exchange (BSE). Further, the promoters’ stake in those billion-dollar companies was 67% of the total market cap of those companies. Moreover, only about six companies (ICICI Bank, L&T, HDFC, IDFC, ITC and IFCI) have no identifiable individual promoter or promoter group. India, being no exception as far as the world trends are relating to family businesses are concerned, we have witnessed that wealth does not pass in the family beyond the third or fourth generation or business does not remain with the family beyond the third or fourth generation. One of the main reasons for this is that the succession issues are not properly managed.

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In succession planning, a problem which is unique to family-owned businesses is the explicit process by which the firm will be passed on for the family’s next generation to manage and control. Successful succession of CEOs is a crucial goal for these firms; without the next generation’s leadership and direct management, the firm cannot survive as a family-owned firm, let alone maintain its character.\(^7\) Several research studies\(^8\) have indicated that when owners/managers retire, less than one-third of family-owned businesses are continued by the next generation. Researchers and consultants have long stressed succession planning’s importance in ensuring the continuity and prosperity of a business.\(^9\) Some have even gone to the extent of stating that dealing effectively with the issue of succession planning is the single most lasting gift that one generation can bestow upon the next. The desire to leave a legacy is a powerful motivation for many business owners and there are umpteen examples of highly profitable and well-run family firms that have remained in family ownership for generations. However, on the other hand, there are also umpteen examples where, unfortunately, despite cautions, succession planning appears to be left to chance by many family-owned firms and oft appears to be privy to neglect and lack of attention causing grave danger to the very survival of the family firm. Some researchers attribute this apparent neglect of succession planning to the emotions generated by the process; it forces incumbents to face their mortality and makes other family members confront the need for change.\(^10\)

By and large, it is the general consensus amongst researchers and experts that the willingness of a family firm’s owners to plan for their succession is often a decisive factor determining whether the business survives or fails. Family business succession is a two-stage process involving transfer of both the management and ownership, but they tend not to pass at the same time, with parents often willing to hand over the burden of management before they are willing to let go off the reins of control. Succession, at whatever stage of intra-generation, whether first-generation succession

or later generations, always comes with its unique sets of issues. Transferring family businesses to the next generation creates difficult and emotion-laden problems. It is a delicate process which requires careful planning and execution, however many business owners are reluctant to face up to the thought of giving up control, and succession is one of the main causes of divisions and tensions that can damage family life and undermine business performance. Not too distant, are the perfect examples of the Ambani brothers division of the Reliance Empire, due to the failure of the family patriarch, Late Dhirubhai Ambani, to effectively plan and implement a succession plan. Other examples are of the Nandas and the Thapar’s. Indeed, the history of family-owned businesses is replete with such stories of the inability of the owners to do effective succession planning, leading to collapse of their businesses and divisions and battles, amongst their family members surviving them.

It is said that passing on ones legacy is one of the greatest privileges of being a family business leader, however, research has shown that not many such leaders are far-sighted enough to do effective planning of who will take on the mantle of leadership after them. Businesses are generally started by entrepreneurs having a passion for a certain industry. In the excitement and instability of the early years, few family business leaders give any significant thought as to the potential future successor roles in the family business. Then as equilibrium comes about, the founder usually starts to look among his or her children or other family members for the one whom he or she can imagine as a future leader. The founder sees a child or other family member in a new light and envisions that family member joining the business. However, this vision is coloured and blocked by other selfish or perhaps fearful reasons i.e. fear of losing power, fear of losing control, inability to let go of the high that the chair of a CEO gives to the person occupying it. Also the founder considers the business as his baby and often the thought goes that none other, than he, can run it effectively. Lack of confidence in others abilities becomes deep-rooted, without any valid reason.

However, it must be remembered that without a chosen successor and without a proper succession plan in place, the business is likely to die with the owner and it could also become an insurmountable burden to the family members left behind. Succession planning enables a family-owned business to plan ahead and address issues of leadership and ownership, ahead of time, rather than waiting till the reading
of the will to resolve questions like “Who get the shares?” or “Who is best suited to take on managerial leadership?, thus reducing the potentially damaging impact of unexpected yet predictable events. Often, the first real thoughts about succession are prompted by the death or ill-health of the chairman or managing director. Insufficient planning for the death of majority shareholder may expose the family to major cash flow problems in the form of tax liabilities but no liquid assets with which to settle them. In other cases, the succession proceeds in an atmosphere of mutual acrimony and guilt as family members, unable to understand or control the process they are caught up in, search for somewhere to place the blame.

One of the key elements of successful succession planning is that those leading the business must be able to manage the complex and emotionally charged issues of succession to the next generation. Doing nothing above succession, in order to avoid the complex problems which might crop up with it is often disastrous for family companies. Yet many business owners, reluctant to give up control and preferring to live with ambiguity, decide that avoiding the issue is the best option. Apart from this, there are several complex forces are at work in family businesses, which favor complete inaction as far as succession issues are concerned. These forces operate within the founder, the family and the business and the first and foremost essential step in successfully managing the transition process is to understand these forces and the extent of their prowess and complexity.

Experience accumulated over time by several experts after in-depth studies suggests that the process of succession should be organized and gradual, whereby, a trained successor grows into the role under the owner’s supervision and guidance, rather than the mantle being thrust on the successor without any prior intimation, abruptly and unexpectedly, which is quite common when the owner suddenly becomes ill or dies. A glaring example of this in Indian business history is the untimely death of the Birla scion Ashok Birla, whereby, the mantle of leading his company was thrust on the young shoulders of Yashowardhan Birla at a tender age of 23.

In India, we are witnessing the succession issues in more and more family-run companies, such as Birla, Tata, Bajaj and Reliance, and even in a professionally-run
company like ICICI. For example, in the Birla group, Mr. G. D. Birla was succeeded by his grandson Mr. Aditya Birla, bypassing his father. In the Bajaj family, because the brothers, sons and cousins are contenders, there are succession disputes among them. In the Tata group, presently the successor-Chairman is being selected, who may or may not be from the Tata family.

It is imperative that the present leader should identify the challenges that he is likely to face in effective succession management. For this purpose, he should proceed systematically. He should list out the family members, their present ages, and the likely major future events and their timings, e.g., children’s education and training, their entry in the family business, his retirement and the succession. Based on this, he should prepare a list of likely succession challenges he will face in years to come.

Another major problem in a family-run company is to decide about the succession criteria. For example, whether the succession should be based on merits or on seniority. Hence, every family should define the family values and the personal values system it wants to follow in this respect. This requires tough decisions on the part of the family, particularly, in a family-run listed company. If there is only one potential successor, the question may be about his present capability, his potential to be a leader, his age, his willingness, etc. Sometimes, a potential successor is capable of succeeding, but he may not be interested in the family business and he may want to set up his own business or profession. The present business may not measure up to his ambitions and aspirations. Post liberalization and globalization of the Indian economy, a vast number of opportunities have opened up for starting new businesses and it is quite possible that a potential successor may not be interested in being in any business; he may want to be a doctor or a professor or a social activist.

It may also happen that if the potential successor does not have the capability as well as potential, and the promoter insists that his family member should be a successor, then it may adversely affect the functioning of the company. If the son (or daughter) of the promoter has no capability at present, but has the potential to succeed, and if he takes over the reins today, then he may become diffident or he may not be able to
properly manage the company. Another common issue which may crop up and cause major obstacles in the succession process is that if in a family, there is more than one contender for succession, E.g., brothers, uncle and nephew, cousins, son and nephew may be contenders in which case the conflict may arise (e.g., Bajaj family). Further, if an elder brother is less capable than a younger brother, the problem of selecting the successor may be a vexed issue. If a successor is very much younger to the top one or two senior executives, there may be an issue of whether the younger promoter would be able to lead very senior executives. The management style of the present leader and the potential successor may be diametrically opposite. Therefore, he may not be interested in working under him or following his footsteps. This may create a potential conflict between them.

It is therefore necessary that one should develop appropriate solution(s) for each issue. It may not be possible to develop a solution immediately. But one should periodically think of the solutions, may be with the help of others. For example if there are two possible contenders, then both may be given a title of joint managing director and then a division of functional responsibilities be made between them according to their capabilities. The first objective of a family owner should be the preservation of the wealth in the family and the second objective should, if possible, be the preservation of the same business in the family. However, if the next generation is not interested in the same business, the succession need not be to the same business. In such a case, the existing leader should provide support in developing the business of the choice of the potential successor, and at appropriate time sell the existing business. An interesting case of succession is of two sons of Dr. Parvinder Singh who inherited Ranbaxy Laboratories Limited and later on sold it to Daiichi of Japan. With that money, they have started new businesses in the field of financial services (Fortis Financial and Religare Financial Services) and healthcare (Fortis Hospitals).

Succession management is not a one-time exercise; it is a life-long journey. The decisions taken in the past may require a change or the actions taken in the past may not work out, and therefore, changes may be required in the past succession planning.
Further, if there is an untimely death of the leader, or if he develops some health problem, then a change in the succession timing may required, as happened in the case of the untimely death of Ashok Birla, leading to the responsibility falling on young Yashowardhan Birla. An annual review of the performance of the key family members should be conducted which will also make the potential successor(s) aware about his (their) progress. For this purpose, the group should establish the evaluation process and the specific criteria.

Lastly, one of the important aspects of effective succession is to determine the timing of retirement of the present leader and succession of the successor. The succession timing should be well planned: it should not be too abrupt so as to leave a vacuum during the transition phase or too late to de-motivate the potential successor. The potential successor should enter the family-run business as soon as possible. The leader should gradually delegate more and more responsibilities so that the appropriate opportunities are provided to the next generation for taking up the baton. The present promoter-in-charge may continue as a mentor (e.g., as a non-executive chairman) for a few years until the successor is fully ready to take over the reins of the company. For example, Mr. Narayan Murthy at Infosys did so for a few years. Thus, the practice of having separate persons as CEO and chairman may be followed.

A good and effective succession management is achieved through a judicious combination of various factors, such as planning, structure, discipline, mindset, culture, determination, training, implementation, and the like. Succession management involves ethical and moral issues rather than legal issues. Hence, the approach to this aspect would vary from family to family depending upon its concepts, views and value systems. Proper succession management, like many other projects, requires thinking and, as Henry Ford put it, “Thinking is the hardest thing there is and that is why very few engage in it”.

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3.2 Family Business Dynamics

Family Businesses are complex systems. They provide the only setting for an unusual social phenomenon, the overlap of family issues and business issues. The family business offers two separate but connected systems of family and business with uncertain boundaries, different rules, and differing roles. Family businesses may include numerous combinations, including husbands and wives, parents and children, extended families, and multiple generations in roles of stockholders, board members, working partners, advisors, and employees. The uniqueness of a family business lies in the fact that it is not made up of a random cross-section of people who are employees, directors, managers, investors, etc. What sets a family business apart is the fact that all these people are related to each other – that they are family members.

The two systems in a family business, described as the interaction of two separate but connected systems, are often shown as two overlapping circles depicting the unclear boundaries of family and business.12

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Table 3.2.1: The Unclear Boundaries of Family and Business

| Family | Business |

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Special Dynamics set family businesses apart from other forms of enterprise. These dynamics operate at three levels:\textsuperscript{13}

(1) They affect the people who participate in the family business
(2) They affect the way in which such businesses are organized and how they operate
(3) They are one of the prime causes of family firms becoming more and more complex with the passage of time, particularly when these firms are in transition from one generation to the next.

In majority of the cases, in the early stages, the family involvement is limited to a few family members only. However, it is important to note that each individual is different in terms of nature, temperament, attitude, likes and dislikes, intelligence, philosophy, etc. Therefore, one of the most important aspects which need to be taken into consideration and which certainly cannot be ignored is that of understanding each family member’s background and his unique perspective, in order to have a complete awareness of how family business operates.

As a family business is made up of individuals, as is most consistent with human nature and human psychology, no two persons can think alike. All family members may have different tracks of thinking and likewise different ways of working and these differences are bound to affect their individual performances and cumulatively, the overall performance of the family business. These individual and inherent differences have the biggest potential to lead to conflict and tugging of the family ship in different directions and thereby ending up in the proverbial ‘ship-wreck’. There is a strong cause for rationalization of these inherent differences and merging their direction into the common direction for achievement of the family businesses objectives.

Gender differences, age differences, differences in level of education, differences in experience, differences in ideology and thinking, father-son rivalry, sibling rivalry,

husband-wife rivalry, In-laws conflicts, multi-family ownership, non-family employees, are all factors which need to be addressed in a family firm and make up a major component of the family business dynamics. Each of these factors needs to be tackled and a balanced approach is required to be used. Conflict resolution needs to be handled with patience, tact, diplomacy and clarity of thought and role and responsibility.

Dr. Peter Davis, an American Family Business researcher has drawn a helpful distinction between entrepreneurs and founders.\textsuperscript{14}

Though all founders of family businesses are entrepreneurs, not all entrepreneurs become founders. Founders are typically intuitive and emotional people. They obviously have the drive and ambition to build a great business, but they also have a feeling about the place, a love of what they have created that makes them want to perpetuate it through the generations.

Davis goes on to identify three types of founders, calling them Proprietors, Conductors and Technicians. Since the personality, attitudes and behavior of founders color all the stages of the development of family businesses – and in many cases their influence persists long after they are dead, some of the main characteristics of founders in these categories need to be highlighted.

In the case of Proprietors, ownership of the business, as opposed to mere control of it, is central. They do not have much faith in anybody else’s abilities and decision making other than their own and seek to dominate one and all in the organization. The Proprietor-Founders do not seek to nurture and hone their children’s’ skills and abilities for future take-over of the organizational mantle, but instead, seek to dominate and make them subservient, where the children end up being meek and submissive or rebellious, resulting in famous face-off sagas, which the history of family business is so full off.

Conductors, like Proprietors, are also firmly in control, but they are much more willing to build up good staff, delegate responsibility, and promote efficiency and

\textsuperscript{14} Peter Davis (1990), “Three Types of Founders – and their dark sides”, \textit{Family Business Magazine}, Feb 1990
harmony in the organization. They are usually proud of the family and the family business and work to promote a sense of common endeavor, family loyalty and warmth in the organization.

Technicians according to Davis are founders who build up the organization based upon their creative or technical skills and are obsessed with their ideas and dislike routine administrative functioning and management aspects and are more likely to have non-family managers, on whom the day-to-day running of the business is entrusted upon.

Another important relationship which needs to be looked at closely in a family firm is the role played by women of the family. Although the role of women in family businesses has increased by leaps and bounds over the last 50 years as suggested by empirical studies, the traditional, behind-the-scenes role played by women of the family still cannot be said to be history. Traditional role of wives of family business owners was that of a confidante, a business advisor or acting as a sounding board for their husbands and acting as a symbol of unity in the family. The first instinct of women has been the preservation of the family, often acting as mediators in conflicts between the father and the children. A more recent example which would be apt to cite here is the role played by Mrs. Kokilaben Ambani, in settling the fierce battle that was raging between the Ambani scions – Mukesh and Anil, after the death of their father, the late Mr. Dhirubhai Ambani.

The most successful families in business have clearly defined roles and responsibilities for individuals involved in the enterprise. Most often these roles have fallen along gender lines. The most common form of family business is one in which a husband and wife are both involved. Often, such a business has typically been referred to as "his," while the wife's role is of helpmate. Women are often in the office, on the computer, or doing the bookkeeping and have even been described as "invisible." These same capable women, however, often become "instant entrepreneurs" when their husbands are ill or die, or when an economic crisis forces them to assume the husband's role. Such gender stereotypes are slowly changing.
Mothers are influential whether they work in the business or not, and their roles need to be recognized. Traditionally, mothers have worked behind the scenes supporting their husbands and maintaining the home. The changing roles of women have brought them challenges when trying to balance home and business. Often women do not get equal credit in the role they choose. Just like the case of the fathers, these roles also carry over into the next generation and influence both daughters and sons.

Brothers and sisters usually disagree in their views of their mother, but agree in their views of their father. This might be explained by the fact that fathers are seen primarily as the leaders in the business, while the mothers play a variety of roles, and sons and daughters describe the role they are most comfortable with. For example, one son describes his mother as always being at home for him, while the daughter described her active role in the business.

Daughters have special needs when it comes to developing as leaders in family businesses. They normally spend less time in the business, develop fewer skills, and face a major obstacle right from the start because fathers typically consider sons over daughters as potential successors. The process of preparing daughters to join the business is often overlooked. A report from the family business workshops held at the Wharton School of Business over a three-year period showed that among female Wharton business students, only 27 percent planned to enter the family business and only 22 percent studied business in college.

Husband-Wife teams in business are not a new phenomenon, but what is new lately is the greater degree of equality between the partners. It is clear that while complementary temperaments and talents are particularly important, the couple must also be able to work together as a team and must be able to decide how to share the workload, allocate power and divide the rewards of their efforts.

Marrying into a business family may carry its own set of benefits like being wealthy, strong family unity and chances of in-laws being part of the business and even part of the ownership. But with the positives, negatives may also exist in the form of potential difficulties that also need to be managed. The spouse may not be welcomed as part of the business and may feel excluded or ‘outsider’. Since business and family discussions may intermingle, the exclusion may be more solidly felt at such
discussions. Cultural differences may also contribute to the mismatch. Some business families expect both, their children, as well as the spouses of their children to work in the family business. This may either result in tremendous success or a disaster. Sons may find son-in-laws a potential threat, while non-family employees may view such relatives as parasitic and who have only got the job due to marrying into the family.

The majority of family businesses comprise of single family unit made up of parents and children. As is the dynamics of this structure are not complex enough, the problems multiply greatly, when more than one family unit becomes involved. This is usually the case when the business survives through to the second and third generations. The equation gets more and more complex with the involvement of cousins and siblings. Moreover, if the business is started by unrelated partners, then the complexities multiply manifold, not only in terms of numbers, but also in terms of complexity of the dynamics. Multifamily ownership requires a unique combination of people, skills, and attitudes and therefore it is not very surprising to see that only few family businesses survive beyond the third generation. Those who have survived are those who have taken steps to deal with the intra-family conflicts.

Another crucial spoke in the works of a family business and without the mention of which, no discussion on family business dynamics can be complete is the role of non-family employees. Successful non-family employees in family businesses are unique characters with a distinct psychological make-up that helps them fit into an unusually demanding work environment.

There are two particular types of relationships which can seriously disrupt the operation of the business: the conflict between fathers and sons and sibling rivalry. Their impact finds place in constant bickering, where the process of arguing is often more important than the subject matter of disagreements. The role of a father who is also the boss of his children is more often a difficult one to balance. One father shared the story of his son who was always late for work and provided a bad example for other employees. He called him aside one day and said, "Son, as your boss, I have to tell you you're fired, and as your father, I am sorry to learn you have just been fired." Research indicates adult children describe their fathers as bosses in many different ways. One son's statement relates the patterns that repeat in families and therefore
carry over to the business, "I'm stubborn just like him, and it is like looking in a mirror."

As Levinson\textsuperscript{15} explains, within the family business, father-son conflict can manifest itself in many different ways. The father often actively cultivates an atmosphere of ambiguity which allows him to call the shots events occur, rather than being bound by clearly defined rules; the son wants and needs clear direction. Similarly, the father is generally most comfortable deferring decision-making until the last possible moment; son wants decisiveness. Often the father retains obsolete management principles and techniques while the son may find himself facing the daunting task of repairing an organization full of previously concealed weaknesses. These behavior patterns are indicators of the conflict potential in the relationship.

Rivalry among siblings also represents crippling obstacle to the successful development and sustenance of many family businesses and it is critical to understand why and how it comes about before attempting to find any solutions for the same. An older brother, dominant as a child by virtue of age, size and competence is resented by his siblings.Sibling rivalry is normal and in family context, can be seen as a useful competitive ingredient in relationships that stimulate healthy development. But the same rearing its head in family business can present a different scenario altogether. The legendary battle of Gucci brothers is a well known example in this context. Moreover, in the Indian context, the recent example of the Ambani brothers’ feud is also fresh in memory and serves as an apt example.

Communication in these matters plays a crucial role. A free and frank exchange of thoughts and views on the happenings between father-son and siblings can go a long way in preventing unnecessary escalation of these conflicts. Sibling relationships in the family business are important since these are the vehicles by which social skills are learned, and siblings often go on to work together. These relationships play a significant part in identity development, yet research is sparse in this general area. Sibling accommodation in the family business occurs when they agree on their relative positions of responsibility and power.

Family Business Systems

Another area in which special dynamics set family businesses apart from other enterprises concerns the way in which such businesses are organized and operate. A helpful framework for looking at the relationship between the family and the business is to think of the family as a system and the business as a system. The family system is based on emotion and tends to be inward looking, placing high values on loyalty, care and nurturing of family members. The business system on the other hand is based on the accomplishment of tasks. It is built around contractual relationships in which people do agreed jobs in return for agreed remuneration and is oriented towards output. In non-family business, these two incompatible systems operate independently while family business, they not only overlap, but are also interdependent.

Table 3.2.2: Overlapping Systems

The differing purposes and priorities produce the special tensions that exist in family firms, some of which create at the point of overlap operational friction and value conflict for the founder and other family members. This problem is very much unique to family firms and one of the distinguishing factors which separates family firms from non-family firms. However, it is imperative that this inherent disadvantage should not be allowed to obscure the many advantages, this form of enterprise offers. There has to be a rational reconciliation of the negatives against the positives and a middle path which is significantly advantageous for the family firm should be mapped.
The distinction between Family System and Business System is explained in the form of a tabular formation below:\(^{16}\)

**Table 3.2.3: Distinction between Family System & Business System**

<table>
<thead>
<tr>
<th>Area of Conflict</th>
<th>Family System</th>
<th>Business System</th>
</tr>
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<tbody>
<tr>
<td>Goals</td>
<td>Development and support of family members</td>
<td>Profits, revenues, efficiency, growth</td>
</tr>
<tr>
<td>Relations</td>
<td>Deeply personal</td>
<td>Semi personal/Impersonal</td>
</tr>
<tr>
<td>Rules</td>
<td>Informal</td>
<td>Written and Formal</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Members rewarded</td>
<td>No Systematic evaluation</td>
</tr>
<tr>
<td>Succession</td>
<td>Caused by death, divorce, voluntary willingness</td>
<td>Caused by retirement</td>
</tr>
<tr>
<td>Authority</td>
<td>Based on family position or seniority in the family</td>
<td>Based on formal position</td>
</tr>
<tr>
<td>Commitment</td>
<td>Life time; based on identity with the family</td>
<td>Short term, based on rewards received</td>
</tr>
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Hume's (1999)\(^{17}\) research indicated that difficulties which are usually related to relationship problems, such as family conflict and leadership issues, rather than business problems, are some of the major causes of failure of family businesses. Syme's (1999)\(^{18}\) research also supported the notion that relationship issues seem to be of critical importance in successful business transitions.

One of the author's assumptions is that conflict is an inevitable, and oftentimes prominent, part of many family businesses. Some of these conflicts have found their way into mainstream media because of the overtly destructive affects they have had on both the family and the business. In addition to the well-publicized strife of some

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\(^{18}\) Syme, J. S (1999), “Mentoring in Family Firms”, *Doctoral Dissertation Los Angeles: California School of Professional Psychology*
family-owned businesses, there are undoubtedly many other family businesses that experience, and must deal with, conflict that may never be apparent to people outside the family or the business. These family businesses have found ways to manage and cope with conflict within their organizations. Although conflict management is believed to be an important process within the business management literature, it is surprising that relatively little empirical research has been conducted on the impact of conflict management within family-owned businesses, particularly with regards to succession planning.

Another unique point which must not be omitted here is that these family business dynamics are not static. They keep evolving and changing with the passage of time and as the organization goes through changes in the dynamic environment it operates in. Therefore, the strategy to handle the family business dynamics also needs to be flexible and adaptable with the constant changes facing it. It has often been seen that failure to effectively annihilate the potential damage of family business dynamics has often caused grave casualties in the world of family firms and it remains an area of concern requiring utmost attention and action.

### 3.3 Strategic Vision and Building Teamwork

Families learn to build a shared vision by aligning individual and family values and goals, and that vision becomes a guide for planning, decision-making and action. A starting point is the simple question: ‘What’s our business for?’.

It is often seen that such kind of enquiry produces a wide variety of responses from different family members as per their individual thought processes and ideas. Some see the business as a means of livelihood for themselves, while some see it as a means for their children, others may see it as a retirement fund while other see it as a means of achieving materialistic satisfaction, etc. As is repeated oft, each individual has his own line of thinking and his own set of ideas and vision and dreams. However, it is imperative for the success of the family business that all these individual visions and dreams are aligned with the common objectives of the family business. The aim is to formulate

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and adopt policies that strike a good balance between the best interests of the business and well-being of the family, and then to design and establish effective governance structures that help the family develop a cohesive approach to the business and provide organizational focus and accountability.

Often, the major problem that haunts the family managed businesses is that family business owners require the family member / employee to live the owner’s vision of success. Seldom is the family member / employee allowed to live or even explore the vision of which he or she may dream. In order for the family business to succeed, it is imperative that these members of the business are also allowed to live their dreams within the family business umbrella. Otherwise, their passions will be quashed and they will not have the level of motivation needed to bring about the kind of results for the company that lead to the business owner’s vision of success.

Values are what a family and its business stand for, vision is a shared sense of where each is heading. Together, values and vision provide a major source of strength and resilience for the family business and are central to long-term family business success. Founders are usually the source of values and vision. The founder usually has a vision and foresight along the lines of which he starts the entrepreneurial venture and along the way, other family members join the business, sharing the common vision and it is at this point, that it is important that individual dreams, aspirations and values are strategically aligned with those of the family business, so that the disparities do not pull the members in opposite directions, which would ultimately spell the doom of the family enterprise. Often family businesses carry on the legacy of the dream and vision of the founders, long after they are gone. However, this gets diluted with the visions and aspirations of the succeeding owners/managers, but they get converted into organizational values by keeping the family involved and united.

Family-owned businesses typically have a set of shared traditions and values that are rooted in the history of the firm. Depending on how they are viewed, deeply rooted traditions and values can be a positive or a negative influence. In a changing world,

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family businesses can honor their traditions if they realize they can be guides to selecting the best course of action when there is a recognized need for change. It makes sense to honor traditions and trust them; they have survived because they have helped the family business prosper. It doesn't make sense to let traditions stand in the way of progress and change. Traditions themselves have evolved and changed over time. In fact, the best time to reaffirm the family business’s tradition is when it is threatened or appears to conflict with the future prosperity of the business.

A good starting point in examination and documentation of the values they share would be to explore some open-ended statements based on the family’s experience. It is imperative that exploration process be approached from a serious and mature standpoint and with honesty. It has often been seen that many family managed businesses have achieved competitive advantage through a values-driven approach. However, as is the case of everything in this world, nothing, including values can remain static and over a course of time, families change and expand and markets and business cycles move on, and therefore it is important that values and vision are periodically re-examined. It is not necessary that what worked well for the previous generation, will work just as well for the current generation. If the values are allowed to remain static, there may be risk of creating a vacuum in which, with no relevant vision to unite the family, disconnection, communication failures and conflict are likely to flourish.

The need of an all encompassing ownership vision for each succeeding generation in sync with the needs of the time cannot be under emphasized. A strong base of values and shared vision are the factors that distinguish a strong, healthy family. Exploring and recording personal and family values helps individual family members relate to the group and develop a sense of shared purpose, and a family’s core values provide the foundation for meaningful family and business plans. The process of developing a family strategic plan helps families approach their businesses in a committed, unified way, rather than as a group of individuals who just happen to be related. The chances of misunderstandings are greatly reduced when the objectives and rules are clear, and the rules are much likely to be followed if they are arrived at through consensus rather than imposed by any command.
The importance of direct communication between family members is impossible to overstate. However the stark reality is often different – in many family businesses, people generally dislike the idea of working through family issues by talking about them, let alone analyze them. Despite the fact that many family conflicts can easily be resolved by frank and open communication, the unspoken conflicts and accompanying tensions which weigh down the work and family atmosphere are swept under the carpet.

It is often noted that when the personal visions of the family members / employees are out of alignment and neither party is willing to make changes that address the conflicts, it leaves the door wide open for trouble to develop. This is especially true when conflicts directly affect the business. Writing, sharing and creating compatibility among the Personal Vision Statements will guarantee dramatic improvement in the success of the family business and the relationships amongst the family members and employees. The vision essentials may be classified in the following categories:21

1. Material Desires – In a family business, the business itself is usually the most important factor affecting the family’s material lifestyle, and that is why desired income and net worth should be included in the personal vision statements.

2. Amount of time to spend working in the family business – It is essential for each family member to decide the balance they would like to strike in their business life versus their non-business life relating to factors such as how much time they want to devote to their work.

3. Role in the family business – All family members employed in the business need to identify their long-term work desires of what role they want to be performing in the business. The problem of working in roles for which there is no passion is very commonly found in family managed businesses and the harms caused by these situations are also well known and well documented.

4. Emotional Rewards from the family business – The emotional rewards and happiness obtained from the business success often have a personal meaning beyond mere financial success. Financial rewards are just that, however

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psychological rewards may directly or indirectly benefit the family member and the family and its motivational impact usually outweighs its financial impact.

(5) Semi or Full Retirement – At some point, each family member needs to consider their views on retirement. There are likely to be health issues, financial issues and other changes that are likely to have an impact on the retirement planning decision of the family members. The personal decision can also have significant impact on the family business.

(6) Compatibility of Company Vision Statements and Personal Vision Statement – Strategic direction in the form of long range Company vision which is the pinnacle to which the company as a whole is aiming for, enable the individual family member to have a clear idea of the planned future of the family business and also where he stands in the same. Without a clear understanding of the company vision, the individual family members may be rowing their oars in different directions.

(7) Compatibility of the Family business leader’s personal vision statement – A company with more than one leader, has potential for problems. When there are multiple leaders in the business, the potential conflict between their personal visions cannot be ruled out and they each have different dreams for the future of the business. Resolution of these differences starts with establishment of an understanding of each other’s dreams for the company. Then they must explore ways in which the company can meet the dreams of all the partners. When conflicts are left unresolved, the company will underachieve and there will be a resounding negative impact upon family relationships.

Developing a strategic family plan will touch on many sensitive and difficult issues for family members and working towards a consensus is likely to lead to heated debates. At these moments, it is important to keep in mind the distinction between constructive conflict, where different perspectives are accepted and appreciated, and where debate can lead to positive, creative outcomes, and destructive conflict, which generally centers on disputes about personal identity, relationships and history and where the debate leads nowhere.
The aim of the planning process is to formulate and adopt policies that strike a good balance between the best interests of the business and the well-being of the family, and then to design and establish effective governance structures to underpin these policies. These policies should cover the critical area of family-business relationships, such as the involvement of family members in the business, share in the ownership and management succession. It is also essential that defining policies should be followed by action planning, including identification of family members responsible for implementing aspects of the plan, timetabling the plan and deciding how the implementation is to be monitored and evaluated.

### 3.4 Next Generation Human Resource Management and Leadership Perspective

The next generation grows up in a commercial culture that is radically different from that in which the earlier family members took on the responsibilities. The next generation is increasingly well-educated, cosmopolitan and independent. They have far more exposure to the family work culture as well as the outside world. The conflict between the family systems and the business systems is particularly acute in relation to the personnel issues in family firms. For instance, employing family members who are much less capable for the job, in place of an outsider far more suited for it, or impartially judging the performance of a family member, etc are some classical examples which exemplify the conflict of the distinctive systems.

The next generation joining the family business enjoys certain advantages in terms that the business is already up and running and it need not be started from scratch. Further, job security is assured along with most often, an attractive remuneration package. The next generation family members feel at home and at ease in the conducive work atmosphere, often attracting more commitment and loyalty from them. The younger generations take pride in the sense of belongingness to the family business and look forward to climbing up the hierarchy and even feel confident of a shot at the top positions over a period of time. However, with the pluses, also come the minuses. Family businesses due to their smaller size as compared to diversified multinationals are less expected to survive violent business downturns, thereby putting an end to the security perceived by the younger generation members.
Moreover, when the younger generations are forced to join the family business due to parental pressure, they go through severe emotional dilemma of feeling an obligation and responsibility towards something which their parents have created and given their life to, and at the same time, of the prospect of natural progression and separation and making their own independent careers. Research indicates that most business families do not adequately anticipate the challenges that the next generation will face in balancing responsibility to the family with their own career aspirations. As a result, next generation members often feel under pressure and are poorly prepared to resolve these issues.\(^\text{22}\)

It is highly imperative that the next generation family members should ask themselves some serious questions before they decide whether or not to join. What are the reasons behind the decision? Does the business offer the sort of career I want? Will it be possible for me to live up to the senior generation’s expectations? Will I be able to establish my own independence and freedom to act or will I always be operating in the shadow of my predecessors? How will I get along with the senior generation when we have to work closely together every day? When my mother and father become my bosses, will they behave differently towards me at work? Can I establish a working relationship with my brothers and sisters, or will there be too much arguing and conflict? Will the employees respect me?

The answers to these questions are important for the younger generation to have clarity of thought behind his / her decision. Moreover, it is necessary that each new family member of the next generation joining the family business may be treated on par with any outside employee in terms of having a formal contract, a remuneration package, appraisal terms, role and responsibilities clearly defined, etc. It is also important that they have a clear career path in mind and also this career path is aligned to the idea of what the seniors have in mind and that they both are in agreement on the issue. If the younger generation family member is not in favour of joining and continuing the family business, it is important that the obvious be stated right away, instead of wasting crucial years and resources before making the decision.

as well as wasting the expectations of senior family members in grooming them suitably.

One of the golden rules oft laid out by consultants and family business advisors is that before entering the family business, the next generation should take adequate time to work and to prove themselves in the outside world. This helps in boosting the self-esteem and confidence of the next generation family members, since achieving a bit of a success in unknown territory in the outside world always serves as a confidence booster. Moreover, the outside perspective widens the horizon of the younger generation family member and broadens his span of thought and ability. Also, learning how other firms work will certainly benefit the next generation family members throughout their careers as valuable experience gained in a more larger and more professionally managed company adds to the mental competence of the next generation family member.

Another important issue which needs to be carefully handled while next generation family members join the family business is how they are perceived by the non-family employees. Often, jealousy, resentment and the thought of being born with the ‘golden spoon’ are the most obvious reactions from non-family employees, who see the next generation family member joining the business by reason of being a family member and not on the basis of his or her abilities or capabilities or qualifications. This resentment can manifest itself as not only against the individual concerned, but also against the whole family. Feelings can escalate to such an extent in such situations that key non-family managers simply walk out, placing the survival of the business in jeopardy. A family member’s credibility will most certainly be enhanced if they enter the business with some experience gained outside. It is very important for the younger generation to establish their credibility with the non-family employees. This can be done by demonstrating competent, if not superior, performance, and avoiding seeking special privileges and showing a keenness to learn and willingness to work hard. Respect of the non-family employees has to be earned and not asked for by the younger generation of the family members.

As pointed out earlier, the systems of family and business overlap and create a no-man’s land at the point of overlap where the danger lies. Conflict between the systems
is particularly acute and problematic in relation to personnel practices, for example hiring family members even though an outsider might be brought in who could do the job better, deciding whether to pay family members a market rate or a family rate for the job, and how to judge their performance. The following table provides an overview of the clash between family and business values that apply to the main human resource management issues in family businesses.

**Table 3.4: Overlapping Systems and Human Resource Management**

<table>
<thead>
<tr>
<th></th>
<th>Family Values</th>
<th>Business Values</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recruitment</strong></td>
<td>Provide opportunities to relatives in Need (particularly if they are your children)</td>
<td>Hire only those individuals who are most competent</td>
</tr>
<tr>
<td><strong>Training</strong></td>
<td>Provide learning opportunities designed to satisfy individuals’ developmental needs</td>
<td>Provide learning opportunities designed to satisfy organizational needs</td>
</tr>
<tr>
<td><strong>Remuneration</strong></td>
<td>Allocate allowances in accordance with policies not dependent on the business; for example, need or equality</td>
<td>Allocate salaries/benefits in accordance with the market worth and performance history</td>
</tr>
<tr>
<td><strong>Appraisal</strong></td>
<td>Do not differentiate between Siblings. Regard individuals as ends rather than means.</td>
<td>Differentiate between employees to Identify the high performers. Regard individuals more as means than as ends.</td>
</tr>
</tbody>
</table>


Often, due to family considerations, regardless of ability or expertise, positions of authority within the family business are reserved for family members who, for their part, often feel they have a right to a job in the company. Such recruitment policies based on heredity or the provision of a safe haven for the family members is a strict no-no. Business principles dictate that only people who are the most competent and suited for the job should be employed. It is easy to visualize the senior generation
trapped between the family system and the business system tenets set out in Table 3, facing powerful but conflicting pressures about the best way to resolve family-related human resource management dilemmas. Finding themselves squeezed in this way, individuals generally opt for one of the two strategies – Either they try to find a compromise between the two sets of conflicting forces, or they swing indiscriminately between strict adherence to business principles on some occasions and family principles on others.

According to Ivan Lansberg, an American family business expert, the key to developing effective procedures for managing the contradictions lies in the separation of management and ownership. This involves:23

Examine the relatives who work in the firm from two distinct perspectives: an ‘ownership’ perspective and a ‘management’ perspective. From an ownership perspective, relatives would be subject to all the norms and principles that regulate family relations; from a management perspective, relatives would be affected by the firm’s principles.

Under family principles, family members should be trained according to what is best for them as individuals. Business norms, however, are less concerned with the development of individual personalities and demand that training and development should be based on learning experiences that improve the individual’s ability to contribute to the achievement of organizational objectives. Applying the ownership-management distinction from a management viewpoint, it is important that the training and development of the relatives should depend on and fit in with the firm’s needs. If the family member’s ambitions are inconsistent with the firm’s needs, he has to choose between employment in the family business or following personal plans using family assets.

Another major hurdle that is faced by family managed businesses is what to pay the relatives who work in the family firm. On the one hand, guiding norms of the family regarding wealth distribution play a hand, for example if there are siblings, fairness

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demands equal remuneration, however business principles demand remuneration based on the individual’s contribution to the business. A common tragedy of family firms is that financial incentives are dangled as carrots to attract the family members to the business and often the motive itself is forgotten and there is classical confusion between personal funds and business funds and failure to explain whether the payouts are in lieu of the status of the person as a family member or in return for the job. Most family firms are not comfortable discussing the basis of payments made to family members and various ad-hoc principles and methods are evolved in making payouts to family members. It is essential here that the firms pay according to the market rate and not the family rate for each job. All said and done, however the firms pay their family members working in the firm, it is important that the basis of the same are clearly made known to the family members to leave out any ambiguity.

Another problem which is unique to the family businesses is the appraisal of younger family members, often leading to psychological stress to the senior members of the family. In such a situation, it is simply beyond them to do justice to the requirements of family and business. Again, the problem created by overlapping of systems, can be to some extent minimized by creating a clear distinction between ownership and management principles. It is important that the senior members of the family have clarity on the future roles of the younger members and accordingly appraise them, not only on the basis of their present jobs, but keeping in mind the future positions. Similarly, younger members aspiring for leadership roles in the family business must give evidence of their competence and ability not only for their current roles, but also in terms of their suitability for the positions they aspire for.

### 3.5 Professionalism

Here the term Professionalism is used in context with Professionalization of the Board room or the Board of Directors per se. The role played by the Board of Directors in a family managed business is crucial the long term success of a family managed firm depends on the willingness and ability of the firm to appointing independent outside Directors in the board. Such a board brings objectivity and experience to operational and policy deliberations, and imposes important disciplines in the way the family controlled business is managed and run. By opening up its board to outside
independent directors, the family firm sends a vital message to all interested parties, which is motivating and positive and helps in balancing the interests of the family as well as the managers entrusted to run it.

It is often a difficult task for family controlled firms to accept the basic proposition that outside assistance from a talented and balanced board of directors can contribute significantly to the potential of the family business. The founder or the managing director is often incompatible with the idea of bringing in outsiders in the family firm, and that too at the top level i.e. the Board of Directors. The personal ego and pride of many a founder / chairman have been found to be major obstacles in letting any outsiders be inducted into the board of directors. These senior members of the family controlled business are reluctant to open up the reigns of the company to any outsiders and take any such suggestions as an inference to their personal inability to manage the family firm.

Research confirms that the boards of private, family-owned companies normally consist of family members.\(^2^4\) The board’s activities are often confined to the minimum necessary to fulfill statutory obligations. These boards operate as a rubber stamp and exercise few, if any, of the serious management functions or the authority that can be vested in a board. In reality, the boardroom is seen as a family preserve and often, a negative view is taken of any suggestions about establishing a properly structured board of directors to which they would be accountable. Loss of control and decisions being challenged are the major worries of the family board for inducting outsiders. There has also been a tendency observed amongst longer-established family businesses who have made the move to inducting outsiders on their boards, to inducting equal number of outsiders to the family members on the board, so that the ultimate casting vote is always with the founder/chairman of the family firm making the whole concept of having outsiders on the board a well-thought out farcial exercise.

Disruption of Privacy of the boardroom and having to open up the company secrets to outsiders is often one of the major worries against having outsiders on the board. Informality and privacy of the family is at stake. However, it is essential to note that

directors are bound by a fiduciary duty to protect confidential information to which they are privy too in managing the affairs of the company and it is the duty of the board of the family firm to screen and select only those outsiders who are trustworthy. There is no doubt there exists a trade-off if the benefits of a well-balanced board are to be obtained.

It is important to note that a board of directors with outsiders on it can only succeed if the founder / managing director and the other senior directors open themselves to the idea of having their decision-making being subjected to scrutiny of the outsiders and there being an overall degree of reduction in the power and control exerted by them in the management of the company. Moreover, there is bound to accrue greater transparency in the functioning. It is imperative for the founder / managing director to be willing to submit to the recommendations of the board, for such a board to be successful. This does not mean that the founder / managing director has to relinquish all his powers, but it does help when the board members gain confidence from the actions of the founder / managing director that their opinions are valued and that their viewpoints have an impact on the business. It is for the board and thereby on its members to maintain and act in an environment which is supportive, supplementary and complementary to the sum total of all the skills and experience possessed by each individual board member, rather than create an environment which is adversarial and non-conducive to healthy management of the company.

Therefore it is essential to note that enlisting independent outside directors does not necessarily limit the managing director’s flexibility or ultimate authority as the owner. A good way to make a beginning towards inducting outside directors is to have a selection committee to define the ideal independent director which the company is looking to induct and thereafter drawing up a list of candidates and conducting the selection procedure, either by themselves, or with the help of outside professionalized agencies. The next question that arises is as to what is the ideal size and composition of a board of directors. The experts broadly agree that the ideal size for a family company board is around seven out of which there is consensus in favor of having at

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least three independent directors. The common opinion against having more family members on the board centers on the danger that the board meetings may turn out to be more of family meetings rather than board meetings which would be unproductive for the interests of the business. Another consensus amongst the experts is that the selection of both, family as well as non-family directors to the board must be based on the priorities of management skill and business acumen and the selection committee must decide on the best candidates based on the role description and qualitative attributes defined and listed by them.

Individuals who should be invited to join the board as independent directors include people with a strong track record of business achievements in areas useful to the family company, and people with skills that complement and broaden those of existing board members. Individuals who should not be invited to join the board include long-term professional advisers, such as the company’s lawyer or accountant and key managers – including family managers – because boards supervise management, and managers should report to the board rather than become members. It is similarly agreed to avoid putting spouses and relatives, as well as retired employees and friends, with little to contribute to professionally oriented business meetings, on the board of directors.

One of the essentials for the success of such a board is to have written guidelines in place for the functioning of such a board with clearly laid out rules and responsibilities, as well as clearly laid out authorities and span of such authority given to each board member. The guidelines must also specify who and to what extent, has the powers to supersede the recommendations of the individual directors and with whom the veto powers lie. They must consist amongst other items, items such as reviewing the company’s mission statement and philosophy, remuneration and evaluation of policies, its succession plan, and its strategy process and direction. Other administrative information such as the directors’ terms of office and fees as well as the operational rules such as frequency of meetings, principle of agenda setting, etc should also be incorporated in such guidelines.

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In non-family companies, every board member has equal rights and standing, but owner members on private family company boards cannot realistically be regarded as equal to non-family board members. It must be understood and conveyed in a subtle manner that the owners have the final say, even though due regard is to be given to the suggestions and recommendations of the non-family members. In view of this particularly special situation and the fact that the board will be involved in helping the family resolve issues in the family firm, it is important that the independent directors establish a good working relationship with the family. The board should not, especially the independent directors should not be seen as arbitrators in the event of any division in the views of the family, and instead, if they enjoy and if they have been able to command the confidence and trust of the family members, they can play a valuable role in diffusing potentially explosive situations in the family. Lack of trust and confidence in the independent directors by the family members and developing a view that they are not respected by the family members, in the minds of the independent directors, are sure enough ways of leading to failure of the working of such a board.

Many researchers have concluded that the family managing director is the key to the success or failure of a family business board, in that it is generally the managing director’s philosophy of management that most profoundly influences a board’s ability to function optimally.27 It has been often observed by researchers that in companies where the roles of managing director and chairman are combined, there may be less managing director accountability, leading to less effective working of the board. In the expert opinion, it is preferable to have a chairman who is a family member rather than the managing director who is a family member, as the chairman acts as the ambassador to all the company’s stakeholders and therefore it is more important to have a family member in the supreme ownership role of a chairman. All the directors of the board serve at the discretion of the majority shareholders and if an independent director loses the confidence of the family, a shareholders meeting can be called and he can be removed. For their part, outside directors understand that the shareholders are the ultimate authority, and accept the fact that the business has been created by the family and they have everything at stake in it and if there is a

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difference of opinion between the family and the independent directors, the independent directors have to give way.

However, despite all the pros and cons, it is for certain and unanimously agreed by experts and researchers alike that in order for a family managed business to grow and prosper and keep abreast of the dynamic business environment, it is imperative that it includes and inducts outside professionals, who have knowledge and expertise in areas related to the business of the firm, or who possess special skills, which are essential and important for the board of directors to possess and which are not available in the family. Such outside professionals can go a long way in improving the image projected by the family business in the outside world and at the same time, give the much needed impetus to the board of the family business to enable it to follow a balanced path, whereby rationalization of the decision-making is ensured due to the objective scrutiny of the outside directors present on the board.

3.6 Outside Resources

As the family firm, which started with the able initiative and vision of the entrepreneurial founder, grows and more and more family members join in, it undergoes a gradual transition. As the baton is passed from one generation to another, the company becomes larger and more complex. It becomes imperative that the foundations be laid for a more structured, less centralized organization. The task is significantly more difficult for the family than for non-family businesses because there is a strong temptation in many family firms to depend on internal experience and judgments. This tendency of introversion can be effectively countered by the effective use of outside talent. In a survey held in 2005 of representatives from leading family businesses, when asked what measures had been helpful for them in building unity and teamwork within their businesses, 67 per cent were of the opinion that involvement of external parties (non-executive directors or professional advisors) was the most important factor.\(^\text{28}\)

\(^{28}\) The Survey, organized by JP Morgan Private Bank and administered by Professor Nigel Nicholson and Asa Bjornberg of the London Business School, was conducted during the annual conference of the Institute for Family Business (UK), held in Birmingham on 19-20 May 2005
It is very important for a family firm to look beyond the family once it reaches a certain level in terms of size and numbers. Reasons are very many, firstly, there may not be as many family members available, ready and willing to take on the challenges and roles required to be taken up with the growth of the business. Secondly they may not possess the requisite talent, knowledge, qualifications or the aptitude to taken on the responsibility at hand. Thirdly, changing business environment calls for adaptation and constancy in change in the way business is done. This calls for fresh ideas, fresh perspectives and fresh outlooks - Newer ways of doing the same thing, but in a more efficient manner. The family members may not be in a position to expand their thinking beyond certain and traditional way, the way the older generations have been doing them. There may be a severe lack of fresh blood and infusion of fresh ideas which may be just what the doctor ordered in terms of the survival and growth of the family business is concerned.

Recruiting and retaining talented employees are challenges for any business owner in normal business environment. However, with the added challenge of the family dynamics in play in a family firm, there are more barriers in family businesses to hiring and holding on to talented non-family employees, particularly in executive ranks. The outside talent may be in the form of non-family managers, non-executive directors and advisers and consultants. It is a common experience of non-family managers who find working in the family business at senior levels to be extremely difficult and demanding and due to this, family firms face severe problems while recruiting talented outsiders. Moreover, in the case of family firms where there does not exist a clearly identified vision and set of values and principles, the problem multiplies tremendously. Outsiders may not be tempted to work in an environment where there is lack of clarity in these respects. Further, every outsider may have the question at the back of his / her mind of the kind of treatment he will be given in the firm, given that most of the family members are involved in the firm in some position or the other. Doubts about remuneration and perks packages, impartial work conditions, growth prospects, job security, etc are bound to enter the mind of any outside professional. Many family managed businesses have a tendency to overlook the aspirations of non-family managers working in the business. It is important to let these employees know that there is a future for them in leadership positions and that
they will be given support to training and educating them in a way that will help them develop their abilities, skills and responsibilities.

A common issue non-family employees’ face is that they become the centre where warring family members may regularly dump their complaints against one and another. The outside employee has no other choice but to listen to both parties without showing any favoritism. The family members who complain are the ones who either want to let out their frustration against other members, but cannot do so openly, or the ones who expect indirect action and trespass of information through the outside employee to the concerned family member. Non-family employees also often face the danger of being seen as non-loyal to the company and thereby being excluded from key operational planning and information. However, there is flip-side to these negatives where an outside employee becomes a mentor for the next generation due to his loyalty to the company and also the advantage of working in a non-formal close-knit team atmosphere.

Often it may so happen that the family firm may not have a genuine successor or interim leader ready. Furthermore, as the family business matures, particularly by the time it reaches the third generation, it tends to acquire its own identity, which is distinct from that of the founder. These changes may lead and call for greater dependence on external senior executives as the best means of maintaining the continuity of the business. The company must strive to ensure a conflict free environment in which the family and non-family members can work together. The company must also provide clarity to the external executives as far as remuneration; decision-making and career development are concerned. Creating a healthy environment for their growth means they can gain more responsibility and income potential, if they are able to demonstrate a high level of productivity and efficiency with the family business. Giving external executives leadership opportunities will help propel them to make the greatest positive impact in the business.

There may be internal problems faced by the senior members when talk of recruitment of outsiders is floated as many family members may see it as deprivation of opportunity for themselves. Moreover, the family firm has its own work culture and outsiders may find it difficult to adapt to the same and may also not receive much
cooperation and encouragement from existing members of the family who are in the business and it is for the senior members of the firm to ensure that the initial orientation phase is taken care of smoothly. The external executives need to be kept motivated by showing them a clear career path and of comparability of reward for the responsibility and expertise between the family and non-family members.

Non-executive directors can bring a new dimension of experience and independent objectivity that is not often found among family members or employees. They can make enormous contribution in a family firm, at a very modest cost by providing specialized expertise that may not be available internally, along with a network of contacts that can be mobilized on behalf of the firm. They also serve as catalysts in pushing for significant shifts in corporate strategy or objectives that may be beyond the scope and imagination of internal directors. Since these directors have had rich exposure to the outside world, they provide a window to the world for the internal directors as well as providing a bridge between family shareholders and management and also providing credibility and standing to the board.

Similarly, in the case of Professional advisers and Consultants, if chosen wisely, they can offer an extra dimension of competence, experience and objectivity to issues affecting both the business and the family. They can also contribute significantly to the professionalization and growth potential of the family business.

A point which is worth noting here is that careful attention must be paid at the time of hiring the non-executive directors, professional advisers and consultants. This is so because they come in a very powerful role and can wield substantial power and influence on the family members and if the people who are chosen for the function are not improper, this can result in a disastrous effect for the family firm. Both sides must be aware of potential conflict of interests. A careful definition should be agreed at the outset detailing for whom the adviser is acting, on which matters, the nature and extent of the adviser’s responsibilities, and towards whom the adviser owes a duty of care.