FAMILY BUSINESS

MODULE 5

Meaning and definition

- Family business and small business are not th May large corporates are family owned like Ta Godrej, TVS, Vardhaman etc
- They are businesses that are owned, controlle managed by one or more family members.
- Family firms are organisations where 2 or mo extended family members influence the direct the business through the exercise of kinship t management roles or ownership rights and/or the owner intends to pass on to a family heir.

Structural definitions:

- Focuses on the firms ownership or manageme
arrangements eg: 51% ownership by family m

Process definitions:

- Focuses on how the family is involved in the b
– its influence on company policy, desire to perpetuate family control of the business etc.

- (see page 289 Poornima's book)

Reasons to create formal history

- Founders vision and mission
- Historical accuracy
- Honouring long time employees
- Thanking customers and vendors
- Background for the uninformed.

Benefits of creating history

- Accurate history recording
- Acknowledging contributions of different people
- Contribution of the firm to the society
- Succeeding family members can refer back to the
  and heritage and feel motivated
- Documenting companies contribution to the socie
  boost the confidence of suppliers, venders, banke
  employees, investors
- Strengthen ties within family members
- Improves company image and PR
- Portions of history in brochures videos etc can se
  advertisements

Characteristics of family business

- Legacy: it creates a legacy which brings in a s
pride and accomplishment. Building on streng
the legacy is a strong motivator to the new
generation
- Key employees: key non-family employees ch
the unique working environment created by fa
business. Workplace tends to be less formal, h
on and more personal.
- Patience: family businesses tend to be more lo
term driven than by short term results/goals.
deploy 'patient capital'

Characteristics of family business

- Values: family businesses tend to pass on thei beliefs and values to the next generation. They uphold these values and the work culture wou reflect it.
- Relationships: many employees are treated as extended family members and a strong bond develops.
- Sucession: they favour passing the business to next generation which can be motivating as we rewarding.

Types of family business

Basically 3 types:

- Family-owned business: a for-profit business whe controlling number of voting shares are owned by members of a single extended family or owned by member but influenced by other members of the f
- Family owned and managed business: same as ab terms of ownership but controlling interest permi family members to decide on objectives, policies strategies etc. this business has the active particip the family member in the top management and th family has ultimate management control.

Types of family business

- Family owned and led business: same as abov
the family member is in the board and is in a p
to lead the company in terms of direction, cult
and strategies.

Importance of family business

- Contributing to economic development: play a cru
role in the economic development of any country.
scale retail and service sectors are generally owne
family businesses. (see page 287)
- Spirit of entrepreneurship: they contribute to vari
families initiating and coming up with new ventu
- Trust lowers transaction cost: partnership within
family helps sort out conflicts amicable within the
itself with an interest in safeguarding family busi
Outside partnerships often end up in problems

Importance of family business

- Quick decision-making: as size of the managin
group is small decisions are quicker and timel
- Information as source of advantage: informati
strategies about the business remains a secret
the family and they need not be revealed to an
outside the family
- Community and philanthropy: most family
businesses are very active in their community
support the community with financial suppor
employment opportunities. They help commu
with philantropy.

Importance of family business

- Financial rewards: family businesses tend to r
both family and non-family members with be
rewards than what they could get elsewhere.
- Labour pool: they have access to labour pool o
family members who are more loyal and comm
to the business. They are also more flexible in
on different functions and filling-in for others

Responsibilities of shareholders

Legal responsibilities by virtue of being shareholder

- 1. Elect directors of the company's board annually
- 2. Appoint auditors of the company annually
- 3. Change corporate by-laws when needed, thoug infrequently

Non-legal responsibilities:

- 1. Monitor business performance and be knowled about company operations.
- 2. Monitor financial performance and be knowle about income statement, balance sheet etc

Responsibilities of shareholders

- 3. Attend shareholders' meeting and other imp
functions to indicate family's support to busin
- 4. Ask questions to management in appropria
forums and make suggestions without interfer
with their work
- 5. Understand board member qualifications a
participate in screening of board members
- 6. Check whether shareholders feel they are p
represented in the board
- 7. Be a positive ambassador of the company by
publicly talking and supporting it.

Responsibilities of shareholders

- 8. Keep company info in strict confidence and recognise that shareholders are not entitled to information on demand
- 9. Ask for only affordable and reasonable remuneration from the company and for respo employment and other opportunities for famil members.
- 10. Generate business leads and provide addit investment capital
- 11. Develop spouses and children to be respon towards the business.

Rights of shareholders from managers/b

- 1. Timely information on company goals , strategi important org changes and basic financial status
- 2. Openness by the managers/board to sharehold views on the above in appropriate settings like shareholders meetings
- 3. Ability to participate in election of board memb appointment of auditors, and development of by-l
- 4. Develop fair policies that protect shareholders interests
- 5. Acceptable economic performance by the comp including reasonable dividends and capital gains

Succession in Family Business

- Decision concerning the future operat
and management of the business is cal
succession planning.
- Many family businesses go out of busi
after a decade. 30% survive into 2nd
generation and only 16% to the 3rd
generation
- Life expectancy of a family business is
years

Barriers in succession planning

- Hurdle in succession planning is usually the fo
himself, he hangs on. Attempts to succeed is s
greedy move to swallow the business.
- Sibling rivalry
- Family members' fear of losing status
- Aversion to death, fear of loss or abandonmen

Those who do not make succession planning l
behind an unnecessary burden on those who l
behind

Key factors in succession

- Pressures and interests inside the firm:

1. Family members:

- Pressure to get, control business
- Pressure to select family members as managers
- Pressure to nominate heir
- Pressure to build a dynasty
- rivalry among various members of the family.

2. Non-family members:

- Rewards for loyalty
- Sharing of equity growth and success
- Professionalism
- Bridging family transition

Key factors in succession

- Pressures and interests outside the firm:

1. Family members:

- Income and inheritance
- Family conflicts and alliances
- Degree of involvement in the business.

2. Non-family members:

- Competition
- Market, product, supply and technology influe
- Tax laws
- Regulatory agencies

Developing a succession strategy

- It involves several important steps:

1. Understanding contextual aspects like
   - time- earlier start, the better, need time
   - type of venture
   - capabilities of managers
   - entrepreneur's vision
   - environmental factors
2. Identifying successor qualities
3. Written succession strategy

Pitfalls/challenges of family busine

- Conflicting goals/values
- Conflicting personalities
- Expectations
- Work ethics
- Employment of family members
- Compensations
- Reluctance to plan
- Element of time (tough to manage family com as time passes)

Strategies to improve capability of fam

- Need of professionalism
- Joint family
- Replinishing entrepreneurship
- Good management
- Ability to change
- Strategic plan
- Active board of directors- will help assess 4 ke foundations for business health. CEO's readin succession, critical family relations, ownershi structures, management structures

Role of board

- Board must simulate, provoke challenge and supp leaders
- Typical CEO of fam buss holds the post for a long like 20 yrs
- Not many are brilliant enough to hold it that long leadership is a big problem in fam buss
- Advisors must focus on the company's macro long issues
- Advisory board must have outsiders like 4:3
- Friends, former employees, paid advisors/accoun must not be on the board
- Hold frequent off-site family meetings and have mechanisms to resolve conflicts

Improving family business performa

Certain core business values are responsible for good/bad performance of family businesses.

Dysfunctional critical ***core business values*** impacting fam adversely are:

- Training: formal training, additional training, and working fob for sometime overlooked.
- Future outlook: concern for future and necessity to change seriously lacking.
- Accountability: performance criteria and evaluation and de with non-performers lacking.
- Finances: chronically cash poor because of overdrawing an Vulnerable to business downturns
- Addressing the issue: structured approach to evaluate core like training, future, accountability, finances, decision-mak process, internal communications, method of conflict resol compensation, operating procedures.