UNIT 14 MANAGING FAMILY ENTERPRISES

Structure

14.0 OBJECTIVES

After going through the Unit you should be able to:

- discuss the background to the development of family based enterprises,
- highlight the dynamics of functioning of family based enterprises,
- comment upon the typical strengths and weaknesses of family based enterprises, and
- discuss issues involved in the professionalisation of family business.

14.1 INTRODUCTION

An entrepreneur and a manager need to fully understand 'business', 'management' and 'entrepreneurship', in order to successfully step into today's business world. An understanding of dynamism of these aspects would be incomplete if they are not studied in the context of family or a group of family running business enterprises.

Indian tourism industry is largely dominated by family owned enterprises. Family owned enterprises have always been a matter of great curiosity as they are distinctively different from other forms of business enterprises (e.g., public sector, joint sector, co-operatives, etc.) in terms of their entrepreneurial, organisational and managerial behaviour and styles. This is because their behaviours and styles are subject to the forces arising out of the emotions of family members, personal and interpersonal pressures of relatives of owners, and conflicting interests and values of the family. The uniqueness of these aspects leads a business firm to exhibit a unique set of operational characteristics and face a unique set of issues and problems. This Unit is devoted to the nature of family business enterprises. It discusses issues and problems that are considered important in family owned enterprises.

14.2 FAMILY BUSINESS IN INDIA

The right of possession of private property and its inheritance has been a major factor in encouraging the family business sector in India. The origin of family business firm coincides with the evolution of entrepreneurial firms. In the beginning, a few families were engaged in money lending which led them to accumulate handsome capital. These families slowly moved into commercial activities and craft industries in order to profitably channelise their resources.

In the early nineteenth century, the industrial revolution called for speedy industrial development with greater emphasis on the modernisation of the production unit. This event came as major breakthrough for a large number of families. They promoted, built and expanded all types of industries which the British Government of India encouraged. It is in this context, that family businesses are considered the *sine qua non* of industrial development in the early days of industrialisation of the country.

The industrial enterprises were the result of joint family effort (capital) and therefore family control continued in the form of ownership and management. The family, therefore, became a unit of ownership, control and management of the firm. To exercise this, in the beginning they adopted the managing agency system which was started by British. The system was in line with the need of joint family and became a prominent feature of the Indian social structure. Several commercial and industrial enterprises were run by the managing agency system as a body of decision-making. The managing agency system continued till 1970 as an instrument of maintaining family control over business enterprises. The family business continues to occupy a significant place in Indian industry.

14.3 FAMILY BUSINESS DEFINED

Various terms like 'family owned', 'family controlled' or 'family managed' are used to refer to family business. Terms like 'business houses' and 'industrial houses' are also used in the same context when a family is owning, controlling or managing a number of business enterprises. The central concern in using these different terms is the involvement of a family or a group of family in business enterprises in one way or the other.

Traditionally, a family business was defined as **'an enterprise in which a family or a group of families has invested a major share of capital'**. This definition has not been found satisfactory as it did not clearly bring out aspects like ownership, control and management of a firm.

Donnelley (1964) has defined family firm as **'one which has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family'**.

According to Sethi (1968) **'family businesses are those enterprises managed or controlled by a group of people whose interests are tied together by a family unit'**. Sethi does not consider the close identification of the firm with at least two generations. Davis (1983) has given an elaborative definition of family business: **'family businesses are those where policy and direction are subject to significant influence by one or more familial units. This influence in exercised through ownership and sometime through the participation of family members in management. It is the interaction between two sets of organisations, family and business, that establish the basic character of the family business and define its uniqueness'**. All the three definitions given above indicate the following characteristics of family business:

i) A group of people belonging to one or more families in one enterprise.

ii) Family exercises the influence on the firm's policy direction in the mutual interest of family and business.

iii) Family control can be seen in the form of ownership or in the form of management of the firm where family members are employed on key positions.

iv) The succession of family business goes to the next generation.

In essence, family business in one which is substantially controlled and/or managed by members of family and is succeeded by the next generation.

14.4 FAMILY CONTROL

In the case of proprietorship and partnership, family control is exercised by the direct participation of family members in ownership and management of the firm. In the corporate sector, forms and means of control are variedly applied by families. Three types of control are possible. In the corporate sector, these are: ownership, operation and management. Ownership control is normally held by holding a sizeable block of equity. This form of control represents the voting power of family members. This form of control is a necessary condition to exercise the other two forms of control, i.e., operational control and management.

Operational control is said to have taken place when all key positions at different levels are manned by family members. Under this control family members have decisive power and if professionals are hired, they merely give advice to family members.

Management control is exercised through a Board of Directors where family members are represented. The family members as directors determine the corporate objective and major policies of the firm. A firm may be subject to one or all the three types of control.

To determine whether a family has control over the corporate firm or not, Dutt Committee on Industrial Licensing in India used effective equity as the basis of control. Effective equity was computed as total equity less all categories of passive shares. A family's maximum share out of the effective equity indicated the power of control.

In some cases, power of control is gained on the basis of family reputation. The shareholders entrust the power of control to a particular family, mostly known as business house or industrial house. In such a case, the family or business need not hold a majority of shares.

Different means are used to gain control over existing business such as interlocking of Board of Directors or inter-corporate investment or purchasing the controlling block of share holding in open market.

14.5 VIABILITY OF FAMILY BUSINESS

Family business is the most traditional form of business enterprises. Despite the development of various other forms of enterprises, the family form of business enterprise still dominates. Those who are advocates of professional management argue that the traditional family values of enterprise stability often clash with changing economic goals of sustained investment and growth. They further argue that the traditional family structure is vulnerable in the context of increasing environmental complexity and turbulence. As against this, family business provides benefits which are rarely available to professionally managed firms. Entrepreneurship, dedication, commitment, family reputation, integrity, leadership and initiative are some of the very important qualities of family business. The question whether family business is a viable proposition in the present context is reasonable enough to be raised here. To answer this, let us discuss the positive and negative sides of family business.

Negative Side

The intervention of family in the management of the firm is often considered unhealthy and unprofessional. This affects the organisational efficiency and performance in many respects. Some of the commonly occurring negative effects are discussed here:

i) Nepotism is one of the marked features of family business enterprises. The blood relationship determines the entry into the business and holding of key positions. Merit becomes secondary and even an insignificant criterion for promotion. This affects the loyalty and commitment of hired professionals. The inefficiency of relative-employee is often covered up by the efficient performance of non-relative employees. This ultimately make the total functioning of organisation inefficient.

ii) Overlap between business and family goals is another feature of family business. Logically, the goal of the enterprise is oriented to fulfil the interest and achievement of the family. This, many a time contradicts the survival and growth goals of the firm. Family members very often pursue their personal goals at the cost of sacrificing growth opportunities of the firm. This threatens the long-term survival of the firm.

iii) Family rigidity is the third feature which imposes poor profit discipline. Family members very often prioritise certain aspects of firm's functioning on the basis of family values or family decision. For example, family value is to create a good social image which requires giving employment to needy people. This may affect the profit of the firm. Many times, family members unduly support their pet projects, no matter whether they are profitable or not.

iv) Succession is the fourth feature of family. The continuity of family is achieved by way of handing over the charge of the firm to the next generation. Very often the successors are selected using blood relation as only criterion. They may not be efficient and may not have any experience of running a well-established business firm. In the want of proper succession, a good number of family businesses get into trouble and sometime are led to closure of business enterprises.

v) Family feuds, and contradictions adversely affect professional management of the business as they are not confined to the house alone.

Positive Side

Family, which is considered obstructive to the business performance is also considered a major source of strength and support in many respects. Some of the advantages of family business are as following:

i) The basic premise on which family business rests is its stability and continuity which is linked from one generation to another. The long-term interest of family members in the business often provides the sentiments of family solidarity and natural loyalty. Family members work with each other with greater team spirit to attain a common goal. They make personal sacrifices by taking minimum dividends from the firm and bringing in personal financial resources in the time of financial crises. Many times, business gets greater priorities under their personal needs. Loyalty and dedication of family members have been responsible for continued operation during the hardship period.

ii) The image and social reputation of the family becomes the goodwill of the firm. It helps in establishing trust and credibility in the market. Bankers and suppliers feel comfortable in dealing with such family owned enterprises because of their good image and reputation.

iii) Since stockholders and managers of the firm work unitedly, managers are less sensitive to the criticism based on the short-term performance. They enjoy a great amount of freedom and flexibility in concentrating on long-term objectives of the firm. This is possible only in family business as both stockholders and managers have mutual understanding and trust.

iv) There are other conditions in which the choice of the family form of enterprise becomes almost essential. Entrepreneurs who have worked very hard throughout their life to build the business empire very often desire that the fruits of their hardwork must go to their families.

At the same time, they have many obligations towards the family as they derived the initial capital and emotional support from the family. Therefore, new enterprises adopt the family business form to satisfy family needs.

v) During the transition period, the founder needs trustworthy people to take care of sensitive operations as he or she finds it difficult to manage the business alone. One looks for family members and relatives as a source of strength to fill the transitional gap. Small firms cannot afford to hire professionals and therefore they start taking family members and relatives to provide support in the growing business. The legislative environment has also been indirectly a binding force on the founder to adopt family business to enjoy certain benefits.

The foregoing discussion highlights benefits and disadvantages of the family business system. It has also been made clear that under certain conditions, the family form of business becomes almost essential. As against the family business, the professional management system is being advocated. The professional management system helps transform the proprietary firm into a modern corporation in which family ownership and control are separated. It has been thought that the continuity of family business can be ensured only through professionalisation due to increasing complexity in the environment. The advocates of professionalisation observe that family business, because of its inherent weaknesses like nepotism, favouritism, rigidity and conservative policies, is likely to be vulnerable in the long run.

Professionalisation is certainly a need of the time to ensure stability and continuity of the family business in the long run. However, the professional management practices are not fully foolproof in many respects. Firstly, nepotism and favouritism are also found in professionally managed companies where it is based on caste, community, regions, etc. In fact many decisions of promotions are considered on the basis of these factors ignoring merit. Professional managers are often criticised for lack of entrepreneurial initiative which hamper the growth potential of the business. Their commitment and loyalty to the business are also doubtful as they do not have any stake in the enterprise. Infact, the so-called professional managers have yet to prove professional excellence to create an image and goodwill. Moreover, the supply of professional managers is not adequate in the developing countries.

Despite a few weaknesses of family business, it is still a useful system to achieve pace in industrial development. The unique supply of entrepreneurial and managerial resources from the business family has been responsible for the large-scale success of business houses of the country. Family business has continued to be viable even in the present context because of its ability to respond quickly to the changing needs of business by making drastic internal adjustments.

Check Your Progress–1

1) How do families control a firm?

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2) Discuss the positive aspects of family business.

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14.6 FAMILY MANAGEMENT PRACTICES

To get acquainted with the family business, it is necessary to learn some of the commonly employed management practices in family business. We describe here some of the choices of management control that are available to the founder along with the internal work environment, organisational structure and delegation.

1) **Management Control Mechanism: Choices**

The family business consists of two systems: family and task systems. The task system is subject to the influence of the family system and is determined on the basis of norms, values and principles of the family and its members. The family has different options through which it can control and manage the task system:

i) In the first case, the founder may decide to exercise direct control on the management of the firm. This is a normal feature in proprietorship and partnership firms. Under the direct control systems, family members are given a certain number of shares with the assurance of power of voting. All important decisions are taken by the founder which are binding on the other members of the family.

ii) Another choice the founder has, is to dilute his or her authority of direct control by consulting a few selected family members before taking important decisions. Certain areas are clearly defined where approval of the family members is needed. For example, any decision concerning capital investment needs the approval of family members.

iii) The founder uses professionals to carry out the management function. The founder clearly defines the boundaries between business and family decisions. Family members are assured to ownership control while business related decisions are taken by different heads of business.

iv) The founder may decide to place the firm under the full control of the family. Family members are involved in the early stages of enterprise development at different levels to take charge of various management functions.

2) **Internal Environment**

Family business consists of two sets of individuals: family members and non-family members. The sentiment system of the family system is at its core and made up of those individuals who are bound by emotions and loyalty. The non-family members are subject to the rules made by the family owning the enterprise.

The general feature of the family business is that the top man is surrounded by a loyal cadre of top-management personnel who are highly trusted individuals and are with the enterprise from beginning. They have normally grown with the firm and exhibit intense feeling of permanent relationship with the founder. The forces of traditions, kinship, caste and religion support the integrity of the family business. Relatives of the family members are hired and placed on key positions of the firm. They get fitted in the internal environment of the firm more easily that non-relative employees. The relatives have free access to the top man no matter at what level he is, while non-employees have to strictly adhere to the formal channel.

Decisions are taken by the family members and power to take decisions is normally centralised at the top. Professionals are hired to give technical advice and they do not possess any decision-making power.

Since relations are considered as one of the basic criteria for selecting people to top and middle levels, non-relative employees at junior levels suspect the authority of those who are at the top and feel that they do not deserve it by competence. They often complain that it is difficult for them to work productively with the non-competent family members/relatives. Competition among family members/relatives – non-relative employees normally leads to subtle rivalries amongst them. This creates a climate of poor interpersonal relations and groupings.

Objectives and policy direction of family business are oriented towards the goals of the family. Therefore, the internal environment of family business is geared to reinforce and perpetuate family pride and tradition.

3) **Organisational Structure and Delegation**

Normally, the organisational structure of family business is hierarchical and decision-making authority is centralised at the top. The organisation is structured on the functional basis: functional specialists and managers at intermediate level are often between the top and workers. In practice, the hierarchical system reduces the enterprise to one-man show. As a result, formalisations are kept to a minimum. It is very often observed that no written documents are kept which detail out rules, regulations and operating instructions of the organisation. Job descriptions and organisational charts are rarely available. The family business also avoids standardisation as no specific policies are clearly stated. Decisions are taken mostly on internal judgement.

In such organisations, delegation of power does not really take place in a formal sense. Functional specialists play the role of advisers while managers at intermediate level do not really exist in practice. They are communicated of decisions for which they are responsible for implementation. However they have no power to take decisions. Very often, family business organisations have a large span of control as almost everyone excepting workers keep reporting to the top man. To sum up, organisation and management in family business are based on personalised modes rather than professional modes.

14.7 ISSUES AND PROBLEMS IN FAMILY BUSINESS

Family businesses are often criticised for their lack of professionalism in dealing with environmental complexities more efficiently. Intervention of family in the business affects business-like responses to various situations of opportunities and threats. As a result, more and more family businesses are getting into trouble. Problems that most of the family businesses get into are: conflicting business and family norms; rivalry among family members, professionalisation and problems of continuity. In the past, these problems have led even the most successful enterprises into severe problems causing sometimes the collapse of business enterprises. Some of these issues and problems are discussed here:

i) **Business vs. Family**

Family businesses very often face this unique dilemma to make a choice from alternatives that is best for the business against the family norms. Given this choice, decisions are very often made in the interest of the family and not business. Values, norms and principles of the family are incongruent with that of business. This leads the family business to operate under the normative ambiguity. Human resources and growth opportunities are adversely affected due to this conflict. With regard to human resources, family management due to its obligation towards the family select, promote and compensate family members and relatives considering relationship/kinship as a major criterion.

The family norm of providing help to relatives by way of giving them employment often encourages incompetent persons getting priority over qualified professionals.

Similarly, compensation is determined on the basis of the position of the relatives in the family and their needs whereas the business norm is to compensate according to one’s merit and competence. Even in the case of appraisal, family members are appraised on the basis of their standing in the family rather than performance.

Training and development of employees should be done as per the needs of the organisation. But, in family business, it is often done on the basis of the needs of the family members for their own development.

Because of certain family norms or principles, a number of growth opportunities are lost. Family principles include not to have outsiders meddling in family affairs. This can have adverse effects. For example, when the growth opportunities need raising of extra capital through equity financing, the family may decide not to go for equity financing as it means loss of freedom of family in the business. Such interests of family may weaken the organisation and make it more inefficient which in turn threatens survival.

ii) **Rivalry among Relatives**

A number of family members of varying age and relationship participate in the family business. They very often clash with each other because of conflict of interests. This causes the breakdown of communication and creates barrier to organisational integrity.

The founder's relatives occupy top positions in the family business. The rivalry starts right from father to son and spreads soon among brothers and other relatives. The father-entrepreneur normally considers his business as an extension of himself and only source of power. Despite his being consciously aware of the need to groom his son to ultimately take over the business, he never gets down to delegate the authority to his son. He does not even share necessary information with him nor consult him while making important decisions. He very often presumes his son to continue to follow traditional styles of management and resists any change in the organisation initiated by his son. The son, on the other hand, feels confused when he gets to know a number of decisions already implemented by his father contradicting his future plans. He feels that he is not fully equipped with the required level of authority to bring in changes in the organisation. He starts feeling that his father is too protective and does not trust his ability. This rivalry often leads to infighting with the organisation.

Brother to brother rivalry is equally intense in family businesses. The rivalry is caused due to their anxiety to prove their mantle better than the other. Competition with each other often amounts to pulling each other down at the cost of organisational resources. The rivalry further gets complicated when other members of the family directly or indirectly favour one of them. Under such circumstances, a few family members can even take actions which may lead the firm into disaster.

Rivalry among relatives often leads to factional decisions that spring up in the organisation as the non-relatives starts choosing family members with whom they want to be identified. Many a time, non-family employees do not want themselves to be involved in a family fight until it is resolved. This can paralyse the working of the organisation.

Such rivalries are the peculiar phenomenon which obviously arise owing to clashes of interests and ego. The organisation becomes directionless. Even the founder becomes helpless to resolve such conflicts as every member tries to defend his action. Slowly the business moves towards distability and finally becomes sick.

iii) **Problem of Continuity**

Every family business has to face the problem of continuity or succession when the original founder retires or dies. There has to be someone to take the charge of the business to ensure continued inheritance to the next generation. It has been noted that even the most successful business firms have suffered a setback due to improper succession or non-availability of competent successors.

The successors are selected on the basis of blood relationship, no matter how competent the successor is in running the business. Infact, in most of the cases, the prospective successor is ignorant of business experiences and does not possess entrepreneurial abilities. Further, the inexperienced successors often start from the top and therefore remain unaware of the dynamics at lower and middle levels.

The outgoing entrepreneur generally tries to groom one's successor informally for the job. Such training has limited benefit for the successor as the process of learning is unsystematic and inconsistent owing to the protective nature of the entrepreneur.

Many a time, succession is unplanned and therefore in the event of death or early retiring of the founder, the eligible successor is chosen to run the business. In such conditions, the successor is not psychologically prepared to take charge of the business. A few family members or relatives take undue advantage of the situation and try to mislead or misguide the eligible successor.

Apart from the problem of the choice of successor, the process of succession itself is complex. The founder considers the enterprise as his or her own 'baby'. Despite awareness of the need of handing over the charge to the next generation, he or she keeps hanging on to it, does not delegate the power and continues to take important decisions. As a result, the successor feels overshadowed and frustrated. The successor and the founder continue to resist each other's actions on matters concerning any change.

In the case of the second or third generation successors, when there are more than one eligible successors in the family, the distribution of assets and activities of business becomes difficult. It often results in split. If not efficiently handled the business gets paralysed for want of proper settlement.

The successors often lack credibility in the organisation as blood relation and not professionalism the sole criterion. Employees often resist their authority. Efficient and loyal employees feel threatened and therefore start quitting the enterprise. Suppliers and bankers might also withdraw owing to unstable situations created due to takeover by the newcomer.

In many cases, successors are not able to replace the leadership of the previous entrepreneurs. They are often resisted for any initiation of change in the organisation.

Because of the peculiar problems of succession, even the most successful businesses have suffered serious setbacks.

iv) **Professionalisation in Family Business**

It is argued that the family business system is desirable at the stages of enterprises initiation and survival. But when the business starts growing, it is desirable to replace family management with professional management. The traditional value oriented family management may clash with economic goals of growth. In the wake of increased competition and complexity, the traditional organisational structure and decision-making system is more vulnerable. Family businesses very often are not adaptable to the requirements of modern industry and technological changes. Needs of growth and modernisation call for adoption of professional management in family business.

Professional management consists of a team of managers whose primary occupation is providing management services without having any substantial ownership stake. A team of professional managers performs the function of entrepreneurship and management of the firm. The team holds key position in the firm on the basis of technical competence. Professional management is expected to achieve excellence in building human, physical and financial resources, and capture new opportunities of growth with professional approach through research and development.

Looking to the need for professional skills to cope with growth, every family business has to consider whether to adopt professional management or not. The family managers often resist this alternative on the ground that family will have no control over the management to protect its interests. They will not be able to help their relatives by way of providing jobs in the business.

A few family businesses which have introduced professional management have not been able to cope with the transition problem. This is because family members continue to keep certain key positions and take all critical decisions. Professionals are hired in the capacity of technical advisers only. They are not given full charge of the management of the firm. As a result, professionals remain largely ineffective in the organisation. Even cases where professional management has taken over, family members continue to interfere in the working of managers by virtue of ownership rights. The performance of professionals is greatly hampered because of non-co-operation and lack of acceptance on the part of the family.

Family businesses are not able to respond competently to changes in environment owing to their inability to adopt professional management practices. Because of inadequate supply of professional managers, many family businesses cannot have professionals. Family businesses are vulnerable to the increasing complexity and competitiveness in the market owing to their lack of professionalism.

At the same time, we have cases where the family businesses have been able to successfully integrate professionalism in their business and achieve high growth.

14.8 COPING STRATEGIES

The natural resources of family business like commitment, loyalty, initiative, entrepreneurship, financial resources, family image, etc. have to be used more effectively. For this, is essential that family business develops certain key advantages and overcome certain inherent weaknesses. Based on the experiences of some successful family businesses, the following coping strategies are suggested:

i) **Linking Family and Business Goals**

Successful family businesses are the ones which have been able to establish a close link between family and business by clarifying that the goal of the family can be achieved only if the enterprise achieves its long term goals. Participation of the family members should be allowed as long as it contributes to the enterprise's long term strengths. Such a stand should be made clearly at the time of enterprise initiation or when the involvement of family begins. Strategically, eliminating some amount of family participation strengthens the leadership of the family members who are in the business and ultimately result in better performance.

ii) **Recruitment of Relatives**

The best managed family businesses have adopted the policies of not recruiting relative employees at all. The needy relatives are helped by the founders to find jobs elsewhere. This may be considered too rigid a policy as there may be professionally competent person in the family or a relation who would not be selected purely on the ground that he or she happened to be a relative of the founder. Instead of having such a rigid policy, one may have a recruitment policy stating that relatives may be considered for employment provided they stand up to the company's standards. This way the business norms are not sacrificed to the interests of the family.

iii) **Avoidance of Nepotism**

In family business, family members as employees get several undue benefits. In order to avoid this, the successful businesses adopt firm personnel policies applicable to both relatives and non-relative employees. It may be clearly stated in the personnel policies that one may be given an opportunity to work in the business because of the relationship factor but his or her growth within the firm would depend solely on competence and merit. Relative employees, like non-relative employees, are subject to performance evaluation which should be carried out by independent people. This would greatly help the family business to avoid nepotism and favouritism within the organisation.

iv) **Task Structuring**

It will be unrealistic to imagine a family business, however successful it is, to remain away from certain inherent issues pertaining to the family. It is also possible that despite all possible efforts to avoid, a number of family issues in business may continue to remain unresolved. In such a case, to save the business from possible consequences, the primary task structure of the organisation may be designed in a manner to minimise the negative effects on its performance. A number of strategies for task structuring are suggested here:

a) The founder must try to identify those critical operational activities which need to be adequately supported to ensure at least the survival of the firm. He or she may structure them in such a manner that all important operations continue to take place without any disturbance despite pertaining conflict amongst the family owners-relatives. Powers may be given to competent people who need not have to go to any of the family members for frequent approvals as long as they are carried out as per the guidelines.

b) The firm must create reserves to meet any contingencies occurring owing to non-co-operation of family members. There could be extra staff to compensate the possible loss of work because of incompetency of family members to carry out a given task.

c) While carrying out the structuring of the task system such areas should be identified where conflicts among family members are likely to arise. In these areas more professionals may be employed. At the same time, family members may be entrusted with those areas where the chances of conflict are less.

d) The founder should take extra care to keep the morale and motivation of the employees so high that they continue to remain committed and loyal to the firm. They are likely to be the only individuals who can be entrusted with higher level of responsibility in times of conflict for ensuring smooth functioning of the organisation.

e) Very often, the founder refuses to accept certain lapses in the organisation which are results of family issues. This leads to a state of confusion in the organisation resulting in family members blaming each other for poor performance. The founder should accept certain given problems and issues as weaknesses because of family based management system. This would help avoid unnecessary anxiety and conflict in the organisation.

f) The task system should be loosely structured so that enough flexibility is built in. The bureaucratic structure is very much vulnerable during a period of conflict. In the case of conflicts or blocks being created to routine functions, a middle course should be adopted.

Check Your Progress–2

1) Discuss the management control mechanisms in family business?

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2) How can professionalism be introduced in family business?

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14.9 LET US SUM UP

Classical management principles and theory have ignored the influence of family in business management. The management practices in family business are different. Decisions and actions in family business are not always taken in the best interest of the business, it's perpetuation and growth but in the interest of family for its values and principles. Management styles are based more on personalised models than professional models. Because of this the family based management is more vulnerable in the face of uncertainty and complexity of environment. But in practice, things are different with family businesses. They have not only been able to sustain themselves in the business world but have also grown in large numbers. Today, family business represents the largest segment in Indian industry and makes significant contribution to the economic development of the country.

The successful performance of family business can be attributed to its natural resources like commitment, dedication, loyalty, initiative spirit of entrepreneurship, financial strength, etc. However, family businesses do suffer from certain weaknesses like nepotism, favouritism, rigidity, conservatism, etc. These weaknesses can be overcome by adopting certain policies and strategies. Strategically, the founders may eliminate some amount of family participation to strengthen the leadership of those family members who are in the business. They should adopt policies to avoid recruitment of family members on the basis of relationship only and do that on the basis of competence. The personnel policies of family business should be equally applicable to both relative and non-relative employees. The task structuring should be done to minimise the negative effect of family conflict and allow at least routine functions to take place smoothly in the face of any major conflict or calamity.

14.10 CLUES TO ANSWERS

Check Your Progress–1

1) Base your answer on Sec.14.4.

2) Five positive aspects have been dealt with in Sec.14.5.

Check Your Progress–2

1) Mention the four points discussed in Sec.14.6.

2) Base your answer on Sec.14.8.

Activities

1. Take a survey of the small enterprises in your area/locality. How many of these are family owned enterprises. Do these enterprises fall into the category of family businesses as described by Davis?

2. What are the characteristics of these family based businesses which set them apart from non-family based business?

3. With respect to the enterprises you studied for Activity 1, describe the ways in which family control is exercised in these enterprises.

4. Take a sample of five small scale enterprises which are family based. Talk to the entrepreneur with respect to his problems. How many of these problems can be ascribed to family ownership. Can you suggest some solutions to those problems?

5. From among the sample you studied for Activity 1, choose some family based enterprises which are very successful organisations. What are the coping strategies that they have followed to overcome problems associated with family management?