[Frequently Asked Questions]

Management of Family Business - 1

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Unit No. & Title:	Unit – 4 Management of Family Business
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Frequently Asked Questions

Q1. What is Family Business?

A1. Family business as a term conjures up different meanings to different people. It refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants.

Q2. Define Family Capital.

A2. It refers to the resources held within the family that can be accessed by the business. Whenever these resources or assets outweigh the liabilities of the firm, then it can be said that the firm has family capital. Family capital refers to the summation of social, human and financial resources at a firm's disposal.

Q3. What is the difference between social capital and Human Capital?

A3. It is the social capital parameter that distinguishes a family firm from the non-family firms. A family firm cannot hire social capital. It comes from the relationship fabric in the family, where more the trust, more it fosters cooperation. Human capital refers to the knowledge, experience, ability, dynamism and energy roped by each of the individual family members.

Q4. Define Financial Capital.

A4. Financial Capital in family business usually witnesses sharing of financial resources among the members, directed at sustaining and developing the business. Family businesses that share a good reputation at the market place end up attracting financial investments from external agencies too.

Q5. How is Finance capital different from human capital?

A5. Human Capital refers to the knowledge, experience, ability, dynamism and energy roped by each of the individual family members. A strong human capital can be treated as a potential resource advantage. Even the family members who are not directly serving as an employee in the firm can be still treated as a human capital when they have positive social relationship with the employed family members. In family business, this stock of human capital can be allotted to business, governance system or family, making the resources mobile to the relevant areas. Finance capital on the other hand, witnesses sharing of financial resources among the members, directed at sustaining and developing the business.

Q6. What are the challenges of recognizing conflict in family based enterprise?

A6. Some challenges while recognizing conflict in family based enterprises include, challenges:

- On account of founder members, who are skeptical and in denial for chalking an effective succession plan.
- On account of the informal influence of the family members who are not owners nor are they part of the management team.
- On account of the disagreements related to "passing of the ownership" based decisions; often seen between parent and child relations, the passing of the beneficial treatment to the eldest son, can lead to concerns based on non-equality of rights.

Q7. What are the reasons that make family based conflict complex?

A7.

- Family complexes the conflict by making it inevitable to accommodate the varying interest of the immediate as well as extended family members.
- It is the family norms that dictate the tone of the negotiations in wake of a conflict. When there are multiple family members working for the business, the role and influence of these family norms intensifies.
- The power dynamics in a family business is indeed very unique to family business.

Q8. Discuss the Power Dynamics in Family based firms.

A8. The power dynamics in a family business is indeed very unique to family business. Unlike a non-family business, where the ultimate power to make decisions would rest with a CEO; in case of family business, this power can be far more scattered since most of the family members would have access to important information and decisions. Thereby even a non-owner family member may end up influencing important decisions.

Q9. What is the importance of profit in family based enterprises?

A9. In a family business, profit is much more important in sustenance since it necessarily fuels survival and cushions liquidity concerns. Access to profits can be a very touchy area in family businesses, where the senior family members may question writing off too much stocks to the young adult stockholders, and family members may feel powered or threatened on the basis of this distribution.

Q10. Give an example of recognizing conflict in family businesses.

A10. A majority of the businesses are family owned. A McKinsey report claimed that 35% of billion dollar plus businesses in emerging markets will be family owned by 2025. The old adage of "blood is thicker than water" is losing its credibility and many family business conflicts are testimony to that. Sons separating or siblings creating uneconomical assets split to suit their greedy requirements to amass additional wealth and independence is widely prevalent. Another rising issue is the splitting of the spouses, leading to settlement based conflicts which can put to risk the company's ownership structures and also at times, stake detrimental effects on share prices of the firm. Most of India's biggest companies, which apparently are global brands are Reliance, Dabur, Bajaj and Tata. Reliance was in the spotlight for a considerable time period over the unpopular family feud leading to the split of the business empire between the two brothers, Anil Ambani and Mukesh Ambani. Usually conflicts are based on power and ownership based issues.