[Academic Script]

Management of Family Business - 2

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1. Introduction

In the preceding section, you were oriented to the core concept of family business. We took a brief overview of the concept in Indian context. We discussed the existence of conflicts in a family business, the associated challenges and the relevance of conflict management. In this session, we move to some precise conflict management strategies, the concept of governance of a family enterprise and also how can a family business be endured for a future generation.

Objectives:

- To orient you to the conflict management strategies and how each affects business in its unique way
- To accustom you to the concept of governance in family enterprises and how it operates at multiple levels
- To understand as to how a family business endure with time to be experienced by successive generations.

Conflict Management Strategies:

An ideal conflict strategy must yield positive outcomes for a family business, must accommodate multiple perspectives, must redress an array of issues and maintain positive relationships. There are five conflict strategies that can be applied to tackle conflicts in family business. They are:

A. Competition:

This strategy is most compatible with authority. Based on the theory of autocratic authority, in case the solutions to a conflict are forced or imposed. If owner is a part of the conflict, then its most likely that the solution shall be more intended towards the owner's satisfaction. Thus, competition as a conflict strategy will not incorporate the concerns of all members and may not address all issues of family and business. It may not lead to either adaptation or cohesion within the firm. Also it is not likely to be associated with high positive family outcomes and/or business outcomes.

B. Accommodation:

It is the extreme opposite of competition, wherein the self comes only after the others. Accommodation rests on the premise that the needs and desires of others must be fulfilled, even if it means neglecting those of one's. This strategy reflects immense support and acknowledgement of the concern of the others, thereby will lead to greater cohesiveness and stronger relationships. However, a very highly accommodative owner can end up sacrificing the business's interest to satisfy the family members.

C. Collaboration:

This strategy attempts at satisfying all the parties involved in a conflict. There is a willingness to adapt to the needs of the other parties, like *Accommodation*. However, this is not done by succumbing to the needs of the others, but by devising a *win-win* situation. This can be a time and effort consuming strategy and it breeds on communication skills of the involved parties, the extent of openness in communication, mutual trust and support. It definitely can lead to very positive family outcomes. And since it fosters open communication, it will also lead to better adaptation and learning, enabling positive business outcomes too.

D. Compromise:

It may appear similar to *Collaboration* and will lead to similar outcomes too. The only difference here is that the concerned parties are required to forgo some if their needs to the counter party and arrive at an acceptable solution. But since in this approach, something is given up, it may not necessarily lead to complete satisfaction. This approach is relatively distributive. Thus even *Compromise* will lead to positive family and business outcomes, but not as satisfying as *Collaboration*.

E. Avoidance:

It is a failure to resolve conflicts. In this case, the individuals are either in denial or simply do not want to discuss it out. Since it limits in face-to-face confrontations, it can directly lead to bottling up of frustrations, which can hamper performance directly or indirectly. This strategy can work for issues that are not essentially very relevant or for issues where it is desirable that the concerned person calms down with time. It is definitely not conducive to relationship-building. Excessively resorting to this strategy can lead to piling up of unresolved matters and heightened tensions. Thus, *Avoidance* as a strategy does not lead to any positive business or family outcomes.

2. Governance of the family Enterprise

Governance refers to the process of setting up a system that defines and oversees enforcement of the rights and duties of a family enterprise vis-à-vis its participants, the owners, managing team and the family. Effective governance ensures a smooth functioning of the firm by way of setting up charter and policies that reflect the values of the family and the enterprise and that a consistency is maintained in the overall affairs of the business. Governance includes all parties within its realm; that is the owners, management, employees, suppliers, customers, the regulators, government, lending institutions and the community. Governance in a family firm is to be applied at three levels:

(I) Enterprise Governance

An enterprise is susceptible to change over time. Along with the growth of the enterprise, the components of governance evolve too. The components are:

- Individual Entrepreneur: The founder would have started more at an informal note, only to evolve more formally and systematically over time.
- Partnership: With time, through marriage or extended family structure, the business may get new partners.
- Corporation: A formal structure created with time, to provide a governance system so as to limit the liability on assets and to attract external investments.
- Shareholders: The enterprise is bound to adhere to legal obligations with respect to shareholders, more and more with time and experience.
- Board of Advisors and Directors: The enterprise starts to seek assistance from consultants, lawyers, accountants for concerned matters. Eventually, the enterprise banks on the directors to represent shareholder interests and also to make the management accountable to achieving stated goals.

(II) Family Governance

Family Councils are an effective way of governance, formed as a representation of the interests of the family members. Typically, a family council will comprise of family members, irrespective of their ownership status.

Some functions of the family council are as follows:

- Helping family members to recognize their individual and collective goals.
- Developing a communication framework and flows for family members within themselves and with the business.
- Becoming the voice of the family members to the ownership.
- Orienting and developing the next generation owners and family members.
- Offering development opportunities to all family members.

(III) Owner Governance

Generally large family enterprises form ownership forums to handle matters pertaining to the interests of the owners of the firm. It is formed exclusively of the owners, which means it doesn't include family members who are not owners of the enterprise.

The functions of the ownership forum are as follows:

- Developing formal structure, codes, policies and procedures for the owners
- Fostering collaborative spirit among the owners
- Coordinating the decisions of the owners
- Responding to the concerns of the other interest groups

Thus the governance component on the family business phenomenon is an all-encompassing dimension including the family, owner as well as the enterprise as a whole.

3. Enduring Family Enterprise

A successful family enterprise needs a constant balance of the interests of the family members with/against the interests of the enterprise, which needs the concerned people to hold character, commitment and competency. Usually such enterprises can become quirky with their unique cultures. Professional advisors can come to be of great assistance to family firms since they carry the requisite skill set of communication, legal, accounting, strategic planning, leadership, management, investing and conflict management.

Also an important parameter in enduring a family enterprise with a future, is the need for an effective succession planning. This decision is primarily driven on two key considerations: one is the size of the business, and second is the ability in terms of technical, managerial and commitment, for handling the responsibility. A new trend in this respect can be witnessed in the rise of women taking over in family firms. The tradition confined the power and the right to the eldest son or a male heir. However, the contemporary family enterprises have considered their daughters and other female family members to be an equal partners in the battalion, thereby exposing them to many and equal opportunities like the male members.

Some businesses are future oriented from the beginning where one of the most prominent goal is to accommodate future generations in the business. Such enterprises are bound to reflect on a high stewardship, cautious financial decisions, futuristic investments and building social capital through enduring relationship with various interests groups. Looking at them in some detail:

Financial Conservatism: An enterprise concerned with the long term survival, shall be precarious with the finances and shall coin considerably conservative financial strategies to that effect. It may assume the form of low debt, good liquidity and sound balance sheets. Such strategies yield a financially healthy firm for the future successors.

Reputation Building: It leads the successors with the custody of strong brands and goodwill. It is achieved through meticulously planned R&D investment, innovation practices, advertising strategies and various branding based measures undertaken.

Building Social Capital: This includes actions directed at building strong collaborative alliances with partnering agencies like suppliers, intermediaries, associations, government agencies and customers. Such firms will garner such associations with generous investments meant to oil the relationship network to run through a long time in future for successive generations to take advantage of such well built networks.

One such case of an enduring enterprise is the Murugappa group, which has built an immensely successful business enterprise for over four generations. The business is presently run by the third and the fourth generations, managing its many SBUs scattered in an array of businesses. They have also been acknowledged as an age old contributor to the greater good of the society. The Group has a widespread presence in multitude of industries like sanitary ware, fertilizers, financial services, ITES, insurance, plantations, automotive parts, abrasives and bio-products. They have a pattern of male family members joining the group as junior executives, working their way up based on their performances. Senior family members train them

and mentor them on family and business values. Female family members do not venture into business.
It was in 1999, that the Group's ownership and operational management were separated. The CEOs of the SBUs were moved to the Board of Directors positions and were moved to the headquarters, where they were joined by three other non-Group directors and were also joined by the first outside-the-Group Chief Finance Officer. It must be mentioned that this process of transformation and stabilization under the chairmanship of M V Subbiah, was smooth and sans, the hiccups.

4. Summary

Conflicts are an inevitable element in family business, and one that characterizes its uniqueness. However there are certain strategic pursuits that can deal with conflict based situations, and each have a distinct effect on family and business outcomes. Family business governance is a distinct field, which commands governance at three levels of Enterprise, owner and family, holistically contributing towards effective governance. An enduring family business is one that goes beyond the present generation, and intends to survive successfully to provide for the future generations to come. Succession planning is an important dimension in this matter. A well run enterprise of today backed with an intention to build a highly reputed brand, conservative financial strategizing and a considerable degree of investment in social capital building is the key to enduring a family run enterprise to a glorious future.