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6. Investigating the Challenges of Family-Owned Businesses in the Corporate World

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ABSTRACT

A strong scholarly and professional interest has been noticed in the field of Family-owned Businesses (FOBs) studies. Various researchers have conducted studies on different dimensions of family-owned businesses. An effort was made in the present study to have an overview of the various studies on FOB and identify the research gaps that can be used for future studies. A thorough investigation of the available literature revealed that family-owned business is quite an attractive business structure globally, but very few studies have been done to analyze the factors that influence small and medium size FOBs.

The unique family business characteristics, challenges and opportunities stated in the theoretical framework can be applied to the family businesses used in this research. Our economy depends on the success of family-owned businesses, but only one third of these organizations successfully transition to the second generation and only one in ten survive to the third generation. While a series of best practices attempt to prescribe solutions their challenges, these practices fail to account for the various types of family-owned businesses. Family Businesses form the pillars of most economies across the globe.

These businesses are a major contributor to wealth creation and employment creation which at the same time have ensured that quality products and services reach to the consumer. Most successful multinational business has commenced their operations as Family Businesses and has successfully grown to be multinational brands. These businesses they have their own set of strong points as well as weaknesses. Like any other business, corporate governance is as much of concern here. In this paper we will discuss. Investigating the Challenges of Family-Owned Businesses in the Corporate World.

KEYWORDS

Challenges, Family-Owned Businesses, Corporate World, Opportunities, Organizations, Governance, Economies, Long-Term, Employment.

Introduction:

In the current business scenario, Family-owned businesses (FOBs) are becoming a backbone in almost all economies across the globe. This type of business represents a significant part of the global economy; therefore, it is important to know about the factors influencing family-owned businesses.

There are many researchers who have contributed to the field of family-based business through conducting a variety of studies on this topic. The investigation herewith aimed at finding out the factors influencing family-owned SMEs; therefore, the available literature is investigated. This research delves into the scope of conducting research on the longevity of family-owned SME 's. Therefore, the title ―Analyzing family-owned SME 's & factors influencing it‖ is self-explanatory. Identifying the factors for their long-term growth can indeed be helpful not just for these businesses in particular but also for India as a nation. Hence, it is apparent to choose family-owned SME businesses and factors for their long-term growth as the topic of research. [1]

Family-owned businesses have their own challenges that are unique. Let's take a look at some of those challenges that seem to haunt all family businesses at some point in their life cycles:

1. Emotions Unique Within Families:

It's an unusual family-owned business where relationships are formed and thrive without emotional components like trust, love, and affection. But negative emotions like resentment, jealousy, and rivalry can create serious problems within the family business.

2. Entitlement:

When family business ownership is passed by inheritance, there may be heirs actively involved in leading the business, heirs who are employed in non-leadership positions, and other heirs who are passive owners. A common problem among the various categories of owners is that family members feel entitled to a return on their equity in the form of dividends.

3. Employment:

Managing employees and maintaining good human resources practices are challenges in any business. Employer liability under state and federal laws can arise in many ways, from wage and hour issues to claims of discrimination, harassment, unfair labor practices, OSHA safety issues, ERISA requirements for pension plans, workers' compensation claims, and unemployment compensation. [2]

Importance of Family Businesses in the Economy:

Family businesses play a critical role in the economy, contributing to job creation, economic growth, and community development. Here are a few reasons:

Job Creation- Family businesses are often major employers in their communities, providing stable jobs for local residents. They also tend to have lower turnover rates than non-family businesses, which can help create more consistent employment opportunities.

Economic Growth- Family businesses are a significant driver of economic growth, contributing to local and national GDP. As family businesses grow and expand, they create new markets and opportunities, which can lead to additional job creation and economic activity.

Long-term Focus- Family businesses often have a longer-term perspective as they focus on building a legacy for future generations. This can result in more stable and sustainable growth over the long term, as well as a more substantial commitment to community development.

Innovation- Family businesses are often more innovative as they focus on developing new products and services that meet the needs of their customers. They are also more likely to invest in research and development, which can lead to breakthroughs in technology and new business models.

Challenges of a Family-owned Business:

Succession Planning: As per Deloitte 2019 Family Office Trends, the greatest hurdle most family enterprises face is ensuring a smooth transition from the current generation to the next generation. Founders should avoid the common mistake of assuming that the transition will take place naturally in due course.

The survival and growth of the business depends on the succession plan. When it comes to succession planning, the earlier the businesses start putting it together, the better it is. Long-term planning ensures that the new generation gets enough time to learn different aspects of managing the business from the previous generation.

Financial Management:

While money can be a sensitive topic in family businesses, it is important to ensure that everyone has a clear understanding of financial goals and processes. Creating an organized plan for budgeting and financial management is key for any family-owned business.

Communication:

In a family business, communication can be especially challenging since relationships between owners and managers may be close and complex. It’s important to establish clear channels of communication between family members and employees in order to ensure healthy dynamics within the organization.

Transparent communication is essential for ensuring each family member understands their role and how their actions will affect the organization in the long-term.

Conflict Resolution:

Interpersonal problems among family members and employees are inevitable. Having a plan for conflict resolution is essential to protect the business from disruption and maintain good relationships. Developing an effective strategy for dealing with disputes in a constructive way can help resolve issues quickly and effectively.

Professionalism:

Professionalism is a challenge because most family organizations do not have good corporate governance policies in place. One of the ways to promote professionalism is to take active steps to have strong processes in place that ensure the same levels of accountability for family and non-family members.

Having a clear demarcation of all roles and responsibilities within family members is necessary to avoid conflicts. Attracting, developing, and retaining great family and non-family talent is also important. Respecting management hierarchy while empowering employees to take decisions leads to the transition of family businesses into professional organizations.

Planning for the future: Although day-to-day operations are important, planning for the future is crucial in a family-owned business. This includes succession planning for key positions and identifying new opportunities as the market evolves.

It's important to look at the big picture and create strategies that can ensure growth and success, while also keeping employees motivated and engaged. Additionally, it's beneficial to have an outside expert review your plans periodically to ensure that all decisions are taken with an eye towards long-term success rather than short-term gain.

Participation of Women:

Increasing the participation of women in leadership roles is another area where family businesses face roadblocks. While there are some great examples of women-led family businesses, these are few and far between. According to PwC India Family Business Survey 2019, women average only 15% on the board and 13% on management teams in Indian family businesses, compared to 21% on the board and 24% in management teams across the globe. Mentorship plays a key role in ensuring greater participation of women. [3]

Review of Literature:

The success of family-owned SME 's has become a prevailing topic among researchers and academicians, even; the similar topic is studied by other authors. Researchers have found it interesting and needful to explore the different aspects of family-owned businesses. Scholarly works from renowned authors and empirical assessment with statistical tools captures the scope of family-owned SMEs in detail. However, there is still a need for conducting more research on this important topic (Salvato, 2012). [4]

"A family business is a business governed or managed on a sustainable, potentially cross-generational basis to shape and perhaps pursue the formal or implicit vision of the company held by members of the same family or a small number of families". Family firms dominate most countries' economic landscape and are a vital element of the private sector throughout the world (European Commission, 2009). It is not surprising that there is a growing scholarship on this form of enterprise both domestically and internationally. [5]

Leadership plays a vital role in planning in a family-owned business. The reduced level of planning found in the most family-owned businesses leads to fewer enterprises not being able to have a real vision for the future generations.

It was also discovered that management did not have a vision for the business operation, and the businesses were operating purely on a reactive basis. It was also discovered that where the management meetings did discuss the future, this process was informal, and there were no documents involved. The focus was often on instant issues rather than on continuing issues. The business ended up with no fundamental goals or target to work towards meeting, and this is a factor that affects family-owned business (Al-Akra, 2013). Al-Akra (2013) further argue that family-owned businesses are unable to treat employees in a way that would make them valuable in the process compromising staff efficiency and morale in the workplace and ultimately leading to unhappy customers. [6]

Objectives:

- To Study Investigating the Challenges of Family-Owned Businesses in the Corporate World.
- Challenges of a Family-owned Business.
- Identify at what stage and how to achieve Governance at the ownership level.

Research Methodology:

The overall design of this study was exploratory. The research paper is an effort that is based on secondary data that was gathered from credible publications, the internet, articles, textbooks, and newspapers. The study's research design is primarily descriptive in nature.

Result and Discussion:

Family business Challenges:

Conflicts in family businesses are different in nature because not only do the members of the organization work together, but they are also related to each other. It is inevitable that every family business faces conflicts sometimes as it combines family and business together.

Values of the family don't always go hand in hand with the business values because their starting points are so different. Problems arise, if the family business operates completely according to family policies. In order for a family business to be successful it needs to take into account also the business point of view.

Table 1. Family policies transferred to the business: [7]

Dimension	Family policy	Family policy transferred to business
Membership	- Automatic - Permanent	- Kinship a sufficient criteria for working in the family business - Membership in the organization is "eternal" regardless of results
Decision-making	- Dependent on the situation - Informal	- All the family members expect to be decision-makers
Accountability	- Dependent on the situation	- No clear reporting relationships
Job description	- Optional	- Based on the desire of a family member, Not based on the needs of the business
Objectives	- General, informal - Personal	- Personal, Not objectives of the business
Rewarding	- Sign of affection	- Automatic, Not based on results
Existence	- Self-evidence	- Need for development is not realized

The existing Four-dimensional model outlines the various stages that a family-owned business may pass through as it develops along the dimensions of ownership, Leadership, family and business. It characterizes each stage and describes the challenges that may test a business during that particular stage. The authors of the model then apply it to understand the four most typical types of businesses as defined by the particular stage in each dimension. They use the model to describe what it is like to be in a stage and what challenges the business will need to overcome in each dimension. This approach fails to consider the interconnection between each dimension. The authors close by suggesting general best practices that will help family-owned businesses throughout the developmental process. The four family-owned businesses in this study have experienced the same transitions in terms of stages of development outlined by the Four-dimensional model. While the model does provide a strong foundation for understanding how family-owned businesses develop, it does not fully analyze the practices that help an organization succeed in each stage. Many best practices have been offered to family-owned businesses. However, few suggestions take into account the exact developmental stage faced by the organization. This project will examine Four family-owned businesses, all of whom have been successful in their own respective industries. Again, these three businesses have experienced the same stage transitions within each dimension as defined by the model. Therefore, the common practices of these businesses' factors in the timing of implementation based on the similarity of their transitions along the model.

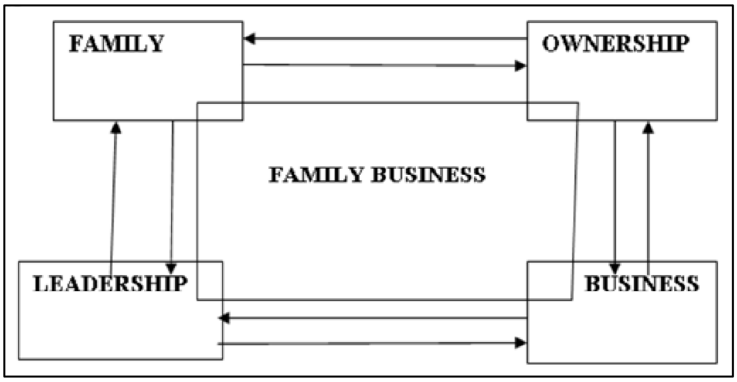

Figure 1: Four-Dimensional Model [8]

India ranks third on the list of countries with the highest number of family-owned businesses according to the 2018 Credit Suisse Family 1000 report based on a study of 1,015 companies with $250 million or more in market capitalization. The country has 111 family-owned businesses, with a market capitalization of $839 billion, after China ($159 billion) and the U.S. ($121 billion). The report also states that more than 50 percent of the top 30 best performing family-owned companies in Asia, excluding Japan, are from India.

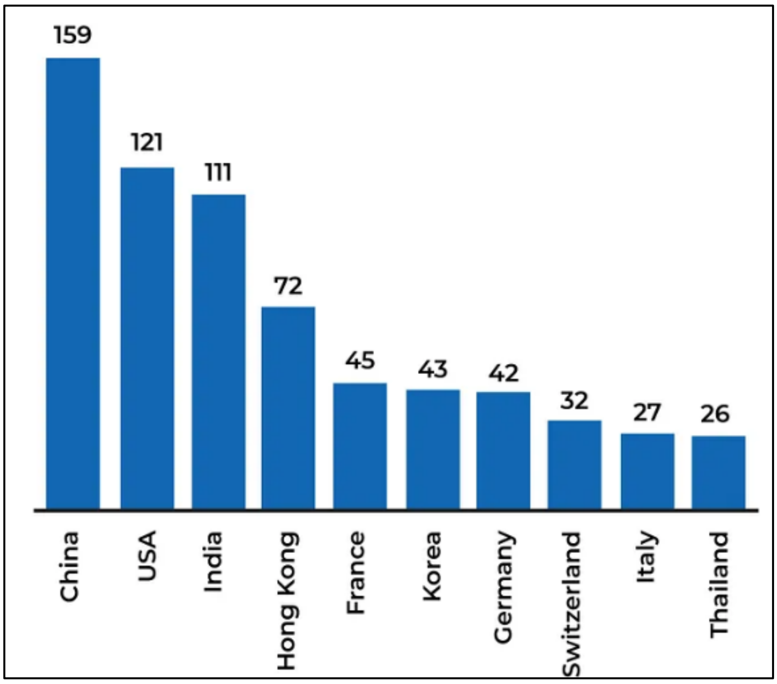

Figure 2: Number of Family – Owned Companies [9]

Family Business plays a significant role in the economy. Indeed, it is the oldest surviving economic system, that has a substantial contribution in the country's Gross National Product (GNP), total employment and total exports.

Examples

Table 2: Here are some successful and popular examples of family business organization from across the world:

Company	Country	Industry	Family Name
Walmart	USA	Retail	Walton
Berkshire Hathaway	USA	Conglomerate	Buffet
Hyundai	South Korea	Automotive	Chung
Samsung Group	South Korea	Conglomerate	Lee
BMW Group	Germany	Automotive	Quandt
Ford	USA	Automotive	Ford
Toyota Group	Japan	Automotive	Toyota
Reliance Industries	India	Conglomerate	Ambani
LG	South Korea	Consumer Electronics	Koo
Dell Technologies	USA	Computer Hardware	Dell
Tata Group	India	Conglomerate	Tata

Types of Family Business

In general, there are three forms of the family business, which are discussed hereunder:

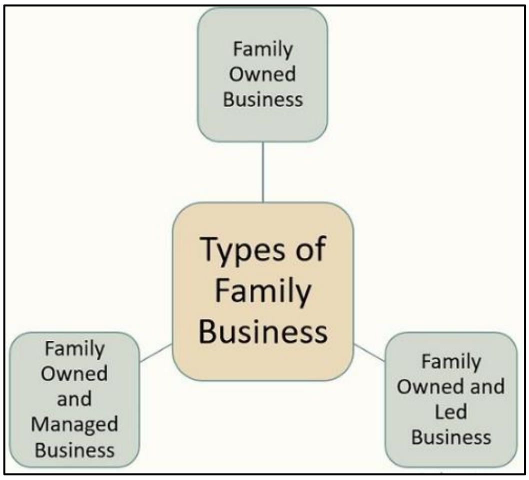

Figure 3: Types of Family Business

Family-Owned Business: As the name suggests, a family-owned business in one in which the controlling size of the ownership stake is owned by the family or by the member of the family.

Family Owned and Managed Business: In this kind of businesses the controlling size of ownership, lies in the hands of a single-family, or by a single member of a family. The controlling ownership allows the family to formulate and decide the objectives, methods and policies.

Family Owned and Led Business: In such a business, along with the ownership of majority stake by the family or by the member of the family, at least one member of the family is a member of the board of directors. In this way, the family member can exert influence over business's direction, strategies and plans.

Corporate governance in family businesses:

The importance of Corporate Governance in family run business cannot be further emphasized, but the implementation of the same is a difficult task. It needs the family value systems and business imperatives to be coalesced.

The fundamental dilemma is that family and business in general are governed by different norms and principles. The challenge in the success of the family business is that "family first" and "business first" approaches are to be reconciled and synchronized.

For reconciling and synchronizing the two and implementing a workable and suitable corporate governance tool and policy in a family run business there has to be an effective application of a combination of the following theories of corporate governance:

(i) Agency Theory exposited by Alchian and Demsetz, states that there is a relationship of principal agent between the shareholder and the management
(ii) Stewardship Theory followed by Mr Warren Buffet, states that a steward produces and maximizes shareholders wealth through firm's performance, because by so doing, the stewards' utility functions are maximized
(iii) Stake holder Theory: any group or individual.

Thus, corporate governance in a family business would entail even family governance so as to align and percolate essential values and latent knowledge within the family so as to achieve the following:

(i) Wealth creation
(ii) Attract and retain talent
(iii) Institutionalization of the business
(iv) Striking of fine balance between ownership and professionalism

To further, identify at what stage and how to achieve Governance at the ownership level, reference may be made to the 3-stage evolution model of a family Company as developed. The same is illustrated below:

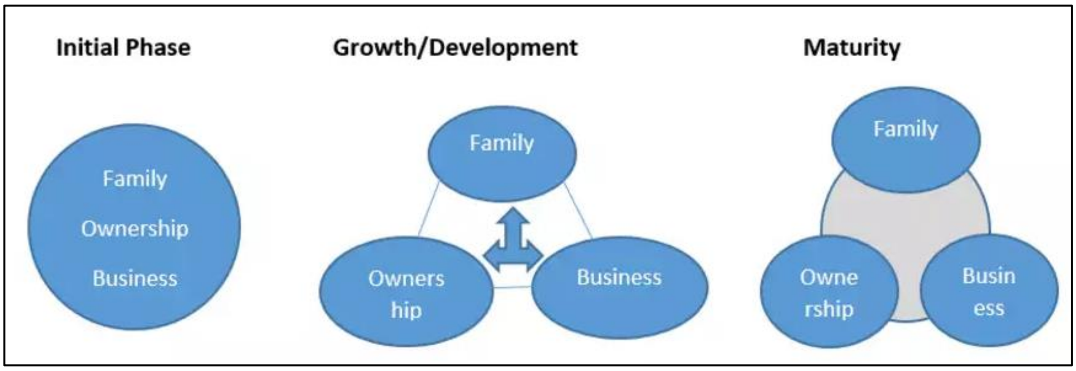

Figure 4: 3-stage evolution model of a family Company as developed

The aforesaid illustration can be explained as under:

(i) "Initial stage" or the "Founders Stage" wherein all dimensions i.e. family, ownership and business are concentrated in one family or groups of families or the individual founder.

(ii) Second stage is where the company grows and transitions ownership to the next generation which is also called "siblings' partnership". In this stage, there is now a distinction between the family, ownership and business. [10]

Conclusion:

In conclusion, a family constitution is an essential tool for any family business. By defining roles and responsibilities, establishing a decision-making process, creating a framework for leadership succession, establishing a set of values and principles, and providing a mechanism for resolving disputes, a family constitution can help to ensure the long-term success of the business while preserving the personal relationships that are so important to the family. If you are involved in a family business, consider developing a family constitution to help guide your business and ensure its continued success. Family-owned businesses are incredibly unique and must utilize special strategies to ensure their success. This includes making sure that all key positions are accounted for, having an outsider review business plan, and regularly evaluating the market environment. With careful planning and dedication, a family-owned business can thrive in today's competitive landscape.

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