

**A GENERAL STUDY ON  
FAMILY MANAGED BUSINESS Vs. PROFESSIONALLY MANAGED BUSINESS**

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**ABSTRACT**

World's oldest and most dominant form of business is Family Managed business. A family managed business refers to a company in which majority of the voting rights are in the hands of the family members. Later on Professionally Managed business came into existence to cater the needs of the business industry. In professionally managed business the share holders will have the majority of the voting rights. The aim of this research is to find out the characters of both the business streams and in which way both the streams are differing. This paper also highlights some of the FMB concerns and some of the PMB concerns. The challenges faced by both the form of business organizations are discussed

briefly. A vision on the advantages and drawbacks of both the business streams are also presented. Suggestions to overcome the practical difficulties are also framed by the author. In brief this study will help the readers to know the present scenario of both the business organizations.

**Key words:** *FMB, PMB, Voting Rights, share holders, founders.*

**INTRODUCTION**

Many of India's largest companies are nurtured by a small group of promoters and family members, who are highly ambitious and entrepreneurial, and are delivering profits even in an uncertain economic environment. Family managed businesses are the 'unsung heroes' of the Indian economy,. In India, family businesses

tend to range from the small mom-and-pop grocery stores to large conglomerates. More than 95 per cent of registered companies in India and Latin America are family run enterprises. Most family managements have aggressive growth plans, and are agile in their decision making. As their growth has skyrocketed, many have stepped outside their zones to acquire companies in new industries and geographies. As every company moves through its economic life cycles, leadership changes occur. The reason and the success of the leadership change will depend upon the incumbent's ability to establish a professionally managed business. Reengineering has redefined how professionally managed firms function.

### **MEANING AND DEFINITION OF FAMILY MANAGED BUSINESS (FMB)**

Family-owned businesses has been the realization of the magnitude and dominance of these businesses in the global economic landscape. In other words, family-owned businesses, particularly the small-to-medium sized, are the grassroots of the global economy, and are clearly the majority of all the businesses in the world

(Heck & Trent, 1999), and are as old as civilization. Family business has been as common in the Indian economy like elsewhere in the world, it is perceived in a common sense. Various terms like 'family-owned,' 'family controlled,' 'family managed,' 'business houses,' and 'industrial houses' are used to refer to family business. Thus the term family business conjures up different meanings to different people. While some view it as traditional business, others consider it as community business, and still others mean it as home-based business.

"Family business is a firm 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." — R. G. Donnelley

### **MEANING AND DEFINITION OF PROFESSIONALLY MANAGED BUSINESS (PMB)**

There is a pattern in many companies where the successful founders faced the need to transition the company from an entrepreneurship to a professionally

managed business. Unfortunately, while the founders had the skills and personality to establish a successful company, not all of them possessed the very different skills, behavior patterns, and will necessary to take the firm to the next level, a professionally managed company. In the early years the entrepreneur worked extremely hard and did whatever was necessary to succeed. Their life and that of their families suffered. They were always working and the early rewards may have been small. The years pass and the business grows with the entrepreneur. During these years the entrepreneur might be heard outlining the growing pains of the business during family gatherings. At some point they start bragging to his offspring that the business will someday be theirs. The "X" generation says either out loud or to himself, "NO WAY, that is no life and it is boring. The entrepreneur is left wondering who will lead the business, who will take over after me. This question results in the birth of professionally managed business.

"A Professionally Managed Business refers to a company where the voting majority is in the hands of its shareholders."

### **CHARACTERISTICS OF FMB**

- Family members are able to communicate effectively with each other, expressing and acknowledging each other's feelings, wants and ideas openly and clearly with an attitude of acceptance of differences. And there are no secrets.
- The family simultaneously encourages and supports individuality in its members, both as it pertains to their strengths and weaknesses and especially as it affects the family business.
- Conflicts and disagreements within the family are managed with respect and openness. The family is fundamentally focused on achieving "win-win" solutions.
- Leadership is present and clearly defined. Leadership demonstrates competence, vision, respect and superb communication to all its employees, vendors and customers.
- Management, business and operational structures, processes and systems are efficient, effective, well

documented and regularly scrutinized for improvement, as well as necessity.

- The family business has an active board of directors or advisors comprised of at least two non-family members.
- The family is consistently able to identify when to use criteria that place the family's needs first and when to use criteria that place the needs of the business first.
- . Family members who join the firm must meet the same job qualifications, performance evaluations and compensation standards as non-family members.
- The family business has a "Family Council" that meets at least annually and includes all family members, including spouses and children over the age of 16. The Council's purpose is to build family and business communications and planning. It further assists and prepares family members for possibly joining the business in the future.

- Experts are appointed to the relevant field to explore the availing resources in the best possible way.
- Prescribed qualification is needed as per the requirements of the management.
- The executives appointed to manage the business will possess decision making power to exercise right degree of control at the right time and at the right place.
- Professional managers will have the capacity to face risks and find apt solution for the challenges.
- Updating the techniques to face the rivals and to find a strong position in the market.
- Enhancement of knowledge and skill of the managing personalities.
- Promotion will be on the basis of performance and merit.
- Faith on participative management. So that the employees in the business can have a clear vision towards the objective of the business and he can make a correct move towards it.
- Consideration towards social responsibility to contribute for creating better society.

### **CHARACTERISTICS OF PMB**

- Have Faith in assigning authority and responsibilities. So that each employee in the business can have a crystal clear vision towards the objectives.

## **HISTORY OF FAMILY BUSINESS IN INDIA**

Family business in India had been in practice since long, of course, with its changing nature and structure over the period. India enjoys a rich and glorious history of family-owned business. The origin of family business in India is traced back to the bazaar system in the ancient times. Initially, family business in India started in the form of trading and money lending involving the hustle and bustle of the bazaar. It was also confined to certain communities, notably the Jains and Marwari's especially in the northern India. FMB's came into being in India between 1860's and 1870's. Some of the examples for family business are illustrated below.

Bombay and Ahmedabad- Textile companies.

Calcutta-Jute and Textile companies.

Chennai - Money Lending institutions.

Aggarwals in Northern India.

Chettiars in Southern India

The Parsees, Gujarat Jains in the West  
Marwaris all over India.

## **CHALLENGES FACED BY FMB**

□ **Emotions.** Family problems will affect the business. Divorce, separations, health or financial problems also create difficult political situations for the family members.

- Informality. Absence of clear policies and business norms for family members
- Tunnel vision. Lack of outside opinions and diversity on how to operate the business.
- Lack of written strategy. No documented plan or long term planning.
- Compensation problems for family members. Dividends, salaries, benefits and compensation for non-participating family members are not clearly defined and justified.

- Role confusion. Roles and responsibilities must be clearly defined.
- Lack of talent. Hiring family members who are not qualified or lack the skills and abilities for the organization. Inability to fire them when it is clear they are not working out.
- High turnover of non-family members. When employees feel that the family “mafia” will always advance over outsiders and when employees realize that management is incompetent.
- Succession Planning. Most family organizations do not have a plan for handing the power to the next generation, leading to great political conflicts and divisions.
- Retirement and estate planning. Long term planning to cover the necessities and realities of older members when they leave the company.
- Training. There should be a specific training program when you integrate family members into the company. This should provide specific information that related to the goals, expectations and obligations of the position.
- Paternalistic. Control is centralized and influenced by tradition instead of good management practices.
- Overly Conservative. Older family members try to preserve the status quo and resist change. Especially resistance to ideas and change proposed by the younger generation.
- Communication problems. Provoked by role confusion, emotions (envy, fear, anger), political divisions or other relationship problems.
- Systematic thinking. Decisions are made day-to-day in response to problems. No long-term planning or strategic planning.
- Exit strategy. No clear plan on how to sell, close or walk away from the business.
- Business valuation. No knowledge of the worth of the business, and the factors that make it valuable or decrease its value.



- **Growth.** Problems due to lack of capital and new investment or resistance to re-investment in the business.
- **Vision.** Each family member has a different vision of the business and different goals.
- **Control of operations.** Difficult to control other members of the family. Lack of participation in the day-to-day work and supervision required.

### **CHALLENGES FACED BY PMB**

- **Change at the Helm** – It is very difficult that the management change can be easily acceptable by all the workers. They may be change resistant.
- **Communication** - This is one of the top change management issues as seen in the failure to communicate when a change occurs or is about to occur.. No matter how large or small a change may be, if employees are left out or are never aware of the change, it can be disruptive.
- **Generation gap** – Without explaining the need for change, we cannot expect the fullest cooperation

from the employees and a new management can not say simply 'forget the old way'.

- **Swift Change** - Another one of the top change management issues is changing something too swiftly and not allowing staff to get used to the idea.
- **No Training** - If an expected change will require new training and none is offered, will result resistance and lots of it.
- **Misery Loves Company** - This change management issue is often forefront when change occurs. There may be only one staff member who hates the change, but will do everything in their power to ensure everyone else hates the change too.
- **Wishy-Washy Change** - Some companies implement change and then don't follow through. The idea behind the change may have been thought out but how to implement the change may not be clear. This can result in everyone just going back to the old way, especially if supervisors and team leaders don't reinforce the change and allow

employees to avoid the change and then do nothing about it.

### **ADVANTAGES OF FMB**

- High commitment /dedication from family as business owners.
- Family members willingness to work harder and reinvest profits into the business for long term growth.
- Willingness to pass on knowledge and experience .
- Family name and pride associated with the business.

### **ADVANTAGES OF PMB**

- High commitment/dedication of Top Management.
- Loaded with contemporary Management techniques and business tools.
- Effective delegation of authority, Financial strength .
- Timely Succession Planning.
- Sustainability in highly competitive markets.
- Performance based culture.

### **DRAWBACKS OF FMB**

- strategy : Family business initially perform in effective manner but at later point of time when aspect of transition comes into picture family business tends to lose its track from its actual vision
- **professionalism** : data maintenance practice in family business usually will not be in par with that of private companies which proves to be major hurdle during decision Difference in making process.
- **Techniques**: Educational levels of family members which drives some people to follow obsolete method while others may focus on implementing latest technology and practices in business.
- **Coordination**: Rivalries between sibling in company which may end in Difference of attitude towards employees separation of family business
- **Short term approach**: . Inability to separate family interest from the interest of the company Short term



approach towards business , leading to a business absence of investment in employees and product Insensitivity and development.

### **DRAWBACKS OF PMB**

- **Less focus on human development:** The degree of bondage between the management and the employees are low.
- **Poor commitment levels of middle and junior management.** This low level bondage automatically results in high level commitment.
- **Communication gap:** Chances for shut -downing without the approval of all people in the organization makes the workers feel uneasy.

### **SUGESSTIONS TO OVERCOME CHALLENGES AND DRAWBACKS FOR FAMILY MANAGED BUSINESS CONCERNS**

- To ensure success, FMBs need to: Devise a well defined strategic plan. Ensure cost effectiveness and good operational management . Focus should be given on core competencies. It should become Flexible and gear up for change management . It should Ensure high customer satisfaction and Ensure higher returns to shareholder . Clear succession on planning should be designed. It can opt for professional management .

### **FOR PROFESSIONALLY MANAGED BUSINESS CONCERNS**

- Strategic and annual business plans should be designed. Clear statements of goals and objectives of the business, departments and people should be framed. Right delegation of authority and responsibilities should be fixed. Clear definition of roles and job profiles should be communicated to the employees in the business. The companies purpose and mission is understood by the employees.

Ensure Corporate Culture is written  
and well understood by the  
employees. The business should be  
system driven not person driven.

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