

## **ENTREPRENEURSHIP AND DESIGN THINKING**

### **LECTURE 11: FAMILY BUSINESS**

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#### **Overview**

- In our last lecture we looked at how to choose a suitable location for your venture
- We identified factors that you need to consider
- We looked at why business layout is crucial for your venture
- In both cases, we saw how you can use design thinking to determine your business location and layout
- In the current lecture, we will focus on family business
- We will look at the management structure
- We will also look at succession plan and its importance in family business
- We will tackle dynamics and conflict in family businesses

#### **Learning Outcomes**

- Define what constitutes family business
- Understand management structures prevalent in family businesses
- Discuss succession plan and show case its importance in family business
- Point out dynamics and possible sources of conflict in family business and how to mitigate such
- Outline possible ways and advantages of professionalizing of family business



## Introduction

- Family businesses are not new, and they have been there for ages, the early political and military dynasties are clear examples
- This continued even during industrial revolution era
- Post World War II, many family businesses expanded globally leveraging on the newly opened markets and technology advancement (Jimenez-Castillo & Hoy, 2018).
- During this period, they were more professional, and they started hiring outsiders
- Today family businesses are key players in the global economy and their contribution cannot be wished away
- Family business can be said to be an enterprise that is managed and run by family members.
- The ownership and control of the business rest with the family and often it is passed from generation to generation
- Examples of multinationals that are family businesses include: Toyota, Walmart, and Tata group

## Characteristics of Family business

- **Family involvement:** Often than not a good number if not all family members are involved in decision making of the business
- **Shared values and vision:** The business growth and direction are heavily reliant on the family values
- **Longterm orientation:** Family business is often targeted to go for long haul therefore focusing on the horizon at the expense of “now” moment
- **Succession challenges:** When the founders are transiting or pass away there are often conflicts on who among the family members will take the leadership
- **Generational gaps:** There might be issues to do with generational gaps and perspectives between them.
- **Rigidity:** Often, given the historical background that they were established family members are usually clingy on what they know or what they started with.
- **Growth path:** Family businesses usually start small and could grow to a large conglomerate.
- **Governance structures:** Family businesses often combine informal and formal methods such as family meetings, family constitutions, as well as councils.
- **Decision Making process:** Family decisions are highly influenced by their traditions, values and relationships.
- **Conflict resolution:** Informal ways to resolve conflict are used in order to retain family ties.
- **Leadership role:** For family business, leadership role may be held by a family member even when they may not have any qualifications or experience
- **Performance evaluation:** This may be inconsistent or absent especially for family members, and this is a great undoing. Where it is emotions may override the process due to the need to preserve family ties.

- **Non-Family professionals:** In most family businesses, you are likely to witness high resistance to involving professionals who are not a family member due to the fear of losing control.

### **Importance of Family Business to the Global Economy**

- **Employment Creation:** Family businesses, small or multinationals are some of the biggest employers in most economies. Besides the family members that work in the business, they are likely to require extra hands.
- **Gross Domestic Product contribution (GDP):** In most economies, family businesses which fall under the small and micro enterprises are some of the largest contributors of GDP. They are therefore the engine that drives most of these economies.
- **Communities' ties:** Most family businesses have serious connection to the community they are in or whom they are trying to solve a problem for.
- **Resilience:** Family businesses are likely to survive hard times such as financial crises since they have long term orientation.

### **Succession plan in the context of family business**

- This is an agreed road map in as far as family business ownership and management is concerned
- It is how the family business will transition to the next generation
- It is meant to ensure smooth transition as well as stability
- Often drawn by the founders of the business as they seek to exit running of the business
- Often talk about who will take up the key roles and how the ownership will be managed

### **Importance of succession plan in family business**

- **Stability:** a well thought out succession plan ensures there will be minimal disruptions therefore achieving stability (Castoro, 2022).
- **Continuity:** Where there is a plan, the business will continue in operation even with leadership changes
- **Preserve the family legacy:** The values and the legacy of the family are likely to be maintained where a deliberate plan exists.
- **Mentorship:** A deliberate plan will ensure that the family thinks and works on mentoring those who are earmarked for succession.
- **Building trust:** When the next generation of the family is involved in the plan, it increases their motivation and trust among the family members. This also ensure retention in the workforce
- **Reduce conflict possibilities:** where a plan exists and agreed upon the chances of conflict are slim.
- **Encourage strategic thinking:** The plan is made with a look at the strengths and weaknesses of family members. This is likely to ensure that those who are likely to grow the business are put in the helm
- **Avoid legal issues:** when drafting a succession plan, legal and tax liabilities should be avoided to those who will succeed the business
- **Stakeholders' assurance:** Different people dealing with the business such as customers, suppliers and employees will have confidence in a business where such a plan is clear and explicit
- **Changes adaptation:** A succession plan where new blood is being injected to the business could be an opportunity to bring in new people who can blow a wind of change to business during changing times

### **Common Dynamics in Family business**

- **Emotional ties:** Often the emotions may overtake rational thinking when it comes to decision making

- **Power fights:** In most family power struggles are likely to emerge in areas of leadership and sharing of monies
- **Generational gaps:** The vision of the young may conflict with the old especially when it comes to future direction
- **Unclear role:** There is always ambiguity on the roles that each member play in business vis a viz the role they play in family

### **Sources of conflict in Family business**

- **Succession dispute:** Where the number of family members is big as in the case of polygamies families, this may be a contentious and thorny issue.
- **Profit sharing:** Money issues in family are usually emotive and source of war
- **Compensation:** How salary is paid to those in management can always be a source of conflict where some members may feel those getting the salary as undeserving
- **Recruitment:** The family members in the helm may tend to hire people who are close to them, and this may be a big source of conflict as well as down fall of the business
- **Final say:** Who has the final say in the business can as well be a contentious issue as some family members may feel left out or not included in decision making

### **Strategies to overcome the dynamics and conflict (ways to professionalize family businesses)**

- **Clarity of roles and responsibilities:** Ensuring that the business runs professionally and that every player is clear on their role and job description
- **Development of a succession plan:** An agreed plan by the family could avert so many challenges that might emerge later in the business

- **Use of Alternative Dispute mechanisms:** The family should be open to utilize mediations and advise from the outside
- **Establishment of policies:** Objectives policies and procedures in areas such as hiring and compensation will ensure there is reduced conflict and increased fairness in those sensitive areas
- **Proactiveness:** for instance, development of a succession plan ensures the family is able to address some issues proactively before they happen.
- **Promotion of open and regular communication:** this will ensure no build ups and members opinions are aired and heard
- **Encourage a culture of professionalism:** Ensure respect and accountability among all employees irrespective of whether they are family or not.
- **Technology adoption:** streamline your business operations using technology so as to enhance efficiency.
- **External help:** Regularly seek external expertise or help for fresh perspectives
- **Professional development:** employees (including family members) should regularly be trained and exposed to development opportunities.

### **Benefits of Professionalizing a Family Business**

- **Credibility:** when your business is professionalized it foster trust and confidence to different stakeholders
- **Efficiency:** when there is clear structures and processes, productivity and cost effectiveness is enhanced
- Possibility to **attract and retain the best:** professional working environments has possibilities of attracting top talents within or without the family network
- **Smooth transition:** professionalization ensures there is always a succession plan in place, therefore avoiding hiccups when moving from one generation to the other
- **Family values preservation:** when roles and responsibilities are very clear conflicts are avoided and a positive business environment maintained.

## Topic Review

- We talked about what family business constitutes: managed and controlled by family members
- We looked at key characteristics of a family business such as shared values and vision
- We looked at the contributions of family businesses to global economy such as employment creation
- We emphasized the importance of a succession plan
- We looked at dynamics and sources of conflict in family business and how to mitigate or deal with them
- Finally, we have addressed the benefits family could get if they professionalize their businesses
- In our next and last topic, we will look at Social Entrepreneurship, a form of entrepreneurship that is growing

## References

Castoro, A. (2022, September 21). *Plan a smooth succession for your family business*. Harvard Business Review. <https://hbr.org/2022/09/plan-a-smooth-succession-for-your-family-business>

Jimenez-Castillo, L., & Hoy, F. (2018). Origins of Family Business Research. In *Springer eBooks* (pp. 19–39). [https://doi.org/10.1007/978-3-319-77676-7\\_2](https://doi.org/10.1007/978-3-319-77676-7_2)