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Family Run Business Challenges and Opportunities

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Abstract

To

The Chairman
SME Global conference
Monash University

Dear Sir

Greetings!

In Continuation to my email indicating the selection of our Abstract for the up coming SME Global conference.
We wish to Submit our full paper

With best Wishes



Dr. K.K.RAMACHANDRAN

By Dr. K.K.Ramachandran
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Family Run Business

Challenges and Opportunities



Introduction :

Small and Medium-sized Enterprises (SMEs) represent over 90 percent of the enterprises, worldwide. They are the cradle of innovations and mainstay of productive employment and economic growth of the modern economies.

In India, the SMEs produce over 8000 products and continue as a major significant contributor to the economy next to agriculture in terms of employment, output and exports. The import of goods and services in the post-liberalized era is increasingly taking place. Therefore, the competition from global players is an important factor to be considered by SMEs in terms of retaining their domestic market share. Further, change in technology, economical, socio-political systems also impacts the growth of SMEs. In the new world economic order, the following issues need to be addressed:

- ◆The impact of globalization on SMEs in India and preparedness of the SMEs to meet global challenges
- ◆The impact of Government policies on the growth and development of SMEs in India
- ◆Opportunities for the SMEs in the present Global Market
- ◆International best practices for the SMEs to gear up to global standards in the changing environment

Untill entrepreneurship the Trend : a few years back, entrepreneurship was confined to economics as a mere concept to explain the process of production. There was hardly any importance given to those involved in the task of enterprise development. Few until very recently believed that entrepreneurs could be created through educational interventions or that entrepreneurship could be a matter of teaching/training. Therefore, educational intervention in entrepreneurship was given less importance. The situation remained more or less unchanged until scholars from other disciplines, particularly behavioural sciences, entered the arena. The role of teaching / training in entrepreneurship was demonstrated. The emphasis was on analyzing the psychological variables responsible for creating an entrepreneurial personality. Progress since then has been swift and now entrepreneurship development has become almost a movement.

Over the years, entrepreneurship as a subject has acquired relevance; as a result students, teachers, researchers and policy makers have come to accept it as a rewarding career option.

However, while a large number of organizations are focusing on entrepreneurship training, not much emphasis has been given to promote entrepreneurship through educational interventions, particularly in developing countries. The need of the hour, therefore, is to make entrepreneurship development more effective by imparting relevant education focusing on strengthening the foundation of entrepreneurial personality, skills for making feasible business plans, mobilizing resources and managing enterprises.

The most crucial change agents, however, in the process of developing young entrepreneurs are teachers with adequate skills, knowledge and information in the area of entrepreneurship.

Entrepreneurship Development Program (EDP) is important as it helps inculcate the spirit of entrepreneurship among young students through efficient and trained teachers.

Entrepreneurship Development Institute of India's (EDI's) interactions with professionals and teachers in different spheres revealed that there is a strong need for competent faculty members in this applied area. Responding to this need, the Institute conceptualized, designed and has been implementing Entrepreneurship Development Programme (EDP) in Entrepreneurship across the globe. Especially in the context of the developing countries, it is inevitable to create additional intellectual capital, which can help enhance capabilities.

Family business - moving ahead : Substantial contribution of family businesses to the economy of countries all over the world is almost 60 percent of employment in the country and 70 to 80 percent of National Stock Exchange movement comes out of family business. Family run businesses are in many aspects the back bone of American business. They are typically the most stable of small business, with a much lower failure rate. Family businesses are here to stay and their performance is always better than their competitive non-family partners.

Some of the largest and most successful Companies in America are family owned and operated. Yet 70% of family run business doesn't make it to the second generation, and a full 90%



never make it to the third generation. We are not advocating that family run business are fundamentally

ly flawed, because they are not. But, the flip side is that families lose their control over the business over the third control over the business over the third generation, because more time is spent on developing business and very little on managing the family.

what is Family Business?

A family business is a firm or company in which the family has a strong influence in the day-to-day running of the business.

Indian - Family Business :

The Indian way of doing business is visibly similar to the west because the laws of the land are Anglo-

Saxon in origin. At one level therefore Indian Companies are like those on the west. At another level, the method of doing business within this

succession is very important in family business. Communication within family is very important.

The older generation believes in providing better education to the younger generation. It also needs to help them gain experience outside or starting from the scratch in the family business by learning the facets of manufacturing and marketing, and grooming the person in getting along with others.

Putting in a structure

The younger generation expects them to plan a smooth transition, clear family disputes and give

western framework is uniquely Indian and based on tradition.

The separation of ownership and business control has been the hall mark of western models of organization, which are based on perfect market competition between Individuals. But in India predominantly they don't work on this model. In Indian Society family support for the businessman is critical to his survival.

The family business is today trying to grapple with issues and problems matters it was never designed to handle.

Lesson to learn

Why does it happen? The founder who builds the company for 20 years becomes a dictator and is not willing to give up his position. As the saying goes 'he died in his boots,' Ambani died as the chairman of Reliance and both the brothers wanted to take over. The necessity to plan the

them the freedom to be on their own. Introducing family members early in the business and putting a family governance structure in place is the key.

Parents tell the next generation when and what to do next. Instead they should find out what they want to do to better the growth rate. Be clear in ideas when you hand-over or just walk out. In most cases, the younger generation tends to become good managers rather than entrepreneurs. It is important to groom entrepreneurship and leadership in succession something like running a bullock cart with two bulls. All five fingers cannot be the same but put together, they represent power and strength. Most successful families adopt this approach. Planning succession is an extremely complicated process spread across four stages family, ownership, management of the team and management of one's self and immediate family.

Rules of Succession

The family values get diluted when partners join.



That's the reason companies in the U.S., Europe and U.K. develop a 'constitution for family' with a flexibility to change," On issues like hiring inefficient people within the family, transparency in family principles should be clearly understood by every-one in the family at a very young age to handle this issue. Family or non-family business, relationship with human beings is important. Listening to people and maintaining efficient people are important. Apart from physical aspects like the salary and allowances, motivating them to perform is vital. The Reliance group break up is a classic example of the second generation break-up in family business. Management of succession is vital in family run business.

You're Family in Business.-

Your family if it gets into the Business some of the possible pitfalls is given below.

As an entrepreneur we might be keen to place our son or daughter in an important position in the business. But one should clearly find out if they have good business acumen. They may have blindly copied our approach to problem solving, which will not help them to lead from the helm of the affairs. They also might have a very different management style when compared to the one which is normally followed in the organization, can again cause some difficult times. In some other cases the next generation feels what brought success in your organization can not (need not) work in the future, because of the cut throat competition and customer centric approach. In few other cases they might not have the skill required which the business requires in spite of being bright and alert.

Ideas to improve your ability to pass the business along :

The heirs should be treated like any other senior executive or manager in the business. If the performance is evaluated formally and objectively and help them work out action plans to correct deficiencies before they become excuses to fail.

The skills needed to succeed in the business should be listed out. These skills should be ones that will help the business grow in the current environment. Then build your would be successor's grooming program around that list- fill in the holes.

Outside advisors can be priceless (no reflection on their fees intended) in this situation.' They bring a broad range of expertise and a high level of objectivity. They are the experts from across town, whose advice will have the greatest chance of being accepted as unbiased and valid. Use them to identify what your child needs, to craft a plan to get it, to evaluate the progress along the way, and to support your child in those areas where retraining is just not possible.

Enjoy thyself

"Change is the constant factor in life. In this age of globalization, one cannot live in isolation.

This paper is intended to illustrate the challenges and opportunity of family Business with some aspects on the new business the younger generation look upon.