B. COM. PART III
(SEMESTER-VI)

B.C. 605
ENTREPRENEURSHIP
& GOVERNANCE

LESSON NO. 1.2 **AUTHOR : RAVI GOYAL**

CHARACTERISTICS OF AN ENTREPRENEUR LEADERSHIP, RISK TAKING, DECISION MAKING & BUSINESS PLANNING

1.2.0 Objective

The following lesson mainly deals with the basic and core characteristics of an entrepreneur. An entrepreneur should possess all such characteristics with the help of which he can perform successfully and effectively. Most common attributes of an entrepreneur can be courage, good-judgment, initiative, skillful, competent, perseverance and emotional stability. Objective behind this lesson is to understand what types of attributes are required in a successful entrepreneur so that he can run the enterprise well. Main characteristics in an entrepreneur are Leadership, Risk taking, Decision making and Business planning.

1.2.1 Introduction

An entrepreneur should posses all such characteristics with the help of which he can perform effectively. Most common attributes of an entrepreneur can be courage, good-judgment, initiative, skillfulness, competence, perseverance and emotional stability. An entrepreneur attempts to change the factor combinations and thus increases productivity and profits. An entrepreneur launches a new enterprise. Let us discuss these characteristics in detail, some of the Entrepreneurial traits are :

(i) total commitment, determination and perseverance
(ii) drive to achieve and grow
(iii) opportunity and goal orientation
(iv) taking initiative and personal responsibility
(v) persistent problem solving
(vi) realism and a sense of humors
(vii) seeking and using feed back
(viii) internal locus of control
(ix) calculated risk taking and risk seeking
(x) low need for status and power
(xi) integrity and reliability

1.2.2 Qualities of an Entrepreneur

According to Professor Tondon the qualities of an entrepreneur are as under :

1.2.2.1 Capacity to assume risk : Risk is the name of business these days.

A risk situation occurs when one is required to make a choice between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential gain or loss. The greater the possible loss, the greater is the risk involved. An entrepreneur assumes risk and therefore he must have self confidence. He is both an investor and a financier and be able to shift investments in search of larger profits. He has to tie up capital and wait for good returns. He should be willing to assume a relatively large degree of risk because he has to guarantee wages to his employees, interests to his creditors and rent to the landlords. Highest order of ability is required to bear heavy risks and thereby earns high gains. Risk means the conditions of not knowing the outcome of an activity or decision. Risk can be stated as, "a condition in which there is a possibility of adverse deviation from a desired outcome that is expected or hoped for." An entrepreneur is a calculated risk-taker. He enjoys the excitement of a challenge but he does not gamble. An entrepreneur avoids low-risk situation because there is a lack of challenge.

A calculated risk-taking entrepreneurs would depend on themselves than on luck. They prefer to shape events by their own actions, to make things happen rather than let them happen. The extent to which entrepreneurs actually have a risk-taking propensity is still debatable but entrepreneurs do have greater willingness to assume risk when they choose to enter into a business.

1.2.2.2 Technical knowledge and willingness to change :

Technical knowledge implies the ability to devise and use new and better ways of producing and marketing goods and services. A good entrepreneur is one who is interested in changing the pattern of production to suit the available resources, market conditions and quality of output. Success of an entrepreneur depends largely upon his ability to adopt latest technology. An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the ability that people can acquire with hard work.

1.2.2.3 Ability to marshall resources :

A true entrepreneur is one who has the ability to mobilize necessary resources in the best possible manner for achieving the business objectives. He should be able to minimize the cost of production without rendering the quality of the product or service. The entrepreneurs craft or carve out opportunities for themselves. Their perceptions differ from non-entrepreneurs. There are very few persons who are investors and entrepreneurs at the same time. Such persons have an edge over those who are only investors or entrepreneurs.

1.2.2.4 Ability of organisation and administration :

The ability of building a sound organisation is the most critical skill needed for industrial development. The organisation builder must be able to harness the new ideas of different innovations to the best in his organisation. He must be able to select, train and develop persons who can peripherally manage and control the labour force.

An entrepreneur has to bring together various factors of production, minimise losses and reduce the cost of production. Initially, he may take all the decisions but as the enterprise grows, he starts delegating the authority. He produces that best results as an organiser. Not only this, it is the entrepreneur who has to pick or select the right piece of land, choose the right persona and opt for the financier. He must be able to inspire loyalty and hard work amongst the workers to raise productivity and efficiency. In order to expand the business, he must have willingness to delegate authority and trust to his sub-ordinates and managers although shaping of long-run policies of the enterprise would remain in his hands. An enterprising entrepreneur should be energetic resourceful, alert to new opportunities and able to adjust the changing conditions. In simple words, he must possess the art of superintendence and administration.

1.2.2.5 Creativity :

Creativity, as a field of knowledge, seeks to explain how human beings either individually or collectively, reach to the solutions that are novel and useful. Innovation means the effort to create purposeful ventures. Creativity is the ability to devise and successfully implement such changes. Successful innovations depend on creativity and one of the most important requirements of an entrepreneur is to be creative as creativity may be taken as the cause and successful innovation as the effect.

1.2.2.6 Self-confident :

It is necessary for an entrepreneur to be self-confident. He should have faith in himself, only then he can trust others. In large scale business, delegation of authority is a must and only a self-confident entrepreneur can delegate his authority and he should be able to idintify the corect people for this delegation.

1.2.2.7 Optimistic :

An entrepreneur should approach his task with a hope of success and optimistic attitude. He starts any task with the hope that he will succeed rather than with a fear of failure. Such a hope of success enhances his confidence and drives him towards success.

1.2.2.8 Mental Ability :

Mental ability that contributes to the success of an entrepreneur consists of overall intelligence, i.e., IQ, creative thinking ability and analytical thinking ability. An entrepreneur must be intelligent, adaptable, creative and he must be able to engage in analysis of various problems and situations in order to make details of them.

1.2.2.9 Communication Ability :

An entrepreneur must possess the quality of communicating effectively in written and oral communications. Good communication also means that both the sender and the receiver understand and are being understood.

1.2.2.10 Socially Responsible :

The changing environment calls for a socially conscious entrepreneur who is not threatened by progress of others. On the contrary, he acts in full awareness of social repercussions of his actions. His entrepreneurial ability may create jobs for others. He may invent new products and new manufacturing methods. He may innovate new ways of doing things. All these have social consequences. An entrepreneur should think of projects of social significance and of importance to others. He must be responsible to society in which he is operating.

1.2.2.11 Innovator :

An innovator is the one who utilizes the discoveries and inventions already made. Not only this, the entrepreneur further exploits the inventions commercially and thus produces new and better goods which give him profit and satisfaction. This entrepreneur locates ideas and puts them into effect in the process of economic development. The innovator is :

(i) More educated
(ii) Higher in social standing
(iii) Less dogmatic
(iv) More empathetic
(v) Better equipped to deal with abstraction
(vi) More receptive to risk in general
(vii) Higher in achievement motivation
(viii) Higher in social participation
(ix) More cosmopolitan
(x) More often engaged in inter-personal communication
(xi) A more active information seeker
(xii) More knowledgeable about innovations
(xiii) An opinion leader
(xiv) More in contact with persons outside the social systems.
(xv) More quick in adopting alternatives

1.2.2.12 Human Relations Ability :

Personality factors such as emotional stability, personal relations, sociability, consideration and tactfulness and self-esteem are important contributors to entrepreneur's success : One of the most important factors of human relations ability is one's ability to "put himself in someone else's place" and to know how the other person feels. The entrepreneur must have good relations with his employees, customers etc. He must be aware of the needs and motivations of customers.

1.2.2.13 Courage to Face Adversities :

Entrepreneurs face the adversities boldly and bravely. They refuse to be beaten and become tougher during adverse situations. They have faith in themselves and attempt to solve the problems even under pressure.

Self-Check Exercises - 1

Q. Explain the concept of an entrepreneur with his basic characteristics?

1.2.3 Leadership, Risk taking, Decision making & Business planning

1.2.3.1 Leadership :

According to the classical economists, the entrepreneur is a person who invest his capital in to business or enterprise and he is also responsible for all the profits. But in the modern world the entrepreneur is not only concerned with his profits, he has to manage all his business related and personal activities so that all the people related with the business can be efficiently led and paid according to their competence. Leadership is the process of influencing and supporting others to work enthusiastically towards achieving objectives. It is a critical factor that not only helps an entrepreneur to identify his goals but also motivates and assists him in achieving the stated goals. Without leadership, an organisation would be only a confusion of people and machines, just as an orchestra without a conductor would be only musicians and instruments. Leadership is one of the primary traits of an entrepreneur by which he can influence others to voluntarily seek defined objectives.

Entrepreneur is an innovator who assembles the information and analyse the results derived from sound combination of factors. A sole proprietor or sole entrepreneur can't do whole work alone. So, he has to lead all persons employed by him. He is both an investor and a financier and should therefore be able to shift investments in search of larger profits. He has to tie up capital and wait for good returns. He should be willing to assume a relatively large risk because he has to guarantee wages to his employees, interest to his creditors and rent to his landlords, Risk and reward are inseparable. He is responsible for fair return to all concerned parties.

Leadership is equally important in all sizes of organisation be it small, medium or large. Effective leadership can't exist without the full dedication, initiatives and the co-operation of employees. Since a small industry is as labour- intensive industry, the entrepreneur must have leadership qualities to influence his workers or employees. In addition, a true leader is one who forsees risks and plans ahead to minimise and avoid them. A leader is only as good as his team. A good leader recognises the worth of all his team members and make them realise that their contributions are invaluable to the organisation's growth and success. Appreciation gives team members greater confidence in their abilities, thereby making them more willing to be creative and they can take chances. The leader must work towards mastering the art of motivating his team. The path to leadership differs from individual to individual. However, there are a few key traits we can focus on :

1. High level of personal drive
2. The desire to lead
3. Personal integrity
4. Self-confidence
5. Cognitive (Analytical) ability
6. Business Knowledge
7. Cherisma
8. Creativity
9. Flexibility
10. Personal Warmth
11. Sociability
12. Self-Esteem

The traits between leaders and non-leaders may differ at the physical level, intellectual level or personality features could be different as well.

A successful entrepreneur should have a good observation ability of discrimination, track and patience. He should be mentally alert practically wise, clever and exceptionally intelligent. He must be a good judge of human nature. He should be alert to new opportunities and willing to incur the risk of exploiting them. Being a leader the entrepreneur is an enterprising individual, energetic, resourceful, alert to new opportunities, able to adjust to changing conditions and willing to assume risks involved in change.

An entrepreneur is an economic leader who possess the whole abilities to recognize opportunities for the successful introduction of new product, new sources of supply, new technique of production etc. and who assembles the necessary resources and organize them in to a going concern.

1.2.3.2 Ethical Leadership :

Entrepreneur is one who care about ethical performance and their firms can use their influence as leaders and owners, to encourage and insist that everyone in their firms display honesty and integrity in all operations. Leaders in all organisations establish ethical values, and those at lower levels take their cues regarding proper behavior from the pronouncements and conduct of top-level management. However, this ethical conduct is more pronounced in small organisations where leadership can be diffused as compared to large firms where the CEO has to exercise great care to make sure that his precepts are shared at lower levels and other divisions.

1.2.3.3 Risk Taking :

Risk means the condition of not knowing the outcome of an activity or decision. Risk can be stated as, "a condition in which there is a possibility of adverse deviation from a desired outcome that is expected or hoped for." An entrepreneur is a calculated risk-taker. He enjoys the excitement of a challenge but he does not gamble. An entrepreneur avoids low-risk situation because there is a lack of challenge.

A calculated risk-taking entrepreneurs would depend on themselves than on luck. They prefer to shape events by their own actions, to make things happen rather than let them happen. The extent to which entrepreneurs actually have a risk-taking propensity is still debated but entrepreneurs do have greater willingness to assume risk when they choose to enter into a business. An entrepreneur combines and co-ordinates all the activities of the business so that maximum profits can be achieved without any serious loss to business or the enterprise. An entrepreneur is the individual who bears uncertainty and takes risk. To avoid the risk the entrepreneur should be innovator because they are successful to the extent they define risk and confirm risk. They are not risk focused, but they focus on opportunities focused.

1.2.3.4 Decision Making :

Decision-making is defined as the selection of a cause of action from among alternatives. The processes of decision...are largely techniques for narrowing choice.

Although decision-making is related to all traditional management functions performed by a manager, nevertheless, entrepreneur too has to discharge this function as his central job. He must constantly choose what is to be done, who is to do it, and when, where, and occasionally even how it will be done. The entrepreneur can exercise effective decision-making only when he is thinking or deciding rationally. He must have clear understanding of alternative courses by which a goal can be reached under existing circumstances and limitations. For this purpose, he must have information and the ability to analyse and evaluate alternatives in light of the goals sought. As a decision maker the entrepreneur has to decide how the changes in business will be implemented. Due to any change what will be the affect on the going concern concept of business. The entrepreneur, according to his vision and values decides about how the change will be exercised.

An entrepreneur must be clear and creative when it comes to decision making. He must believe in himself and should possess the ability to take decisions effectively. Decisions taken should be based on quantitative facts. Decisions which affect organisation's future are likely to be irreversible and must be taken with great care.

Decisions taken must improve the future profitability of the enterprise. Entrepreneur's past experience, intuitive decision-taking ability, rational approach, problem solving ability, creativity, innovativeness etc. will help him taking quick and accurate decisions. Not only this, decision taken is not enough unless it is implemented. Boldness and enthusiasm are required to implement a decision. Such qualities make him leader and others followers. Here are some tips to became a good decision-maker.

(1) Define the Problem
(2) Collect information and relevant data
(3) Begin with a 'brain storming' session and discuss the problem with each other
(4) Never criticise or reject any solution suggested during the brain storming session.
(5) Encourage group members to come up with potential solutions
(6) Reduce the number of alternatives to three or four after discussion
(7) Consider each alternative extensively and determine the best to meet his needs.
(8) Implement decisions.

1.2.3.5 Business Planning :

Planning is so important today that it occupies a major part of the time of the most respected men in business. Planning allows us to make even master change. It forces us to organise our expectations and develop programs to bring them about. Planning is the most effective way to draw out the best in all of us-our best thinking, our best interests and aims and to enable us to develop the most efficient way of achieving our maximum goals.

Business planning and decision making is required to run the business efficiently and smoothly. Business is a game of skill wherein risks and rewards both are great. An entrepreneur is especially talented in motivating persons who undertakes the risk of economic uncertainty. Decision making is required to visualises opportunities for introducing new ideas and for handling economic uncertainty. He is an enterprising individual willing to assume the risk involved in innovations, new ventures and expansion or an existing business. The main function of an entrepreneur is the organisation and management of the enterprise. The purpose is to bring together the various resources of production, minimize losses and reduce costs in production. In initial stages of the establishment of business, the entrepreneur takes all the business decision himself. But as the business grows the work of decision making becomes more complex. The entrepreneur delegates authority to subordinates but still the central functions of the entrepreneur remains with him. He alone determines the expansion and contraction of the size of the total business and its various branches. Being at the controls of the affair,an entrepreneur is the final judge in the conduct of his business.

An effectively written plan is an asset to the entrepreneur. The business plan is a tool-box of decision-making criteria and a synopsis of expectations, objectives and essential activities. Essential features of an effective business plan can be summed up as follows :

(i) It should include background information about the product or services being offered.

(ii) It should be realistic, possible to achieve and written in clear and simple language.

(iii) It should be convincing and supported by adequate data and facts.

(iv) The entrepreneur should well understand the nature of the product and its place in the market.

(v) It should include various ways and means through which the product or service will reach the customer.

(vi) The plan may include the cost of the product (tentative), pricing strategy and profit margin as well.

(vii) If the business would be a joint stock company, the authorised capital and type of shareholding can be mentioned.

(viii) The entrepreneur may disclose certain facts about himself and other key individuals.

(ix) The business plan is also a kind of selling document to obtain loan from a bank or financial institution. The plan should focus on required financial backing.

(x) In addition to this, the project undertaken should be viable to obtain necessary loans. Any plan raising doubts should be seriously rectified immediately.

Business Planning begins the moment you decide to open business till you start the business exactly and to the years you are actively engaged in business. The idea of a business plan is not new, what is new is the growing use of such plans by entrepreneurs. The fact is that every business needs planning. Most of the entrepreneurs don't prepare formal business plan. This lack of formal planning result in failure of entrepreneurs.

Thus business planning includes :-

- Planning of an enterprise
- Co-ordination, administration and control
- Routine type of supervision

A person may own capital, land or labour but ownership alone does not make him an entrepreneur. An entrepreneur formulates business plans and ensures their execution. He co-ordinates the agents of production, organizes and sets up the enterprise and supervises its operations. He takes the final responsibility for the business. He makes the final choice concerning the business and shapes the long term policies of the enterprise. He is a decision maker and derives satisfaction by attacking problems. In short, one should not think of launching a new business without a business plan.

One may not have all these traits but more of these one possesses, greater are his chances of being a successful entrepreneur. Many of these traits are highly inter-related and one need not possess all traits to be a good entrepreneur.

Self-Check Exercises-2

Q. "Leadership, Risk & Decision Making & Business Planning are the core qualities of an entrepreneur" Explain the statement in detail?

1.2.4 Summary

An entrepreneur should possess all such characteristics with the help of which he can perform successfully. Most common attributes of an entrepreneur can be courage, good-judgment, initiative, skillfulness, competence, perseverance and emotional stability. An entrepreneur is a calculated risk-taker. He enjoys the excitement of a challenge but he does not gamble. An entrepreneur avoids low-risk situation because there is a lack of challenge. A calculated risk-taking entrepreneur would depend on himself or herself than on luck. They prefer to shape events by their own actions, to make things happen rather than let them happen. A good entrepreneur is one who is interested in changing the pattern of production to suite the available resources, market conditions and quality of output. Apart from the basic qualities an entrepreneur also possess the core qualities like Leadership, Risk taking ability, Decision making ability and Business planning.

One may not have all these traits but more of these one may possess, Greater are his chances of being a successful entrepreneur. Many of these traits are highly interrelated and one need not possess all of them to be a good entrepreneur.

1.2.5 Recommended Books

1.	Entrepreneurial Development :	C.B. Gupta & N.P. Srinivasam
2.	Fundamentals of Entrepreneurship :	Arora Renu; Sood S.K.

1.2.6 Glossary

inter-related	:	inter-connected
perseverance	:	insistence/urgency
expansion	:	growth
potential	:	possible/prospective
mobilize	:	gather together/marshal
acquire	:	get/obtain
delegate	:	assign/handover
contraction	:	reduction/narrowing
engaged	;	busy/ unavailable

1.2.7 Answer to Self-Check Exercises

1) For answer see 1.1 & 1.2.1 to 1.2.13

2) For answer see 1.3.1 to 1.3.5

LESSON NO. 1.3 **AUTHOR : RAVI GOYAL**

FAMILY BUSINESS

1.3.0 Objective

The following chapter deals with various definitions and types of family businesses. It also discusses the model of family business, succession in family business. It identifies various reasons for conflicts and how to resolve them for the success and continuity of family business.

1.3.1 Introduction

Family businesses are the lifeline of any economy. It is estimated that globally family businesses contribute around 70%–90% of the global GDP. India is no exception.Family firms an important part of Indian culture and businesses. Much of the retail trade, the small-scale industry and the service sector are run by family businesses. In India, family businesses play a key role in the growth and development of the country. Indian Family businesses account for 90 per cent of gross industry output, 27 per cent of overall employment is generated by family firms.Some of the Indian Family Business groups areTatas, Birlas, Bajaj, Godrej, TVS group.

1.3.2 Meaning of Family Business

There are various definitions of a family business. In fact, there are as many definitions as there are authors writing on family businesses.However, in general a family- owned business is one:

1. in which two or more extended family members influence the business through the exercise of kinship ties, management roles and ownership rights, and/or,
2. which the owner intends to pass to a family heir.

Family business writers have contributed scores of definitions in the family business literature emphasizing different aspects of a family business, particularly the form and level of family involvement or ownership control, the anticipation or occurrence of an inter- generational transfer of ownership or management control.There are various definitions of family- run business and these can be grouped intotwo:

I. Structural Definitions: These definitions focus on the firm's ownership or management arrangements, e.g., 51 per cent or more ownership by family members.

1. According to Barry, "Ownership control by the members of a single family".
2. According to Barns and Hershon, "Ownership control by a single family or individual".
3. According to Rosenblatt, de Mik, Anderson and Johnson, "Majority ownership by a single family and direct involvement by at least two members in its operation".
4. According to Stern, "Ownership and operation by members of one or two families".
5. According to Lansberg, Perrow and Rogalsky, "Legal control over the business by family members".
6. According to Leach et al., "Single family effectively controls firm through the ownership of greater than 50 per cent of the voting shares; a significant portion of the firm's senior management is drawn from the same family".

II. Process Definitions: These definitions stress on how the family is involved in the business—its influence on company policy, its desire to perpetuate family control of the business and so on:

1. According to Tagiuri and Davis, "Two or more family members influence the direction of the business through the exercise of management roles, kinship ties or ownership rights".
2. According to Ward, "Transfer of ownership across at least two generations".
3. According to Dyer, "Family influence over business decisions".
4. According to Hollander and Elman, "Continuous relationship between family and business".

1.3.3 Types of Family Businesses

1.3.3.1 Family–Owned Business: A family –owned business is a for- profit enterprise in which a controlling number of voting shares (or other form of ownership), typically but not necessarily, a majority of the shares are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family.

1.3.3.2 Family-Owned and Managed Business: A family- owned and managed business is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership), typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The business has the active participation by at least one family member in the top management of the company so that one or more family members have ultimate management control.

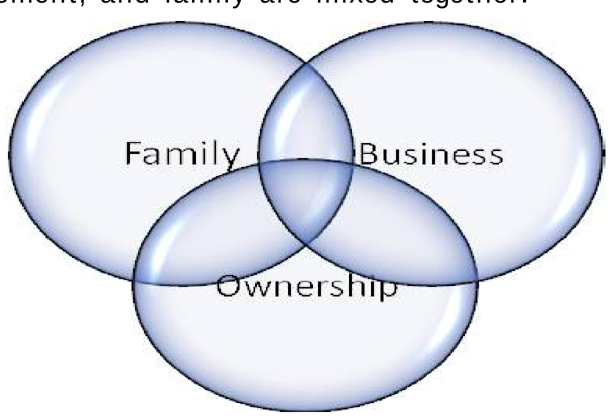
1.3.3.3 Family- Owned and Led Company: A family-owned and led company is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership), typically but not necessarily a majority of the shares are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The business has the active participation by at least one family member in the Board of Directors of the company so that one or more family members have at least a high level of influence over the company's direction, culture and strategies.

1.3.4 Culture and evolution of family firm

Three basic factors shape the organisational culture of family firms: family culture, national culture/ethnicity (including economy), and business sector and operating/technology model.Size, maturity and number of shareholders are also significant markers in the family firm culture.Family firm cultures in early business life-stages are often dominated by the personality of the founder-owner. The culture may be built on an old culture that has been modified to suit the modern business. Such cultures may go through fundamental changes as the generations shift.Family firms can benefit from periodically reviewing the attributes of their culture, under the initiative of family or executive leaders. Culture management is a key leadership role, whether driven or supported from the top.

1.3.5 Managing Business, family and shareholder relationships

The "3-Circle" model developed by Taguiri and Davis incorporates family, business and ownership system into the definition offamily business. This model illustrates how each of these systems interacts with the others and how all three circles meet in the middle, indicating that at some stage of the family business, ownership, management, and family are mixed together.



To manage business, family and shareholder relationship, it is important to have an effective governance. Effective governance brings the right people together at the right time to discuss the right things. There are three components of family governance:

1. Periodic assemblies of the family.
2. Family council meeting: A representative group of their members that plans, creates policies and strengthens business- family communication
3. A family constitution: A written document on the family's policies and guiding vision and values that regulates member's relationship with the businesses.

1.3.6 Reasons for Conflict in Family Firms

Conflicts are inevitable in all organisations. Family firms are prone to a particular range of conflicts due to the complexity that arises from the overlapping interests of management, ownership and family. Most family businesses wish for business prosperity and family harmony; however, they often confronted with underperforming business units and unresolved family conflicts.Conflicts in family businesses are rarely caused by poor business performance; most conflicts arise because the family owners perceive that their needs are not met.The management of these conflicts becomes the key to survival of both the business and the family.

The main reason behind the emergence of conflict in family businesses is the lack of understanding and communication between the three family dimensions, namely the family, owners and management. Understanding and managing these dynamics become extremely important as everyone within the family will have their own strong point of views. The individual views will differ based on personalities but also based on where the individual family member is positioned within the three circles. Some family members will be active shareholders involved in running of the business while other family members may just be passive shareholders and there can be a huge communication issue and often gives rise to conflicts.

Some of the issues that are likely to cause conflicts in business are:

- Decisions about the future strategy of the business.
- Performance of family members actively involved in the business.
- The setting of remuneration levels for family members actively involved in the business.
- Sibling rivalry in the family business
- Decisions around who can and cannot work in the business.
- Deciding between the reinvestment of profits and the payment of dividends.
- The role 'in-laws' should or should not play in the business.
- How can family shareholders exit?
- Agreeing on the basis valuation of shares in the business for those exiting the business
- Choosing the future leaders of the family and business- succession

1.3.7 Conflict Resolution in Family Firms

One of the goals of a business family is to learn how to manage conflict inside the family so that good family decisions surface, individuals and business grow in healthy ways and achieve their potential. Some of the techniques to resolve conflicts are as follows:

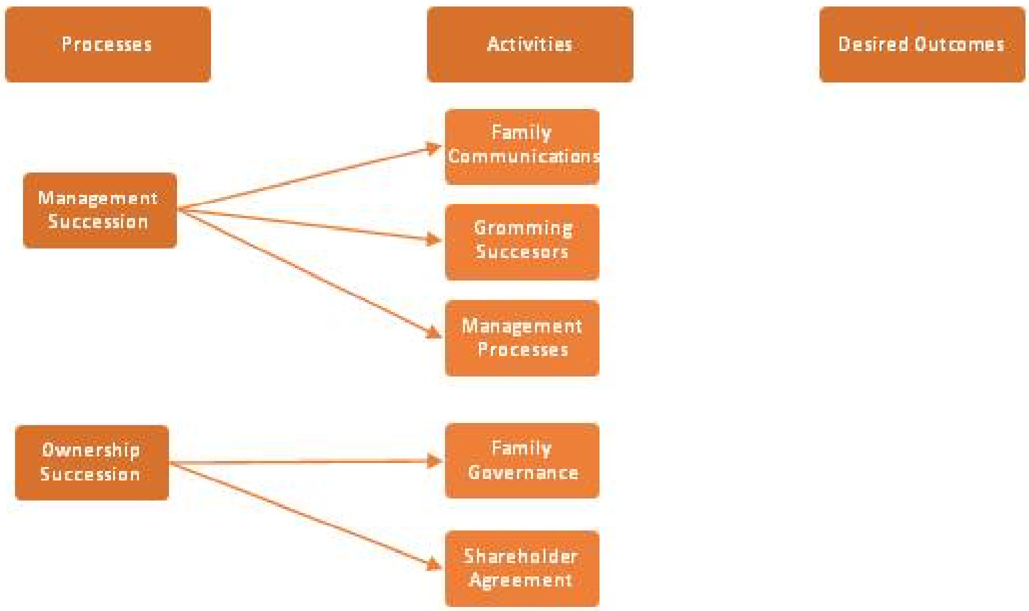
1. Establish the Family Rules: Through the family council, the family usually build and agree a set of rules which address key ownership issues. These values are often referred to as family constitution. Successful family businesses have adopted these rules and understood the need to establish strong intragenerational business relationships.
2. Decouple Family Issues from Business Issues: Family businesses should have clear lines of separation between family and business activities. Families that decouple or separate the ownership issues from management issues and keep a balance between their relationship as family members and their contractual relationship as business owners have a more viable family business.
3. Establish a Family Forum (Family Council): Families create family councils for the family owners which is a separate forum from the board of directors and management of the company. The family council becomes a forum which allows family owners to be actively engaged in the debate surrounding ownership and family issues. In this way, the threat of family conflict is lessened.
4. Transitioning the Next Generation: Aligning the vision of the senior generation and the next generation is crucial to the success of the transition of the next generation. It is important that the next generations are involved and encouraged to learn about the business in order to provide them with the necessary experience and to develop a sense of ownership and commitment to the family business. Managing the expectations of the next generation clear communication and greater transparency are key ingredients to minimize any future conflicts.

1.3.8 Succession Planning in Family Business

Succession planning has a particular significance in family firms because of the involvement of family members and ownership. Developing the next generation leaders is tackled in different ways by family firms. Some are laissez-faire – wait to see what the kids want. Others are more proactive, making provision for prospective candidates. This is advisable to ensure that the best talent is included in the leadership.

Family business succession is the process of transitioning the management and the ownership of the business to the next generation of family members. Giving the next generation an opportunity requires confidence in the person taking over.

Some of the problems associated with succession in family firms include the senior male unwilling to let go to the younger generation and rivalry between relatives competing for the same position.



Succession Processes

The family business succession plan comprises two processes, the 'management' succession process and the 'ownership' succession process. Numerous succession activities are outlined for each of the two processes to achieve the desired succession outcomes. The management and ownership succession processes can be undertaken simultaneously or one at a time. It is recommended that the management succession process be carried out first so that the ownership succession plan reflects and supports the management succession.

Succession Activities

The model shows a number of family business succession activities intended to integrate family members into the management and ownership succession processes. The ultimate goal is to allow family members to make informed decisions about their individual and collective futures in the management and ownership of the family business.Establishing family communication activities, such as family business meetings for the active family members, family council meetings for the broader family, and family business rules, will serve to guide the overall succession process. These communication activities will pave the way for the effective management of the all-important family component. The management succession activities also include the grooming ofsuccessors and integrating the active family members into a number of key management activities.

The model also shows the ownership succession process including a list of succession activities involving family members. These activities comprise the same channels of communication as indicated in the management succession process. The ownership succession activities also include family governance and shareholder agreement issues.

Desired Outcomes

By integrating family members into the process and by providing sufficient comfort to the current and future owners of the family business, informed decisions can be made. It is these informed decisions that will ensure a smooth and effective family business transition.

1.3.9 Encouraging change in the family business system

Change doesn't always have to be a threat. It can be a positive opportunity to create understanding, trust, capability and part of keeping a family business innovative. One way to create this culture change faster is to encourage the younger generation to join the family business. Business families must learn to anticipate and confidently handle change. Change management principles are not new, yet there are special considerations when applying them to a business family. Change in a family enterprise is falling into two broad categories:

- ***Natural change***, or that which is inevitable, such as the departure of senior-generation members and the rise of next-generation as owners and leaders
- ***Planned/intentional change***, purposely initiated changes such as adding independent directors to the board or transitioning from family managing the business to owning it.

Below are several tactics and mechanisms for addressing change effectively:

- *Involvement*: Get more of the family involved, listen to what they have to say and engage them in understanding and managing the change.
- *Education*: Provide education for all family members about the change in question and its purpose and broader context.
- *Compelling purpose*: Communicate the change in the context of the overall compelling purpose of the family and make it relevant for all individuals and groups affected before the change happens.
- *Task force or pilot group*: Create a small group of family members and others to lead the change, or pilot it within a smaller part of the organization before implementing it more widely.
- *Parallel planning*: Plan for both the business and family simultaneously with attention to understanding how change on one dimension affects the other.
- *Skill development*: Use the change as a motivation to gain new capabilities, whether related to management, governance, or other areas.

- *Consultant:* Retain an outside consultant to help formulate, communicate and implement challenging change.
- *Trimming the tree:* Create opportunities for family members to gracefully exit as owners if they do not want to be included in changes desired by the majority.

1.3.10 Summary

Family Business play a crucial role in the growth and development of economy. The '3-Circle' Model incorporates family, business and ownership system into the definition of family business and the owner of the family business must learn to manage all three dimensions. It is extremely important to develop family succession plan and the business owner must try to resolve conflicts for the long-term survival of the business.

1.3.11 Self Assessment Exercise

1. Define Family Business. What are the various types of family businesses?
2. Why conflicts arise in a family business? How can these conflicts be resolved?
3. Write a note on Succession Planning in Family Business.
4. Explain the ways in which a business owner can introduce change in the family business.

1.3.12 Recommended Books

Poornima M Charantimath: Entrepreneurship Development Small Business Enterprises

Ramachandran K: Entrepreneurship Development

Vasant Desai: Dynamics of Entrepreneurial Development and Management