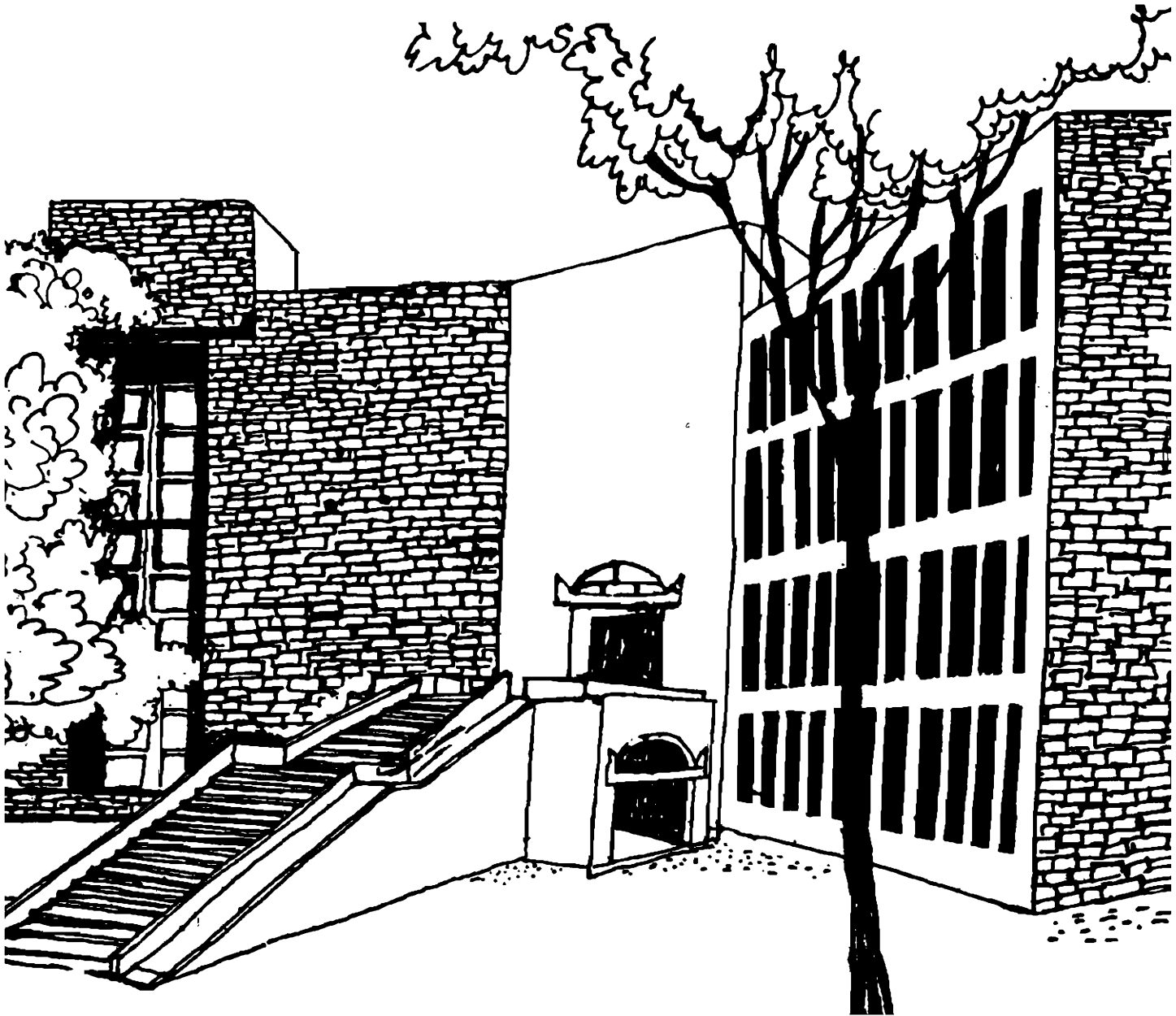




Working Paper



CONCLAVE ON FAMILY BUSINESS
STRATEGISING THE FUTURE

By

Indira J. Parikh

W.P.No.2000-03-06

March 2000 1586

WP1586



2000-03-06

(1586)

The main objective of the working paper series of the IIMA is to help faculty members to test out their research findings at the pre-publication stage.

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD-380 015
INDIA

PURCHASED

APPROVAL

GRATIS/EXCHANGE

PRICE

ACC NO. 250189

VIZRAM SALES/TRADE LEGAL

L. L. M. AHMEDABAD

**CONCLAVE ON FAMILY BUSINESS
STRATEGISING THE FUTURE**

**INDIAN FAMILY BUSINESS EXPERIENCE
CONFERENCE AT BANGALORE
FEBRUARY 5-6, 1999**

INDIRA J PARIKH

**INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD**

**CONCLAVE ON FAMILY BUSINESS
STRATEGISING THE FUTURE**

**Indian Family Business Experience
Conference at Bangalore
February 5-6, 1999**

Indira J Parikh

ABSTRACT

The paper "Conclave on Family Business Strategising the Future" explores the family owned organization where many success stories have been written of fathers, sons and brothers. Today these organizations are at the cross-roads as new paradigms of managing organizations are emerging. The paper explores the first generation entrepreneurs, the second generation inheritors and the third generation successors.

The paper then examines the people profile in family owned organization and the interplay of the three generations as well its employee. Both groups have a long history of association and relationships with each other and the organization. The paper examines the growth of family owned organizations, organization culture, organizational issues, managerial issues and the expectations of different constituencies from each other. The organizations are encountering and addressing the issues of professionalism and professional leadership.

Finally, the paper raises some questions as to the ownership and management, the new paradigms of leadership the new employees and the direction which the family owned organizations are taking given the transformations occurring both in the internal and external environment of the organizations.

CONCLAVE ON FAMILY BUSINESS STRATEGISING THE FUTURE

Once upon a time ...

Once upon a time enterprises were set up by individuals which were then passed on to the next generation. Until one day a new form and a new structure was created as part of the business environment. However, when an individual at any point of time starts an enterprise he starts with a purpose and a meaning to make it grow.

An institution begins in the dream of one person or a group of individuals. Many such examples of individual with their dreams are available in the history of Indian Organizations and Institutions. An individual starts to set up an organization in the ambition, hopes, and aspirations to make it grow. The organization grows from small to medium to large and mammoth and creates achievements, landmarks and success. The organization may then generates values, philosophy, and code of conduct by the progenitors and the people who first start the organization. Studies by historians and social scientists have documented many such examples. [Tripathi and Mehta (1990), Balakrishnan K and et al (1980)]

Moreover, many organizations / institutions have begun by chance. The individual, founder, entrepreneur, owner being at the right place, at the right time and responding to the opportunities available. He makes a beginning takes some risks and builds on the opportunities. The dreams of creating or building an organization / institution are then carried by the heirs or a group of individuals who then add and give shape to their dreams to make it a reality. If the organization / institution has to last many generations then the roles taken by the individual entrepreneur, founder and a group of individuals need to evolve and grow so that the organization / institution walks a path of growth and puts down the roots of values, excellence and human endeavour.

Many family owned organizations today stand at the threshold of growth, entering to walk an unknown and unfamiliar path and with a group of people who have joined to take this journey. There are many success stories of fathers, sons and brothers - the first generation entrepreneurs wanting to create and build the organization. These organizations are poised for growth at a time when the country is reluctantly but certainly moving towards new paradigms of globalisation. The new paradigms of business also mean new paradigms of growth for the organization as well as the roles of family members and the managers in leadership roles. Depending upon how the synergy of the leadership roles of the family members and the senior managers is created would contribute to the growth of the organization and its future directions.

THE FIRST GENERATION ENTREPRENEURS

Many of the first generation entrepreneurs in India began from trading and distribution to manufacturing and production. This was around the turn of the century when the country was just getting into industrialization. The industries these entrepreneurs set up flourished through their own sagacity, hard work and the dedication and loyalty of people who joined them. The business environment also created a context in which the growth was rapid given the opportunities available. The newly set up industry operated within the framework of the social realities and designed organizational and business practices congruent with the social structures and processes. [Tripathi & Mehta (1990)]

The first generation owners-entrepreneurs provided sound direction, guidance, centralized controls and operational the plants through loyal and dedicated employees. Subsequently, the focus and thrust of industrialization changed after the 1950s. The country was governed through license raj. The business environment was a sellers market. There was monopoly of technology and the market was governed through scarcity of resources and products. Administration was through patronage, deprivation and obligation through social linkages and concept of duty. The employees were given jobs through personal and direct contact and a large number of these employees came from the same larger extended family and social community. For many of these employees this was the first job and they had limited aspirations and expectations from the organization. [Sampath (1991), Parikh (1993)]

As the organization grew it acquired history. The owner-manager had acquired the progenitor's role. The organization history was intertwined with the progenitors who had become larger than life. Employees remembered the personal contact, kindness and personal consideration by the progenitor. He was attributed concerns for the family of the workers, social issues and the exclusive well being of the organization and as such the workers. [Parikh (1992, 1993, 1994, 1995)]

The progenitor took all the decisions. He supervised every detail of the running of the organization and attended to day-to-day functioning problems. He kept direct access

and contact with people across departments, functions and levels. He personally visited each department and monitored the functioning as well had direct feedback from workers as well as all other employees.

The management was traditional and anchored in the progenitor. He was the father figure to whom the employees were loyal, obedient and surrendered their lives. They did their duty by the progenitor and for the organization. The progenitor governed the people and the organization with a firm hand, inspired the employees to work and was sensitive to the employees and their personal and social crisis. The progenitor like the patriarch in the social familial context was available to everyone and was an anchor as well as security for he was postulated fairness and responsive to one and all. [Parikh (1992, 1993, 1994, 1995)].

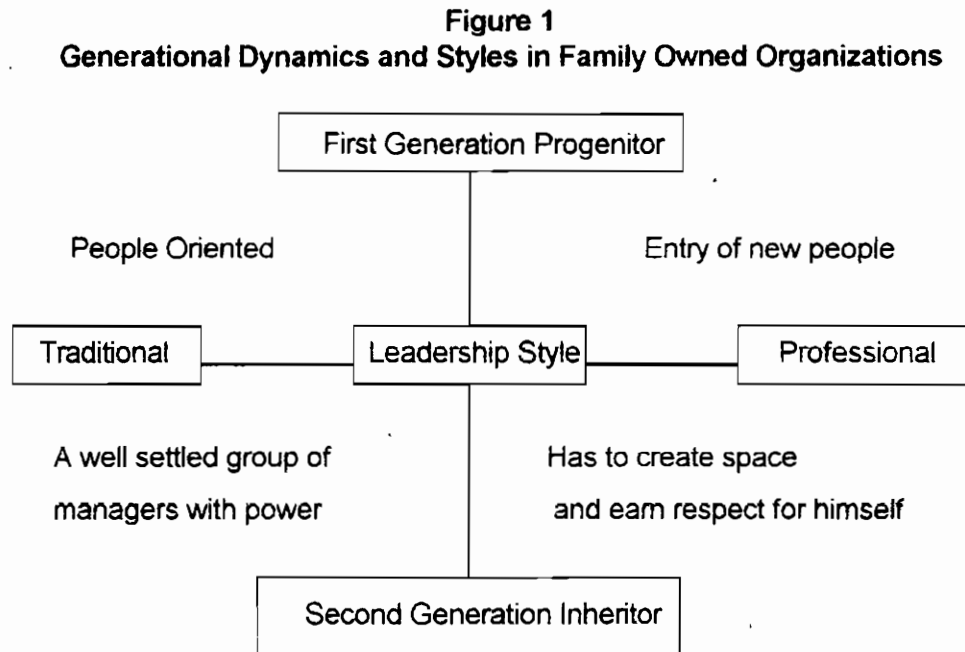
THE SECOND GENERATION OF INHERITORS

The second generation the inheritors grew up in the shadows and role model of a giant who had been postulated with charisma and idealism. The inheritor finds it most difficult task for the inheritor to step into the shoes of this giant and demi god. Their experience of this giant in the family setting as a father role is that of a patriarch, an autocrat, self righteous and a model of tyranny. Indian families are replete with tales where the encounter between the fathers and sons and the dominant behaviour pattern of the father is that of creating compulsions and demanding surrender of the son creates processes whereby it erodes initiative, inhibits dynamicity and limits the unfolding and potentials of the second generation.

The second generation enter the organization with their own dreams and enthusiasm of performance and wish follow in the footsteps of success. They want to take the organization forward as well as establish their unique identity. However, in the organization setting a unique juxtaposition of the traditional and the familial and dynamics of power and authority leaves very little space for the second generation inheritor to achieve and excel. The progenitor has a set or a group of individuals who have already become surrogate sons and right hand of the progenitor. The inheritor's entry and effort to create space for themselves in the organization creates some difficulties for these existing powers as they have enormous authority, power, significance and status. The progenitor is clear that the son is the inheritor. However, all organization processes are loaded against the inheritor's success. As such, given the socio-cultural processes existing people and processes the second generation inheritor has very little chance. The second generation has very few alternatives. Either he can conform and settle into a lesser, smaller and a shadow replica of the patriarch, or rebel and set up his own kingdom or go into exile away from the same geographical locale to start on his own. However, in many families the inheritor settles down to a maintainer role and acquires the leadership role of maintaining the organization at the same level. He continues to be held in a comparative frame with the progenitor and found wanting. Very often the powers and authority continue to remain with the existing key roles. To the inheritor the key role holders have been significant member of the family and part of his growing up and as such not to be questioned or challenged. The

socio-cultural processes of familial set up inhibits the assertion by the inheritor to claim his own rights.

Figure 1 presents the generational dynamics and leadership styles in Family Owned Organizations.



- Transition from traditional to professional
- Entry of second generation inheitor
- Entry of heterogeneous group of people at different phase of growth

THE THIRD GENERATION

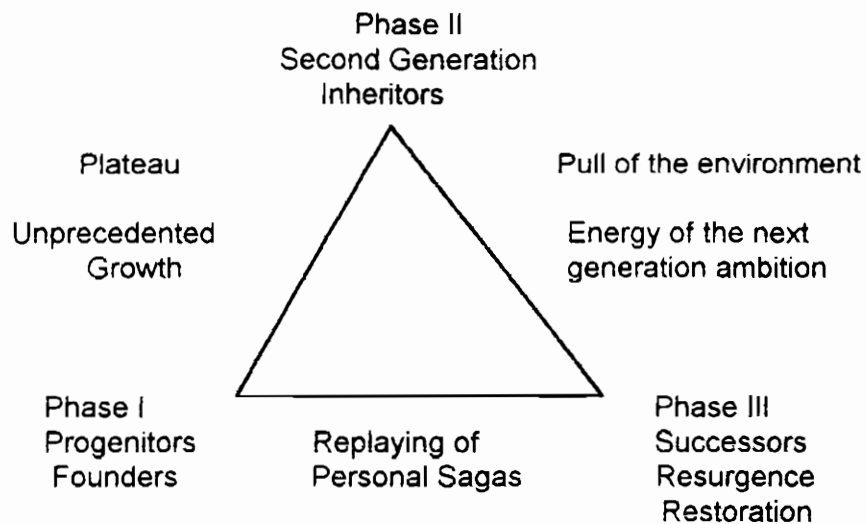
The Third Generation : Successors

The third generation - the successors arrive on the organization scene often when the first generation progenitors are still around. This means that the age of the progenitors is around sixty five to seventy plus, the inheritor forty five to fifty plus and the age of the successor is twenty plus. The progenitor has far greater expectations and hopes of success from the successor than he ever had of the inheritor. The progenitor attributes all his personal qualities of success and charisma to be continued by the successor. The successor is said to be the grandson of the progenitor and as such similar to the progenitor with value added opportunities of growth and the learning from the experiences of the progenitor.

The third generation of successors enter an already flourishing industrial base which is stable and solid. The successors are indeed under pressure to achieve and succeed. He has to combine skilfully all his resources and come out with his innovation which can take the organization ahead. Many organizations which have not grown in the leadership of the second-generation tend to recover under the leadership of the third generation. And only by being successful in their mission the younger generation can grow into the maturity and stature of a leader.

The above reflections were reinforced by several studies of many family organizations that the first generation progenitors by their charismatic personality, vision and values business take the organization through unprecedented growth and success. The second generation just about manages to sustain and maintain the status quo. In this transition organizations decay and disintegrate with the first generation only. If the organization succeeds with the first generation and maintains with the second, it is the third generation which then take the organization forward.

Figure 2
Transition of Generational Dynamics in Family Owned Organization



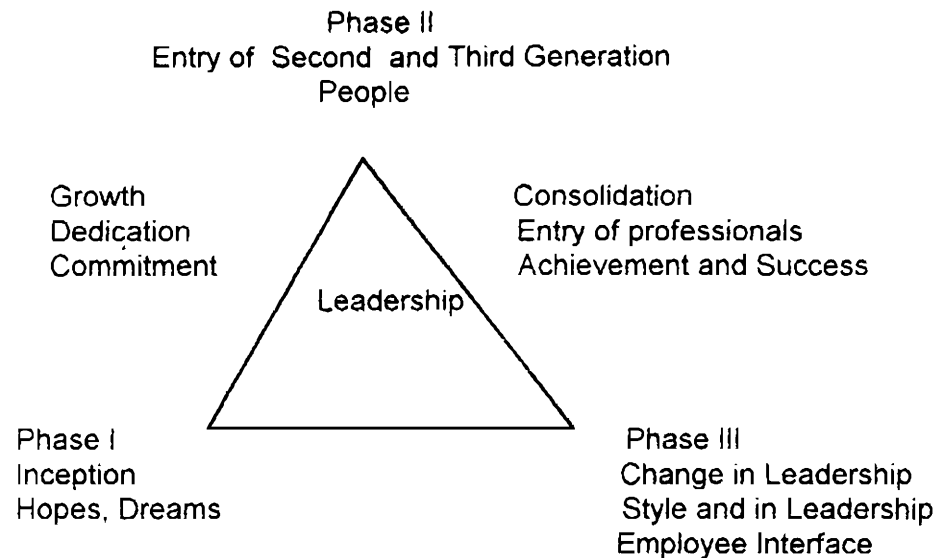
- There are three phases of growth. From the progenitor, inheritor to the successor.
- Each phase marks both a continuity and a discontinuity in growth.
- Qualitative shifts occur in the running of the organization as well as in the culture of the organization.

The progenitor, inheritor and the successor each reflects a unique style of role taking, managing the organization, relations with the people, fostering a work culture and interface around tasks, functions and work processes. The table below presents the unique characteristics of the three generations of family ownership.

Progenitor		Inheritor		Successor	
1	Has personal preferences of people. It is based on loyalty and known social belonging	1	Very much task orientated and is vary of the existing people	1	Fired by dreams of achievement
2	Trusts some people and not others	2	Emphasis on consolidation and growth	2	Acquires a whole new set of professionally trained people
3	His likes and dislikes creates processes of discrimination and deprivation	3	Somewhat impersonal and distanced	3	Demands results
4	Trends to over supervise and holds personal accountability	4	Wanting changes but not assertive enough	4	Introduces structural and systemic changes at a fast pace
5	Wants to know every detail - cuts across all	5	His pace of work creates inadequacy and inefficiency in existing people	5	Focus on quality and excellence
6	Is generous, fair and just	6	Introduces systems and structures which are new and unfamiliar	6	Strategic policies to address the competition and globalization
7	Tolerates some incompetencies and inefficiencies	7	Demands results and functionality	7	Takes the organization beyond the familial ownership to a world class organization

As the organization grows the pull of growth initiates the processes of transformation. Each generation brings a new focus and initiates some departures, makes some new beginnings or holds into what already has been created. Figure 3 presents the three phases of growth and the emergent processes of the three generations.

Figure 3
Phases of Organization's Growth



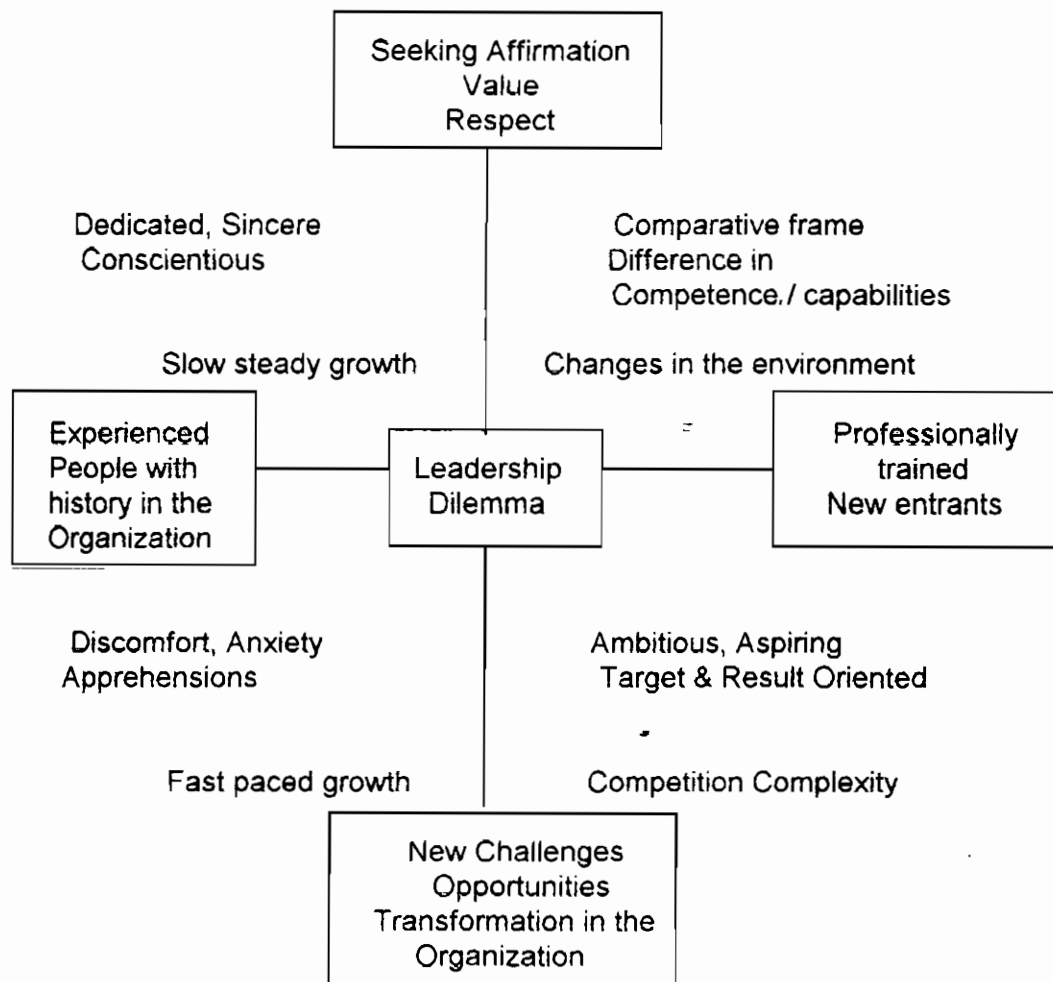
Phase I	The progenitor translate dreams into reality and pulls an enterprise
Phase II	Dedication, commitment of the progenitor & others fosters growth of the enterprise Entry of new people some with specialization and skills and professional capabilities
Phase III	Need for consolidation, entry of professionals for further growth achievement and success

(Adapted from Parikh, Indira J. An unpublished consultancy report, 1993).

PEOPLE PROFILE IN FAMILY OWNED ORGANISATIONS

As the organization grows there is need for induction of a large number of people in the various cache of the organization. New professionally trained people are recruited so that the organization grows according to the systems, procedures, policies and strategies required in the market place. The entry of new people creates its own juxtaposition of the old and new and the experienced and the professionals. Figure 4 presents the people dynamics in the organization.

Figure 4
Leadership - Dilemma of Growth

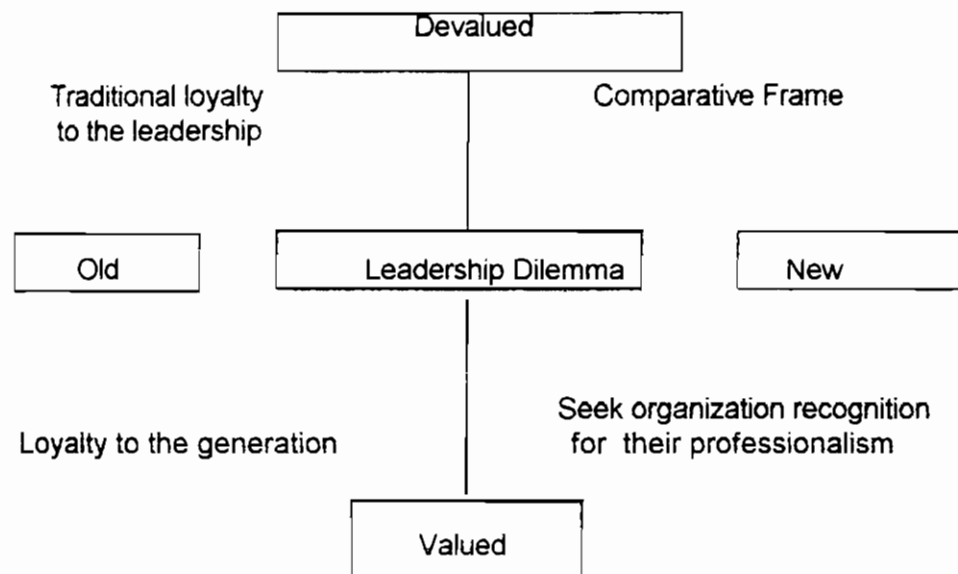


- . People risen from the ranks - hard working, sincere and conscientious
- . They feel inadequate and insufficient
- . They seek respect and being valued for their contribution
- . Professionally trained are looking for career growth and opportunities
- . They are ambitious and demanding but they also perform
- . Organization/leadership has to design
- . Integrating process to assimilate knowledge and experience and old and new people

(Adapted from Parikh, Indira J. An unpublished consultancy report, 1993).

The dynamics which gets generated is the issue around groups of people who have been with the organization with values of dedication, sincerity and loyalty and the new group who bring with them training and a search for fast paced career growth. Some of the home grown managers and employees start feeling devalued and uncared for. This also happens as at this point of time when the next generation begins to take charge and wants to take the organization in new directions with new opportunities and challenges.. A new group of people enter the organization who have loyalty to the new incoming leadership. The organization gets pulled and pushed in the dilemmas and differences between the progenitor and his group of loyal employees and the incoming younger leader with the new group of people. Both groups of people bring different qualities to the organization, but end up comparing themselves. Figure 5 reflects the dilemma of leadership and the resultant fragmentation.

Figure 5
People Profile Anchored in History and Growth



- . Old people experience disowning and marginalisation
- . Professionals demand recognition for their contribution.
- . Old people are loyal to leadership and organization
- . Professionals are loyal to themselves and their growth
- . New spaces and interfaces to be designed so that a shared understanding and belonging emerges

(Adapted from Parikh, Indira J. An unpublished consultancy report, 1994).

Given the growth of the organization, the successive generations of family members, and the changing people profile creates a context for the organization and the family to assess where they and the organization are located. There is a need to identify the key issues of the organization's growth. Based on the experiences of many family owned organizations following seven dimensions constitute the dominant landmarks of growth.

1 Growth of Family Owned and Managed Organization

Once upon a time an enterprising young man starts an enterprise in a growing business environment. Over a period of time the pulls and pushes of growth contribute to the following dynamics of growth.

1. Unprecedented and unplanned growth
2. Emergent changes in the organization structure owing to growth or redesigned structure.
3. Increasing demands from the second and third generation for professionalisation of management practices and inclusion or introduction of professionals on the board.
4. Introduction of systems and systemic processes to minimise adhoc decisions and personalisation.
5. Change in leadership through succession or retirement.
6. Induction of people both young and experienced professionals who did not belong to the homogenous groups of the earlier phases.
7. Redefinition of family members roles and authority in the organization.

2. Organization Culture in the family owned / managed organization

As the organisation grows the organization culture also evolves. In some organizations attempts are made by the progenitor and subsequently by the inheritor and successor to give shape to the culture. However, in most family owned organizations there are certain assumptions and beliefs about the organization culture which reflect the progenitor becoming synonymous with the organization. Below are reflected some of the dominant themes of organization culture in the family owned organizations.

1. Each organization evolves work methods and a work culture influenced by the socio-cultural context and the external environment which is brought in by the progenitor and his family to the organization.
2. The growth of the organisation is experienced differently by individuals and groups of people depending upon their time of entry and the phase of growth the organization was at that point of time.

3. The people profile reflects the distinctiveness of each group. How each group operationalises the maps, definitions and meanings of the organization, is anchored in the people's own dreams and expectations from themselves as well as from the organization.

4. The history of the organization and how that history is held and interpreted by people influence the working of people. People who have a history of their belonging in the organization carry residues of feelings from past experiences and as such shape the role and performance in the organization;

What is not recognised is that the leadership's charisma, roles, style and ways of relating and the dynamics amongst the various members of the family in the organization influences the workings and relationships in the organization. Each leader and family members are experienced differently by different people in the organization. Each individual or group internalizes both the health and pathology of the leader, other family members as well as the organization and as such contributes to the health and pathology in the organization.

The organization culture is more than the sum total of all individual behaviour. Whether by active participation and direction of the leadership or by silent acceptance and conformity everyone, actively or passively contributes to the evolution of the organisation culture. The leader alone is not totally responsible for the creation of organization culture. However, in most family owned organizations the source of the organization culture is attributed to the progenitor.

5. The maps and definitions as held by every employee of the organization, its structure, task, technology, performance and people determine the emergent processes of culture, structure, task, role and performance of the organization. These need to be understood in the context of the family ownership of the organization. The employees in the family owned organizations make the progenitor synonymous with the organization. Later on this creates enormous difficulties in the growth and formalisation of organization structure roles and processes. Transformations and change become very difficult.

Given the history of family owned organizations, the emerging culture and its people contributes to some of the organizational level issues. Over a period of time the organization gets frozen in repeating the same patterns. Whereas, the expectations of

the managers as well as the employees have undergone change. The growth also has put demands that the organization issues have qualitatively become different.

3. Organizational Level Issues in Family Owned Organization

1. Organization structure, management practices and processes need to be redefined and recalibrated with growth.
2. The senior managers as a group do not have a shared organizational perspective. They continue to remain functional islands. However, each has a closeness with the progenitor or one of the family members. The organization becomes several distinctive cultures reflecting each of the significant family role holder in the organization.
3. Long term strategies need to be formulated to acquire competitive edge and to envisage the future scenario prepare the organization for new challenges.
4. Strengthening management capabilities and competencies through management knowledge, tools and techniques.
5. Consider strategic choices for expansion and diversification.
6. Documentation to be done so that learning gets transferred.
7. Remuneration package to be reviewed and rationalised to attract better talent.
8. Performance appraisal to be designed which is linked to responsibility, authority and accountability.
9. Uniform, clear and transparent policy statements on performance appraisal and promotion criteria, perks and benefits.
10. Senior managers as a group to review the organization structure, role, and functions to professionalise management.
11. The organization to sensitize itself to the changing complexity and globalisation of the business environment. This can be done through participation in workshops, seminars, etc.

Given this formalisation occurring in the organization the expectations of managers and the roles of managers undergo transformations. The home grown managers as well as all other employees require an organizational and managerial perspective so that they become effective in tasks and focus on the excellence of performance. Below are

identified some of the key areas where managerial roles require new dimensions through management education and inputs.

Similarly there are managerial issues held by diverse groups of people in the organization which impact tasks and role performance of managers. There are issues which need to be addressed:

4. Managerial Issues Operative in Family Owned Organization

1. There may exist horizontal rigid inter-functional and inter-role boundaries. The issues are made more complex by the people who have been in the organization for a long time and people who have joined recently in functions like HR, IT etc.
2. Vertical hierarchy and rigid boundaries across various levels of management and managers. The people experience a loss of personal contact upward and feel less valued by the top.
3. The senior managers or the progenitor - inheritor may take Ad-hoc decisions or make frequent changes in decisions. The absence of consultative processes is acutely experienced.
4. Individuals perceived as either heroes or villains.
5. The managers work with a firm belief that overengagement means that they are working in the organization. For this they need to be appreciated by the top. The managers are also under-utilised.
6. Issues around delegation and integration of responsibility, authority and accountability. People experience centralisation and lack of autonomy.
7. Managers are not exposed to the outside world through participation in seminars, workshops, management education and programs. This is more so of people who have been with the organisation for a long time.
8. The organization growth creates overlaps and lack of clarity across roles, tasks and functions.
9. Formal task roles are linked to personal social linkages with the family of entrepreneurs owners progenitors or inheritors.
10. Systemic and infrastructural support for jobs, tasks, and role performance are not fully available to managers.

11. Managers are rooted in the routine work and are not innovative.

These are issues confronted by the organization as it encounters transformation from a small to a large, mammoth and global organization. Each managerial issue seems like any other managerial issue of any other organization. However, the difference in the family owned organization is the nostalgic carried by a group of people who remember the work culture and relationships of once upon a time. Moreover, the organization and employees also carry many of the strengths and positives of a joint family system of the Indian social cultural context.

5. Expectations at the Managerial Level in the Family Owned Organization

1. Senior managers to take charge of the functions, work with systemic authority, and delegate downwards.
2. Managers encouraged to be open and appreciate other functional roles' strengths and constraints and link themselves with other roles, functions and tasks.
3. The senior managers to hold regular meetings and focus on effectiveness and excellence of their function as well as the organization.
4. Senior managers across levels of management to have a more clear organisational perspective.
5. Managers to be task oriented, and professional.
6. Inter-functional linkages to be open and as such inculcate team spirit.
7. The employees own up their membership as well as representative role in the organisation.
8. Sense of ownership of the organization and its growth.
9. Clarity of their own vision and values as well as the new role of managerial leadership which they need to take.
10. Increase in systemic responsibility and systemic discipline.

Given this complex and multi faceted dimensions of the family owned organization what are the choices and options left for the family owned organization to create, take departures and new beginnings.

In the first instance it is important to ask a few questions and seek answers. Structurally in most organizations the father, sons, brothers and other family members occupy significant positions in the organization structure and hierarchy. Let us ask some of the key questions.

- What is the role of the Chairman? What is the role of the father?
- What is the role of Managing Director or the Directors? What are the role of son, sons or brothers?
- What is the Operational and experienced interface by the employees between the Chairman, MD and the Directors? Father and the sons, amongst the brothers
- What kind of differentiation needs to be made between the social and relationship and roles for the health of the organization?
- What are the strengths and limitations of the Chairman, MD and each of the director individually, the various groups and the sub groups within the family.
- What are the roles of the formal committees, Chairman, MD and the role of the directors of these formed committees?
- What is the nature of interface between the directors, other family members and the rest of the members of the formal committees.

The history of most Indian family owned and managed organization suggest that unless the family works together with clarity of each others roles and defines a boundary and a shared understanding of the individual and collective roles and goals. There are chances that others in the organization can chip away the cementing factors of social relationships. The possibilities of creating wedge amongst the family members and creating conflicts and stress would be largely to feed on each other's insecurities anxiety issues of power and status, visibility and significantly centrality and marginality and self-image and identity. The epics and the myths, the folktales and the folklore of

Indian society is replete with such processes. There are no stories that end with "Happy Ever After".

In business it is not the business differences which makes the business fall apart but the social differences which contribute to the business falling apart. Families carry social, personal and emotional history. And the past has many residues. These residues are often frozen. New meanings to the past, new relatedness in the present and trust and faith in the future – all put together contribute to the creation of family saga and history and the bonds in the family contributes to create an Institution which then lasts for generation to come. If the family owned organization are to survive in today's times then some more questions need to be answered.

1. Who will give shape to the culture of the organization of tomorrow?
2. Who will provide the role of leadership? The social hierarchy or the expertise and vision?
3. Who will provide direction to the organization. The one with power and controls or the one with clarity and understanding of the market place?
4. How is the organization performing? Are the people participating and experience pride of belonging?
5. What is the destination of the organization? Is there clarity of vision and direction and who could look beyond the horizon, have courage of convictions and is willing to walk into the unknown.
6. What is the emerging identity and image of the organization? Is the organization society responsive? Are the leaders of the organization willing to replenish the organization, its employees and the society.

7. Why have so many individuals joined the organization and what is their role in giving shape to the future of the organization. Will the organization invest in its people and work with processes of regeneration and renewals.

The choice for the key role holders and the organization is whether to interface with the day to day operational realities and feel that they are in charge, significant and in control or to create a corporate structure and a corporate group with its strategic organizational perspective and take visionary roles for the growth of their organization for tomorrow. Essentially, the choice is between guiding people and providing directions to perform or to inspire people to mobilise the collective energy so that they bring out their best and the organization discovers new mountains to climb and wide open vistas to initiate path breaking steps.

The choice is to evoke in the collectivity the fire to deploy their potentials and collectively mobilise the talent for innovativeness, excellence and forging a new role for themselves. The choice is between a successful role model of an organization or individually to become heroes or villains. New giants may come but the resilience of the entrepreneurial spirit, the phoenix like quality of the families to rise from the ashes, and the core values can provide the family owned organizations to discover the wherewithals to not only survive but build an institution which lasts for generation. Then, perhaps the family saga may begin. Once upon a time..... and they created an empire..... where people had dreams and nurtured it and fostered it and make it happen that which everyone thought was impossible.....

Then they and the future generations lived by human dignity and respect for work and planted seeds which flourished into tall and mighty trees providing inspiration and courage for many who followed.

