Managing Family Businesses

Edited by

Rajendar Singh Rathore

Icfai Business School Case Development Centre

Icfai Books
71, Nagarjuna Hills,
Punjagutta, Hyderabad – 500082
Andhra Pradesh, INDIA
Phone: 91 - 40 - 23435387/91, Fax: 91 - 40 - 23435386
e-mail: icfaibooks@icfai.org, ibscdc@icfai.org
Website: www.books.iupindia.org, www.ibscdc.org

ISBN: 978-81-314-1482-8

Editorial Team: Devi Rajnikanth and Lalitha Jayaprakash

Cover Page Artist: Romi
Designer: P. Damodara Siva Prasad

Contents

PRELUDE

When “Family Business” (starring Sean Connery, Dustin Hoffman and Matthew Broderick) was released on December 15th 1989, it carried a tagline, “There’s nothing like a good robbery... to bring a family together.” Hollywood’s another blockbuster, “Godfather” (released in 1972) also reflects what happens in a ‘family’ business. The games continue with different players. Coaches? The parents. Umpires? No. They wish rather to build empires without umpires. The rules of the game? Self-made. The issues involved in managing a family are multi-fold. Succession, wealth management and governance are three very important issues concerning family businesses. Fewer than one in three survives to the second generation.

> **“Succession, wealth management and governance are three very important issues concerning family businesses.”**

Family businesses are primarily of two different types. The first type is a business having only the family members as principals as well as agents. Outsiders are suspected and sullied. Generally, these types of companies do not see exceptional growth. Not that they cannot. Rather, they do not wish to. Why do they wish not to grow? It’s a trade-off. The conscious choice made seems to be in favour of remaining small for fear of dilution of control. No one buys Henri Fayol’s ‘subordination of individual interest to general interest’ principle. Avedis Zildjian Co. (1623), Laird & Co. (1780), George Ruhl & Sons (1789), Loane Bros. (1815), Bevin Brothers Manufacturing Co. (1832), Antoine’s Restaurant (1840), Verdin Co. (1842), Baumann Safe Co.(1843), AE Schmidt (1850) and Hicks Nurseries (1853). What are these 10 companies known for? These are the 10 oldest surviving family businesses in the US. The parenthesis indicates the year in which each of these companies was founded. Today, on an average, fifth-generation descendants run each of these businesses. Aren’t they obscure? That’s the choice made.

The second type of business is where a family has a majority stake and therefore controlling power over the company. Wal-Mart, Fiat, Cargill, Ford, News Corp., Hyundai, Nike, Viacom, Virgin, Reliance Industries, WIPRO, etc., are companies with a predominance of family ownership. Managing these companies is a daunting task. The principal-agent relationship makes the job of a CEO really challenging. *The Economist* (March 15th 2007) observed, "The late Alex Trotman, who held the top job at Ford in 1993–1998, used to say that to be successful, the boss of Ford needs to manage the family as well as the company."

"The late Alex Trotman, who held the top job at Ford in 1993–1998, used to say that to be successful, the boss of Ford needs to manage the family as well as the company."

Of late, quite a few positive changes are noticed in many family businesses. Having a 'constitution' or a family governance system is by far the most important step in this direction. In their book, *Practical Strategy for Family Business*, authors Michael K. Allio and Robert J. Allio highlight five virtues and five vices of family businesses. The five virtues identified are loyalty, deep pockets for growth, focus, speed and follow through. Blind loyalty, tunnel vision, good $ after bad, impulsiveness and tactics are the five vices of family businesses according to the authors. However, the importance of family businesses cannot be discounted. The findings of the University of Southern Maine's Institute for Family-Owned Business are quite revealing: some 35% of *Fortune* 500 companies are family-controlled. Family businesses account for 50% of US' GDP. They generate 60% of the country's employment and 78% of all new job creation.