

Organization Development and Change in 21st Century
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Lecture - 33
OD Interventions in Family Owned Entrepreneurial Firms

Now, we will talk about family business.

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**Family Business: A Common Case for
Entrepreneurial Firms**

- Globally, as well as in India, family businesses contribute to over 70 per cent of the GDP. In the case of India, this could be even more because if you go deeper into the economy almost every small enterprise is family run.
- Have grown in the last 2 years and expect(ed) to grow in the next 2 years
- 49% have a fully costed, formalised and communicated mid-term strategic plan in place and 43% have mid term strategic plan but not fully costed.

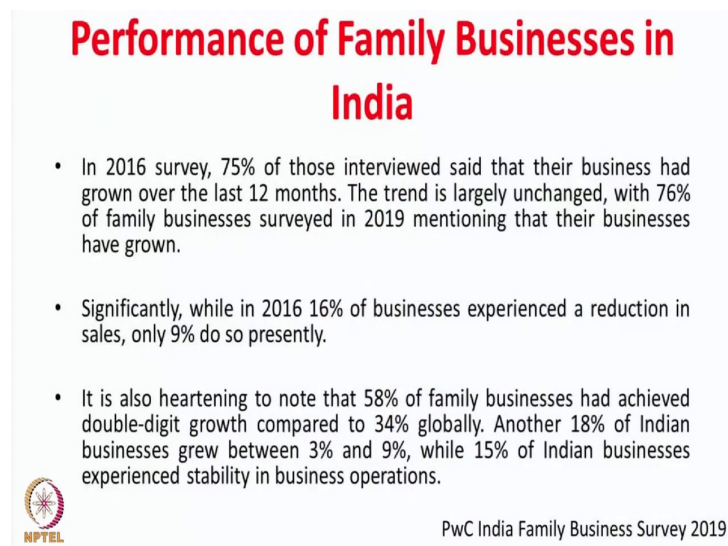


Family business is a very common case of entrepreneurial firm. Globally, as well as in India, family business contributes to over 70 percent of the GDP. In case of India this could be even more because if you go deeper into economy almost every small enterprise is family run. According to the survey conducted by Price Water House Coopers in 2019 family businesses have grown in last 2 years and all the respondent expected to grow in next 2 years.

I am saying expected, because today we are sitting when the global pandemic of Covid 19 has engulfed the economy. So, probably this finding about expecting to grow may not be valid, but when the survey was conducted in 2019 large number of corporations, more than 80 percent were expecting the business growth in next 2 years. 49 percent of the surveyed companies which were family owned entrepreneurial firm have fully costed formalized and communicated midterm strategic plan. Out of remaining 51, 43 percent


did not have the fully costed. But still they had a formalized and well communicated strategic plan. So, strategic planning is very much there in most of the business firms in India as per the survey conducted by PwC.

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Performance of Family Businesses in India

- In 2016 survey, 75% of those interviewed said that their business had grown over the last 12 months. The trend is largely unchanged, with 76% of family businesses surveyed in 2019 mentioning that their businesses have grown.
- Significantly, while in 2016 16% of businesses experienced a reduction in sales, only 9% do so presently.
- It is also heartening to note that 58% of family businesses had achieved double-digit growth compared to 34% globally. Another 18% of Indian businesses grew between 3% and 9%, while 15% of Indian businesses experienced stability in business operations.

 PwC India Family Business Survey 2019

In 2016, in a similar survey, 75 percent of those interviewed said that business had grown over the last 12 months. That trend is largely unchanged and in 2019, 76 percent of the family business surveyed mentioned that business has grown.


Significantly while in 2016, 16 percent of the businesses experienced a reduction in sales, only 9 percent reported reduction in sales in 2019. It is also heartening to note that 58 percent of the family businesses had achieved double digit growth compared to 34 percent globally. PwC also conducts the global survey, so for the family owned businesses, there is also a comparison given in the global survey findings and the India specific findings.

Another 18 percent of the Indian businesses grew between 3 percent and 9 percent, while 15 percent of the Indian businesses experience stability in business operations. You can look at the importance of the family businesses and the health of business. Family businesses based on this survey highlight the values and approach to social responsibility of the family business firms.

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Values and Social Responsibilities

- In 2019 survey, PwC found that 89% of Indian family businesses feel that they have a clear sense of the agreed values and purpose as a company, compared to 79% globally. Further, 85% say that the family which owns the business has a clear set of values, as against 75% globally.
- The higher ranking of Indian business leaders on both aspects can be attributed to the Indian social and family structure and a belief that ingrained values are the foundation on which businesses have been built.
- 70% of family business leaders in India have set up a foundation individually or jointly with other families.
- Investing in philanthropic ventures is, however, not enough and 58% of businesses try to measure the success or impact of their activities. Again, this is significantly higher than the global average of 28%.



PwC found that 89 percent of the family businesses feel that they have a clear sense of the agreed values and purpose as a company compared to 79 percent globally. Further 85 percent says that family which owns the business has a clear set of values as against 75 percent globally.

Higher ranking of business leaders and the family owned businesses on both aspects can be attributed to the Indian social and family structure and a belief that ingrained values are the foundations on which businesses have been built. 70 percent of the family business leaders in India , in fact, set up a foundation individually or jointly with other families. So, this data is about the social responsibility - most of the CSR activities are done by the corporations for whom this is a mandatory requirement. According to the new amendments in the companies act 75 percent of the family owned businesses they carry out the CSR activities through a foundation.

Investing in the philanthropic ventures is however, not enough and 58 percent of the business even try to measure the success or impact of these CSR activities which is significantly higher than the global average of 28 percent. So, this survey indicates that family businesses are important; they are aware of this importance of clarifying the values, they have clarity about the values they also have clarity about their strategic orientation and the path of strategic success. They also mostly are responsible towards society and most of them are genuinely engaged in the CSR activities, some of the

unique challenges of the family owned businesses or family owned Entrepreneurial firms are(Refer Slide Time: 05:41)



Unique Challenges of Family Owned Entrepreneurial Firms

- Institutional overlap
- Pressure to hire family members
- Compensation
- Succession planning
- Lack of formal systems and processes



institutional overlap, pressure to hire family members, compensation, succession planning and lack of formal systems and processes.

Institutional overlap as we discussed in the previous part of this session is about overlap of the roles in family and firm. As a chairman or the MD of the firm, father might have to take a stern action against the son or daughter or other relatives and that kind of situation can create a dilemma and that is what is called the institutional overlap.

Pressure to hire family members when firm is family owned – Often family members think of themselves as entitled to have job or position in that firm. Many times , it may not be easy, or it may not be feasible according to the competency requirement in a particular role. So, that may create a challenge and pressure on the owner of the firm.


Compensation is another challenging issue. If family owned business has mostly employees coming from the same family, then how does one decide compensation? If everybody is coming from the same family, can we have differential in the compensation – what if son and son in law both are employed in a family firm? Can we differentiate the salary even if their roles are different? That might be a tricky issue and that is why it becomes a challenge at times.

Succession planning; as I mentioned before, it can be one of the trickiest issues in the family owned entrepreneurial firm. When family owned entrepreneurial firm grows and if it grows based on personal ties and social ties, the firm may lack in the formal systems and processes. At times family owned firm progress from micro to small to medium size corporation even without a strong and explicit formal system.

But if the family owned firm has to survive as a medium size corporation or has to grow as a big corporation they have to establish formal systems and processes and that becomes challenging, because in that process they have to often prune the roles of the family members at times. They have to restructure the compensation, they have to restructure the organization authority and organization design.

Often they have to give more authority to professional managers and curtail down the authorities of the people coming through the family ties or the social ties. These things become very difficult and very challenging for a family owned firm and that has to be taken care of in a very sensitive and professional way. These are some of the major challenges of the family owned entrepreneurial firm.

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Major OD Interventions for Family Owned Business

- Role and Goal clarity
- Explicit contracting
- Family Therapy

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Some of the prominent OD interventions are role and goal clarity, explicit contracting and family therapy. Role and goal clarity related interventions are important in the birth stage, survival stage and even at the growth and succession stage in an organization.

It is always good to calibrate the expectations of the different members of the family involved in the business and to demark the role of different people involved from the same family in the entrepreneurial firm.

Similarly, goal clarity is also important because without goal clarity we cannot assess the performance of the different members. Without assessing the performance, other decisions like compensation, giving authority, their further role, their position in the organization design, all such decisions cannot be made without the goal clarity of the different members of the family owned firms.

Explicit contracting can be part of the previous OD intervention or can be done independently in a family owned enterprise. That means, writing down, documenting the different aspects of running a business and making decisions about it. PwC survey which I mentioned just now also has one question about value clarity and documentation of the values. PwC found that companies which have documented their values have more clarity in their performance and they have little better performance record in comparison to those companies which might have the clarity about the values, but values are not documented.

Family therapy is one of the most popular OD interventions in issues related to family and it is also relevant for the family owned entrepreneurial firm if they face any issue. Family therapy can be of the three types, which can be relevant for the entrepreneurial firm - Bowenian types, Structural type and Strategic type.

Bowenian form of family therapy is best suited for the situation in which individuals cannot do or do not want to involve the family members in the treatment. This is built on two core concepts; triangulation and differentiation. Triangulation means our natural tendency to vent or distress by talking to a third party.


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Family Therapy

Bowenian: this form of family therapy is best suited for situations in which individuals cannot or do not want to involve other family members in the treatment. Bowenian therapy is built on two core concepts: *triangulation* (the natural tendency to vent or distress by talking to a third party) and *differentiation* (learning to become less emotionally reactive in family relationships).

Structural: Structural therapy focuses on adjusting and strengthening the family system to ensure that the parents are in control and that both children and adults set appropriate boundaries. In this form of therapy, the therapist “joins” the family in order to observe, learn, and enhance their ability to help the family strengthen their relationships

Strategic: This form of therapy is more brief and direct than the others, in which the therapist assigns homework to the family. This homework is intended to change the way family members interact by assessing and adjusting the way the family communicates and makes decisions. The therapist takes the position of power in this type of therapy, which allows other family members who may not usually hold as much power to communicate more effectively (King, 2017).



<https://positivepsychology.com/family-therapy/>
Ref. Licensed Clinical Social Worker Laney Cline King

By talking to a third party they are able to look at their own behavior and disposition in the family situation. Differentiation meaning distinguishing the emotional aspect of an issue and factual aspect of the issue. So, differentiation is useful to become less emotionally reactive in the family relationship even when the matter is related to business.

Second form of family therapy is structural; a structural therapy focuses on adjusting and strengthening the family system to ensure that the parents are in control and that both children and adults set appropriate boundaries, it is very similar to the role and goal clarity.

In this form of therapy the therapist joins the family in order to observe, learn and enhance their ability to help the family strengthen their relationship. In this kind of therapy consultant may sit through the family meetings or the business meetings.

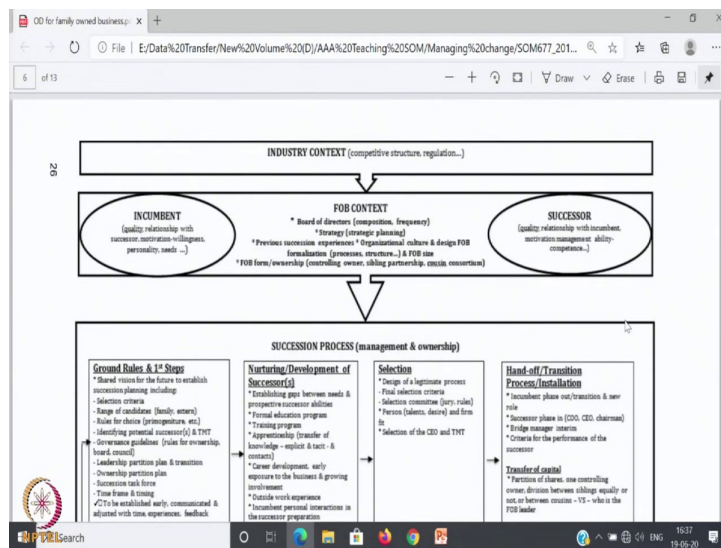
Consultant can also talk to the senior managers or the out of the family employees working in the entrepreneurial firm and get the data about the dispositions and the general temperament of the different family members, identify the enabling patterns or the dysfunctional patterns of the family members. Interactions make the family members aware about that and ask for some explicit contracting about change in the behavior or adopting new behavior.

Strategic intervention related to the family therapy is the form of a therapy which is more brief and direct, and one in which the therapist assign home-works to the family. This homework is intended to change the way family members interact by assessing and adjusting the way family communicates and makes decisions. The therapist takes the position of power in this type of therapy, which allows other family members who may not usually hold as much power to communicate more effectively. This is particularly relevant about the questions related to succession planning.

Even if there is one probable successor or there are couple of probable successors, this therapy can be used. Specific assignments can be given as a part of the family therapy to the prospective successors of the company coming from the family. The family members' performance in those assignments makes them aware about their special competencies and temperament - about solving or addressing some issues and that process can give a more objective data about making a decision about succession.

Succession as we know is a very important part perhaps the trickiest part of managing the family owned businesses. Now, we will discuss about the succession planning.

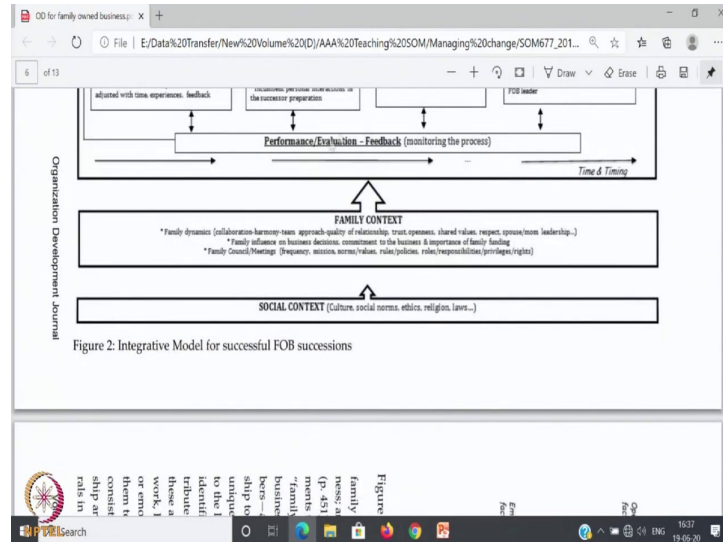
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This exhaustive model proposed by Whitley can be useful to understand the best practices about the succession planning in a family owned firm. Again like many other models it may look overwhelming, but I will invite you to look at this model and understand this model in a step by step manner and then you will see that it is a fairly

simple, but very useful model. What it says that succession planning - first we start taking into account of the industry context as well as the family context.

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What is the family context? Family context is family dynamics, family influence on the business decision and how the family has been functioning till now. Naturally the family contacts come from the social context, if we take the example of India there are a lot of communities where large number of people own the family businesses.

So, society or community also provides a very strong context to the business and that must be accounted in the succession planning related issues like who is the probable successor, who can follow the family tradition, who has the better rapport within the community and society, who has ambitions which are aligned to the ambitions of other family members - these questions must be taken into account.

We also need to take into account of the industry context meaning, how the business is growing, how the industry is looking like, what are the challenges in the industry. Incumbent and successor have to negotiate, have to develop a common understanding about the industry context, they need to look at what are the issues, what are the challenges and how they would like to take forward the company in the near future and they must come to agreement.

Some of the elements might be very different from the way business was managed by the predecessors, but succession planning must be informed by the strategic context. There must be a common understanding about how the successor will take forward the organization - that agreement must be written down, must be agreed upon. Once we choose the incumbent - based on the family context and the industry context the succession process starts.

Whitley suggests that succession process must start with setting the ground rules, how the development will take place, what will be the selection criteria, what are the range of candidates and define the potential successes leadership partition plan and transition, ownership partition plan. What these indicators are suggesting that the ground rules and the blueprint for succession must be created as the first step of the succession planning.

Next step is about nurturing or development of the successor. That is establishing the gaps between what is required. A successor should have to lead the business successfully when rein is in his or her hand - identifying the developmental need, identifying the training programs or the ways of addressing those developmental need.

Also identifying how the progression of the successor will happen in the organization, what will be the first step, which are the projects or which are the businesses the incumbent will take care of before or before the succession is completed.

If there are more than one incumbent then selection process must be carried out which include designing a legitimate process, the final selection criteria, selection committee persons selection of CEO, all these things have to be done in a transparent and explicit way. Last but not the least is the process of handing over and the transition process. Once an incumbent is identified as a successor then comes the process of handing over the charge and this also must not happen in a haphazard way, this also must happen in a systematic way.

Shadowing is one process followed by many owners of the family owned businesses where a successor for some time many years just observes and takes part in a limited way. So, transition process has generally two steps; one process is the managerial development or leadership development which includes shadowing, which includes taking over the key projects first and then gradually being prepared to take up the role

and responsibility of managing the whole business and the second part is the transfer process.

Transfer process may involve the transfer of the shares, control management, control identifying the formal and the formal systems and the contracts about who will manage on, what will be the role of other family members, what will be the financial autonomy or what is the extent of the financial control given to the different family members in the firm.

All these are to be identified in a way according to the prescribed and approved regulatory system. So, these are the ways and these are some of the very important things in the transfer of the power to the successor. So, Whitley has given this comprehensive model. Different elements given in this comprehensive model can be used as a checklist to successfully conduct the succession planning in a family owned firm.

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Few Concepts in Indian Culture Relevant for OD in Family Owned Businesses

- *Kshama Vani Parv*: For distinguishing professional and family roles
- *Vanprashtha*: For succession planning
- *लालयेत् पंच वर्षाणि दश वर्षाणि ताडयेत्।
प्राप्ते षोडशे वर्षे पुत्रे मित्रवदाचरेत्॥*
Love your kids first five years. Discipline them next 10 years (5-15).
As they reach 16, treat them like your friends.



There are few concepts in Indian culture which can be relevant for organization development in the family owned businesses. First concept is Kshama Vani Parv. Many of you might have heard about the Paryushan Parv followed by the Jain community in India.

The Paryushan Parv goes on for about a fortnight and one of the days is dedicated to asking for the forgiveness and this day is called Kshama Vani Parv. This is the day when

we explicitly ask for forgiveness from our loved ones from all our relatives and friends for whatever wrong we have done consciously and unconsciously.

So, this concept can be used in the family business firm as well. When a family is involved in the business, there might be an institutional overlap, there might be a role overlap and in order to negotiate the roles properly and in order to take forward the business in the desirable direction, often one family member might have to take stern action against the other family members.

Same way some family members may wrongly perceive the decisions of owner or other family members and because of that misperception, they may hurt the owner who many time might be the head of the family. So, they can use this spirit of Kshama Vani Parv, if not every day, every week to ask for forgiveness and explaining why they behaved rudely, why it was inevitable or why it was important and this kind of communication.

In forgiving each other, family members may find way to take forward their family interaction as well as business interaction in a pleasant and a productive way. Another Indian concept which is very commonly used in our society is called Vanaprastha. Vanaprastha is a stage of life according to the traditional cultural values human life goes through four stages; Brahmacharya, Grihastha, Vanaprastha, and Sanyasa.

Brahmacharya is a competence building phase where you acquire knowledge. In the ancient time it was considered to last till the age of 25, because human life was supposed to be of 100 years. So, up till 25 years or one fourth, first one fourth part of life is related to the competency building.

Second phase of life is Grihastha, meaning role of a householder taking care of the family establishing businesses earning money and that becomes earning money, running business or the profession up till the 50 years we have to actively engage in business and the money generation or economic activities as well as taking care of your family, nurturing your family that. So, same way up till the age of 50 grihastha ashram these are stages of the life also called ashrams.

So, grihastha ashram lasts by the age of 50 and after 50 vanaprastha starts. Vanaprastha the word the meaning of the word vanaprastha is going to forest. Not literally going to forest, but it is about excluding from the day to day affairs of the business or economic

activities and empowering the family members to take the main role in the economic matters or business matters. We need to at times remind the older family members about the value of vanaprastha.

Many times owner of the family firms are very reluctant to hand over the autonomy or power to the young generation, even when the owner reaches to the age of 70 or 75 and the successor may reach to the age of 50 or even 60. This situation can be avoided if we convey the importance of vanaprastha which starts around the 50 years of age. The essence is that when you are active that is the time when we start giving autonomy to the family members. So, that they become trained in front of our eyes to make the to grow the business.

Third concept in our Indian system is captured in this popular shloka which says, meaning love your kids for the first 5 years, discipline them for next 10 years and as they reach 16 treat them like your friends. If we follow this value there can be less frictions in the family owned business, we will be more open to accept the ideas of each other. Different generations can work more harmoniously and work towards the growth of the family business, wherein the business is benefited by the energy of the young family members and the wisdom of the older family members.

These are some of the concepts prevalent in the Indian culture which can be relevant for the OD in the family owned businesses. So, with these points we come to the end of this session. In today's session we looked at Wholistic approach of diagnosis in the entrepreneurial firm.

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Key Terms and Concepts

- Wholistic approach of diagnosis in entrepreneurial firm
- Business planning, Role clarification, Org design, strategic planning, Team and career planning, succession planning are the major OD interventions
- Family owned business require unique approaches of diagnosis and intervention
- Family therapy and Succession planning as important OD interventions in Family Owned Firms



Firm planning, role clarification, organization design, strategic planning, team and career planning, succession planning are the major OD interventions used in the entrepreneurial firm in different stages. Those stages are birth stage, survival stage, growth success and succession planning stage.

Family owned businesses require a unique approach of diagnosis and intervention that requires more sensitivity. We also discuss the different OD interventions, especially suitable for the family owned entrepreneurial firms and we discussed in detail about the family therapy and succession planning as OD intervention in the family owned firms.

Thank you.