The Dilemma of Success and Failure in Family Business: Overcoming Failure and Attaining Success

Amber Qurashi
MS Management Scholar at Faculty of Administrative Sciences Kotli, University of Azad Jammu & Kashmir

Dr. Iftikhar Hussain (corresponding author)
Assistant Professor & Chairman department of Commerce, Faculty of Administrative Sciences Kotli, University of Azad Jammu & Kashmir

Faryal Mushtaq
MS Management Scholar at Faculty of Administrative Sciences Kotli, University of Azad Jammu & Kashmir

Assad-Ullah
M. Phil Management Scholar & Lecturer at Department of Commerce, Faculty of Administrative Sciences Kotli, University of Azad Jammu & Kashmir

DOI: 10.6007/IJAREMS/v2-i4/121 URL: http://dx.doi.org/10.6007/IJAREMS/v2-i4/121

ABSTRACT

The purpose of this study was to describe the present circumstances and setbacks of the family owned business in Pakistan. The current study has described the characteristics, types and the threats to the family business in Pakistan. This emphasizes on variables that differentiate successful family owned businesses from non successful family owned businesses. It also shed light on the mode of financing that are used by the family business and also on the succession plan that is adopted by the family business. This is a secondary data based study and the data is gathered from the past research papers, newspapers, dissertations, economic bulletins and websites. This analysis demonstrates several key findings, literature analysis reveal six different factors that are necessary for the success of the family business. It also describes the threats that are faced by the family business and this research paper also suggests a model to cope up the threats to the family business. This study describes that if there will be a clear vision, shared values, clear procedure, expectations and proper succession plan, this will show the way to acquire the success of family business. After analyzing the threats this study suggests ten different dynamics which will be helpful to meet those threats. The study also describes the ways and procedures that are necessary for the survival and growth of the business after each succession.
Key words: Family, Business, Characteristic, Pitfalls, Succession, Nepotism, Financing.

1. Introduction

When a person realizes that due to ambitions of close family or friends, huge number of family business came into existence without any surprise. This is due to the reason all close family members and friends trust one another. The continuity and the success of the family business depend on many factors related to the market development and how well the management is handling its issues. In this scenario, the family factor is an important characteristic of family business, it enables an organization to get success because of close relationship between the organization members or on the other hand it may cause so many problems that lead to the failure like succession problems. A rule in which only one out of the three family businesses survives after each succession is called rule of thumb. Due to the extraordinary characteristics and the importance of family business in today’s society, so many scholars get inspired and they did so many research studies on this aspect. Scholars has paid the essential attention to the issues related to the management succession for example now a days we know that incumbent willingness to let go and the successor development are not the only factors that are related to the succession.

Family business covers the wide variety firms in different regions and sectors in the growing world. They range from small managed firms to the large multinational organizations (Villalonga and Amit, 2006). Therefore this study sheds light on characteristic of the family business, it also explains about the types and the pitfalls of the family business. The study explored the challenges that are faced by the family business and also discussed the problems that arise after each succession.

The objective of the current study was to get the brief information about the family business. The main aim was to find out the importance of the family business and find out problems that are faced by the owner of the business. Moreover, the current study emphasis on the succession process and pitfalls of the family owned business. Furthermore researchers also tried to find out challenges that are currently faced by the owner and the successors. This study also emphasized on the nepotism in the family business and also its impact on the family business. The current study especially focused on the following aim:

- To find out variables that differentiate successful family owned business from non successful family owned business
- To explore the information about successful balancing of dissimilar interests of family members for example on one side there is the interest of the family members and on the other side the organization require those people who are more competent and committed towards their work.
- To investigate participation of the family members as owner and manager of family firm, who can strengthen family businesses because family members are more dedicated and loyal toward their own family firm.
- To explore that interest of the family members is not aligned with the others interest.
• To identify different startup problems that are faced by spouse, siblings, parents, children and other family members

The current study focused on the family business. This study found the tools, techniques and the procedures that are adopted by the business owner in order to run the business efficiently and effectively. The above objectives fall in to following research questions. These research questions assisted to get the valuable information about the family business. This study focused on the following research questions:

• What are the successor development practices in family business and are the values and the mission of the company is reviewed and revised on each succession?
• What things separate successful family business from non successful family business?
• What are the ways to cope up the threats of the family business?

The literature identified different aspects related to the family business. This research focused on the succession in family business. It also through light on the pitfall, challenges and importance related to the family business. It also provides information related to different mode of financing that are used by the family business. It suggests the ways to improve overall performance of family businesses and different ways to overcome problems related to the nepotism. This research also focused on the management development plan, as it is widely regarded as the major determinant for the success.

The point of deviation of current research study is that the huge mortal nature of family businesses can be decreased if different challenging issues in business can be successfully addressed. This research study investigates different ways to meet the challenges of the family business efficiently. It also attempts to contribute to the body of knowledge regarding succession attribute in family business. Further contribution of this study is that it provides the effective ways to manage the threats of the business. This study also set a specific hiring standard for the family business. This comprehensive study designs ways that will be very beneficial to save the family business and it also sheds light on reasons, due to which the family business fails.

2. Literature Review

In present world we can categorize the businesses in to two categories, namely non-family-owned and family-owned businesses. It was also found that dominated forms of the businesses are family business. Researchers pay more and more attention to the family businesses because they are keen to find out that the control structure and the ownership have greater effect on the way they are managed by the owners.

Family owned businesses are different from other business forms because of reason that in family businesses control and ownership of business interest is transgress than family interest, this arise clash in family and in business as well (Daily and Dollinger (1991). The current
sections emphasizes on the importance, types and the responsibilities of the family business. Moreover it explains the pitfalls and the threats of the family business.

2.1 Definition of Family Business

Huge amount of conformations is required to define the family business and also so many factors are needed that differentiate family businesses from other form of businesses. The family members involvement in family businesses can vary from ownership of shares to full involvement of members in the business or they exists somewhere between. These factors lead to the difficulty in defining the “family business” (Neuebauer and Lank, 1998).

Keeping this in mind, Handler (1989) describe a broad definition of the family business, depending on the literature that was available at that time: “an organization where all the operating decisions and the plans related to the leadership successions is effected by the family member who is in service of management or board”. Moreover it is found that the family owned firms are micro and small firms because it is found that family businesses are fast growing and prosperous businesses. Widely, a business that is owned and managed by one or more than one family member is called family business (Handler, 1989; Hollander & Elman, 1988). Davis and Tagiuri (1982) have defined family business more broadly. They describe the family organization a: “firm where one or two extended family members effect direction of organization through practice of management roles, ownership rights or kinship ties." Furthermore, Gallo (1994) have declared, family owned businesses are indispensably similar in all over world due to their issues, problems and interests.

Litz’s (1995) elaborated that by using two complementary approaches we can define the family business: intention-based and structured based approach. Structure-based approach describes that family organization from management and ownership prospective, whereas the intention-based approach depends on preferences and values of family organization members towards family-based relatedness.

2.2 Types of Family Business

Regardless of the size each and every business has four functional departments like sales, marketing operation or client fulfillment and information technologies/ finance/ administration. Family business is possessed and operated by one or more family member. In order to understand the types of the family organizations we have emphasized on four different types of family owned firms. These types of firms are:

2.2.1 The Sole Practitioner

As the name indicates that a Sole Practitioner is business that is possessed and managed by one-person. The person who is the sole practitioner he must have to attend each and every small and the large function within his business. Among the incentives of the solo practice is the desire of creation of the organizations linked with low overhead costs. This sort of owner is also
able to rescue a consistent client solution and coordinated marketing message. Limited physical space is needed by him and there is no need for inter-team communication. A businessman who is using this form of consultancy is called “one man boogie band.”

2.2.2 Associated Partners

In the legal sense of word this sort of partnership is not the formal partnership. It may be a corporation, Limited Liability Company (LLC), or some other type of enterprise. In order to match the client need with the consultant capabilities, some ability to cross-pollinate ideas, low physical space requirements, greater degree of specialization participate in peer review of client deliverables and reasonably low overhead costs this form of family business is very much essential.

2.2.3 Multi-disciplinary Team

In order to match the consultant abilities with the client needs, multi-disciplinary team have a greater importance. In multi-disciplinary team there is greater division of labor that promote higher efficiency, there is greater degree of competitor review opportunity, team is less dependent on a single consultant, higher degree of specialization and the expertise are available. In multi-disciplinary team there is less need for the formal business and the strategic planning. There is low overhead cost and the need for the employs management is relatively low (Monsen, R. J. (1969). There are certain disadvantageous that are associated with the multi-disciplinary team. Huge amount of inter-team communication is needed in this type consultancy. Consultants rarely have a coherent message related to the marketing or they solely have a collective message.

2.2.4 The Professional Service

From the past three type of family business the Professional Service Organization (PSO) is fundamental departure because, if for no other reason, the involved title are President, leader or general manager or the actual consulting for his organization.
2.3 Characteristics of Family Business

For the job generation, wealth creation, and competitiveness family businesses have great contribution. In Western (developed) economies abundant studies have concluded for over two-thirds of all businesses, family businesses have greater importance (Kirchhoff 1987; Frohlich and Donckels, 1991; Stephenson). From overall research in world, the United States has explained that family firm develops 40-60% of gross national product (Ward and Aronoff, 1990). Family businesses have great importance in the current business world. They have extraordinary characteristics and contributions in the business world. Some of the major characteristic of the family businesses are:

- The wide variety of independent business is family owner
- The prioritizing objectives of family business, executives of family business are likely to different from executives of non-family businesses
- Succession process is likely adopted by the owner in family business then in non family business. So for the owner of the family business fiscal regime is particularly much important.
- The policy makers must compare the efficiency of family business with the non family business in order to encourage the wealth creation, competitiveness, and job generation in family business

In many family businesses the policy maker plays the major role to encourage the family business for its growth and the survival.

2.4 Pitfalls of Family Business

One of the major questions that arise in every businessman’s mind is that what are the factors that distinguish a successful family business like Ford or Wal-Mart from one that usually flops? While any firm has the ability to get success, those that depend on the teamwork of spouse, friends are in some ways most easily snapped and if they want to get the success they need thoughtful and strong guidance (Hollander & Elman, 1988). So in order to get rid form the financial family feuding a strong and healthy strategy is usually needed by the business management. Therefore, in order to save the sanity and the business five common pitfalls of family business must be kept in mind.

2.4.1 Bringing Work at Home

Downtime is the utmost desire of every business man. If you are discussing the business affairs and spread sheets at the dining table or you are developing the strategies to attract and develop the loyal customers at that time when the children are pitching a no hitter on the second side of chain-link fence then it means that you are plundering your family of the time they need to unwind and bound. So without it all of them will feel underappreciated and overworked. When you are willing to discuss the business affairs with the young ones are the upcoming generation in business it do not means that all other family members are enthusiastic.
to listen you (Lewis, M. W. 2000). In order to cope up the family tension every businessman must try to keep office discussion away from the home.

2.4.2 Forcing Family into the Business

In order to manage the family business operations efficiently participation of the family employees is very necessary so that they do not feel forced or pressurized, after all every son is not willing to walk in his father’s shoes. It is good to develop opportunities for your loved ones – and in order to provide them a better feel for what they do in business give them a behind the scenes look at the business so they feel themselves comfortable.

2.4.3 Neglecting Set Standards

When you recruit someone new in the family business, you basically spend a huge amount of time for devising the standards, policies and general responsibilities. This process must not be forgotten when a new generation is brought on the executives. Usually we feel much comfortable in coaching the relatives because it develops a strained atmosphere in the business if the spouse, friend or the other family member will not complete his/her duties efficiently and effectively. When all the employees of your family firm understand the set standards and objectives it leads to the success of family firm.

2.4.4 Favoring Familial Employees

All the employees who work in your organization are directly or indirectly related to you. They must feel themselves as the part of your business firm. Without considering the bloodline, you must cultivate the same weight and respect with each and every employee who works for your firm. There must be a fair based remuneration system in each and every family business. Privileges and the rights of each and every individual must be actively earned not only expected. When you will develop a fair system and trust for your employee you will be able to run the operation smoothly. This leads to a productive workforce and it becomes easy for you to run the operation effectively and efficiently.

2.4.5 Failing to Create a Succession Plan

If you want that your business must go through when you have gone from this world, you have to decide who will be the next one who will run your business efficiently. Moreover you must develop the backup plan if the successor fails to run the business effectively and efficiently. It sometime also happens that the family member refuse to take the rein when the time comes because you have recruited him on bloodline bases not on merit bases. If you find a person who is not a family member but he is much more committed and efficient then the family member do not overlook him in favors of that family member who is not committed and interested in the family business.
2.5 Succession in Family Business

Succession planning and implementation has developed opportunities for research, human ecology and agricultural science extension. Handler (1994) describes that research on family business succession provides an effective framework to shed light on issues related to integration of work by agricultural sciences and human ecology: perspective of next generation, role of founder, succession process and characterization of succession. In this research, there is an implicit evaluation that top management must develop strategic planning process that deals with the long-run continuation and management succession of business. Strategic planning involves development of goal, mission, objective and tactic for family firm.

2.5.1 The Role of the Founder

Owner of business is one of most influential person in firms who sets ways for managerial succession, develop "rules" and determines success or failure of succession more than anyone else. This research is proved with reality that each family business has basically managers from different generation or it will exist no longer. Acceptance of founder undergirds this reality and boost up succession planning.

2.5.2 The Perspective of the Next Generation

More than flip side of founder's perspective next generation's perspective appears to be little. Handler (1992) identified following factors effecting next generation: career interests, personal needs, personal identity, personal influence, life stages, understanding between generations, sibling accommodation, mutual respect and separating strains due to family involvement and commitment to family owned business perpetuation.

2.5.3 Succession as a Process

Dumans, (1990) describe that managerial succession is a process that take place for many years, needs the employees’ cooperation in management team. Succession steps consists of planning, selection and preparation of managers from next generation, transition in managerial responsibility, gradual decrease in role of previous managers and at discontinuation of inputs by past managers.

2.6 Financing Family Owned Business and Sources

In the startup or in the prosperity of ant business, Finance is a very important factor. In order to determines the failure or success of the business entity it is a life wire; a lubricant that specifies the proper system functioning. Ardener (1995) emphasis that every start up business needs finance to star up operations just as running business needs the finance for growth and expansion. Financial sources for the both new and existing family owned business are categorized into internal and external sources:
2.6.1 Internal Sources

Ardener (1995) describes that for the provision of the startup capital, the promoters and commercial prudence are needed by every type of business. So, in family owned businesses, the owners basically depend on what they can give to their business (Akeredolu-Ale, 1975). According to Akeredolu-Ale (1975), in half of the total finance used by the business sector leads to the retained profit. In business the profit that is not distributed consists of the dominant source of fund that is generated internally.

2.6.2 External Sources

A loan made by supplier when he delivers goods to the buyer in promise to pay the payments at a future date to the extent that goods delivered do not have to be paid for on receipt is trade credit. The organization who is receiving the goods on credit for the period allowed before payment. Odueyungbo (2006) describe that collectively the trade credit consists of the largest source of short term finance for business organizations.

2.7 Nepotism in Family Business

Nepotism asserts a large amount of practices that consists of favoritism; this means that recruiting a person from family or this mean that recruiting and progressing semi qualified, unqualified or under qualified member in the firm on the basis of the familiar relationship. Nepotism is derived from Latin word means nephew, especially "nephews" of prelates in medieval time. Many organizations consider nepotism as unethical, mainly due to conflict with traditional American rules of fairness and self reliance.

There are four basic anti nepotism rules (Larry Singell and James Thornton). They asserted on institute policies that forbid employment of a family member;

- Anywhere in firm
- In similar institutions
- In similar department or work group
- In posts where one immediately effect the compensation, promotion

2.8 Importance of Family Businesses

2.8.1 Economic Value

The economic value illustrated by family organization increased by its abilities to meet long term strategies in-spite of need for aversion of debt, quarterly results, and its disposition to invest dividends once again (Gallo, 1994). Extensive researches have described family organizations outperform their industries group and non-family counterparts. In 1969 Monsen, described family business net income to net worth ratio was 75% greater from those of the organizations control by managers. Monsen describe that return on investment in the family
firm is very large, there capital structure is managed properly and they have allocated there resources efficiently. 75% of workforce is employed by family businesses in Germany, which constitute 66% of GDP. Reidel (1994) describe 80% (about two million companies) of firms in Germany are family controlled and they are the "backbone" of economy of Germany. In Australia Owens (1994) explain that 75% of Australia's businesses are family owned firms and they account for 50% of workforce in country.

2.8.2 The Societal Value

In healthy societies family businesses leads to self-sufficient people. Few researcher are not agree on this that all non government enterprise are "bricks and mortar" of the U.S. economy. Whereas, Novak (1983) and Jaffe (1990) asserted on basic social and economic building blocks on which we carry out our economic analysis are "neither entrepreneur nor individual worker or corporations, but it depends on families who develop, control family businesses." Benedict's (1968) multicultural research identified critical nature of family businesses basically in developing and immature economies.

3. Methodology

The current study is about the family business types, importance, characteristics, and the succession factors. This is a secondary data based review study and all the data is collected from the scholarly published research papers, dissertations, essays, websites and different newspapers.

4. Findings and Discussions

Family business is one in which family has a controlling interest of ownership and occupy one or more leadership positions. From the above study researchers found that there are different characteristics that distinguish successful family business from non successful family businesses and every family business made a proper succession plan for their business and that succession plan leads to the success and the development of the organization Kaye, (1992). Those factors that lead to success of family businesses are;

4.1 Shared Values, Vision and Goals

Present study found that most of the family owned firms that are successful have three strategic plans. They do not relay on a single plan. These three strategic plans are a short term crisis plan, a long term strategic plan for the organization and finally a long term plan for the family. In order to get the success both family plan and the business plan must pay complement to each other. Family owners must hard to find out the conflicting objectives that may have an adverse effect on the business. Clear planning plan has been developed by the owner of the family business and it is only possible when the owner have a clear vision related to the business needs, where he have to go, what will it take to get, and he must fleshed out the implementation and exit strategies.
4.2 Clear Expectations and Procedures Regarding Family Participation in the Business

Regarding to the employment opportunities to the family members successful family businesses usually have clear expectations and policies. Among all policies and the strategies one of the most common is that there must be availability of real job i.e., job position is not created just to fit a family member on job and the person must have to eligible for that position. Most of the businesses set a criterion that for at least three years family members have worked somewhere else and he had earned at least one promotion before giving job to family member.

4.3 Plan and Guideline for Management Succession and Continuity

Basic reason behind success of family businesses is that in regard to management succession planning they don’t take the desires of the next generation for granted. Because of the next generation work in the family firm so many business failures and tragedies occur. It is also found that in order to avoid conflict, to avoid disappointing their parents, or to avoid being disinherited many member work in the family firm without any interest or commitment.

4.4 Participation by Outside Advisors, Managers and Board Members

Successful family businesses executives clearly found that they are accountable and responsible for the decisions related to the future of the business; but, they also identify their need for continuous exposure to different new ideas and prospective. Due to this reason the family business owners hire the managers and advisors to assist them and also for the development of the succession plan and the business respectively.

4.5 Methods for Resolving Conflicts and Open Communication

There is no hesitation to communicate with each other in family business. Among all the family members there is an open communication. While in making the policies, rules and objectives the top management does not ignore their friends and spouse. In non family businesses, top management doesn’t allow the employees to take part in processes of decision making. In non family businesses there is usually close communication among the top management and the employees.

4.6 Ability to Spend Time and Have Fun outside the Business

Last but not least, a successful family business identifies importance of taking time off from the business activities. This does not mean just annual vacation time. Family members always encouraged to build outside interests and to spend more and more time with their own family members. More productive people are those who are happy, who have greater energy levels and who are more innovative and creative. Whereas non family business usually spend most of their time working in the office and they usually get less chance to spend time with the family members and also less vocations.
5. Threats for Family Business

There are different threats that are faced by the family businesses. From the above literature researchers found that there are five basic threats that are faced by the family businesses. These threats are;

5.1 Family Feuding

One of most common threat that are faced by the family businesses is family feuding and if the management does not address this, it becomes impossible to define and achieve goals of the business. Furthermore huge clash in organization can increase employee’s turnover and leads to drastic work environment.

5.2 Nepotism

Nepotism is the process of promoting, hiring, and paying someone depends on familiar relationships rather than on actual abilities and merit. This leads to a drastic situation in firm. Unfortunately nepotism does not empower employees, and due to this the bottom line employee suffers.

5.3 Letting Emotions Run the Business

The study found if we let emotions interfere in our business, it make us weak in front of our employees and customers, and it badly affect our abilities to make sound business decisions.
Furthermore if we are insensitive, we may appear unapproachable and this could lead to failure.

5.4 Losing Non-Family Employees

The researchers found two reasons behind the termination of non-family employees: family conflict and limited growth opportunities. Most workers desire to advance within an organization. Ultimately, most family organizations for advancement there are little opportunity, because of reason that family workers occupy all leadership positions within the organization. Due to lack of opportunities to advance or take on a leadership role, it is possible that many ambitious and talented employees will leave the firm. Another reason for the termination of non-family employees is they feel as they are always in centre when family feud broke out.

5.5 No Succession Plan

When someone leaves, retires or perhaps passes away in the family firms at that time if your firms lack a proper plan, it means it is leading towards failure. According to Nancy Bowman-Upton in Small Business Administration publication Transferring Management in Family-Owned Business they depicted that less than 33% of family businesses survive during ownership transition from first generation to second generation. Succession plans are probably very necessary to believe that business lives from generation to generation.

5.6 A Model Developed to Ensure Family Business Success

In order to overcome these threats researchers suggested a model for the family business. This model will help the manager and the owner of the business to meet those challenges that are faced by the family firms. It will also help them to run the affairs of the business efficiently and effectively. This model suggests that the manager must separate their emotions from the managerial process. It also suggests that the top management must clearly define the goals and the objectives so that each and every person must know his role and the responsibility. There must be a proper succession plan for the next generation so that they understand the business strategies and run the business as it is running already. In order to reduce the nepotism and feuding, promotion and salary system must base on individual merit and abilities. All these factors to overcome the threats for the family business are linked with each other because if any one of them will not be addressed it will lead to the failure, all family businesses must adopt this model to overcome the threats of the business.
6. Conclusions

Successful family business management needs more skills than the traditional set of business. It takes deep insight, clear priorities and a talent for initiating the complicated social waters. So even if we feel that we’ve covered our entire basis, keep this list of tips in mind. According to this study managing a family business is all about sound decision-making and maintaining a careful balance there must be the clear division of the human capital in the family business. Present study concludes that by delineating unique family resources and by balancing those into a well-coordinated managerial strategy will increase the business’s chances of success in contrast to nonfamily-owned businesses. Family-owned organizations themselves, and especially businesses representing the family firm sector (at national and international levels), have an important role to play in removing the challenges that were identified. In order raise awareness of the importance of the sector they must take active steps, by using convincing and solid information and by pushing for the production of comparable and sound data. They should also work for the development of the family firms, institutional framework in countries where it is not developed. Here are some essentials implications that researchers advise for the success of the family business.
Family firm owner must set certain boundaries. It must limit the business discussions outside the office because mixing of personal, business and home life will eventually develop a volatile brew.

Roles and the responsibilities must be divided by the owner of the business appropriately. They must take all the big decisions together.

Differences and the opinion are always unavoidable. Sometime we already see them. In order to do progress, air all differences and to resolve conflicts they must conduct weekly meetings.

To avoid miscommunication or hard feelings, in order to define compensation, duties, ownership shares, and other matters define everything clearly.

Without than effective succession plan all the family member suffer a lot. So the owner must hire a professional advisor to develop the sound succession plan.

References


Gallo, M. A. (1994). Global perspectives on family businesses. Chicago: Loyola University, 
Family Business Center.


Lagos.


Krichoff, B.A. & Krichoff, J.J. 1987. Family contributions to productivity and profitability in 

growth family businesses. Journal of Small Business Management. 39 (1), 60-72


Resources. 2-3.

Villalonga, Belen and Raphael Amit. (2006). How do family ownership, control and 
