**4D INTERNATIONAL JOURNALOF MANAGEMENT AND SCIENCE**
**ISSN-2250-0669**
**@4dcrossconnect.com.Inc www.**
**www.4dinternationaljournal.com**
**Volume6,Issue-2-December-2015**

# Role of Strategies & Culture in Family Business

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**ABSTRACT**

***In Indian family businesses it is the family that must initiate and implement the changes that are involved. It is now essential for the family to prevent the conflicts between the rules, messages, and expectations for behavior in each system that are weakening business. A series of vital roles have to be played by the business family to make family business survive. The involvement of the family in managing the business house must necessarily migrate from management to influence, from exercising the powers of the executive to invoking the rights of the shareholder. Owners have to distinguish between managing wealth and managing businesses. The family may not be good at both.***

**Review of Literature:**

DrNasir Afghan in his article titled Managing succession in family business quoted the study of Stavrou (1998) which discovered three-stages for successor development - pre-entry, entry and succession phase. A study was made on Kinship Culture. It was expected from the young next generation of successors to join family business or establish own businesses once they reached adulthood. It was also observed that there was strong emphasis on grooming the successor during the pre-entry, entry, and succession phases. There was a sound exposure of family business environment during childhood via summer internships, CEO dinners, family discussions etc. Also there was strong emphasis on good schooling and university education. To enhance family bonding, the practice of inter-family marriages was encouraged. It was also observed that in kinship-based family businesses when a partner expires or sells his shares, the next of the kin, or relationship-wise closer members get the first preference in the purchase of the shares at a mutually agreed price.

In inheritance cases, daughters or other women in the family are not transferred any shares but are paid off their entitlement value, either in cash or kind (equivalent valued property) by male shareholders purchasing the shares. This is done in order to keep interference of women and brothers-in-law or sons-in-law away from the day-to-day running of the business. In kinship based families, during succession one was not worried whether they were given few millions rupees. They enjoy living in the same housing complex and enjoy family dinners and gatherings. Another family business CEO said that due to an atmosphere of high level trust. It was far easier to settle different matters .The preliminary conclusions were that kinship culture based family businesses promote harmony among family members after/during the succession from one generation to the next. Moreover, such family businesses continue to exist.

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Tammy Parker; University of Louisiana at Monroe in his article titled Multi-Level Family Business Choice Model: A Dichotomous Approach quoted Tagiuri and Davis (1982) who developed a three-circle model to represent the interactions that occur within family businesses. The three-circle model describes the family business system as three independent but overlapping subsystems: business, ownership, and family. Decision-making within family-owned businesses can entail an entrepreneurial approach or a consensus approach. In the 1997 Massachusetts Mutual Life Insurance Company's survey of family businesses, it was found that 34% of family-owned businesses used the entrepreneurial approach. This approach entails that the founder or current owner/CEO was the final decision-maker. The survey found that 48% of family-owned businesses made decisions based on a consensus. Six percent said decisions were made in their business by first discussing the issue and then taking a vote. If the decision-makers within a family business can objectively analyze the current status of the family and of the business, interpret their family and business mission statements, and understand the outcome of the decision, then a good decision can be made.

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RaveendraChittoor, in his article titled ‘Professionalization of Management and Succession Performance’, reasoned that management succession to a non- family professional manager has a positive impact on succession performance. The article throws open a rich area for theory building—the role of professionalization of management in improving the succession performance of family-owned businesses. In the initial phases of a venture, a business is more in need of entrepreneurial skills than managerial skills, the former of which are expected to be provided better by an owner-manager. Later, as the business grows and stabilizes, its need for managerial skills becomes more critical, which may be the right time for the owner-manager to withdraw from day-to-day management and hand it over to professionals.

Kelin E. Gersick, John A. Davis, Marion McCollom Hampton and Ivan Lansberg found out in their article titled Generation to Generation that the model of the family-controlled enterprise embodies three dimensions or axes -- the business axis, the ownership axis and the family axis. It is emphasized that "family businesses draw special strength from the shared history, identity, and common language of families. When key managers are relatives, their traditions, values, and priorities spring from a common source. However, this same intimacy can also work against the professionalism of executive behavior. Roles in the family and in the business can become confused. When they are working poorly, families can create levels of tension, anger, confusion, and despair that can destroy good businesses and healthy families amazingly quickly." This work concludes with two pithy lessons: Treat the Business Like a Business, the Family Like a Family, and Ownership with Respect; **&**Keep in Mind the Inevitable, Constant Nature of Developmental Change.

Stafford conducted the study with Sharon Danes and Johnben Loy of the University of Minnesota. (2007) in the title “Men, women manage family businesses differently” and the results reveal the following “Men may use unpaid family members only as a last resort when the business is in trouble. Women may see using relatives at work as a way to have family with them and to share time together. "Women seem to see it as a win-win situation, while men don't think it is a good idea to mix business and family in this way."

Prof. Moore (2007) of Australian Centre for family business management found out that "While family-owned businesses dominate the commercial landscape of all free enterprise economies, relatively little is known about this form of business endeavour," Recent evidence showed that family-owned businesses outperform their publicly owned counterparts with higher returns on investment, better profit margins, more stable earnings and better cash flow and earnings per employee.

"The ultimate challenge for a family business is to balance tradition with innovation" said BW.com Smart Answers columnist Karen E. Klein .

'20 challenges faced by small and medium family owned businesses'

Emotions, informality, tunnel vision, lack of written strategy, compensation problems for family members, role confusion, lack of talent, high turnover of non family members, succession planning, retirement and estate planning, training, paternalistic, overly conservative, communication problems, systematic thinking, exit strategy, business valuation, growth, vision, & control of operations.

According to Organization of Economic Co-operation and Development (OECD), in Canada, 8,21,000 women entrepreneurs contribute CAD 18,109 billion to the economy. In Germany, 1.03 million women owned Businesses provide jobs for 2 million employees. In South Korea, 36% of all the firms were owned by women. According to Pandhi co-founder of Green Mango and her partner McCarty (they won the first annual Cartier Women's Initiative Awards in Asia) principal challenges faced by women were, lack of access to credit, lack of business information and poor access to markets. According Pandhi , "There just aren't enough role models. Most times women don't market themselves well so nobody knows how good their ideas or business plans are. They might be great personalities but they tend to be shy professionally."

**Research methodology:**

**Both Primary and secondary Data.**

**Sample size-60**

**Data Analysis**

The data analysis is the most important part to be performed once the data is collected from the field. The data collected from the survey will be feed in the SPSS software where the data will be analyzed by making use of various statistical tools and techniques like Factor analysis, Frequency analysis, regression and correlation analysis.

**HYPOTHESIS**

H1:Innovation plays a significant role in the growth of family business.

H0:Innovation does not play any role in growth of family business.

H2: Huge amount of risk is involved in growth of family business.

H0:There is no risk in growth of family business.

H3:Entrepreneurial orientation is proactivein growth of family business..

H0:Entrepreneurial orientation is not proactive in growth of family business..

H4:Decision making process in family business is very aggressive.

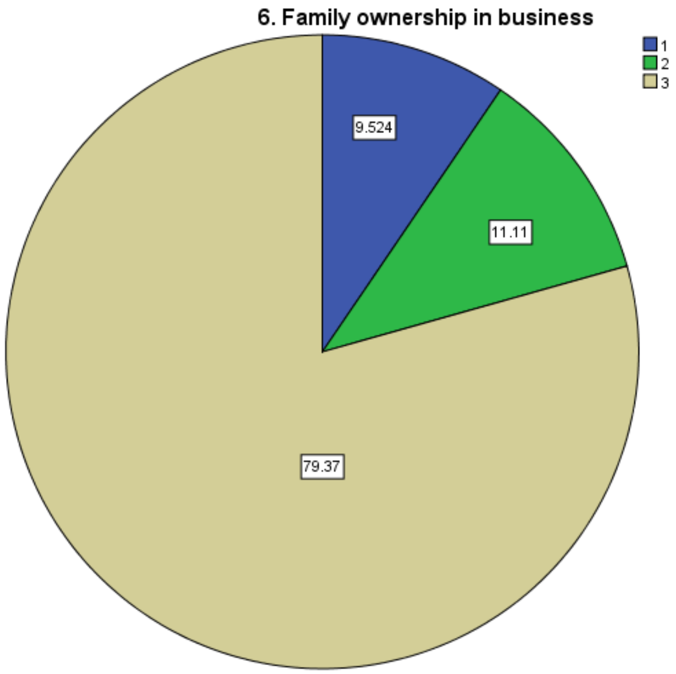
H0:Decision making process in family business is not very aggressive.

H5:The Anatomy is a important factor for the growth of family business.

H0:The Anatomy is not important factor for the growth of family business.

**. Family ownership in business**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1 | 6 | 9.5 | 9.5 | 9.5 |
| | 2 | 7 | 11.1 | 11.1 | 20.6 |
| | 3 | 50 | 79.4 | 79.4 | 100.0 |
| | Total | 63 | 100.0 | 100.0 | |



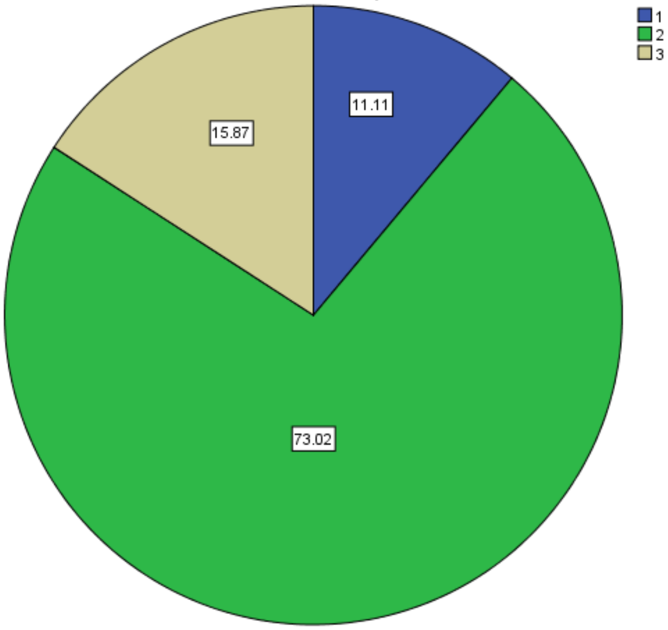

1:<50%
2:50-99%
3:100%
Findings:

Above shown pie chart shows majority of the respondents are having 100% ownership in the organization where other 21% having <99% ownership.

**How many family members are actively participating in the business operation?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1 | 7 | 11.1 | 11.1 | 11.1 |
| | 2 | 46 | 73.0 | 73.0 | 84.1 |
| | 3 | 10 | 15.9 | 15.9 | 100.0 |
| | Total | 63 | 100.0 | 100.0 | |

7. How many family members are actively participating in the business operation?




1:Only me
2:Less than 5
3:More than 5

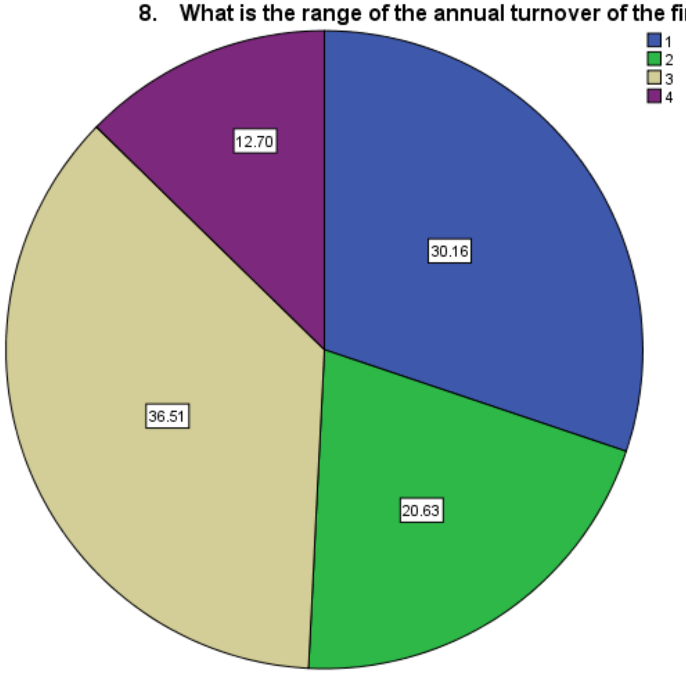
Findings:

Above shown pie chart shows majority of the respondents business practices involves less than 5 family members, where 15% are having more than 5 member and only 11.11% are individually handling the business operations.

**What is the range of the annual turnover of the firm.**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1 | 19 | 30.2 | 30.2 | 30.2 |
| | 2 | 13 | 20.6 | 20.6 | 50.8 |
| | 3 | 23 | 36.5 | 36.5 | 87.3 |
| | 4 | 8 | 12.7 | 12.7 | 100.0 |
| | Total | 63 | 100.0 | 100.0 | |

8. **What is the range of the annual turnover of the firm.**




1:Less than 1 crore

2:1 to 5 crore

3:5 to 20 crore

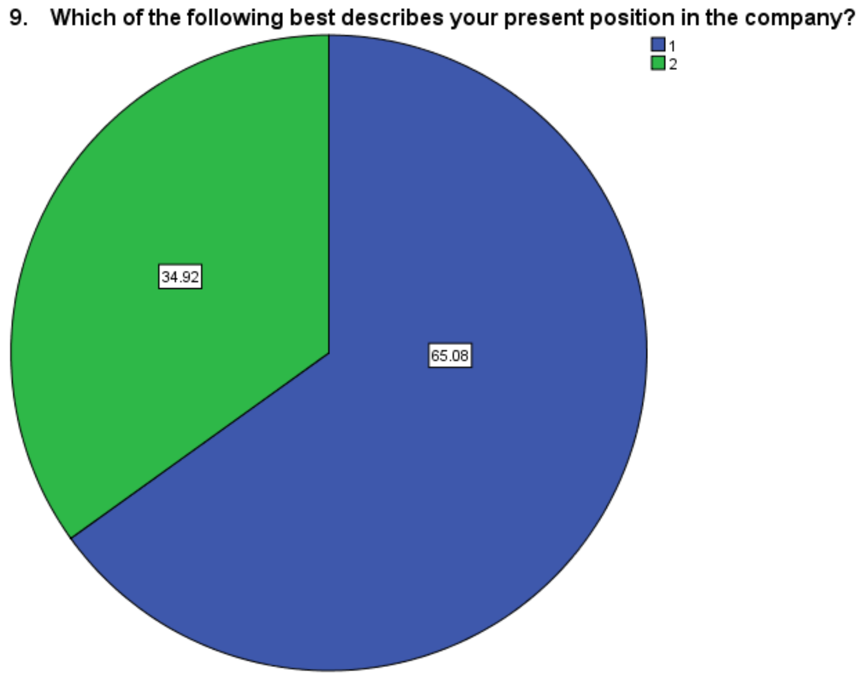
4:More than 20 crore

Findings:

Above shown pie chart shows majority of the organizations having business of 5 to 20 crore,where 30% having less than 1 crore business and 20% having 5 to 20 crore business and 12% having more than 20 crore revenue.

. **Which of the following best describes your present position in the company?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1 | 41 | 65.1 | 65.1 | 65.1 |
| | 2 | 22 | 34.9 | 34.9 | 100.0 |
| | Total | 63 | 100.0 | 100.0 | |




1:Owner

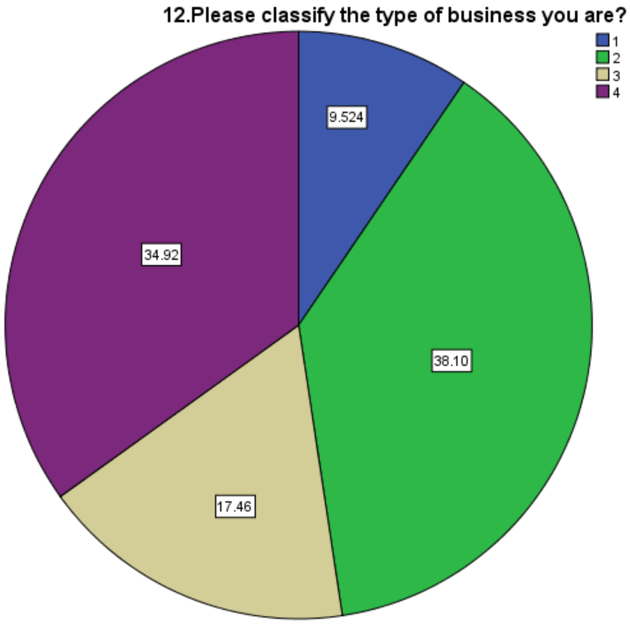
2:Employee

Findings:

Above shown pie chart shows majority of the respondents are owner followed by category Employee in their family business.

**.Please classify the type of business you are?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1 | 6 | 9.5 | 9.5 | 9.5 |
| | 2 | 24 | 38.1 | 38.1 | 47.6 |
| | 3 | 11 | 17.5 | 17.5 | 65.1 |
| | 4 | 22 | 34.9 | 34.9 | 100.0 |
| | Total | 63 | 100.0 | 100.0 | |




1:Agriculture

2:Retail

3:Service

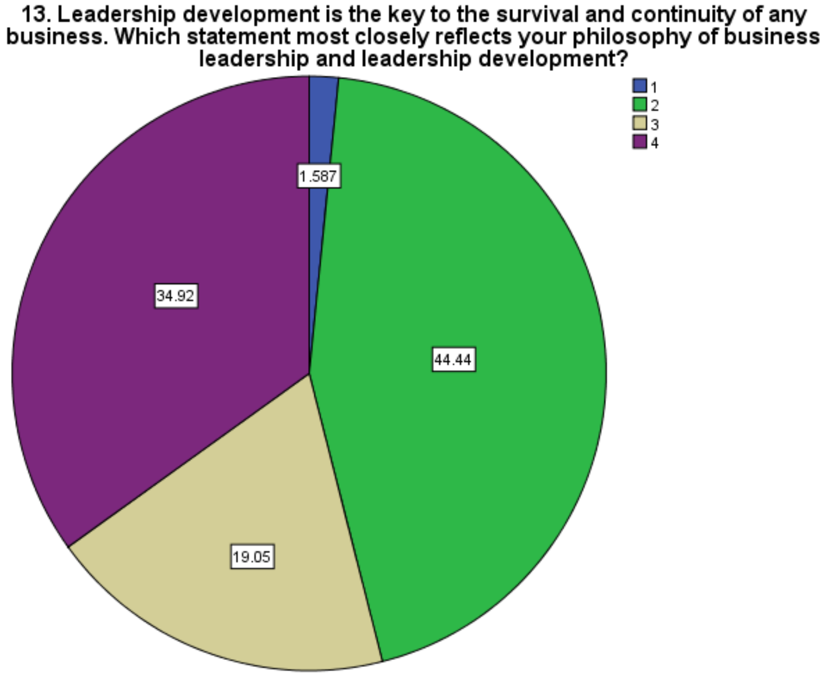
4:Manufacturing

Findings:
Above shown pie chart shows majority of the business type are Manufacturing followed by the Retail, Service and agriculture

**13. Leadership development is the key to the survival and continuity of any business. Which statement most closely reflects your philosophy of business leadership and leadership development?**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1 | 1 | 1.6 | 1.6 | 1.6 |
| | 2 | 28 | 44.4 | 44.4 | 46.0 |
| | 3 | 12 | 19.0 | 19.0 | 65.1 |

| | | | | |
|---|---|---|---|---|
| 4 | 22 | 34.9 | 34.9 | 100.0 |
| Total | 63 | 100.0 | 100.0 | |




1:We are not concerned with leadership development at this time.

2:We do not formally develop leadership, and prefer to allow leaders to evolve naturally.

3:We have done some leadership development and training, but do not have a formalprocess or plan.

4:We have an effective plan for leadership development that educates and train key employees for a possible leadership role.

Findings:Above shown pie chart shows majority of the businessman agree on the issue that do not formally develop leadership, and prefer to allow leaders to evolve naturally ,where 34% said that the We have an effective plan for leadership development that educates and trainkey

**Rotated Component Matrix[a]**

| | Component | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| I1 | .644 | .591 | | | |
| I2 | | | | .500 | |
| I3 | | .873 | | | |
| I4 | | .687 | | | |
| I5 | | .727 | | | |
| P1 | | | | | .875 |
| P2 | .747 | | | | |
| P3 | | | | | .677 |
| R1 | | | | .846 | |
| R2 | | | .714 | | |
| R3 | | | .646 | | |
| R4 | | | | .542 | |
| R5 | | | -.579 | | |
| A1 | .528 | .523 | | | |
| A2 | .547 | | | | |
| A3 | | | .645 | -.618 | |
| AN1 | | | | | |
| AN2 | .765 | | | | |
| AN3 | .565 | | | | |
| AN4 | | | | | |
| Initial Eigenvalues | **6.100** | **2.627** | **2.047** | **1.736** | **1.207** |
| % of Variance | 30.499 | 13.135 | 10.235 | 8.678 | 6.037 |
| Cumulative % | 30.499 | 43.633 | 62.546 | 72.277 | 78.275 |

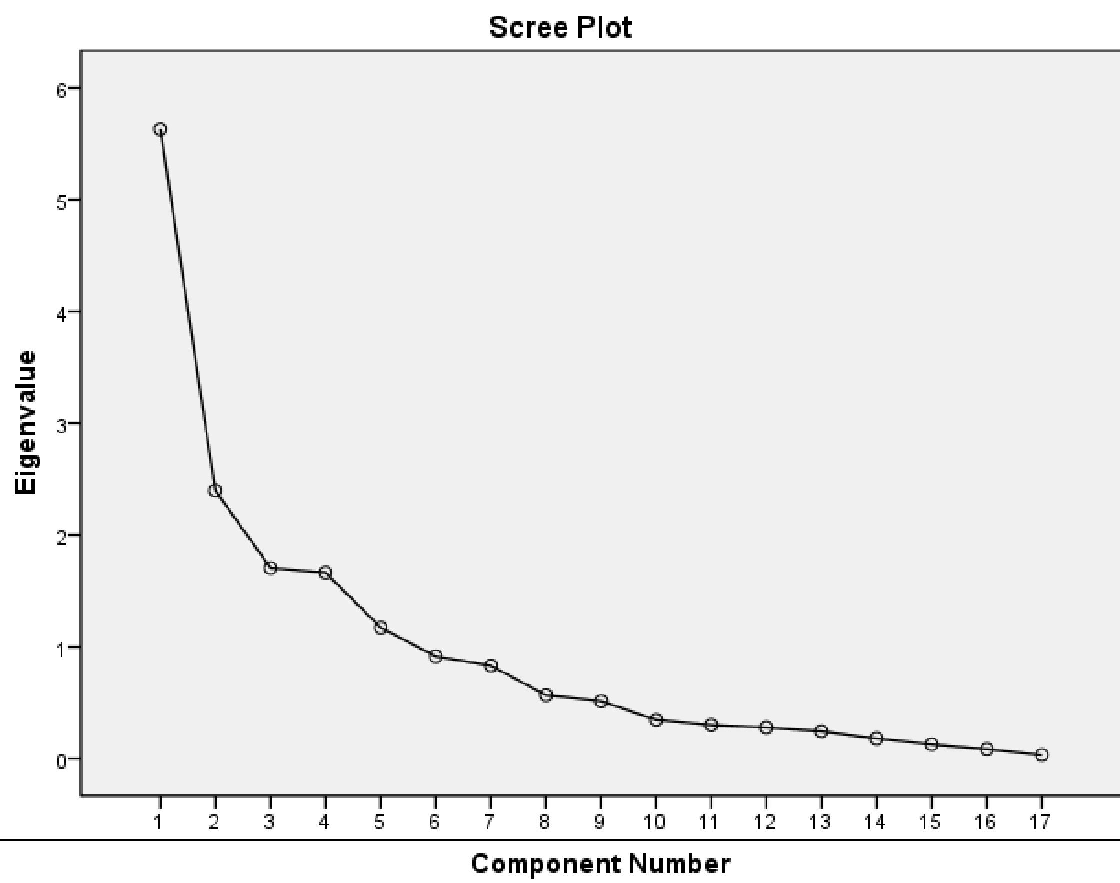
Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

The Rotated Component Matrix shows you the factor loadings for each variable. We need to check every row and column and highlight the variables that have a significance impact on the factor which will help us to come out with the 5 most desired factors. Based on these variables the factors which have been identified are

| S.no | Factors | Variable |
|---|---|---|
| 1 | Innovation | Encourage people, process, individual performance |
| 2 | Proactiveness | Introduction of new product lines, R&D, process experimentation |
| 3 | Risk | Market risk, competitor risk. |
| 4 | Aggressiveness | Financial decision, aggressive decision making, deliverance of authority |
| 5 | Anatomy | Profit maximization, growth of business, sales growth |

This table isthe ‘Initial Solution’. The ‘Eigenvalue’ is the total variance explained by each factor. any ‘factor’ that has an Eigenvalue of less than one does not have enough total variance explained to represent a unique factor, and is therefore disregarded. In this case, there were seven factors with eigenvalues greater than1 but for our convince we have limited the total no of factor to five. SPSS always extracts as many factors initially as there are variables in the dataset. . The “% of variance” column tells you how much of the totalvariability (in all of the variables together) can be accounted forby each of these summary scalesor factors. All 6 factor combined have 76% of variance.



It can be seen that there are 5 factors that have Eigen value greater than one but we have limited our research to 5 values only.

## CORRELATION ANAYSIS

**Correlations Matrix**

| | I | P | R | A | AN | 20.Avg | 21.avg | 23. GROWTH OF FAMILY BUSINESS [Sales Growth] | 23. GROWTH OF FAMILY BUSINESS [Employment Growth] |
|---|---|---|---|---|---|---|---|---|---|
| I | 1 | | | | | | | | |
| P | .353** | 1 | | | | | | | |
| R | .384** | .317* | 1 | | | | | | |
| A | .513** | .520** | .207 | 1 | | | | | |
| AN | .463** | .385** | .259* | .298* | 1 | | | | |
| 20.Avg | .558** | .248 | .126 | .450** | .693** | 1 | | | |
| 21.avg | .175 | -.076 | .138 | .517** | .253* | .473** | 1 | | |
| GROWTH OF FAMILY BUSINESS [Sales Growth] | .360** | .196 | .250* | .194 | .440** | .309* | .242 | 1 | |
| GROWTH OF FAMILY BUSINESS [Employment Growth] | .194 | .345** | .381** | .133 | .450** | .154 | .058 | .832** | 1 |

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The results of correlation analysis i.e. Pearson Product Moment Correlation Coefficient, indicates the magnitude and direction of linear relationships among the variables. A careful examination of the correlation matrix indicated that though many variables were correlated but there was no significant degree of overlap among the independent variables indicating no issue of multi collinearity, so all the independent variables examined were retained. Examination of correlation matrix of variables indicates that correlations among the variables were well below 0.058, and the highest degree of correlation between two independent variables is .558 between finance and infrastructure. Finance also has a strong correlation with mentoring.

## REGRESSION ANALYSIS

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | **.483[a]** | .234 | .166 | 1.003 |

The value of R is less than 0.5. which indicate that the value is accepted for further analysis.

**Model Summary[b]**

| Model | Change Statistics | | | | |
|---|---|---|---|---|---|
| | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .234 | 3.474 | 5 | 57 | **.008** |

R-square Measures the proportion of the variance in the dependent variable (success of financial support) that was explained by variations in the independent variables. It is observer that the Rsquare shows 23.4 % of the variation. The significance f change is also less than .05 which indicates that the value is accepted.

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.230 | 1.033 | | 2.159 | .235 |
| | I | .199 | .176 | .173 | 1.135 | **.041** |

| | | | | | |
|---|---|---|---|---|---|
| P | -.036 | .183 | .029 | .198 | **.044** |
| R | .173 | .213 | -.105 | .811 | .420 |
| A | -.005 | .166 | .004 | -.029 | .077 |
| AN | .332 | .131 | .345 | 2.535 | **.014** |

a. Dependent Variable: 23. GROWTH OF FAMILY BUSINESS [Sales Growth]

Out of five factor only three become validate due to the less significance value than 0.05. They are Innovation, Proactiveness and Anatomy. Where two get barred due to high significance value of hypothesis.

## CONCLUSION

The above study brings us to the conclusion that for almost everybody in the nanosecond world, the two most important things in their lives are their work and their families. There is something special about business organizations since it combines the business and the family. That is why, in free India, business and family were and are absolutely inseparable. Today it is wise to leave the day-to-day running of the organization to professional managers. The family should only provide directions. Professionals should look after the operational side of the business while family members should look after the entrepreneurial side. The family must play a far more subtle role, influencing and guiding-but not dictating-the actions of its senior managers. The founder must ensure that the responsibility for business is handed over not at the far end of his life, but early on.Finally the influence of EO on the firm's non-financial objectives was also examined. In family firms often financial incentives are secondary, with the non-financial objectives of family legacies, pride, and harmony (to name a few) having more prominence. Holistically, successful performance requires the ability to meet both financial and non-financial goals. Indian business families are focusing too much on what to do and too little on how to do it. At first sight, a transformation of these proportions may seem a matter of choice. Actually, with survival being at stake, it is a pre-condition. For staying alive.

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Tammy Parker; University of Louisiana at Monroe , Multi-Level Family Business Choice Model.

Above mentioned Literature review in the report.