FAMILY MANAGED BUSINESS: CONFLICT AND ITS IMPACT WITH SPECIAL REFERENCE TO KOLHAPUR AND SANGLI DISTRICT IN MAHARASHTRA

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ABSTRACT

A family business is a company that is influenced by one or more families in a substantial way. A family is defined as a group of people who are descendants of one couple and their in-laws as well as the couple itself. Present research paper contributes to the understanding of types of conflict, its causes and impact in the form of split in the family managed business. It reviews and analyzes concepts, characteristics and contribution of family business in the Western Maharashtra context. It evaluates causes and types of conflict experienced by the owner manager of two categories of family businesses: those who had gone through split and who had never gone through split, although have experienced conflict.

1. INTRODUCTION

Interest in family business is recent, and most often creation of knowledge in this field is limited to Western academics. Family Businesses are the lifeline of India’s economy. Almost 90% of Indian Businesses are family-owned, which makes the rest of the business community largely depend on them. Family businesses are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owner and the values they stand for. This is primarily driven from the fact that amongst millions of business units that are registered across nations, majority are small businesses primarily owned and managed by families. Most often, family businesses stemmed out of family strength of doing a certain activity well. Everything revolves around the family, which is the reason for much of these businesses to
remain family owned. The growth of family business can be traced back to the industrial age, when it was very difficult to start large-scale industries without large resources.

From entrepreneurship perspective, family businesses are great platform for promoting young minds to come into business and try out different things. The proportion constituted by global business enterprises that are owned or managed by families is estimated conservatively to be between 65-80% (Dreux, 1990). But just like any other businesses, family businesses have their own set of conflicts. Conflict in a family business includes disputes over economic interests, power and control, as well as issues concerning the relationships among stakeholders. Conflict is caused by individualism among family members; unstructured decision-making; lack of clear vision and commitment and fear of succession. Although some claim that in a family business dispute the interpersonal family relationship dynamic should be from the business conflict that everyone should leave their baggage at the door—it is improbable to assume this is possible (Sharma, Chrisman, & Chua, 1997).

### 2. REVIEW OF LITERATURE

According to Rahim (1985), a comprehensive diagnosis includes measures of the amount of conflict, styles of handling interpersonal conflict, their effectiveness, and sources of conflict. Intervention is needed when in the organization there is too little or too much of intrapersonal, intragroup, and intergroup conflict, and/or the organizational members are not effectively using the five behavioral styles to deal with different situations effectively.

The study by Harvey and Evans (1994) discusses when a business is in its first stage of development that “time and capital concerns” and the scarcity of these resources can lead to tension which results in conflict (Harvey & Evans, 1994). Additionally they discuss when founders “take too much of the ‘build the business’ on themselves...[and] extend themselves beyond their expertise” (Harvey & Evans, 1994). Harvey and Evans also consider the impact of sibling rivalry when siblings enter the business, and the problem of the founder not “letting go” to allow for the next generation of leadership (Harvey & Evans, 1994).

According to Tripathi (1999) the management of as many as 461 of the 500 most valuable companies in India was under family control. However, over five decades of post independence
the entrepreneurial base in India broadened substantially. The private sector firm operated with uncertain directions in protected atmosphere constrained by the license-permit dispensation.

Das (1999) analyzes characteristics of Indian family businesses and mentioned that Indian family businesses are overwhelmingly owned and managed by families. This is not necessarily a disadvantage as long as the family businesses can overcome their historic weaknesses and learn to separate the family’s interest from the company’s interest, create an environment to recruit and retain outside talent, bring focus to their operations, upgrade their skills and knowledge through joint ventures and follow a consistent strategy.

According to Gupta et. Al.(2007) in a strategic family split, synergies among different business operations are recognized and splitting is done to make each separate group more focused and cohesive. He pointed that when the assets are split only to serve the family sentiments business synergies are ignores, then the separated independent family businesses are prone to lack critical mass and are forced to spend time and resources on divesting unrelated and unviable businesses.

Don Bradley and Lance Burroughs, University of Central Arkansas (2010) in their research on a strategy for family business succession planning have summarized that most family businesses do not have a succession plan in place due to various reasons such as reluctance of founders to let go of the reins, etc. leading to astonishingly high rate of failures in business succession. The authors have prescribed a five stage process of to ensure successful succession of the business as according to them succession planning is critical for ensuring the continuation of any family owned business and for smooth transition in management and ownership with a minimum of transfer taxes.

Madhavan N (2010) in his articles said that his own research, mostly in the Western countries, shows only 15 to 20 per cent of all family businesses endure through the third generation. Classic challenges are the emotions around leadership succession, the lack of interest of family shareholders in the third or fourth generation, and in some parts of the world, the death or inheritance taxes. He found, in general, that the transfer of leadership from the senior generation to the next generation works a lot better in India. But the number one challenge in India is rivalry and conflict between siblings.
M. Awais Gulzar and Wongjun Wang (2011) examined the importance of Corporate Governance in Family-Owned business and examined the theoretical background of corporate governance in family businesses in Pakistan. According to these authors, introducing the concept of good corporate governance is vital for the continuity and sustainability of the family owned businesses the support economic growth. Corporate Governance will ensure that family owned businesses are transparent enough to satisfy various stakeholders such as suppliers, customers and creditors.

The steps of conflict resolution, reconciliation, and prevention of conflict to a successful family business provided by Rhodes and Lansky (2013). In their book on Managing conflict in the family business addressed twelve conflicts that are common in family owned businesses by utilizing a mini case study approach. Also they explained how families can spot them, and then plan for their successful and effective management in ways that simultaneously uphold the family and the business. This book identified Family Business Conflict Archetypes (patterns), Frames, Roles, and Tactics. Keys to effectively managing unique conflicts and the changes they produce are also discussed. They concluded the study by providing concrete tools and guidelines to manage and prevent conflict in a family business.

Research Gap:

There has been larger degree of research about Conflict in Family Managed Businesses and Conflict Management Strategies used in Successful Family Businesses. However not much work has been done in Indian context highlighting the conflict phenomenon, its causes and impact in the form of split in the family business such as participation of women, succession planning, and entry of younger generation, family council, and attributes of split family businesses. The studies have done so far have not touched Family Managed Businesses in Western Maharashtra. Hence this study has been taken up and this study is concerned about the Study of Conflict and its impact on Family Managed Business with Special Reference to Kolhapur and Sangli districts in Maharashtra.

3. OBJECTIVES OF THE STUDY

1. To study demographic characteristics of Family Managed Businesses.

2. To study the causes of conflict in Family Managed Businesses.
3. To study the impact of conflict in Family Managed Business.

4. RESEARCH METHODOLOGY

The study is based on both Primary & Secondary Data. The possible insight into conflicts in family managed business was investigated with the help of primary data and Secondary Data. Descriptive research method is used to obtain information concerning the conflict phenomena in family managed business. Review of literature and other available information from various published and unpublished reports, journals, periodicals, books, newspapers etc.

4.1 Sample Selection

A convenience sampling technique was applied in selecting the sample size; sample of 100 family managed businesses was selected through stratified random sampling method. 50 representative samples were selected from Kolhapur and Sangli district each based on following criteria.

- The respondent must be of age 25 years and more.
- The respondent must be working full time in the senior position.
- The respondent must be a family member.
- The respondent must have minimum 5 years of experience in family managed business.

5. INDIAN FAMILY BUSINESS AND CONFLICT

India faced wars in 1962, 1965 and 1971; it was only after 1980 that the economic environment became more business friendly. As a result the period from 1980 to 1995 a large number of family businesses were established and prospered. Many of those family businesses split over the last few years due to the family differences. There are some families with large business operations, but the majority are SMEs. Family businesses have a culture that is often at the same time entrepreneurial, flexible, paternalistic, agile and frugal. Since the family's name is at stake, they stand for values, long-term commitment, relationship orientation, and dependability. Indian family firms are also highly efficient. They often have to work with limited resources and make the most out of it. A multinational car plant can get free land from the Indian government and access to finance from capital markets, but for the majority of family businesses each step is a challenge. Yet, they embrace it with a true entrepreneurial spirit.
5.1 DEMOGRAPHICS OF THE RESPONDENTS

5.1.1 Type of business

Type of Business of respondents

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>No. of Respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>5</td>
<td>05.00</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>46</td>
<td>46.00</td>
</tr>
<tr>
<td>Trading</td>
<td>26</td>
<td>26.00</td>
</tr>
<tr>
<td>Service</td>
<td>23</td>
<td>23.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Above table shows that main types of businesses of the sample respondents. It indicates that out of total 100 respondents, 5% respondents are from construction sector, 46% respondents from manufacturing sector, 25% from trading sector and 24% from service sector.

The analysis revealed that family managed businesses involvement according to type of business skewed towards manufacturing sector. Almost 46 % Family managed business involved in various manufacturing activities.

5.1.2 Participation women family members in business

Gender of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>No. of Respondent</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>92</td>
<td>92.00</td>
</tr>
<tr>
<td>Female</td>
<td>8</td>
<td>08.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
Above table indicates that out of total 100 respondents, 92% are Male respondents and remaining 8% are women respondents either daughters or granddaughters as owner managers in their respective businesses.

The analysis revealed that only 8% women are involved in family managed business. Women respondents are either daughters or granddaughters as owner managers in their respective businesses. Family business is a male dominated field not only in India but all over the world. A Finding shows that male gender dominance is still in owning and managing family businesses. Succession rights are passed on to the male members in most cases and only in few or exceptional cases, women, either wives or daughters are made successors and given ownership rights.

5.1.3 Involvement in Business

<table>
<thead>
<tr>
<th>Involvement in Business</th>
<th>No. of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Time</td>
<td>92</td>
<td>92.00</td>
</tr>
<tr>
<td>Part Time</td>
<td>08</td>
<td>08.00</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Most of the family members 92% are full time involved in their family business. Only 8% respondents worked as a part-time.

The analysis revealed that most of the family members 92% are full time involved in their family business. Only 8% respondents worked as a part-time. One of the characteristics of the family business is that it can be an employment platform for the family members. Many a times, some family members are legally shown to be employed in the business but do not participate in the business or at times, family members work part-time in the business, especially the youngest or the oldest members.
5.1.4 Working members

Working Members in the sample family business

<table>
<thead>
<tr>
<th>Working Members</th>
<th>No. of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate Relatives</td>
<td>83</td>
<td>83.00</td>
</tr>
<tr>
<td>Other Relatives</td>
<td>17</td>
<td>17.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Number of family members working in the family business is an important criterion from conflict perspective. Dynamics of the family business changes with the number of family members working in the business. Above table shows the working members in the sample family business. About 83% are immediate relatives and 17% are other relatives working in the sample family business. The family members are included respondents’ who are immediate family as well as extended family of uncles, cousins and nephews.

The analysis revealed that about 83% are immediate relatives and 17% are other relatives working in the family business. The family members included respondents’ immediate family as well as extended family of uncles, cousins and nephews. Number of family members working in the family business is an important criterion from conflict perspective. Dynamics of the family business changes with the number of family members working in the business.

5.1.5 Status of business after split

Status of business after split

<table>
<thead>
<tr>
<th>No. of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both the businesses after the split are doing better than when they were together</td>
<td>45</td>
</tr>
<tr>
<td>Our business is doing better than the other</td>
<td>33</td>
</tr>
</tbody>
</table>
Other business is doing better than ours | 14 | 14.00
---|---|---
Both the businesses after the split are doing worse than when they were together | 08 | 08.00
---|---|---
**Total** | **100** | **100.00**

As shown in above table 45% respondents mentioned that both the businesses are doing better after the split compared to when they were together. 33% respondents mentioned that they are doing better than the other businesses after the split. 14% respondents mentioned that the other split business was doing better than their business. Only 8% respondents agreed that both the businesses were doing worse after the split than when they were together.

The analysis revealed that 45% respondents mentioned that both the businesses are doing better after the split compared to when they were together. Therefore split could be a strategic tool for the family businesses to exploit growth opportunities in the business and becomes a new ownership structure with different business.

### 5.1.6. Family Council

<table>
<thead>
<tr>
<th>Family Council</th>
<th>No. of Respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does not exist</td>
<td>94</td>
<td>94.00</td>
</tr>
<tr>
<td>Exists</td>
<td>06</td>
<td>06.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Establishment of a family council is one of the core mechanisms that help in long term sustenance of family businesses, particularly addressing the issue of succession and prevention of conflict. As shown in above table almost 94% respondents mentioned that they did not have a family council to address the issues of the family and the business. About 6% respondents had family councils in their family businesses.
The analysis revealed that almost 94% respondents mentioned that they did not have a family council or any other mechanism to address the issues of the family and the business. Only 6% respondents had family councils in their family businesses. Establishment of a family council is one of the core mechanisms that help in long term sustenance of family businesses, particularly addressing the issue of succession and prevention of conflict.

6. CAUSES OF CONFLICT

6.1 Succession Planning

Analysis reveals that succession planning is given low importance in family managed businesses. Difference on succession and future leadership are prominent causes of conflict, classified under Relationship Conflict. Respondents, who had not gone through a split in their family businesses, disagreed that they had problems of succession and future leadership.

6.2 Younger Generations Entry

Analysis reveals that respondents from split and no-split family businesses strongly agreed that entry of younger generations in their family business cause an increase in conflict. During generational transition, differences arising among two or multiple generation members on business decisions, operational issues, long term strategies etc.

6.3 Lack of Conflict prevention Norms

Analysis reveals that respondents from split and no-split family businesses strongly agreed that Lack of conflict prevention norms had caused or increased conflict. Also, in family businesses, emotions are sometime quite high which makes it difficult to resolve issues in an effective way. The inferences can be drawn from this finding that, there are certain practices followed by family businesses to keep their cohesion intact and manage conflict.

7. IMPACT OF CONFLICT

The total sample of 100 respondents comprised two categories: one category of respondents whose family businesses had gone through splits in the past and another category of the respondents whose family businesses had never gone through a split in their business history.
About 59% respondents acknowledged the split in their family businesses and 41% respondents had never gone through a split in their family business.

The primary purpose of the study was to understand the impact of conflict in family managed businesses in the form of split.

As per the analysis there are five causes of conflict in family managed business that exhibited a significant relationship to family conflict and split in family managed businesses are: Relationship conflict, Latent conflict, Process conflict, Task conflict and lack of conflict prevention norms. The analysis revealed that these causes are present in all the sample family managed businesses. However, respondents of two categories i.e. split and no-split family managed businesses differed in their opinions about the intensity of these causes.

i. The analysis revealed that the overt Relationship Conflict includes anger, frustration, jealousy, feeling of rivalry, nepotism, dissatisfaction on distributive issues of wealth and power, non transparency in financial dealings, lack of trust and respect among family members are highly responsible for the split in family managed business.

ii. The analysis revealed that the Latent Conflict includes hidden, under-the-surface emotional conflict with family members perceptions of interpersonal incompatibility, lack of commitment, tension, suspicion, lack of communication, conflicting styles and misaligned interests between the family and the business are highly responsible for the split in family managed business.

iii. The analysis revealed that the Process Conflict includes overlapping roles and responsibilities of family members, spending lot of time in day to day operations rather than focusing on business growth, lack of transparent and well organized processes and policies in the business operations are highly responsible for the split in family managed business.

iv. The analysis revealed that the Task Conflict issues are ownership and executive leadership continuity or change, long term direction and role of the business in the society are highly responsible for the split in family managed business.

v. The analysis revealed that Lack of conflict prevention norms is highly responsible for the split in family managed business.
8. SUGGESTIONS

i. Separating younger members amicably from the main family business and allowing them to take an independent path of career is a practical solution for preventing the possibilities of sourness of relationships and severe conflict in future.

ii. Family Agreement is a flexible, possibly legally binding document designed to record and commits the family to the decisions. Such agreement builds trust and understanding among family members.

iii. Family Councils are regular, structured forums (meetings) of family members who are involved in, or have an interest in, a family business. They are treated as retreats to help families maintain a reasonable level of communication amongst themselves over important issues that affect them and their family business.

iv. Incompetent family members at the top of many businesses is a main reason of conflict in many family managed businesses. There should be professionalism in a family business to reduce such conflicts which means the family must make the mental leap and distinguish between the families interest and the company’s interest by separating ownership from management control. Therefore separation of ownership of the business from managing it is a prudent step

v. In a family managed businesses family values and cultures, including the trusteeship role provide a strong building block for the future generations to perpetuate and grow the business. Creation of balanced portfolio of business will be beneficial to avoid and reduce conflict which leads to split in a family managed businesses.

vi. Succession plan is necessary for the future existence of the firm and it is very important part of family firm human resource management. Proper succession planning helps to keep the business, individuals and the families together and also create an environment where it is possible to celebrate the successes of the past that make the planned transition both possible and worth. Hence family managed businesses must plan for future succession planning to avoid conflict.

vii. Family managed businesses should have formal conflict resolution mechanisms for dealing with disputes between family members which provide a forum where the family members in dispute can air their differences and resolve the issues in proper way.
viii. Family businesses should implement reasonable governance procedures to deal with the business dimension. Families should set up formal governance structures for the family and owners dimensions which develop a common platform of communication through family council and specify rules and norms.

9. CONCLUSION

Family businesses have grown overall and in spite of global competition, have contributed positively to India’s GDP and economic growth. Family businesses are dominant in all sectors of industry, family members as employees are prominent in family businesses. Conflicts are natural occurrence in family businesses. Strategies that work for a family to resolve conflicts include arbitration, compromise and creative resolution. The results show that relationship, latent, task, process conflict in a family managed business positively influence conflict and make it intensive to the extent of splitting the family business. Lack of conflict prevention norms is also one of the reason behind conflict in family managed business. Thus, family managed businesses that obtain desired outcomes for the business and the family focus on working together as a team to address both business and individual concerns. Within the larger effort to obtain business and family success, family managed business can evaluate their conflict status, split possibilities, and effective conflict resolve strategy to handle impact of conflict and maintain harmony and enhance competence and performance of the business.

10. REFERENCES


12. Kent Rhodes and David Lansky (2013), Managing Conflict in the Family Business-Understanding Challenges at the intersection of family and Business, Publisher Macmillan.