

FOUNDER AND PRINCIPAL CONSULTANT, OJAS FOUNDATION

# The Challenge of Professionalizing Family Businesses

SRI S TATWAMASI DIXIT

A summary of the talk on 'Challenges of Professionalising Family Business' delivered by Sri S Tatawamasi Dixit, Founder and Principal Consultant, Ojas Foundation held on 20 November 2008 at Chennai

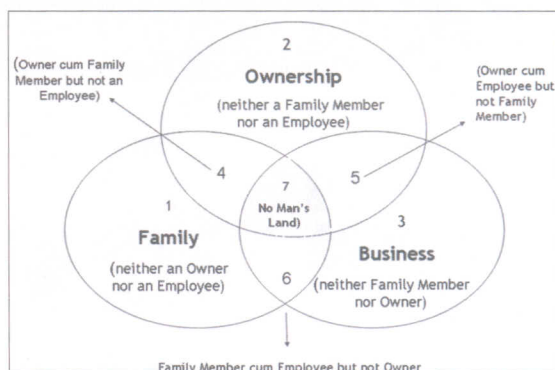


member who is not an employee, an owner cum employee who is not a family member and a family member cum employee who is not an owner. Amidst all these sub raches, Sri Dixit points out to the existence of what he calls the "No Man's Land" (the NML).

The NML says Sri Dixit, is the friction space, it is the shared area of responsibility which cannot be eliminated completely but must be handled successfully. According to him, boundaries are left ambiguous

It is a myth that family businesses are unhealthy and unprofessional. Families rule the world of business. Every 2 out of 3 companies across the globe are family owned. Family businesses, like kingdoms, have either evolved or devolved. 7 out of every 10 family businesses fail to make the transition to the second generation, and only 1 out of every 10 family businesses make it to the third generation. Family businesses are a minefield of complex relationships and competing norms.

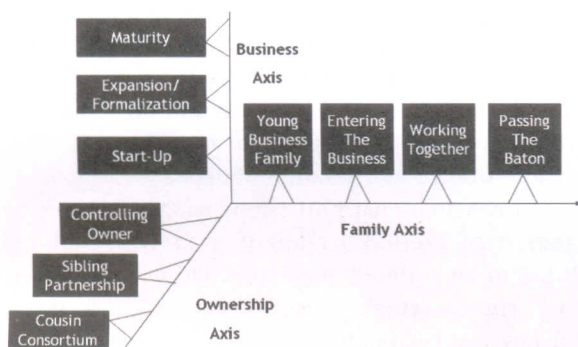
Sri Tatvamasi Dixit discusses what should be done to transform a family business to a professional business successfully. Also, is it possible to make family business live eternally. He characterizes family as emotion based, unresponsive to change, inward looking, and prone to subconscious behavior while business as task based, exploiting change, outward looking and conscious behavior. Therefore, a conflict of values arises in a family business. Sri Dixit, further explains the intricate working of the family businesses through a lucid approach. he begins by classifying it into 3 heads, **family, ownership and business**. Within these 3 heads, sub categories exist such as an owner cum family



and in certain companies professional managers are allowed to cross their boundaries based on their capabilities and performance. Sri Dixit observes that boundaries must be delineated and the best way to bring in professionalism, is to have transparency and board discussions. According to Sri Dixit, the larger the NML, the lesser the effectiveness. Some reasons for the widening of the NML may be the conflict of person and role, emotion and reason, profit and remuneration, amongst others between the family and professional managers. The solution, Sri Dixit points out is **professionalization**.

Sri Dixit says the need for the family business to de-link from it due to certain limitations as Expanding business beyond individual's capacity to manage, Growing competition, Lack of Skill/knowledge to match changing environment, to Explore new areas and to keep business and family as separate entities. Thus the need for Professionalization which brings objectivity, systematic approach, Problem solving, openness, resourcefulness and commitment to discipline.

Sri Dixit suggests the top down approach (by professionalizing the board first) or the bottom up



approach, which is done by establishing the processes and systems as the two important approaches. Professionalisation, says Dixit, must begin with reducing the NML. According to him, passion and involvement are the keys. The professional managers must be instilled with passion and a deep sense of

involvement. Initiative should be taken by family managers to strengthen systems and procedures to make the professional managers comfortable and take bold decisions. Professional managers must be allowed to take critical decisions involving high stakes by training and grooming and reposing confidence to face failures because of long term implications on their career.

Meanwhile family managers should have an accountable process of empowerment over time and invest time on defining the NML as clearly as possible and determine the boundaries. Sri Dixit also stresses on constituting a board as an excellent source of managing the NML. We are then taken on various scenarios which would prove to be hurdles to professionalization. Sri Dixit, states fear of loss of family control, positions of authority reserved for the family, difficulty in delegating responsibility, owner's lack of alternate action and family loyalty towards employees as some of the hurdles to professionalization.

#### What Family Managers should do

- ◆ Focus on Emotional Intelligence Quotient at the time of recruiting Professional Managers
- ◆ Have an accountable process of empowerment over time
- ◆ Conduct 360 degree appraisal for the management team including the Family Managers and Board
- ◆ Invest time in defining "No Man's Land" as clearly as possible and determine the boundaries
- ◆ Realise that Professional Managers too have ego

### Stages in Family Business

