

## **Introduction**

A family operated business generally is a business where over half of the total shares are under control of the family members of one family, a business which has been passed from one generation to another. Starting, managing and working within the family business can create precious benefits in comparison to other businesses, which includes great trust among staff to high flexibility. However, without good manage it can also lead to major problems, ranging from conflicts over payments to poor communication. (Rosenblatt, 1995)

This study report seeks to examine the shortcomings of family members being directly involved in the business; the report will define what family business is outline Business management of family business, The character of Family Ownership and examine the core part which is family ownership theory; pyramidal theory will be reviewed and finalize with highlighting management difference

### **What is family business?**

Frequently a dichotomy is made amid the “family” and “business” where these two aspects forms distinctive subsystems which interact so as to form a complete structure named “family business”. When family forces and business forces demonstrably interrelate and impact one another, then scholars agree that a blend is exists among the two aspects, implying a new and exclusive system which is termed a family business. Previous studies sought to define family business in relations to ownership or

management and the controlling systems, and also intergenerational transfers, this view offered some insights into the manner of business. (Rosenblatt, 1995)

However, this approach had some limitations, currently there has been a shift on how a family business is described and the focus presently is on establishing the business intention and its vision as ways of knowing is the business can be defined as family business. Alongside this new “strategic” perspective of a business, there is also a new approach which looks on the resources (capital, human, knowledge, materials) accessible to a specific business as a method of determining its standing. Resources based view (RBV) of a business suggests a business is a “family business” where the function of a family has a confirmable effect on role and also performance of a particular business. Though the past definitions and descriptions have not been completely replaced, there is a current change in analytical basis to encompass significant elements of business practice, for example visions, culture and intentions. (Rosenblatt, 1995)

### **Business management of family business**

Business management of family businesses varies deeply from the management of broadly held public businesses. Family owners focus on management and also facilitates making of decisions, that can equally lower management costs and allow unusual though strategically beneficial decisions. (Rosenblatt, 1995)

A well-functioning business system assist build trust and conviction in the family, and a excellent family dynamic, which in turn is an asset to the family business since it enables

every separate part of management to work better and be able to add extra value whilst remaining inline with the different constituents of the management system. These management benefits can present apparent economic gains. (Rosenblatt, 1995)

Nonetheless, a rising business turns into more and more complex and crafts its own requirements for a further formal organizational arrangement or structure. At such a time Family business managers have to adjust their management practices as a result. Certainly, success compels the want to adjust and modify, and every one of family businesses finally face this truth. (Rosenblatt, 1995)

### **The character of Family Ownership**

Family members mainly have a high focus on management and leadership, on top of having a high emotional connection to the business. A family could have a feeling of moral commitment to other business stakeholders, or view the family business as means for creating a positive input to community. Furthermore, family members at times view the family business as a societal legacy founded by precedent generations, and thus, one that ought to continue in successive generations. (Rosenblatt, 1995)

The absence of readily accessible liquidity in family business is another significant variation among family ownership and public. Handing over ownership of the family businesses is many times complex. A number of families craft legal limits on the transaction of stock of the business, and countless family businesses are in private ownership. In such circumstances, fashioning a market to sale the business stock may be

very complex. Tax procedure can also hinder the transaction, making the selling of the family business stock more costly than when continued to be owned. (Rosenblatt, 1995)

Holding stock in the family business seems to amuse the riches of persons in a one asset. In family business ownership groups, an unequal proportion of the total value of several individuals is frequently held up within the family business. This implies that family business holders, as a collection of investors, encompass little diversification of their capital and high risk than it would be if they invests in the wider stock market. These concentrated dangers make family business owners to be more conscientious to their investments and appears to make them a lot more engaged and active. This, consecutively, makes families to be more committed to solving anything wrong with businesses, instead of fleeing the business economically. Some times, worry for the reputation of family can appear as significant as protecting the combined family business investments. (Rosenblatt, 1995)

### **Literature review on family Pyramidal ownership**

The conventional wisdom for the existence of pyramids starts with the assumption that families value control because of the large private benefits associated with it. According to this view, the pyramid is a device that allows the family to separate ownership from control. By using pyramids, the family can maximize the amount of capital under its control because they allow the family to retain control in a large number of firms while retaining only a small cash flow stake in each one of them. Because the only reason why the controlling shareholder should use a pyramid is to separate ownership from control,

the traditional view predicts that, in pyramidal firms, the deviation from one share-one vote should be large and the concentration of ultimate cash flow rights small. (Galve and Fumas, 2005)

Consistent with the traditional view, there are a number of examples in the literature in which a family has achieved substantial deviation from one share-one vote through the use of pyramids (see the examples presented in Jaskiewicz, 2005)

However, a problem for this view is that there are many other cases in which the separation achieved is small and does not warrant the use of a pyramid. For instance, Jaskiewicz, (2005) found in their sample test of German companies that, among 69 percent of the companies managed by pyramids, the controlling shareholder would have accomplished similar rank of control via merely having shares directly in the company. The researchers made a conclusion that, pyramids aren't used as a tool to attain control in Germany,

In another research on ownership and control done on of Chilean companies, Anderson and Reeb (2003) found out that controlling shareholder holds more capital flow than required to attain control. They computed the final capital flow ownership of controlling shareholder in the entire members of a pyramidal set and found that "integrated" ownership was averagely 57%. Hence, the division of ownership and control attained by pyramids is lowest.

Brockhaus (1994) stated that, pyramids and dual class shares are normally applied in the Western European nations. But, they found great differences among ownership and control in just a small number of the Western European nations they analyzed. Anderson and Reeb (2003) reported related findings done against Turkey, where it was found that capital flow and the voting rights appeared to be very much aligned in spite of the common popularity of pyramidal arrangements. Lastly, Galve and Fumas (2005) illustrated same image for Brazil. According to Galve and Fumas (2005) pyramids do not seem to be a device to depart from 'one-share-one-vote'.

Another approach which families use to attain control whilst reducing its capital flow stake is to have shares openly in the company and issue twofold class shares in the company. The family just requires retaining a class of shares which concentrates the bulk of the votes although which represents an adequately small portion of the capital flow privileges. One more problem with the conventional viewpoint is that, it only offers a justification to separate capital flow from the voting rights, except doesn't have any suggestion as to the best means to attain this departure. (Galve and Fumas, 2005)

### **How management differs in Family owned Companies**

Family business management structures are more distinctively appropriate to be a pursuit of unusual strategies. Family companies can readily sidestep the unfavorable qualities of usual business management. Owners can apply pressure and concern on numerous levels, thus creating the family to be an agent of effective and efficient decision making in relations to management, and other stakeholders. Instead of functioning as an expensive

organization of checks and balances, management in family companies frequently serves to facilitate partnership and transparency across the organization. This, consecutively, can allow the quest of strategies which are possibly more fruitful in the long run, in spite of short-term expenses or hazards. (Galve and Fumas, 2005)

Usual business management many times centers on setting up limitations and pointing out the division of decision-making authorities. On contra, family business management usual centers on creating, a productive, ritual engagement across the organization Practices which provides for concurrent consultations amongst owners, managers and directors allow a freer stream of proposals as well as speeding the decision making in the organization. In addition they contribute to a continuous positioning of objectives and interests in the long run. (Anderson, and Reeb, 2003)

The dynamic involvement of the owners is the answer to successful family business management. Family business ownership models the vision, values, objectives and aims of the organization. It stipulates the financial objectives and performance prospects that guide board and management decisions. Owners also provide an overall vision of the company that generally defines the organization strategy. This spells out and focuses goals across the organization and assists set proper strategic limitations on management and board decisions. (Robbins, 1998)

However, establishing a plain shared appreciation of the different tasks of the owners, the board, and the management, which, are all crucial to successful family business

management. More so, since family members in many times assume multiple hats and thus, functioning as the owners, managers and directors. (Robbins, 1998)

Whereas the express participation of the family in the business on various levels does complicate the organization, it at the same time provides a significant connection among the diverse areas of management. This integral link, when combined with a constructive advancement of family bond and relations, can deeply modify the dynamics of trust which pervades the management structure. A well-functioning structure assists build trust in the family, moreover a fine family dynamics, consecutively, is an asset to the organization since it enables every separate section of management to work better and so, add additional value whilst remaining in line with the other sections of the management system. (Ward, 1993)

### **Conclusion**

Family operated business generally is a business where over half of the total shares are under control of the family members of one family, a business which has been passed from one generation to another. The management of such business varies a lot according to the wishes of the owners, they may run the business themselves or they may employ other people to run the business. In whatever case the family usually has more say over the business than any other person. However, due to generation, disagreements and rivalry among siblings, family business usually have problems and conflict, the survival of the business in such a case depends whole on structures put in place to solve such cases.

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