

BASIC BUSINESS SKILLS COURSE FOR ADS OWNERS

ADS Business Manual

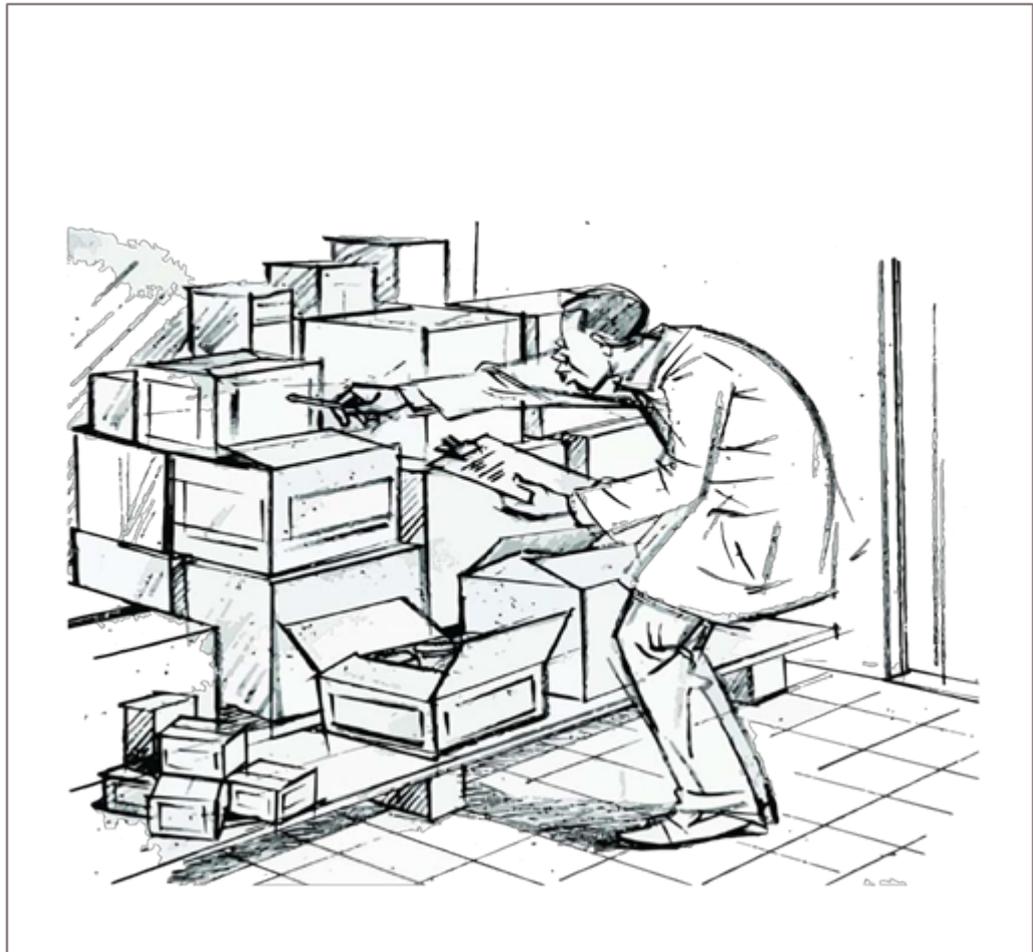
Module 3: Running a Family Business



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Module 3: Running a Family Business



What Is a Family Business and What Are Its Unique Features?

A family business is any business undertaking aimed at yielding returns for the survival of a group of people, termed as a relationship, and not necessarily based on blood only.

What are the family business challenges in Africa?

One challenge is that internal stakeholders may have high levels of expectations from the family business even if they do not contribute to the wealth creation process.

Family members are loved **unconditionally**. But as *business* members, they must be dealt with **conditionally**. If family members are also business members, the business may face certain challenges. Some of those challenges are listed below, along with potential remedies.

Prominent Challenges	Occurrence Risk	Potential Remedy
Mistrust, dishonesty in family and employees	High	Behavioural change, promoting openness, honesty, kindness, reliably
Selfishness in the family	Average	Promoting solidarity
Lack of family cooperation	Average	Promoting solidarity
Low capital & high withdrawals	High	Establishing a savings culture
Lack of skills in the family	Average	Obtaining adequate skills
Lack of creativity in the family	Average	Continuous improvement
Focus on quick money	Average	Avoiding premature satisfaction

Source: LFB Research 2011/2012

Business stakeholders

Stakeholders are the persons or different types of groups of persons that have an interest (stake) in the family business. The table below summarizes the various stakeholder expectations:

Stakeholder	Expectations from the business
Government	Tax for your security and utilities and good citizenship
Bank	Loan repayment, safe deposits, legal business operations
Customer	Competitive practices: quality products and services, adequate availability of product, low-cost, timely and friendly service
Society	Good citizen; show corporate social responsibility
Supplier	Payments on time
Owner	Return on capital
Employee	Salary, perhaps long-term employment
Family	Survival, income, education, reputation

Source: Rogers Matama (2013) LFB Management and Gov. International

Family business management

This is the process of ensuring efficiency and effectiveness in achieving family business objectives:

- ✚ Planning, organizing, and controlling leadership and mentorship.
- ✚ Understanding the needs of the internal parties, including the founders, children, spouses.
- ✚ Harmonizing these varying needs/expectations with the external stakeholders' needs.

Family members are often involved in the operation of their family business in some capacity and, in smaller companies, usually one or more family members are the senior officers and managers.

Family members can play different roles in a family business:

- ✚ **Family-owned** = A family member is the controlling shareholder.
- ✚ **Family business** = Two or more members of the management team are drawn from the owning family.
 - Family businesses can have owners who are not family members.
 - Family businesses can also be managed by individuals who are not members of the family.

Key principles that guide the operation of any business

1. Customer focus

Remember that in today's business world, the customer is no longer a "king" or "queen" but a "dictator." Why? Clients have choices! Because of instant communication through telecommunication and the internet, they can get what they want at the most convenient time and cost, irrespective of where they are located (whether in Gulu, Kabale, Zombo, Kiboga, or Karamoja). They dictate simply because they have the information at their fingertips, courtesy of advanced instant messaging across the world through the internet.

2. Continuous improvement

The Japanese word, Kaizen (continuous improvement), has gained significant popularity worldwide simply because customers are craving more and more advanced services/products. Did you also know that, despite the rugged nature and poor climatic conditions in most parts of Asia, such as in Japan and China, Asians still out-compete the entire world on continuous improvement? All the family businesses in the world, particularly those in Africa, need to benchmark with the Kaizen (Japanese) way of life and offer more value-driven products.

3. Business competitiveness

Being well organized is important. To make money over time, a business must offer:

- ✚ High quality products
- ✚ In a timely way
- ✚ At costs that customers are willing to pay

The figure below shows how that process leads to family business success.



Summary

- ✚ Many businesses in Uganda and in the world were started as family business entities.
- ✚ Most ADS businesses are family businesses.
- ✚ A business must have a strong customer focus to be successful.



Succession Planning in Family Business

A significant challenge faced by multigenerational business-owning families is the transition from generation to generation. Most of the successful family businesses have invested heavily in educating younger family members in the dynamics of the business, and literally groomed them from childhood to take on key roles.

“Succession planning is a process for **identifying** and **developing** internal people with the potential to fill key business **leadership** positions in the company.” (Wikipedia - https://en.wikipedia.org/wiki/Succession_planning)

- ✚ You **identify** potential by observing:
 - How people work
 - How they interact with others
 - Whether they help others or only themselves
 - Whether they put the needs of the business first
- ✚ You **develop** potential by:
 - Providing guidance and support
 - Providing opportunities to contribute to the business
 - Rewarding good work
 - Expecting the best
- ✚ **Leadership** is

- Modelling what you expect from others
- Identifying and developing potential
- Bringing out the best in others
- Working for the success of all

“If the business is to survive as a viable enterprise in a competitive marketplace and remain family-owned, the family must not only engage and educate succeeding generations, but also encourage an entrepreneurial mind set.”

Summary

- ✚ Involvement of the next generation in a family business represents a competitive advantage.
- ✚ A viable family business needs a strong leader and a supporting governance structure and systems.

Critical Success Factors in Family Business

Critical success factors for a family business include:

- ✚ Multigenerational leadership
- ✚ Great communication and conflict resolution skills
- ✚ A well thought through business plan that is sensitive to the different personalities and temperament of the business. (Note: in Module 4 we will examine how to develop a business plan.)
- ✚ Family management systems need to be formalized to ensure they drive success for the long haul.
- ✚ Wise long-term investments.

Successfully balancing the differing interests of one or more family members, on the one hand, and the interests of the business, on the other hand, requires the people involved to have the competencies, character, and commitment to do this work.

Summary

- ✚ Family business survival is dependent on a combination of outstanding business acumen and visionary leadership.
- ✚ The family members may have different interests.

- ✚ Family participation as managers and/or owners of a business can strengthen the business since family members are often loyal and dedicated to the family enterprise.
- ✚ However, having family members as managers and/or owners of a business can also present unique problems because the dynamics of the family system and the dynamics of the business systems may not be in balance.