

## Pocket Summary

### Professionalising the Family Business



#### Professionalising the family business

By Lucio E. Dana & Harry Kras

*First and second generation businesses invariably face the challenge of transformation from an entrepreneurial to managerial style of leadership. In this article family business advisers Lucio Dana & Harry Kras raise some of the issues involved in managing this transition.*

An important and predictable turning point in the family business: adapting the owner-manager's managing style (instinctive) to the demands of a larger, more complex business (professional – based on planning and controlling growth through the use of strategic management techniques). Professionalisation also de-emotionalises the family business and is an important step towards managing potential conflicts between family and business values and goals.

At that point the entrepreneur is in danger of ceasing to make effective use of his most valuable asset – his time. His primary role is to establish vision, direction and a competent and committed organisation.

#### Obstacles to professionalisation

- Failure to recognise the crossover point after which their temporarily effective but untidy or haphazard management methods become counter productive
- Failure to recognise and accept that because of growth and complexity, a carefully organised, formal approach has become necessary to integrate all the parts of the business into a coherent and manageable whole
- Adapting the recruitment of outside talent to the needs of the owner-manager and of specific personalities in senior management and in the family unit
- Inability of owner-managers to let recruited outside managers get on with their job independently
- Difficulties in delegating responsibility and authority due mainly to lack of trust or need for power
- Reservation of positions of authority for family members who may not be adequate for the task
- Fear of loss of control by the family with decentralisation of decision making
- Lack of alternative vocation for the owner-manager
- Lack of suitably qualified or experienced employees and family loyalty towards and support for long-serving employees who are considered almost as part of the family
- The 'Why change a winning formula?' syndrome
- Even if outside managers are recruited they cannot function effectively because the firm does not operate as a normal company, and cannot develop their own power base with the family figurehead being preferred by staff and customers

The transition to a professionally planned and controlled organisation is a time when the balance between family and business must favour the business, and every effort must be made to ensure that family issues do not hinder or jeopardise the process, and the firm's future growth.

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Business growth or successful generational transition ultimately requires an evolution from entrepreneurial to a professionally managed organisational system.

**A successful transition should be planned & executed carefully & gradually in four stages:**

- Analysis and evaluation of existing business strategy
- Formalisation of the decision making and information systems of the firm
- Selection and training of key individuals and development of middle management
- Constant monitoring of change to ensure a smooth transition.

**Key characteristics of entrepreneurially managed firms:**

- Highly centralised decision making system in the hands of the entrepreneur who is also heavily involved in day to day operating activities of the firm with consequential lack of time for strategic planning and decision making (Decisions about the acquisition and allocation of capital resources, the selection and compensation of key personnel, pricing, purchase of raw materials, development of new products, loans and credit arrangements, labour negotiations, and diversification are made by the entrepreneur) This enables the business to respond quickly to environmental opportunities and threats but inhibits the development of subordinates' decision making skills.
- Over dependence on one or two key individuals (with their personal limitations) for the business' survival and growth
- Inadequate repertoire of managerial skills and lack of training
- Paternalistic business culture of atmosphere – high sense of family among employees

These four characteristics are often important and in many cases essential to the success of the business up to a point beyond which they become barriers to the firm in its efforts to capitalise on further market opportunities. When they start to turn into barriers they begin to tax the physical and mental capabilities of the entrepreneur. It is therefore, at that juncture that the entrepreneur must realise that the mode of managing the business requires a change from entrepreneurial to professional management.

**A professionally managed firm is one which:**

- Has a functional organisation structure based on its current needs
- Recruits trains and retains subordinate managers
- Permits delegation of appropriate day-to-day decision making to its subordinate managers
- Utilises formal information analysis and the intra-firm consultative process to make administrative decisions
- Reflects in its routine operations stable corporate and business strategies that recognise both the long and short-term needs and goals of the organisation
- Is free from excessive dependence on any particular individual or individuals for their skills and talents, and
- Displays a certain degree of interchangeability among its components.

Given the characteristics of the typical entrepreneurially managed firm it is not likely that successful transitions to professional management will occur very often unless they are planned carefully and implemented gradually. The transition itself will usually involve five or more of the following seven steps:

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#### A model for the transition to professional management

- The entrepreneur must want to make the change and must want it strongly enough to make major modifications in day-to-day task behaviour (Recognition and awareness of need for change; entrepreneur wants to change; entrepreneur tries to change his own day-to-day behaviour.)
- The day-to-day decision making procedures of the organisation must be changed (Analyses of existing decision making procedures; stabilisation and formalisation of decision making procedures; broadening of participation in decision making and use of consultative procedures.)
- The two or three key operating tasks that are primarily responsible for the organisation's success must be institutionalised (Identification and institutionalisation of key tasks.)
- Middle level management must be developed (Development of middle management)
- The firm's strategy should be evaluated and modified if necessary to achieve further moderately large and rapid growth (Assessment of adequacy of existing strategy; selection and implementation of new strategy as appropriate.)
- The firm's organisational structure and its management systems and procedures should be modified slowly over time to fit the company's new strategy and senior managers (Evaluation of organisational structure; cross check with others; implementation of new structure; hire and fire new personnel.)
- The firm must develop a professional board of directors (Develop Board of Directors)
- Constant monitoring of change process through observation of key indicators.

For more information, speak to a professional adviser or visit the Family Business Resource Centre on [www.fbrc.com.au](http://www.fbrc.com.au).

*\*This article by Lucio Dana & Harry Kras is for general information only and should not be relied on as, or in substitution for, professional advice.*

*(These notes have been excerpted from: Hofer, C. & Charan, R. 'The Transition to Professional Management: Mission Impossible?' & Dyer, W.G. Culture and continuity in family firms)*

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