

UNIT - II

Micro, Small and Medium Enterprises (MSME)

MSME sector is the backbone of our economy and plays a significant role in economic development. It is acknowledged worldwide that MSMEs are important contributors to a nation's economic and social development. In India, The MSME sector contributes to 45% of the total manufacturing output, 40% of the total export, 6% of the GDP, employs over 8 crore people and produces over 8000 products. Not only it supports large industries with their inputs but also it Ensures inclusive growth of the nation by supporting the rural economy. Most of the MSMEs are situated in rural areas and employ rural manpower.

| MSME Classification as per the MSMED Act 2006 | | | |
|--|---|--|--|
| Criteria: Investment in Plant and Machinery | | | |
| Classification | Micro | Small | Medium |
| Manufacturing Enterprise | Investment < ₹ 25 lakh | Investment < ₹ 5 crore | Investment < ₹ 10 crore |
| Service Enterprise | Investment < ₹ 10 lakh | Investment < ₹ 2 crore | Investment < ₹ 5 crore |
| MSME Classification as on June 2020 | | | |
| Criteria: Investment and Annual Turnover | | | |
| Classification | Micro | Small | Medium |
| Manufacturing & Service Enterprise | Investment < 1 crore and Turnover < 5 crore | Investment < ₹10 crore and Turnover < 50 crore | Investment < 20 crore and Turnover < 100 crore |

Importance of MSMEs for Indian Economy

1. **Employment:** It is the second largest employment generating sector after agriculture. It provides employment to around 120 million persons in India.
Contribution to GDP: With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities. MSME ministry has set a target to up its contribution to GDP to 50% by 2025 as India becomes a \$5 trillion economy.
2. **Exports:** It contributes around 45% of the overall exports from India.
3. **Inclusive growth:** MSMEs promote inclusive growth by providing employment opportunities in rural areas especially to people belonging to weaker sections of the society. For example: Khadi and Village industries require low per capita investment and employ a large number of women in rural areas.
4. **Financial inclusion:** Small industries and retail businesses in tier-II and tier-III cities create opportunities for people to use banking services and products.
5. **Promote innovation:** It provides opportunity for budding entrepreneurs to build creative products boosting business competition and fuels growth.
6. **Plays an important role in making “Make in India” possible:** Post the inception of ‘Make in India’, a signature initiative by the prime minister of India, the process of incorporating a new business has been made easy. Since the MSME is the backbone in making this dream a possibility, the government has directed the financial institution to lend more credit to enterprises in MSME sector.

PROBLEMS OF MSMEs IN INDIA

- **Internal Problems**
- **External Problems**

Internal Problems

1. **Management in single hand:** MSMEs are usually managed by a single person who is owner of the enterprise. It is very difficult for a single person to manage every activity in a business activity.

2. **Lack of finance:** MSMEs face problem of finance from starting the business to operating the business. The internal problem of finance is mainly related to lack of seed working capital. Also, due to the lack of knowledge of entrepreneur, the finances are not well managed.
3. **lack of long-term vision:** MSMEs are generally started without proper planning and long-term vision. Because of this, they fail to cope with the shocks in economy like demonetisation, GST and COVID-19.
4. **Personnel Problems:** MSMEs face labour problems as they can't hire professionally skilled employees. Even day to day workers are difficult to find. The current COVID crisis has added to their labor problems.
5. **Inadequate Management Systems and Internal Controls:** MSMEs do not have adequate management systems. Use of management information system, use of accounting software's, PERT, CPM etc. can boost the performance of management. but MSMEs lack such resources;
6. **Lack of Strategic Ideas:** MSMEs are not very rich in financial resources and they can't spend much in research and development. Lack of innovativen ideas derail the growth of MSMEs.
7. **Poor organizational Structure:** MSMEs do not have clear cut organizational structure. One or two members control the entire activities of the establishment.

(Explanation is expected from students)

External Problems

1. **Lack of capital and financing :** MSMEs lack capital to run their day to day business. Small business entrepreneurs don't have enough long- term or short-term funds. These are, therefore, short of both fixed assets as well as working capital. There is shortage of raw material because of less working capital. They can't buy in bulk during the season and cannot enjoy the economies of large scale. Even the banks do not come to their help in a big way.
2. **Lack of basic infrastructure Power, Water, Transport:** Because of shortage of power, the small business enterprises are not able to use full capacity of the plant at their disposal.

They cannot afford to have their own power generators. Problems related to supply of power such as frequent power cuts, fluctuation in voltage levels, safety of power lines, billing & overall functioning of the system etc., have led to the closure of many small businesses. Problems related to transport such as congestions, bottlenecks, strikes, rise in freight charges etc., and affect small businesses. Problems related to supply of power such as frequent power cuts, fluctuation in voltage levels, safety of power lines, billing & overall functioning of the system etc., have led to the closure of many small businesses. Problems related to transport such as congestions, bottlenecks, strikes, rise in freight charges etc., and affect small businesses.

3. **Complicated labour laws and unavailability of skilled labour:** There is a problem of skilled labour in the rural and semi-urban areas. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units. Also, the complicated labour laws are very difficult to adhere for small industries.
4. **Marketing Problems:** Any business unit needs to have a deep understanding of customer's needs and requirements for effective marketing of goods. Small businesses due to limited capital, cannot implement effective marketing strategies. They face additional marketing problems as they deal in limited products. Further small businesses depend excessively on middlemen who exploit them by paying low prices for their products and delaying their payments. Due to lack of proper infrastructure facilities, small units cannot undertake direct marketing activities. Additionally, small business units cannot compete with large scale units in the areas of marketing and product promotion and thus they are forced to sell their products in the local markets. They also face tough competition from cheap imports.
5. **Delay in payment of dues:** Most of the MSMEs face the problem in payable and receivable management. Due to lack of funds, they fail to pay their dues to creditors on time. In the same way, their customers do not pay them timely. This creates a problem of cash management in the business.
6. **Outdated Technology:** Apart from a few small industries, many do not use latest and advanced technology as they cannot afford to upgrade it. Also, they do not have easy access

to such technology. Use of such low grade technology, lack of technical know-how & skills affect the quality and productivity of the finished products. Moreover, small businesses make use of traditional methods of production. This reduces the productivity and increases the cost of production. Also, small businesses often do not give importance to the changing tastes and preferences of the people.

7. **Lack of knowledge about government schemes:** the government of India has taken various steps for promotion and development of MSMEs in India but majority of the MSMEs are not aware about those schemes and initiatives.
8. **Global Competition:** Due to Liberalization, Privatization and Globalization (LPG) policies, small businesses have to face competition not only from large corporations but also from multinational companies which are huge in terms of their size and capital employed. Small companies cannot compete against the quality standards, technical skills, financial creditworthiness and managerial capabilities of large industries. Also, small businesses find it difficult to enter markets of developed countries since they have stringent requirements of quality certifications such as ISO-9000, ISO-14000 and ISO-26000.

SOME INITIATIVE FOR MSME SUPPORT BY THE GOVERNMENT

1. Udyami Mitra Portal : launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.
2. MSME Sambandh : To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.
3. MSME Samadhaan -MSME Delayed Payment Portal — will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.
4. Digital MSME Scheme : It involves usage of Cloud Computing where MSMEs use the internet to access common as well as tailor-made IT infrastructure
5. Prime Minister Employment Generation Programme : It is a credit linked subsidy program under Ministry of MSME.

6. Revamped Scheme of Fund for Regeneration Of Traditional Industries (SFURTI) : organizes traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.
7. A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE) : creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution etc.
8. National Manufacturing Competitiveness Programme (NMCP) : to develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access.
9. Micro & Small Enterprises Cluster Development Programme (MSE-CDP) - adopts cluster development approach for enhancing the productivity and competitiveness as well as capacity building of MSEs.
10. Credit Linked Capital Subsidy Scheme (CLCSS) is operational for upgradation of technology for MSMEs.

Concept of Business Groups

Business groups are a dominant economic force in India particularly and have been so historically. About 31 percent of firms in India belong to business groups but this 31 percent accounts for almost 59 percent of total assets held by all firms in India. This highlights the economic significance of business groups in the Indian context and makes it imperative to understand how they work.

Business Groups are an important part of a nation's economy and a major contributor to the GDP of the country. The industrial scenario of many developing economies is identified by various business groups. They have been an essential part of the economy ever since the emergence of the industrial activity in the latter half of the nineteenth century. In India, 90% of the businesses are family-owned. They have played an important role in the development of the Indian economy by filling the gaps from sluggish markets and institutions.

business group creates a bridge between cultures and helps build mutual trust and confidence, and encourages commercial collaboration with the host country, working alongside the diplomatic,

cultural, educational and other ties between countries. They also provide a ready-made network of useful business contacts for companies entering a market for the first time.

This is where the business group (BG) comes into its own – representing the national business community, creating and providing information, knowledge and networks for companies and individuals from a shared culture, which helps build collective confidence and provides support that translates relationships into commercial success

Of course, there may be other useful networks and groups that a company can join to enhance its impact and prospects in a country, but the national business group is perhaps the first port of call.

Major Business Houses in India

Adani Group: Adani Group is one of the well-known business houses in India. The company has its headquarters in Gujarat. It was founded in the year 1988 as a commodity trading business. First generation entrepreneur Gautam Adani is the founder & chairman of Adani Group. It is an Indian multinational conglomerate working in diversified business sectors which includes resources, logistics, agribusiness and energy sectors. The subsidiaries of Adani Group are Adani Gas Limited, Adani Ports & SEZ Limited, Adani Power.

Aditya Birla Group: Founded by Seth Shiv Narayan Birla in 1857, the Aditya Birla Group is one of the best business houses in India. The group has its headquarters in Worli, Mumbai. It is functional in 40 countries with more than 120,000 employees internationally. Aditya Birla Group is the largest MNC in the USA constituting 95% of the American employees engaged in manufacturing operations. The group is active in sectors of viscose staple fibre, metals, cement (largest in India), viscose filament yarn, branded apparel, carbon black, chemicals, fertilisers, insulators, financial services, telecom, BPO and IT services.

Bharti Enterprises: was founded by Sunil Bharti Mittal in the year 1976. The company has its headquarters in New Delhi and is operational in 16 countries across Africa and Asia. The company has businesses in the field of telecommunications, agribusiness, financial services and manufacturing. It has its presence in many sectors but its largest revenue comes from the telecom industry. Some international companies like Singtel, IBM, Ericsson, Nokia Siemens and Alcatel-

Lucent are the current key partners of the company in telecom. Its charitable arm, the Bharti Foundation is reaching out to 2,40,000 students and engaging 8,000 teachers across 13 Indian states to revolutionize the education sector.

Reliance ADA Group: The Reliance ADA Group came into existence after Anil Ambani separated from his elder brother Mukesh Ambani in the business. The company is having its headquarters in Navi Mumbai. The market capitalisation of the company is \$14 billion and its net assets worth \$28 billion. This group operates in more than 20,000 towns and 450,000 villages in India and abroad. The company is engaged in the business of telecom, financial services, construction, entertainment, power, healthcare, manufacturing, defence, aviation, and transportation services.

Reliance Industries Ltd: Reliance India Limited was founded by Dhirubhai Ambani in 1966 as Reliance Commercial Corporation. The company is now headed by Mukesh Ambani after his split with his brother, Anil Ambani. It is an Indian conglomerate holding company having headquarters in Mumbai. Reliance is the most profitable business house in India. On 18 October 2007, Reliance became the first Indian company to crack \$100 billion market capitalization. It has been ranked 203rd on the list of Fortune Global 500 in 2017. Reliance contributes almost 5% to the total revenues of the Government of India from customs and excise duty. The company is operational in the sectors of energy, petrochemicals, textiles, natural resources, retail, and telecommunications.

Tata Group: Tata Group is a global enterprise established by Jamsetji Tata in 1868. Having its headquarters in India, it comprises of more than 100 companies operating independently. The Tata Group is operational in more than 100 countries across six continents in the world. Tata Sons is the primary investment holding company and promoter of Tata companies. The company has more than 695,000 employees working under it. In 2016-17, the revenue of all the Tata companies, taken together, was \$100.39 billion. Tata companies with significant scale include Tata Steel, Tata Motors, Tata Consultancy Services, Tata Power, Tata Chemicals, Tata Global Beverages, Tata Teleservices, Titan, Tata Communications and Indian Hotels.

CONTEMPORARY ROLE MODELS IN INDIAN BUSINESSES: THEIR PHILOSOPHY AND VALUES

There are a huge number of entrepreneurs doing very well for them as well as for the economy

Kiran Mazumdar Shaw:

“I really believe that entrepreneurship is about being able to face failure, manage failure and succeed after failing.”

Kiran Mazumdar is an Indian entrepreneur. She is the Chairman & Managing Director of Biocon Limited a biotechnology company based in Bangalore. Kiran Mazumdar-Shaw was born on March 23, 1953 in Bangalore, India.

Mazumdar-Shaw completed her schooling from the city's Bishop Cotton Girl's High School (1968). She wanted to join medical school but instead took up biology and completed her BSc Zoology Honors course from Mount Carmel College, Bangalore University (1973). She later did her post-graduation in Malting and Brewing from Ballarat College, Melbourne University (1975).

She worked as a trainee brewer in Melbourne and as a trainee maltster in Australia. She also worked for some time as a technical consultant at Jupiter Breweries Limited, Calcutta and as a technical manager at Standard Mappings Corporation, Baroda between 1975 and 1977.

She started Biocon in 1978 and spearheaded its evolution from an industrial enzyme manufacturing company to a fully integrated bio-pharmaceutical company with a well-balanced business portfolio of products and a research focus on diabetes, oncology and auto-immune diseases. She also established two subsidiaries- Syngene in 1994.

Her pioneering work in the sector has earned her several awards, including the prestigious Padma Shri in 1989 and the Padma Bhushan in 2005 from the government of India. She was recently named among TIME magazine's 100 most influential people in the world. She is on the Forbes list of the world's 100 most powerful women and the Financial Times' top 50 women in business list. She is also a member of the board of governors of the prestigious Indian School of Business and Indian Institute of Technology Hyderabad.

Her Values:

- i. Belief in herself
- ii. Leadership
- iii. Vision
- iv. Go-getter spirit
- v. Not afraid of failures

Her Business Philosophy:

- i. Ethics in business
- ii. Precision in work
- iii. Quality

Her Behavioral Orientation:

- i. Courageous
- ii. Undeterred by set-backs
- iii. Corporate citizenship

Aishwarya Nair:

According to her she was inspired by her grandfather and fondly says “And clearly, our grandfather is our inspiration. First, he set up a successful textile business namely The Leela Palace, right from scratch and then he began the hospitality venture when he was 64 years old. There’s no stopping him,” Aishwarya says. A brand that is dedicated to luxury, the sisters have added a breath of fresh air to the workplace.

With Aishwarya capitalizing on her talent in the bakery department, she is constantly innovating by organizing pastry exhibitions and gourmet pet food in the food and beverage division. She always had a creative flair. And her family recognized it at the right time and channeled it towards food and beverage. She picked up her skill for baking at the Mandarin Oriental Hotel, New York

City, where she worked soon after her specialized course in culinary arts management at the Culinary Institute of America, New York. She is also responsible for wine acquisition for the group, she hosts exclusive wine tastings in all the seven operating properties in India. She is also working with two international fine dining brands, Megu and Le Cirque, both of which launched in The Leela Palace, New Delhi.

Values:

- i. Zeal to learn
- ii. Taking inspiration from family members
- iii. Innovation as key to success

Business Philosophy:

- i. Treating employees well
- ii. Doing social good
- iii. Carrying on ethical business

Behavioural Orientation:

- i. Humility
- ii. Simplicity
- iii. Open minded

Dr. Swati Piramal:

Swati A. Piramal is the Vice Chairperson of Piramal Life Sciences Limited and Director of Piramal Healthcare Limited.

Dr. Piramal received one of India's highest civilian honour's, the Padmashri award, by the President of India, Ms. Pratibha Patil on 4th April, 2012 She has been nominated as one of the 25 Most Powerful Business Women in India eight times and is now a member of the Hall of Fame of

the Most Powerful Women. She was the first woman in 90 years to head the Apex Chamber of Commerce ASSOCHAM in 2009-10. She has contributed towards innovations in Public Health Services and other projects.

She has been a part of public policy related to health care which led to major policy changes that help reduce the spread of life-threatening diseases. Dr. Swati Piramal also serves on Indian Government public policy expert committees for trade, planning, environment, arts, women's entrepreneurship, national integration and regional development. Dr. Piramal is a member of many Indian and foreign business councils, and has received numerous Indian and international awards.

Her Values:

- i. Doing good for society
- ii. Extending helping hand
- iii. Courtesy & humility

Her Business Philosophy:

- i. Innovation as mantra of success
- ii. Ethical business

Her Behavioural Orientation:

- i. Hard working
- ii. Persistence
- iii. Enthusiasm
- iv. Self confidence

Pravin Meshram – Bharat Electricals:

He comes from a lower middle class family in Nagpur. From a very young age, he wanted to do his own business rather than work under someone. He earned a diploma in Mechanical Engineering from Nagpur University in 1998 and joined his father's small electrical repairing shop where he

mastered electrical repairs and equipment installation and formed networks. He had a Hand to mouth existence.

He even Booked advertisements for publications, dispatched plastic boxes for nearby factories and after the last failure, went to work as an electrician for a salary of Rs 2000. In the year 2006, he happened to visit his friend's transformer factory, where he worked there for six months and understood the manufacturing process. Late in the year 2007, he borrowed two lakh from his father and one lakh from his friend to set up a small transformer manufacturing unit.

His First transformer was rejected by MSEB. After two months it got approved, first transformer supplied was 25Kv. Within a year Bharat Electricals crossed one crore in turnover. Today he has one acre plot which has the capacity to manufacture 3000 transformers of 25 – 1000 KV capacity, About 80 per cent transformers are supplied to MSEB and the remaining to the SEB's in Chhattisgarh and MP.

He has two intermediate goals:

- i. Foreign travel for his parents
- ii. Rs 100 crore turnover for Bharat Electricals

He Wants new recruits from backward classes and is willing to train them. He is in talks with a Chinese company to partner him in this new upcoming project

Values:

- i. Willingness to do something for his community
- ii. Go – Getter spirit
- iii. Determination

Business Philosophy:

Hard work pays sooner or later

Behavioural Orientation:

- i. Helpful
- ii. Empathising nature
- iii. Desire to contribute to community & society

iv. Perseverance

Harsh Bhasker – Kota Tutorials:

He does not have a rags to riches story. He hails from Jatav caste and had an option to join family leather shoe making business. But rebellious by streak, he wanted to do something on his own. He was good in studies and therefore he got admission in IIT Roorke.

This young man completed engineering and joined HCL in Noida as a software developer, job was too routine and mind-numbing, so, Year later, he got together seven colleagues to start a software firm out of Katwaria Sarai near IIT Delhi campus which closed due to technology meltdown. He returned to Agra to start a franchisee of Kota – based Career Point in engineering and medical coaching. Three years later, launched his own coaching centre and named it Kota tutorials as people already knew it as Kota Institute. Currently he owns two structures, 11 air conditioned classrooms with a capacity to teach 2000 students, two hostels to accommodate 250 students.

Building this new brand coaching centre was not easy, as students he admitted were from under privileged backgrounds.

Now Kota tutorials is now in 12 cities, including Aligarh, Dehradun, Bhatinda through franchisees and the revenues are estimated around 10 crores.

Values:

- i. Persistence
- ii. Grit determination
- iii. Firebrand

Business Philosophy:

A good business plan would always work

Behavioural Orientation:

- i. Rebellious

- ii. Brilliant
- iii. Team spirit

Vandana Luthra:

Vandana Luthra is an entrepreneur who can be said to be embodiments of her enterprise. She is slim and svelte. She carries herself with the grace that only comes with enormous self-confidence. She's the founder and mentor of the VLCC, India's leading slimming, beauty and fitness brand, and one with seven outlets in Abu Dhabi, Dubai and Sharjah, and many more to open. There are VLCC slimming, beauty and fitness centers in Muscat and Bahrain, and by next year there will be a total of some 28 across the Middle East.

The largest number of VLCC centers, of course, is in Ms. Luthra's native India – 150 of them in 75 cities. She facilitates professional development through her vocational training school, the VLCC Institute of Beauty, Health & Management, which currently has 43 campuses in 35 cities.

Ms. Luthra says "The entrepreneur as an educator – That would be a fair way to characterize me and Fitness and well-being are a matter of education, and for that you need skilled trainers." Her own training after graduating from Delhi University was in nutrition and cosmetology in Germany. Then Ms. Luthra took a series of specialized courses and modules in beauty care, fitness, food and nutrition and skin care in London, Munich and Paris. And then she returned to her middle-class home in New Delhi, India's capital, and started a neighbourhood beauty parlour.

Values:

- i. Good clean business
- ii. Doing good to women in particular
- iii. Belief in good health

Business Philosophy:

- i. Healthy life – Happy life

Behavioural Orientation:

- i. Good communication

- ii. Smart & sophisticated
- iii. Good soft skills

Family Business

Meaning:

Family business has been as common in the Indian economy like elsewhere in the world, it is perceived in a common sense. Various terms like ‘family-owned,’ ‘family controlled,’ ‘family managed,’ ‘business houses,’ and ‘industrial houses’ are used to refer to family business.

Barry

“Ownership control by the members of a single family.”

Rosenblatt, de Mik, Anderson, and Johnson.

“Majority ownership by a single family and direct involvement by at least two members in its operation.”

R. G. Donnelley

“Family business is a firm which has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family.”

a business can be defined as a family business when its ownership and management are concentrated within a family unit.

a family business can simply be defined as a business one that includes two or more members of a family with financial control of the company. In other words, a family business is one actively owned and/or managed by more than one member of the same family.

Characteristics:

The definitions of family business given above indicate the following characteristics of family business:

1. A group of people belonging to one or more families run one business enterprise.
2. Position in family business is influenced by the relationship the family members enjoy among themselves.
3. Family exercises control over business in the form of ownership or in the form of management of the firm where family members are employed on key positions.
4. Family exercises the influence on the firm's policy direction in the mutual interest of family and business.
5. The succession of family business goes to the next generation.
6. Family business in India is largely caste-related.
7. Every caste enjoys a dominant culture which gets duly reflected in their family businesses also.

Conflicts in family business

Conflict is unavoidable in family businesses as it is an amalgam of individuals (family and non-family members) who are more likely to hold different opinions on a matter that result in disagreements on strategic or tactical issues. In fact, if there is no conflict, it reflects that people are not either thinking or trying to improve or have no power to assert.

1. **Direction for the business** - Lack of commonly shared vision and values often leads to disagreements among family members. If the business is not directed towards a set of shared strategic goals, conflicts are bound to arise.
2. **Decision-making** - Another major source of conflict is lack of clarity on the decision-making process and the authority over decisions that respective family members have. In addition, lack of a conflict resolution mechanism in cases of differences often crop up and spill over to the family business.
3. **Roles and responsibilities** - Lack of clarity on the roles and responsibilities of individual members and their understanding of the same are potential sources of conflict. Role-overlaps and poorly described performance expectations also become potential sources of conflicts.
4. **Compensation/benefits** - Remuneration and rewards are among the most frequent sources of conflict. If these are perceived to be unjust or inequitable, a solid ground for potential conflicts is generated, especially among next generation members.
5. **Ownership** - Family ownership of business is a major responsibility. The actual ownership of the stake and the terms of its transfer to the next generation need to be clearly documented and communicated to family members. Failure in doing so can result in conflicts.
6. **Distributions to non-employee shareholders** - Shareholders expect fair treatment and distribution of dividends and earnings. Inequitable distributions are invitations to conflicts.
7. **Personality Differences** - Family businesses that fail to acknowledge and accommodate differences in the personalities of individuals involved are more prone to conflict. Interpersonal businesses must devise forums for open communication where members can say what they need to say to others.
8. **Accountability** - Family members need to be accountable and perform as per expectations. Disciplining may be needed if resentments grow into confrontations.
9. **Succession** - Clear and mutually agreed decision regarding the successor is important to save family business from conflicts in leadership transition stage. Everyone must be taken into confidence regarding the transition process and time.
10. **Sibling Rivalries** - It is natural for siblings to vie for parents' attention in childhood. However, if these rivalries continue even after growing up life stages and into the business,

these can result into bitter conflicts. Parents need to treat children equally and help them resolve differences.

11. **Communication** - Unclear, infrequent, partial communication leads to gaps in understanding and create conflicts. Family businesses must devise forums for open communication where members can say what they need to say to others.
12. **Estate Plans** - Lack of clarity on the estate plan formulated by the senior generation raises anxiety among other members. If family members do not have a clear idea of what will be their share in the inheritance, conflicts are bound to arise.
13. **Finances** - Money matters often become major sources of conflict among family members. These differences are compounded in cases where there is no or little distinction between individual and business funds. A financial management mechanism that takes care of needs of all family members must be devised in a way that does not over burden the business.

Resolution of Conflicts in Family Businesses

Conflicts in the family business are inevitable, but they can be overcome

1. **Seeking the help of mediators:** Some conflicts cannot be resolved among family members, so it might be best to bring in experts to help reach an agreement through a formal mediation process. Expert mediators have an objective view of the issue and can use their training to lead your family through initial talks until they reach a final resolution.
2. **Early Communication and often about issues:** Many large complications start as small problems that could have been resolved with early intervention. Sometimes, spotting issues early and addressing them through clear communication can be enough to prevent a conflict from developing. formal family meetings can be a better place to hash out complex issues that issues are not ignored and that members of the family have the opportunity to make their opinions heard.
3. **Treat the company as a company, and the family as a family:** Naming a business charge due to the place they occupy in the family tree, or belittling or overvaluing a family member due to their position in the company, is not only a mistake but also a source of conflicts that risk the survival of both the company and the family. The only rule for hiring and promotions should be the merits of each person for each position, regardless of whether or not they belong to the family or their place in the family tree. The only rule for hiring and

promotions should be the merits of each person for each position, regardless of whether or not they belong to the family or their place in the family tree.

4. **Establish conflict resolution mechanisms:** most successful family businesses have conflict resolution mechanisms in place and functioning - even when everyone seems to be happy and nothing points to a brewing conflict. Having these types of mechanisms is important for any type of organization. But it is even more crucial in an environment where there are so many more emotions and sensitivities at play. The likelihood of conflicts appearing is much higher when there is more personal involvement.
5. **Have structures in place:** Due to the variety of sensitive issues and governance implications that arise in a family business, it is highly recommended to have governance and management structures for almost everything. On the family side, it is advisable to provide tools such as a Family Constitution and create governing structures such as a Family Council, a Family Assembly and/or a Family Office. Having these structures in place gives clarity to the scope of everyone's roles and responsibilities in the business, and helps improve governance and family cohesion.
6. **Establish shared family values, goals, and objectives:** The key to a harmonious working relationship with your family is to make sure that everyone understands what you're trying to achieve and how meeting that goal can benefit your family individually and as a business unit. It's also important to share the same family values with one another and that there's an attempt to stay away from misconduct that will not contribute to your goals.