

# Family business: How to make them work

**F**amily businesses constitute the majority of existing businesses both in Turkey and around the world and are of critical significance for the national and global economy. Nevertheless, few family businesses manage to survive through multiple generations. The recipe for ensuring sustainability of a family business is institutionalization.

A family business is defined as a business in which one or more persons from a family own all or majority shares in the company, which is run by this family and in which both ownership and governance is inherited from one generation to the next. Even though most existing companies are family businesses, for some reason they are conceptually perceived as small businesses. However, some of the prominent family businesses include Volkswagen, Samsung, Phillips, Walmart, Novartis, Roche, Nike, Koc, Sabanci and Eczacıbasi.

Being a family business offers serious advantages, above all the swiftness and flexibility in the decision-making process by virtue of being distant from bureaucracy. Moreover, strength and continuity in 'know-how' is easily transferred thanks to the commitment and motivation of employees who are family members and the involvement of these family members at early ages. Achieving growth by utilizing these advantages is relatively the easy part for family businesses. Managing this growth and transition to future generations appears to be more

critical. Continuity through institutionalization steps in at this point.

Being a family business has several disadvantages as well. Family businesses which succeed in tackling these disadvantages, such as family squabbles affecting corporate governance, favoring family members who lack the necessary competency in the recruitment and performance procedures, uncertainty and disarray in organizational structure and job definitions and consolidated governance, do so because of their advanced stage of institutionalization.

Institutionalization is a word that is often frowned upon. Even though it evokes loss of control over the company and alienation of family members from the business, in fact the opposite is true: institutionalization helps to preserve governance and supervision over the company. Personal elements that provide an edge to the family business while growing present inconveniences in terms of governance at later stages.

Institutionalization is systemizing the activities of the business, making them subject to rules. That is to say, standard and objective applications shall replace subjective practices. Rules become decisive instead of people; the rules regarding the transition from one generation to another are included as well. Thus, for instance, Kongo Gumi, a family business established in Japan in 578, saw 40 generations before being acquired in 2006. Haci Bekir Lokumlari, which was established in 1777 and is run by the fifth

generation today, appears as a successful family business example in our country.

Rather than avoiding institutionalization over fears of losing control, step by step changes can ease the transition. For instance, starting from employment law-related aspects, authorities and responsibilities for each position may be determined by constructing an organizational chart. Rules regarding recruitment, promotion and salary may be regulated. Creation of short, medium and long-term strategic business plans, and again as a significant point, having an independent audit should constitute a good beginning.

Endeavors for institutionalization should be tailor made for each family business. The culture, values and internal relationships of each family differ, and the sectors the family businesses operate in, their business models etc. differ as well. All of these should be taken into consideration. While we are speaking of the institutionalization of family businesses, the fact is that, still today in Turkey, many female family members work in disadvantageous conditions compared to their male relatives in family businesses. If the institutionalization process of family businesses is managed in a gender sensitive way, it may be a good opportunity to retrieve the existing share ownership and governance structures that are established in a prejudiced way against woman.

There are also specific instruments used in the institutionalization of family businesses, such as family council, family

constitution, succession planning and appointment of an independent board member. The "family council", viewed as the key to the success of model family businesses around the world, aspires to enhance intra-familial communication. Thereby the requests, expectations and goals of the family members are harmonized, family collectivity is preserved, conflicts within the family are eliminated and the decision-making mechanism accelerates. The family council is entirely different from the board of directors in terms of both functioning and duties. All that the family council provides is a healthy debating platform; it does not play any role in company management. While the council deals with family relations and the effect they have on the business, in other words the "family" side of a "family business", the board of directors handles the "business" side. The family council also takes on tasks such as passing the family values to subsequent generations, supervision of the relations between the family and the company, and drafting a family constitution.

Many prominent family businesses around the world have family councils as organs. As a matter of fact, many families which have a business in Turkey, without even knowing the concept of family council, use this organ by periodically getting together at organizations such as family dinners, etc.

**UMUT KOLCUOĞLU,**

MANAGING PARTNER

KOLCUOĞLU DEMIRKAN

KOCAKLI ATTORNEYS AT LAW

ukolcuoglu@kolcuoglu.av.tr.