

PROFESSIONALIZATION, KEY ELEMENT TO THE SUCCESS OF A FAMILY ENTERPRISE¹

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ABSTRACT

While diagnosing the current situation of small and medium sized family enterprises in Latin America, it is common to find that one of its greatest weaknesses lies in the poor administrative management developed by its directors and / or owners, a fact resulting from the low levels of professionalization held by members of the organization. In this regard, strive for a balanced and efficient management committed to the training of leaders capable of ensuring profitability and growth processes of trade for these companies, within a coherent framework consistent with the requirements set by the current environment of globalization markets.

KEY WORDS: Family Enterprise; Professionalization; Enterprise Success; Management.

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INTRODUCTION

Some of the data that reflects the great importance the family enterprises represent around the world are based on what currently constitutes over 80% of the total pool of existing enterprises, a situation that is easily visualized in nations such as Italy where it reaches 99%, United States 96%, Switzerland 88%, Mexico 80%, UK 76%, Argentina 75%, Portugal 70%, Colombia 68% and Chile 65%, where companies stand out such as Disney Corp, Microsoft, Toyota, Televisa, Mercedes-Benz, Michelin, Benetton, Ford, Quilmes, Clarín, Arcor, Bacardi, El Corte Ingles, Jose Cuervo, TV Azteca, Bayerische Motoren Werke (BMW), General Electrics among hundreds of others in all sectors of global economy (Gallo & Amat, 2003, Arroyo & Barber, 2004; Serna & Suarez, 2005; Arrieta, 2009).

To demonstrate the above arguments, the United States of America is one of the examples that are representative of this phenomenon, since the family enterprise there is a component of greater vitality for the development of the economy not only nationally but worldwide, as it contributes annually to 64% of Gross Domestic Product (GDP) of the nation (U.S. \$ 9,271,990 million dollars) with an employment generation of 62% (Briseño, 2007). It also constitutes 37% of the 500 largest enterprises in the country according to Fortune 500 (2010) and based on Pearl & Thomson's studies (2009) there are 130 of the 250 largest family organizations in the world.

In the case of Latin America, data from family enterprises are not as encouraging as those mentioned above due to poor management engaged in productive processes, which is evidenced by the alarming number of corporate failures as a result of low levels of professionalization of both managers and employees, increasingly complex situation within the current enterprise environment of globalization of markets (Salinas & Dorrego 2005). This means then that the high rank and positive impact for Latin American countries represent family organizations, one of the greatest challenges and commitments to be taken by modern enterprise management, which should be to promote greater professionalism of them, especially in small and medium-sized organizations through the complex context on which they operate, and thus to solve one of their biggest weaknesses and position them on a world-class enterprise level.

DEVELOPMENT

1.1 Overview of Latin American family enterprises

Drawing on studies in Colombia, which present a great similarity with the other nations of the continent, it can be stated that family enterprises in Latin America represent over 70% of its enterprises to a whole generation of jobs more than 78%, which were created in their majority (80%) during the 70's, a fact of great significance to the extent that its great mass should make its first generational change during the decade of 2010 to 2020 (Superintendence of Societies, 2006; Serna & Suarez, 2005; Fadu, 2010).

While these figures are significant they are also worrying from a more deeply and critically, point of view, in the sense that based on studies carried out by Gallo (1995), Gersik (1997), Gallo & Amat (2003) and Ward (2006), through which it is shown that of each 100 family enterprises only 33% of them survive the second generation process change², the future outlook of such organizations in Latin America does not seem encouraging for the coming years. Although it can be said with emphasis that family companies have large enterprise attributes compared to non-family members and as expressed in studies by Carlock & Ward (2001), the situation is that in the Latin American context these statements do not fully conform our enterprise reality due to low levels of productivity and competitiveness with which these are managed, but even more so though most of them are in the range of micro, small and medium enterprises (MSMEs) and about 95% of them are liquidated during the first 3 years of their formation (Cuesta & Associates, 2007).

If we delve into the reasons for this alarming failure of the Latin American MSMEs family, it is very likely to find that the major cause of enterprises death lies in factors such as the absence of administrative processes and financial planning enterprises, which added to the limited access credit they have and their limited capacity crisis deepen their conditions and lack of competitiveness.

To this we add the arguments that are shown in Table No. 1 which shows the diagnosis of

² The numbers should not necessarily be interpreted as family enterprises which go broke, or are liquidated due to the generational change. In many cases what happens is they stop being family enterprises, selling their majority participation to investors or third parties.

conditions on which the family enterprise in Colombia operate, a situation which should not differ greatly with other latitudes, the circumstances in terms of weaknesses and threats which develops these types of organizations in Latin America represent the fairly uncertain and worrying horizon about the negative impact that may eventually generate for the national economies the disappearing³ of thousands of them.

Therefore, and bearing in mind that today most Latin American family enterprises are in transition into their second generation, there immediately arises the urgent need to initiate education and training programs to rethink the traditional administrative procedures, to institute these new parameters of success and enterprise innovation which can ensure their competitiveness, sustainability and permanence through time.

Table 1. Profile of Colombian Family Enterprise

- 73% of these family enterprises in Colombia were created in the early 70's, which mean that in the decade 2000 to 2010 nearly 100,000 organizations should make their first generational change.
- In Colombia, only 13% of family enterprises claim to have family protocol documents.
- Only 8.5% of households have protocols designed from a legal and regulatory structure for the enterprise.
- In Colombia, the founder directs 60% of family enterprises in the country, a situation that discourages the second generational change.
- Only 14% of family enterprises in Colombia have organized a family council.
- Over 70% of employees who have family ties with the company have not participated at any time in recruitment processes.
- 91% of family enterprises do not pay fees to the family members involved in the company's board.
- Only 36% of family enterprises in Colombia have external members on their boards.
- Only 25% of the boards of family enterprises in Colombia meet once each month, 18%

³ According to data of the Bogotá Chamber of Commerce, up till 31st December 2006, in Colombia, a total of 16,260 enterprises were liquidated, which corresponds to 95.5% of those founded in the two previous years, of which nearly 75% were family enterprises.

once every six months and 21% once a year. The remaining 36% reported no board meetings.

- The Colombian family employer argues the fear of hiring external trained personnel, because they believe they can lose control of the decisions within their organizations.

Source: Own elaboration as from Serna & Suarez (2005), Supersociedades (2006), Univ Externado (2006) and Gomez-Betancourt (2006)

1.2 The professionalization as a key element to success in family enterprise

As can be concluded so far with the arguments expressed above, the great weaknesses of family enterprises tend to be centralized in two key aspects which are: the wrong model for the management of resources and limited ability to develop competitive strategies. Although acknowledging that the founders and employees related to the environment of the family enterprise are mostly skilled workers in operative processes, the strong deficiency in the administrative enterprise has become its Achilles heel.

As Urrea puts it (2003), management processes are the main failure of the family enterprise it would be appropriate to say that the professionalization of the organization is the most appropriate tool to reduce corporate failure rates faced by such companies today. Likewise, thousands of successful companies around the world have shown that through the process of professionalization it is possible to develop their full potential competitive advantages inherent in an environment company be it domestic as well as international.

Within this same perspective, Giraldo (2001) raises the professionalization as the process by which an organization can implement working methods in a systemic way, which allow you to structure a coherent strategy for achieving enterprise goals. Complementary to this perception, Belausteguigoitia (2004) argues that the importance of the professionalization of a family enterprise lies in the fact that it should be a gradual process of change that begins at the moment the company designs a line jobs skills and employment potential of each employee, putting aside the family preferences and affinities that may exist with the owners and / or directors of the company. This process of professionalization will be successful from the beginning if the family enterprise adopts as a growth strategy a program of training and promotion, through which it periodically evaluates, objectively and constructively with the standards of performance for each

employee of the company (whether family or not), including the managers and owners of the organization.

This means that the first registered in the process of professionalizing of the family enterprise should be their leaders, such being the people belonging to higher hierarchical levels of the organization, founders and owners. As expressed by Gallo (1995), Aronoff & Ward (1999) and Gomez-Betancourt (2005), if senior managers are not linked and committed to the process of professionalization of the organization, it will be useless to try to reclaim conditions of productivity and competitiveness in production processes, as professionalization itself must be part of the identity of a company and reflect its philosophy of continuous improvement and organizational culture.

The work of professionalizing the family enterprise is not an easy task, since by the conditions of this type of organization's corporate structure has its foundations in three (3) basic elements that are family and company owned. Identified as the Davis & Tagiuri (1982) individuals in the family enterprise must develop under the environment made by the model of the 3 circles, a situation which professionalization process must know to link and interpret the interests of each person and the role it plays, meaning that each one of them may be individuals with different motivations, which should be balanced and targeted to the specific interests of the company (Serna and Suarez, 2005).

In short, the traditional family enterprise as soon as possible should reflect on the importance that represents the adoption process of professionalization in the organization, which must be understood as a fundamental element for the transformation and evolution of the company towards higher levels of productivity and competitiveness, while it promotes its permanence in the market under conditions suitable for both owners, family, employees and future generations.

1.3 Reasons that should encourage the professionalization of the family enterprise

The fundamental reason why a family enterprise should begin the process of professionalization is argued in the present context of competitiveness that is generated from globalization and changing market conditions. In this sense, authors such as Leach (1993),

Sallenave (1993), Gallo (1995), Sanchez-Runde (1996), Serna & Suarez (2005), Drucker (2006) and Ward (2006), recognize in the professional one of the best strategic tools to address the threats facing family enterprises today. For this reason, Chiavenato (2002) highlights that professionalization should be focused to structure training programs related to management needs, productivity and competitiveness of the company, highlighting the importance of complementing the above with the addition of highly trained external personnel with the knowledge and experience which will enrich the process. For Ward (2006) the implementation of advisory boards is another clear way to create in the family enterprise professional structures, and allows the introduction of greater intellectual capital for the organization while providing to the leadership different visions of progress and growth.

Within this literary landscape, Dyer (1989) makes three basic reasons why you should professionalize the family enterprise, which are: Reason No. 1: The author finds the fact that to professionalize the family enterprise as a response to the absence of people trained within the family with a talent for management of the company. This argument is relatively easy to find in organizations that evolve in size from micro to small and medium enterprises, a situation that requires them to have people with more skills in areas previously not as important as marketing, finance, production, accounting, etc. This solution can be approached from two options, the first being the training of managers of the company that in most cases this will be family, or as a second alternative hiring external expertise personnel to the needs of the company directly or as consultant advisors.

Reason No. 2: When due to various conditions or interests any of the leaders of the company intends to change the rules and / or values of the enterprise, a situation that triggers serious conflicts between family members and owners. In this situation the best alternative may be to decouple the non-professional family members from the administrative part and leave them only as owners belonging to the family assembly, and instead hire as the new leader of the company one or more external people with experience that only represent the best interests of efficiency and profitability that the company seeks. Reason No. 3: The motivation had by the owners of family enterprises to look for a character to lead the company to the next generational change,

maintaining the structure of family values and financial goals pre-established.

This means that this process occurs when the firm is in a stage of corporate maturity and looking for a new manager who calls on the generational change progressively without problems or conflicts. If so, it can be performed through three alternatives which are: a) Form and train a family member who knows the organizational environment, in defense of family values and principles specific to the company. b) Promote a non-family member that is connected with the organization for a long time and whose job performance fits the profile sought by the owners and family. c) The absence of staff within the company (family or non family) with profiles that the generational change demand, the choice is limited to hire an outside professional to take the reins of the company under the direction of the family and owners.

Complementary to this, and for whatever the reason that motivates the professionalization of the family enterprise, Gallo (2002) suggests that this process should be developed in three phases at each stage of evolution of the company. In the first instance so that the professionalization is properly developed, it is proposed that the formation of family or family successors is a work that starts off from the first years of creation of the company by building a family culture that tends to respect work and enterprise, to be viewed by all family members as a way of life to be preserved and to prevail through time. This phase complements itself with the work of those linking their own family vocation which show greater interest in engaging in productive and administrative processes of the company, initially on posts enabling them to understand the operating structure and then link them to charge in a more administrative order by the hand of a professional training college. It is important, to highlight the university training of potential successor (s) should be today an imperative condition, motivated by the founder, but never forced or imposed on any of the household members.

In phase two, for family enterprises to grow and evolve to new organizational entities, it is almost necessary for the company to train its non-family staff or link external individuals outside for leadership roles, which must be chosen by objective criteria that demonstrate the level of commitment, values and professionalism demanded by the company and the owning family. Delivery responsibility and showing non-family workers will be directly proportional to the

commitments that the company adopts to them, in terms of fair labor conditions, stability and job growth. As the final phase, Gallo (2002) advocates the construction of family-enterprise links to help decrease the problems inherent to any enterprise, a situation that calls for the creation of protocols to institutionalize the work and role of each member of the family in the company, which is why the adoption of protocols of succession, recruitment and allocation of posts among others, are one of the key pieces in the jigsaw puzzle of managing the family enterprise.

1.4 The 10 Limit items of the process of professionalizing the family enterprise

Leach (1993) recognizes that the professionalization of family enterprise is not a process of great complexity and effort due to various limitations and disadvantages that arise for its development. Planning the process of professionalization of the company is a question that every organization establishes through time according to its needs, and should emerge as a clear idea of its founders to their children, partners, employees and collaborators as essential life philosophy to the success of the company. From the theories developed by Gallo (1995); Gersik (1997), Aronoff & Ward (1999); Urrea (2003), Gallo & Amat (2003), Lopez (2004); Serna & Suarez (2005), Ward (2006) and Antognolli (2008), following this one formulates a model of the 10 most common constraints for the professionalization of the family enterprise.

Limit N ° 1. Give priority to affective processes of professionalization: One of the key elements in the process of professionalization in the family enterprise success lies in being able to separate the emotional bonds of affinity and consanguinity within the family context. Preferences and commitments set out for and with children, husbands, brothers, nephews, sons-in-law, etc..., depending on job assignments that are not demanded by the company or for which they are not qualified, ends up being the biggest factor generating conflict. Therefore, viewing the family enterprise as an enterprise where the enterprise-family relationship remains in the background is the best strategy for achieving professional success and achieves the desired results.

Limit N ° 2. Do not delegate responsibility on other people: When managers or owners of family enterprises are not able to delegate some of their duties and responsibilities on the staff of the company (family or not) by the low level of confidence that they have the process of

professionalization will never be successful. To believe in others and begin to delegate responsibilities to them serves to measure the level of skills and commitment that people have with the company, which turns out to be a good strategy to identify individuals who have potential and affinity for the interest of professionalization and growth that is sought to develop the company.

Limit N ° 3. Lack of knowledge of market changes and the environment: If management and / or owners live isolated from the reality of the enterprise environment and the frame of market competition, politics, society, culture, etc. Simply the need to grow and strengthened as a company through the professional will not be an organizational priority. In this type of company executives it is always seen simply that the current corporate structure as the most suitable, a situation that does not require anything else to do what it has always been done and in the same way to survive as a small enterprise in scenarios of what is local.

Limit N ° 4. The authority is reserved only for family members: While establishing that authority is a condition exclusive to family members is not at all bad, yes, it becomes a limit factor of professionalism when management and / or owners called to exercise authority do not meet the demanded profile, in the organization and its administrative offices and even operational. If a manager demonstrates to his family and staff to have high levels of performance in the work exerted, as a result comes a high degree of support, respect and motivation of others to follow the company and linked to processes of professionalization. Otherwise, the enterprise pride of wanting to control and exercise power in functions within the jurisdiction which is not competent, simply creates a deplorable working atmosphere and discourages the professionalization of the enterprise and even the involvement of outsiders.

Limit N ° 5. Lack of strategic plans for the enterprise: As is apparent in the differential diagnosis of small and medium sized family enterprise, one of its biggest weaknesses is the absence of strategic plans to structure the future of the enterprise in the short, medium and long term. For many managers strategic planning is an extremely complex and only belongs to large organizations, a fact in which his actions are governed by the circumstances that derive from the daily life, with the mindset that professionalization is an element not required for his enterprise aspirations and much less in terms of an evolutionary process of character for the company.

Limit N ° 6. Fear of losing control over the family enterprise: It is common to observe that due to the personal interests of some directors in the family enterprise, one of the best ways to maintain their power status within the organization is to make others believe he is the only person capable of handling the reins of the company, and that a possible replacement or third-party links will bring fatal consequences. The idea here is not to prepare people (family or not) on issues of professionalism to represent the development of administrative capacity, as this would represent direct competition for the office of management and therefore the loss of power or control exercised over the family enterprise.

Limit N ° 7. Family loyalty towards employees: In some family enterprises executives build strong emotional ties not only with family members but also with employees, a scenario that sounds positive to the extent that the organization promotes a good working environment and building of highly committed teams, but may end up being a constraint to the professionalization when jobs are assigned by seniority status or appreciation professed by a worker for his years of faithful work despite not being the qualified person. This situation occurs in companies that plan to allow access to more qualified outsiders is not fair to the workers who have put years of hard work and it is they who deserve these opportunities. For this situation not to present itself, the best solution is to structure plans that encourage professional staff and family members themselves to be the primary beneficiaries, to motivate and demonstrate the great opportunities for career growth that ensures the institution without ignoring the possible external links when the position demands it.

Limit N ° 8. A small budget to invest in training: Within the panorama of the small and medium family enterprises, access to funding sources is to be a permanent problem heroically facing its executives. As a result of the above, to have financial resources to be allocated to training and professional programs just happens to be a more complex work, a circumstance which requires that this area be in the background in terms of investment enterprise by the high financial credit costs and high prices for pre-degree quality education at the undergraduate and / or graduate level which will bear fruit only in the medium and long term.

Limit N ° 9. Lack of alternative work for the owner, associated with the particular theme of

generational change and the succession process, there is another constraint on the issue of professionalizing the family enterprise that is associated with the owner's fear of ceding control to the new generation. Some managers see at this stage a complex condition to manage because there is no other occupation which they can do in life than the one developed through years of dedication to the company. In many cases they never did any other work, much less plan their retirement years, a fact that makes you feel that handing over the command to qualified person will make them useless beings for the company. For this conflict not to be generated and affect the timely delivery of new generation control, professionalization must also establish an element involving the work to be exercised by the outgoing directors who can be trained in professional activities or not, for retired life, while you must link in the process as advisors within the executive board of the family enterprise or as permanent consultants on various company topics. The voluntary recall of the manager must be a situation that will awaken hope, peace and desire to live in terms of a new stage in life where you can gradually move away from the problems associated with the company and enjoy a well deserved dignified old age.

Limit N ° 10. Fear of technological change: In addition to the previously mentioned fears of loss of power and control over the family enterprise experienced by some managers and owners, include the fear associated with having to make technological changes that demand a high training and new organizational type challenges. For the improvement and development of the company, it demands a certain stage of growth adaptation of technologies and systems that facilitate daily tasks and improve productivity levels, a situation that concerns many managers, is that they are not trained and deny the deployment of such resources under the fear of being dominated by elements which they believe they will never understand and demonstrate their inability to control the employees they represent. That is why the managers of family enterprises should be involved in the new technological concepts and engage in training as if he were one more worker, that thus they may develop in parallel with the needs demanded by the company.

CONCLUSIONS

In conclusion we can say that professionalism should be understood as a process necessary for the development and evolution of the family enterprise, which must integrate innovative and impacting working methodologies that allow to structure a strategic action in line with the objectives of productivity and competitiveness that can be achieved by modern organizations in the short, medium and long term.

That is why, professionalization must be understood as something to motivating and gratifying for all the members of the enterprise (family or non family), thus it is possible to guarantee better results in terms of growth for the enterprise, life quality, generation of new jobs and permanence of the organization through time.

A poor strategic planning, low budgets for investment in professionalization processes, summarize the reasons by which the expected results, by the family enterprises are in many cases adverse or not very promising. In this sense it is necessary to highlight from the academy that the true concept of the family enterprise includes the building up of a professionalization culture, understood as a change process not only of technology and knowledge, but the mentality of the founders and managers of the organization.

The professionalization task in the family enterprise must be a clear and defined concept, in terms, of corporative policies, which can only be carried out by competent persons capable of developing strategic thought models and making argumentative definitions. The preparation of family and non family members for the future of the enterprise, through professional studies, must be seen by these organizations, as an investment which will give big gains in the long run, and should be measurable not only in terms of greater gains, but also in growth and permanence of the enterprise through time, ideally in the following family generations.

Thus the traditional family enterprise, should rethink on the importance it has in the professionalization processes for its organization, understood as a fundamental element, through which it is possible to be able to impose, transformation and evolution conditions, for the enterprise towards greater productivity and competitive levels, not only domestic but global. Professionalism

is a vital element to successfully reach the succession and generational change, as it helps to minimize the conflict levels between family, employees and owners, being the only really process which can prepare and guarantee that the future members of the organization, be according to the necessities of the enterprise, when the present day managers and or owners are no longer there.

Professionalism is undoubtedly an element which contributes to generate mutual confidence among all the members of the family enterprise, and allows delegating certain responsibilities in a more proactive and synergic way, through really efficient communication processes for the organization. Without the professionalization processes it is impossible to be able to establish in the family enterprise governing organisms, family protocols, merit processes, strategic plans and solution of family-enterprise conflicts, as it is based on the idea of building up a true work culture, backed up by the professional capacities of each individual.

Finally, in the present day world dominated by market globalization and a permanent state of crisis, the professionalization of the family enterprise, results in being a matter which sooner or later will have to validate the organization to remain in its environment. It is impossible to think of the near future of an enterprise of any kind to compete and grow in the market, without a professionalization process in all the functional areas which it develops. Therefore professionalization is the life project of an enterprise organization, just as a father thinks on the education of his children, from their birth, so as to give them better adaptability conditions facing the opportunities and adverse situations, which could face them in the future.

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