

Second Generation Managing the Family Business: A Case Study Using an Appreciative Inquiry Approach in a Family Business

Sasithara Sethanandha-Moreno, Ph.D.
HR & OD Specialist
Aliaga Farmers Rice Mill, Philippines

Abstract

The paper is a study on “*Preparing the Second Generation of a Family into the Business*” which focused on succession planning which is the stage where the second generation are wondering and seeking their future direction. The first generation eagerly wants to know what plans and management strategies the second generation have for the future of the business. Over time, the family business learns to manage success, bitterness, rivalries, and conflicts to sustain the family, as well as the business.

Keywords: second generation management, family business, appreciative inquiry, succession planning, Aliaga Farmers Rice Mill

Introduction

Aliaga Farmers Rice Mill was established by two entrepreneurs. The first generation of the entrepreneurs started their business from a small grocery store in mid - 1978. Later they engaged into *Palay* (Paddy) buying and selling business; had their Paddy milled from other rice mills existing during that time. In 1991, the entrepreneurs ventured onto rice mill business giving it the name “Aliaga Farmers Rice Mill”. Later, the entrepreneurs established rice store called “Aliaga Rice Supply” branches as rice outlets.

The family has expanded with the entrepreneurs’ children (2nd generation) who also have own respective children (3rd generation) and are now part of the business. They decided to form a family business corporation in 2012. However, it is important that the entrepreneurs understand the necessity of growth and careful planning needed among the family relations to keep the business going in direction they want it to become in the future.

Research Purpose

This research deals with the Aliaga Farmers Rice Mill in terms of the life force, dream, design of socio-infrastructure and deployment of the design of the 1st and 2nd generations of the family management. Specifically, the study pursued the following:

- the life generating spirit of the family management;
- the family business’ dream;

- to see a supporting infrastructure that gives life to the most compelling possibilities of the family business' dream;
- to organize the infrastructure of Aliaga Farmers Rice Mill for increased growth;

Scope and Limitations

The study covers the whole organization from family management team, siblings' management team, and the employees in the rice mill. It also includes the history of the rice mill, transformation initiatives of business management from 1st to 2nd generation, and, the family business corporation.

The research is limited to the study of the Aliaga Farmers Rice Mill, its entrepreneurs, and involvement of the sibling's management team in the rice mill itself. It does not cover the study of Aliaga Rice Supply branches.

Significance of the Study

The study would benefit the family and business owners who would be able to contribute to business in the future. Second, the study would contribute to the subject of Organization Development, specifically, in the field of the Family Business Management. Lastly, the study would help further researches on the sustainability of family business using Appreciative Inquiry.

Theoretical Framework and Research Premise of the Study

The followings are theories used in the study:

Bushe's Theory of Appreciative Process (1991) is the change agent's technique theorizes that a person creates change by paying attention to what he/she wants more of rather than paying attention to problems. This creates impact on the self and organization.

The Family Business Theory: Handler's Succession Theory (Cruz, E.S. 2002) advises the business owner to consider succession planning for family members to be ready for change and transformation.

Research Method

The research design used Appreciative Inquiry approach to gather data through story telling using focused group interviews with family members. It also used the facilitated engagement process with large groups of employees. An external consultant was engaged to facilitate the process of crafting the family declaration. A total of 149 participants were engaged in the study, involving all of the 140 rice mill workers and employees, nine entrepreneurs and family members.

Similar to other family businesses, the business operates under the criteria of “Layers of Borderless” which means, the employees in the rice mill are related in one way or the other such as husband and wife, father and son, mother and daughter, brother and sister, or cousins.

The research used focus group discussions, in depth face-to-face interviews using Appreciative Inquiry protocol, and the response matrix for the family management team. There were two sets of checklists: one for the family management team which was the response matrix, and the other was for the employees. Both check lists delivered qualitative data.

Research Paradigm

The data responses were from two outputs of OD interventions conducted with the family members and the employees. The data was used to design the roadmap for the transitioning stage (OUTPUT 1). OUTPUT 2 is meant to be used to craft the declaration of the family principles, which is still a work in progress.

Results

The **top 3 best practices** of the Founders that kept the Aliaga Farmers Rice Mill stable and growing for the past 30 years:

- a) The Founders: Christ-centered, tight family bond, open communication.
- b) The Founders’ children (2nd generation): Hands on, Capable and Smart, and, the Ability to Keep One’s Word.
- c) The employees: layers of familial relationships.

Shared vision for Aliaga Farmers Rice Mill among the Founders’ and their children:
“A Family Business handed down by the 1st Generation to the 2nd Generation to keep the continuity of Aliaga Farmers Rice Mill”

Possibilities to be pursued for Aliaga Farmers Rice Mill include the following – crafting the business model, designing the business plan, defining the core business strategy and crafting the family declaration of principles.

The ways possibilities can be deployed follow a 3-stage roadmap, namely: Communicate, Collaborate, and Innovate.

The **family members’ feelings** towards the process undertaken by the study are ambivalent - happy but uncertain **versus** hopeful that the family remain together in the family business.

Table 1 shows the possibilities generated during the AI process.

Table 1.

Possibilities to Be Pursued (Moreno 2011)

Craft the Business model	The business is steeped in the rice commodity - the staple food of every Filipino family. The business workforce is set in borderless layers of familial relationship. The family members, especially the Founders, treat their workers as part of the family. They perform a parenting role for their workers by helping them during times of needs.
Design the Business plan	The Family is open to the family members (sisters), even when they already married, to work for the family business - should they wish to do so.
Define the Core Business Strategy (the winning strategy for the business)	To practice ethical values in the business, especially, making the family members extend help to the employees not as duty but as family members (Ka-pamilya- in Filipino language)
Family Declaration of Principles	Roll out immediately the Family Declaration of Principles and how to professionalize the business to sustain the momentum.

The Family Business Model Preparing 2nd Generation into the Family Business

This model can be ideal and clear cut as transition guide to any family business. However, management is still overlapping between 1st and 2nd generation management. Therefore, transition period clearly depends on 1st generation letting go of the business and 2nd generation letting come of the business take over. (Figure 1)

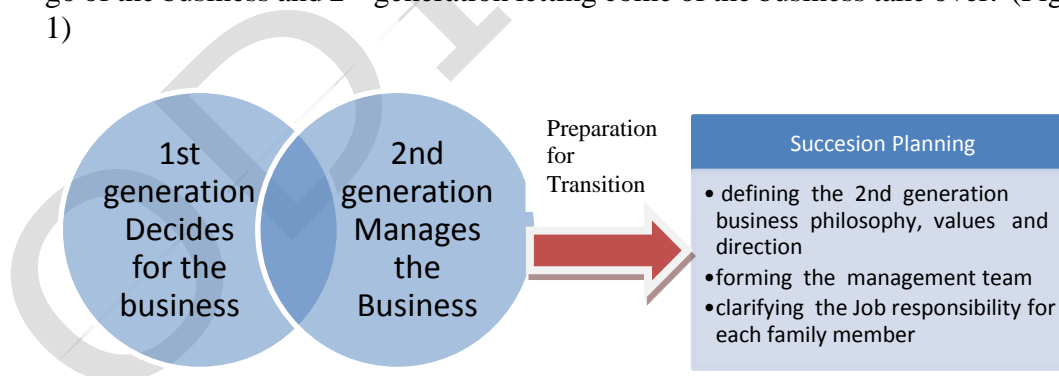


Figure 1. Family Business Model Preparing 2nd Generation into the Family Business (Moreno, 2011)

- The Roadmap for Sustainability and Continuity: clearly stated that opportunity for sons and daughters is equal in the business. As of November 2014, 1st child (son) manages the rice mill, 2nd child (son) manages rice stores, 3rd child (daughter) rice agent, and 4th child (daughter) works at the rice mill. (Figure 2)

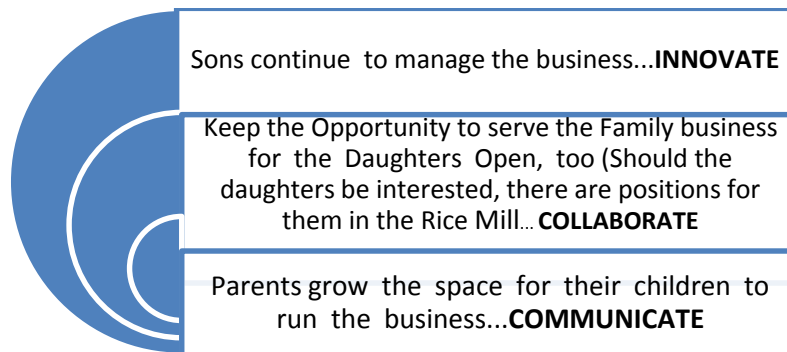


Figure 2. The Possibility Roadmap for Deployment (Moreno 2011)

- Feelings of the family members toward the process undertaken by the study are “uncertainties” for the future of the business and their future family relationships. Meanwhile decide to keep an atmosphere of a happy family.

Conclusions

Second Generation Managing the Family Business is challenged by the first generation. The “Transition stage” is un-defined. Hence, 2nd generation find it difficult to position themselves in the business especially when 1st generation still want to be in controlled. The Aliaga Farmers Rice Mill has indeed being managed by the 2nd generation. A well-managed transition is to be facilitated by the internal stakeholders themselves using the data from this study.

Recommendations

There is a need to define the duration of the Transition Stage. The 2nd generation must agree among the siblings and their spouses in choosing the leader among them who should be ready to carry the responsibilities and make decision for the family and the business. Family has consensus on the eldest son who currently manages the rice mill to lead the family business.

Follow-up study on initial data on family relations to articulate the terms for the family declaration of principles has not been crafted, these include:

- a) The fundamental business beliefs of the 2nd generation
- b) The 2nd Generation core values
- c) The family targets for the future: long- term and short - term
- d) The major business strategy at transition stage
- e) The leadership of the 2nd Generation
- f) The role of the siblings and the in-laws of the 2nd Generation.

The crafting of the Declaration of Principles for the Family Business which is needed to move forward and in preparation for the family business that is growing in size as well as for the organization to cope with rapid growth.

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