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The Shelter Imbroglio: The rise and fall of an Indian Family Business

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The family business named SPL, was started on 15th October 2000 with the founder Managing Director, Om Prakash engaging into construction and subsequently adding financial services. He further diversified by adding a paper mill business to the portfolio.

The first business in construction was conceived as result of childhood dream, a product of three brothers joining together and initiating after pooling in seed money in equal proportions along with a friend. As a construction agency business, the focus was more into site management, hence little technical expertise was needed. Meanwhile, the youngest brother also took up employment with a housing finance firm (HFF). The day time was used for the assignment with HFF, while evenings and holidays were devoted at the construction sites.

An unprecedented split in 2004 between the non family partner and the three brothers came in as a surprise, as the next generation of all partners demanded higher share of business based upon the contribution by each partner, which was unfortunately skewed un-proportionately. Each business partner started loosing the bonds of brother hood and family friendship. Each intended to push their next generation to heir ship, as a result of bias towards their own offsprings.

Meanwhile, the connection with HFF came in for a surprise in 2004. Om Prakash was given a franchise for the new business in the financial services by HFF. While it progressed, the lust for money transformed the founder MD to start siphoning the additional funds from the construction business into private accounts that were primarily meant for the welfare of the business. As a result of bad governance, the firm, ruptured its entire books and is now in the process of being liquidated.

The family business has experienced catastrophic downfall as a result of opportunism, altruism, bounded rationality, moral hazard, adverse selection and goal dissonance.

Keywords: Altruism, Opportunism, Self Control, Moral Hazard, Adverse Selection, Goal Dissonance, Bounded Rationality, agency issues, family business, Entrepreneurship

Notes:
Names have been changed to protect the identity of the firm and its stakeholders, as an agreement to use the case for research / academic learning and strengthening understanding on family business issues.

Altruism: Promoting well being of family, dear near ones (promoting children)

Opportunism: An act that leads to gains with unscrupulous means (siphoning funds)

Self Control: Having total control with lack of external control mechanism

Moral Hazard: Lack of effort, work shirkers

Adverse Selection: Appointing incompetent people, misrepresentation

Goal Dissonance: Self interests, incongruence of goal between Owner and Manager

Bounded Rationality: Limited capacity to process information, heuristics, thumb of the rule management practices

Family Business Venture

Gyan Prakash had four children, three sons and one daughter. The eldest son was Sharad, followed by Kamal and Om. Poornima was the youngest sister. It was a middle income family by Indian standards. Father Gyan Prakash was a government employee and had never dreamt of operating a business. The family would manage to live on the monthly salary Gyan would bring in each month. As children grew older, each tried to contribute extra earnings by teaching part time to students , which at times was enough to buy some daily personal utilities.

The family was built around strong moral values and with a religious philosophy of life. Each family member had a distinct embedded quality including common theme like service to nation. Limited resources towards higher education were well foreseen by each child, particularly Om Prakash, who was distinct from the other three. A black & white Television set was the only attraction for the family. It provided a common forum to share human values and prevaling social standards. Mother Kanta Devi would provide hot meals to all, while narrating stories of gallantry, drawn from Indian mythology. Meanwhile, Om started getting

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influenced by the characters he saw in the weekly movies beamed on the television channels. Some of the characters had a strong impact on his thinking. Om completed his formal schooling and later gradulated from the college. Environment changed, but not his values. His ideas towards creating an enterprise strengthened with the pace of time and his desire to become an entrepreneur was soon to be realised. This was in strong contrast to the father's imagination, who wanted his children to follow his footsteps in a government job.

A family friend Pradosh was a frequent visitor to the Prakash family. The family along with Pradosh enjoyed the Sunday movie beamed on National TV channel. It is here that a bonding between Pradosh and Om strengthened. A common desire to do something different was taking deeper roots among them. They wanted to become entrepreneurs and create wealth for themselves and their families. Pradosh was a junior civil engineer employed with the state government and had knowledge of the construction market. For him to enter into construction business was a natural next step. His age and energy was not enough to build a new business. He also needed capital. He saw potential and spark in Om. Om's family was also a potential souce of capital for the new venture.

A deal was made between the family members Om and Pradosh. INR 4,00,000.00 was collected as a seed money, with Sharad, Kamal, Om and Pradosh contributing INR 1,00,000.00 each. The new business venture was formed in partnership, with the majority stake by Om's family members. Thus, "SPL" was registered on 15th October 2000.

Business environment and opportunity

During 1980's the population of the state of Uttar Pradesh, a state in Northern India, was growing tremendously. Floating population was also a concern as job opportunities grew in the capital city. Houses available for ownership and renting were limited. Housing development was thought to grow at 20 percent per annum to accommodate the increase in population. There were limited sources of funding in the form of housing loans available for common man. The major source for drawing loans was from Government resources. The service class, which constituted the major percentage of aspirants for building their house, had a fixed source of income. This was very little as compared to huge amounts required to build requisite houses. The deficit was to come from provident fund and loans from government agencies and banks. It was a difficult proposition to obtain loans from banks as they demanded securities against loans. There was a rising demand for housing loans due to increasing population. The Indian Governement was considering to ratify its policy towards softening of loans against securites.

Private loans to individuals was scantily available, with high interest rates , which ranged between 15 to 20 percent. Those in government jobs with adequate service period and the right connections, were able to secure loans and fullfill their desire of home ownership. But the ones employed in the private sector, were left without reasonable options only to be cannibalized by term loan providers in the open market at unaffordable rates. The corrupt and bad practices by private money lenders of usurping land, property at will continued unabated.

Strategy

Meanwhile, the demand for housing expanded and so did the experience of Om Prakash. The nature of business of SPL was a construction agency. In the first instance, when the family business was formed, a plot of land was purchased and two houses were constructed and sold in monthly installments to its buyers. After completing few similar deals, the seed money was recovered and reinvested in the growing the business. Subsequently, smaller plots were purchased in auction by the local development authority, houses were constructed and sold to the buyers. The business started growing and so did its reputation for quality and service.

Site management was the major part of business. The nature of business involved coordinating with various government agencies, customers, sub contractors, labourers etc. As business started expanding, so did its complexities. The business started witnessing transformation in its culture, strongly in contrast to the family values. It was obvious, the corrupt practices that family members had despised started making inroads in the business process at all levels.

The organisation grew from four persons to 15 in two year's time. Market demand was clearly understood, was clear. The local market comprised of the following customer groups.

1. Professionals like Doctors, engineers, business graduates, lawyers etc. all those who were in Government or Private Organisations with reasonable disposable income

2. Service class in all categories from the middle income group.
3. Business class, which was slowly expanding

There was always a shortage of cash, both at Om's home and in his business. Meanwhile, a contact of Om with a financial firm that disbursed loans came to his rescue. Om's maternal uncle who worked with a housing finance firm (HFF), engaged Om's part time services based upon certain incentives like developing new business for HFF. Thus, for the time being, the much required cash to manage the family affairs was taken care of. There was a synergy in business as his engagements with the HFF helped in getting business both for HFF and his construction business, SPL. Clients of SPL needed house construction loans. Om in turn would introduce and help them in getting the required loans from HFF. Thus he started managing an interesting orchestration between his small family business and providing financial services to his SPL clients through HFF. His personal financial position, reputation and firmness in business by now had reached new heights. In contrast to his brothers and Pradosh, the other partner, Om had turned into a confident person and a successful entrepreneur.

It became evident Om was gaining higher position in the enterprise due to his active engagement in the all aspects of business processes. His business acumen, skills, personality increased his stature and consequently the power that is inherent to the position. Om stood out among the other partners in the family business.

Competency

The Core competency of SPL and its individuals run around financial appreciation of its customers and provide them with home solutions. Om Prakash bridged the gap between the customers and loan agencies. His expertise in handling complex issues at construction sites brought him much appreciation from all quarters. Slowly, his personal popularity strengthened among various stakeholders such as among the customers, investors labourers, employees, government sector and private agencies.

Additionally, Om's "soft"personal and labor management skills impacted his personal and business success over a period of time.

Organisational structure

SPL developed an adequate organisational structure to suit the business purpose. The present business engaged various activities like following leads, site identification, generation of enquiries for loans, getting them processed with different loaning firms/agencies/banks, construction management, approval of building etc. The work was distributed among his three brothers. The eldest Sharad along with the family friend took care of business enquiries. Social networking is one such major source of developing such business leads. Kamal, the second eldest helps in processing loans with various financing agencies. Site construction is in the hands of Om who is the smartest of them all. Perhaps, the popularity of Om due to his enthusiastic engagement in business makes him the most liked individual by all concerned. As a result when there was any issue or problem in the business transaction, it is Om who resolved through his skills.

Achievements

Om's achievements comprise of executing business on time and within the financial constraints of his clients. His first business was executed in less than six months time and within a budget of 90 percent of the quoted value, there by leaving a satisfied customer. Since then, taking this as an example, the firm SPL attempts to manage the business of the customer within the 85-95 percent of the quoted amount, without exceeding the budget. One project was managed at 80 percent of the quoted price. Om's managerial skills aided him in executing projects on time. This further brought in dividends to the family business, Om in particular

Turnaround

Over a period of time the extra popularity of Om within the business gained him personal heights in terms of recognition and authority. This was in contrast to the other members in the family and Pradosh, who could not muster the same respect in the family business. Differentiation was becoming evident and inevitably, Om was gaining strength. The barriers and conflicts were slowly creeping in the family business. Division of profits was expected to change depending upon the level of engagement and responsibility of the stake holders. There was no fixed rule or policy that could derive a solution. Since, it was an all cash deal, it was the common pool from which equal amount of profits in cash was distributed to the stake holders and it was maintained in a sales earning and distribution register, maintained by Om, a phenomenon common in family owned business. Om was being trusted blindly. Now that higher contributions and

higher returns became the debate within the family business, it was evident that the governance was undergoing a sea change.

Current practices

Construction industry is known for complex and less than transparent business practices. The very nuances associated with the industry were sharply in contrast with white collared businesses. Site management required unusual business practices and some of them were unethical to say the least. As the business grew, the demand for contracting agencies engaged in finalizing land deals and financing also increased. It was like a prisoner syndrome, with each malpractice multiplying the first one. The success of business unfortunately increased the lust for increased share in the profits of the business. The greed gradually crept in within each family member and so was the influence of closed family friends of the each family stake holder. The personal differences between the family members and among the business partners were becoming evident.

At construction sites, the ease with which extra income through unscrupulous means could be earned became a norm. It was practically not possible, with the increase in business that each site could be monitored effectively by the family business partners, who were opposed to bringing in outside professionals to run the business. The local site manager was the overall in-charge of the business. Many a times the trust by these employed managers was manipulated by the local site manager. In one such incident the site manager almost transferred half the consignment of a truck loaded with construction material to a different site that later on was discovered to be his parallel business. The number of labourers showed was higher at some sites and their daily wages were drawn by the site manager. Payments to associated suppliers were with-held and muscle power of local thugs was brought in if a need arose. Manipulating records to favour individual business partners became a practice. The discovery was very late. The deterioration of the business ethics was becoming pervasive. Unethical practices slowly started percolating amongst other business partners and within the employees.

Governance and the split

The firm has a legal board which meets once in six months and all the directors are adults of the family, not necessarily trained in business. However, the company members meet informally and discuss the business issues on day to day basis. Going public or succession of power is not on the mind of the family. The family is well-knit so far because of the presence of father, who is the family patriarch, and has managed the family relations well. It is a joint family of 14 people but most of the brothers stay in separate houses. The family interests are interlocked. As the business is showing growth, the interest by its partners has also witnessed higher ambitions.

One fine morning, Pradosh persuaded Gyan Prakash, father of Om Prakash, to decide the powers to be vested upon each partner. Gyan Prakash was no where engaged in the business. As the family head he was highly respected and thus he became the leading source to voice concerns with and discuss business matters. Om convened a meeting which turned out to be more than handling normal business disputes that had added over a period of time. Pradosh wanted to promote his son in the ownership control of business and so were the demands by others. Sharad wanted division of business with certain sites being dedicated to him. Kamal demanded that business be sold and his entire share be given in all cash deal and so he could pursue his interest in a different business. Om had little choice and was confronted with a bigger challenge that he never envisaged within the family. It was an unnatural split in the family business that had started as a profitable venture. Om was extremely dismayed by the events. Though he had achieved his ambitions, he had never dreamt of family business that he worked so hard at would actually split or sold off.

It was too late to realise that the thought to divide had disintegrated the family business. Over a family meeting, convened by Gyan Prakash it was proposed that the family business would be divided. However, the method of division was not clear, as there were no written norms on heirship framed by the founder, Gyan Prakash. A method was devised in which the respective site was handed over to the partner, who had until then been engaged in managing it. It was obviously not the best way of distribution, with little choice in hand. Obviously, Sharad and Kamal were gainers as compared to Om and Pradosh, who were the pioneers in establishing this business. The two elder brothers were managing profitable sites, because of seniority as allocated earlier. The clear battle was between Om and Pradosh on distribution.

As a result of this divide, the respect enjoyed by the firm in the market began fading. The Prakash family, known for its integrity, culture and ethics

was undergoing a damage control exercise. It made a direct impact on the business as well. Since, Pradosh was engaged with a government organization, he could not oversee the operations directly and therefore brought his son, a novice in the business. The fact being that the business required some degree of expertise. Results were obvious, the downfall of the business had initiated.

The split in family business was a shock for Om. The sad demise of his ailing parents, who were the guiding force behind this budding entrepreneur demotivated him further. Mounting pressures from the business along with personal family disturbances became his night mares. An unwanted situation was about to happen. Om started socializing too frequently. The creditors on which he was banking also started putting pressure on him. As a result he started weakening on the operational control of business. He started getting drunk, frequently. He was unable to repay the personal loans on time. As a result, he had to sell off personal assets to offset the loans that came with heavy surcharges. Om was no longer the same glittering entrepreneurial personality as earlier.

The time had come to hunt for an alternate source to generate business.

New business

Meanwhile, a connection with Housing Finance Firm (HFF) came in as a surprise. Om's maternal uncle with the HFF moved to a private bank in a very senior position. He offered the banks' franchisee to Om for operating its financial services in a particular region. This is when, his second business as home loans provider, on behalf of the private bank was launched by Om Prakash, in partnership with his brother in law, who was running a paper mill. The new firm was christened Lease All (LA). The nature of business was to provide consulting to home loan seekers as well as generate and finalise leads on home loans, on behalf of the private bank. His previous experience with HFF and in the construction business came in handy. The returns in the new business were good, as the construction business was scaling. But the irony was Om had previously succumbed to wordly pleasures and as said, "Old habits die hard".

No franchisee had grown at such a pace like LA, which had a structure based on customer perspective. The emphasis was on group efforts. Two main divisions were functional. The Credit cards division was an addition to the home loan division. They have been termed as independent business units. Home loan was the initial division catering to a larger clientage. Each strategic business unit (SBU) has been under Team Leaders, having a variety of experience in Marketing, Operations and Finance. The Business Unit are being headed independently by charismatic business managers. Few of them come from close family contacts, in order to keep control of the family business. Under them there are Team leaders supported by executives, and field persons.

Customer orientation is the focus. Though major duties have been delegated to younger generation, policy framing remains with Om Prakash and his silent family partner, Vijay, the younger brother of Om's wife. To every new comer in LA, an extensive two days training is provided under a senior executive. Cold calls are generated by the trainee, while the final deal is undertaken by business managers.

The new business did progress. However, the lust of quick money by the founder manager, made him siphon funds into his private accounts. As a result of bad governance, the firm started rupturing its market value and is also in the process of becoming bankrupt, like the previous business.

Table-1: Annual revenues of SPL

Year	Earnings between 1 April- 31st March
2000	(Investment year)
2001	0.6
2002	1.1
2003	2.3
2004	4.4
2005	3.4
2006	2.5
2007	1.9

Table -2: Annual revenues of Lease All (LA)

Year	Number of Customers	Revenues in INR
2004	150	0.5
2005	310	0.8
2006	550	1.1
2007	80	0.4

Key agency issues

Adverse Selection

The promoters did not desire to bring in professionals who could leverage the firm's financial success into a sustainable growth strategy; instead they kept on continuously hiring semi-

skilled and lesser knowledgeable employees who could not envision the future of business and made less than optimum contribution. Since the nature of business desired some level of professionalism the decline was inevitable. The firm presently has started undergoing formation of pockets of interest groups engaging to fullfill their individual goals away from business objectives. There is complete goal dissonance. It is rumored that even the successful partner Om is not very concerned about business operations as he has made sufficient money he wanted to from this business!

The firm employees are unable to process the operational information resulting in lost opportunities, financial mismangement and poor customer service leading to steep decline in sales revenues. Due to bounded rationality, individuals are less engaged in processing data. The firm is under a threat to its existence as both income and customers are declining.

Table 3: Decline in revenues of Lease All (LA)

Year	Revenues in INR
2008	0.4
2009	0.3
2010	0.1

Notes: *INR stands for Indian Rupees. All earnings in rounded to million*

Conflict of interest

Pradosh, the family friend, meanwhile has brought in his son in a leading role to head operations in the pretext to solve the problem, which seemed well planned. The son is a good source of siphoning the left over funds to his father and some to himself. Appointing new employees is now at his discretion, which further deteriorated the financial health of the firm. Hiring and firing employees, without appropriate knowledge of organisational skills has demoralised the present employees and they are in a dilemma for their existence. Om Prakash seems to have woken up late. The business of the firm is in shambles. It seems the decision to protect the firm by bringing in Pradosh's son has only accelerated its downfall. The company and its activities speak volumes on altruism. There is clear evidence of the changing characterisitc of the Firm, SPL.

The family business has witnessed an extension of altruism. Most of the time family members were roped in key positions, with little room for the outsiders or professionals to grow in. There has been no intention to professionalize the business, as the control factor over the family business cannot be diluted. All the associated businesses had opportunism in common. Getting business using bribery and siphoning funds to different accounts became a regular practice. The rise in complexity and multiplicity of businesses witnessed a condition of bounded rationality, whereby site managers were starved and could not process information due to lack in information. Rule of thumb became a common management practice. Adverse selection became a disappointing feature that was regular in the business. This led to goal dissonance with rising self interest, incongruence of goal between the owner and the site managers. This was one main reason for the downfall of the family business, though governance issues were the key. Subsequently, as a result of added exogenous and endogenous issues governing the business, Om underwent a lack over self control and initiated self destruction by over socializing and getting drunk. He, at times even went to the extent of hitting himself behind closed doors as he could not absorb the pain of partition, which he never wanted.

Om, off late has discovered that his dream Firm is no a longer a performing organisation rather has become a centre where politics prevails. After all he feels the responsibility of showing the wrong path to the youngsters in making quick money. But it's too late. The ship is sinking as he says and very short while left, either the firm will become bankrupt or extinct naturally.

Om is facing an "Imbroglio". What to do? His dreams have been shattered and he feels responsible for it! Can he course correct?

Exhibit 3: Learning's from the case (during Entrepreneurial Journey)

Characteristics	Innovative Practices
• Entrepreneurial Leadership	• Constant training of employees
• Passion to excel due to autonomy	• Flat organisational structures
• Flexible organisational structures	• Development of synergies between top and bottom
• Ability to handle Challenges	• High level of Customer orientation
• High level of Intrinsic motivation	• Converting tacit knowledge to explicit

Exhibit 4: Agency Issues & Impact

Agency Issues	Typical Characteristics
Altruism	Constant concerns about family members only
Opportunism	Transfer of company's funds to personal usage
Moral Hazard	Discrete selection leading to incapable workers made them shirking work at all times
Adverse Selection	Lesser talented individuals introduced in the firm
Goal Dissonance	Due to lack of talent and pockets people started following different directions
Bounded Rationality	Lesser talent and too much of data to be processed the founders found themselves in an imbroglio

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Teaching Plan

Synopsis

The family business started on 15th October 1990 with the founder Om Prakash engaging into construction and subsequently adding financial services as a parallel business. He further diversified by adding a paper mill business. Om Prakash the founder MD of SPL belonged to a middle class family that had a service class back ground. The first business was conceived as a result of one such idea of his child hood dream that was big, while being influenced from movies. As he watched inspirational movies, he followed the actors carefully whom he liked most and then followed their foot steps in real life.

The first business was into construction, a result of three brothers joining together and initiating after pooling in seed money in equal proportion along with a friend. Since, the focus was more into site management as a construction agency, little technical expertise was desired. It was a matter of contacts and social networks that enabled the business to prosper. The business initially had mixed responses with the youngest brother putting in the maximum interest followed by the non family partner.

In order to generate additional funds for family stability it became imperative to look out for a parallel source towards generating money. The youngest brother took up services in a housing development bank. The day time was used in this new full time assignment, while evenings and holidays were engaged in the construction sites.

An unprecedented split between the non family partner and the three brothers came in unfortunately as the next generation demanded higher share of business based upon the contribution by each partner, which was unfortunately skewed un-proportionately. Each partner started loosing the bonds of brother hood and family friendship and intended to push their next generation as a result of altruism.

Meanwhile, the connection with housing development bank came in for a surprise. The senior level contact in the housing development bank moved to a private bank in a very senior position and offered Om Prakash a franchisee for the new business in the financial services. Thus the second business in the home loans was launched by Om Prakash. While it progressed very well, the lust of money transformed the founder manager to start siphoning the additional funds into private accounts that were primarily meant for the welfare of the business. As a result of bad governance the firm that had initially begun with a social cause, ruptured its entire books and is now in the process of being into red.

The family business is undergoing sickness as a result of opportunism, altruism, bounded rationality, Moral Hazard, Adverse Selection and Goal Dissonance.

Teaching Note:

1. To understand how a family business enterprise (startup) was born?
2. Understanding the importance of opportunity recognition and orientation.
3. How to manage and strategise a small time family business?
4. Understanding succession planning or 'Exit Strategy', be it in any form of selling ownership equity share to other partners, adding other family members, or complete sale to outsiders!
5. Understanding the importance of hiring practices strictly based on qualifications, capabilities, skills and experience, which must be clearly spelled out.
6. Impact of governance on the firm's growth.
7. Impact of agency issues on a firm's survival.

Key learning/take-away:

1. Enterprise's are born around dreams. Those who are able to translate their dreams emerge as entrepreneurs.

2. Opportunity recognition is the primary time tested phenomenon for an entrepreneur. The next step is to orient and develop capability around the nature of business.
3. Challenges, uncertainties and barriers should not become impediments. In fact they emerge as endowments to the entrepreneur and the enterprise.
4. There should be a clear business understanding at the time of business- partnering, so as to minimize complexities in governance and ownership issues. The terms should be explicitly written down. Special care must be taken when several family members partner, which can lead to ownership/agency issues during the life cycle of family business.
5. During the growth of the firm, propelled by its fortune creation, there remain all possibilities towards creative accounting and malpractices build around fund transfers etc. A strong family business council board comprising of senior family members and few experts from outside could possibly control to an extent, which the founders in this case did not seek into.
6. Weak governance can lead great firms to fall soon. The case is an evidence of how great dreams leading to creation of a firm, steered by altruism, opportunism etc can lead to the early demise of the venture. It brings to an important learning as to the sustainability issues of family run businesses in the longer run.

Identification of intended course(s):

Entrepreneurship, Start-ups, Family business, Governance, Business strategy

Suggested Student Assignment:

1. Study the case and prepare a step by step approach as to how the MD was able to translate his dream in to a success story.
2. Compare this case with an existing family business firm around your region and bring about the differences or/and similarities between them?
3. What in your opinion should have been the mechanism of family governance that could have saved the firm from splitting?
4. What strategy should have Om adopted after the split, which could have survived his profitable business?

Class room discussions:

1. What is the basis of differentiation between a "successful firm" and a "not so successful firm"?
2. What are the characteristics of a founder manager in a family business?

Suggested time plan:

Initial class room discussions 90 + 90 = 180 minutes

General survey by researchers/students one week

Conclusive discussions on family business- 90 minutes