ALL IN THE FAMILY

Mantras to help build your business

Corporate India, particularly family-run businesses is witnessing a rapid change as they try to manage growth, change and transition of ownership. Several firms in recent decades including the Reddy family, GMR group, the Godrej family and TVS group have all faced these issues in varying degrees of severity, in the past. Thus, the need for a family-owned business to strengthen existing value systems and business mantras in their structure becomes all that more important in the modern corporate world, where hard investment decisions are taken based on a company's governance pattern, ownership norm and succession plan.

Barclays Wealth held a closed door round table recently to discuss these issues with family business expert and Deloitte official Peter Leach, Vedic scholar Tatwamasi Dixit (both business consultants who have authored a new book *Indian Family Business Mantras*), industrialist G M Rao and Barclays' head of Wealth Management, Satya Narayan Bansal to discuss these issues., which was moderated by Forbes India Senior Assistant Editor Salil Panchal.

EXCERPTS FOLLOW:

Please tell us what prompted you to write the book "Indian Family Business Mantras".

Peter Leach: I had the privilege to work together with Sri Tatwamasi Dixit with various family companies and we discovered that we had a very similar ethos despite coming from very different backgrounds. We soon noticed that our very diversity enabled us to solve problems in a very exciting and challenging way and we realized that by working together we could come up with more innovative ideas and possible solutions. The idea of the book therefore enabled us to celebrate the difference between East and West and show how the special combination of the two of us working together as a team creates a unique opportunity for us to better serve the families for whom we work.

Tatwamasi Dixit: Family businesses have existed in both the Western and Eastern world since time immemorial. In the West, the family businesses have thrived and flourished over generations because they have been more structured and disciplined in their approach and they had their governance systems documented and in place right from the beginning which was passed on from one generation to the other, thus avoiding family disputes and unpleasant situations.

In the East, more importance has been given to wisdom, tradition, emotion and relationships. Here, family businesses have been handed over from one generation to the other in spirit. India is known for the great cultural values that often govern the family businesses. Over 75 percent of the businesses in India are controlled by families. They are the backbone of the economy. But many old and established family businesses in India could not sustain themselves as their focus was on relationships and not on good governance. Family disputes have destroyed many business houses in India.

The idea of writing this book was to learn from each other by looking at the same issue from both the Eastern and Western perspectives, and bring out something special and unique by the fusion of Eastern traditions and values with the Western management concepts.

What is the threat being faced by the Indian Family Business System today?

Tatwamasi Dixit: The Indian family business system is unique. It's a great institution and the world is trying to learn from the strong value systems prevalent here. In days gone by, a few practices of the family formed the foundation of the family business. Values like ethics, philosophy, behaviour, were positively contributing to the business. That was the traditional gift to Indian family business system. Basically, the families developed three core philosophies-Live, eat, and pray together! Today, age old practices are being overlooked - respect for elders is diminishing, families lack profound understanding of each other, concept of sacrifice and giving is being replaced by self-centeredness and the influx of new wealth has turned family members into consumers. Today, physical and psychological cohabitation has become a challenge. As the next generation gets more educated, they want to have their own space.

Earlier, in a family business, the energy was derived from the family by the cohabitation of family members which created business opportunities. The families held the business together, but now it is the other way round… the businesses are holding the families together. This is happening because people are not spending enough time with their families. Their entire time and energy is taken up by business priorities.

Peter Leach: If you spend time working in business with other family members, you think you don't have to spend time specifically with the family because you already have business meetings; that's a fallacy. Families have to separate the time they spend with business and the time spent with family and clear boundaries need to exist. Most families find that they need to spend a lot more time than they would have possibly imagined, dealing with family matters. If they don't carve the appropriate amount of time and energy, ultimately the business will suffer and the family will suffer.

Mr. Rao, in your experience what role does family values play in the growth and sustenance of the family business institution?

G M Rao: We built the business in the last 20-30 years, but it was the strong family governance that helped us bring tremendous alignment amongst all the members. Family governance is very important for corporate governance which in turn is important for the institution building. We built the businesses, but internally, there were a lot of differences. The alignment helped us to write our family constitution. This continuous process of alignment came in handy in building a large project such as Delhi airport. To build this kind of an airport, it would take atleast 10 years. We were able to build the world's eighth largest airport in 37 months because we had the family constitution in place at the right time and that brought tremendous family alignment and reduced differences.

Today we have got lot of challenges but still we are all together. We have a number of issues which we are systematically handling now. The structured approach through the family business board, council and strong family governance has helped us deal better with the challenges today. When we started the process, we had several differences; but today our differences have substantially reduced. In family businesses, differences will always be there; one of our values is to manage the differences!

How do you prevent erosion of family values?

Peter Leach: You have to celebrate the values. You have to talk about them. You have to tell stories to the next generation so that they better understand where they came from and how these values were key in how their ancestors achieved success and thus the wealth the family enjoy. It is pivotal to remember that it's not what you leave your children in monetary terms that's important; but it is what you leave in them that matters. If you leave in them the right set of values then both the family and business is best protected. So it has to be a virtuous circle. If you forget the values, eventually these will be eroded and of course this will have the knock on effect of eroding the success of the business and the cohesion and unity of the family.

Tatwamasi Dixit: Family values contribute to business values, which in turn contributes to the growth & profitability of the business. Therefore, fundamentally, value preservation is the key to build the business and it can happen only when there is a value custodian– family business leader for family and business values. Value erosion will ultimately lead to family erosion and eventually business erosion. In some families, the founder is the custodian of values and once he/she moves on there has to be some family leader who becomes the custodian of family values. Many families may have a great business leader but may not have a family leader. Only a few unique individual scan lead both the family and business. Values are the root of the family and if there is no value custodian, value erosion takes place.

Values should be visited regularly by carrying out a value audit. New values of the next generation should also be welcomed and integrated into the family business system. It is important to live the values and not just write them.

How does family wealth contribute to further family value creation or family value erosion?

Tatwamasi Dixit: Wealth is a two-edged weapon. If you use it constructively, it's a blessing, if you abuse it, it's a curse! Increase in wealth promotes consumptive behaviour leading to erosion in values. Amalgamation of money and power is the biggest threat to value preservation. Family members must understand the purpose of the wealth. It should not be abused or used as a power tool.

Peter Leach: Picking up this point about wealth and the positive and the negative side of it - One of the opportunities that families have to keep them grounded, is philanthropy. Philanthropy sometimes acts as a balance to make sure the next generation appreciates the value of money so that money doesn't become a curse. A lot of families use philanthropy for very positive reasons but also as a way to educate and ensure that the next generation maintains a similar set of values.

What is the key to build a successful family business empire?

Tatwamasi Dixit: There are various aspects that contribute to building a successful family business. However, the key element of a successful business empire is in the alignment between family members at various levels. Once you align all the soft areas such as vision, values, philosophy, purpose, expectations, emotions, feelings and communication, the alignment of hard areas is an easy task. Many families struggle to align the hard issues without giving due importance to the soft issues. Such alignment is an ongoing process and one needs to consciously and continuously work in this area.For example, when there is family alignment, each family member perceives the business as "our business" and it doesn't make a difference in "which" / "whose" business the capital is infused. The sooner the members learn to prioritize the business needs keeping aside their individual needs, the better is the family alignment and that is the key to build a successful business empire.

Mr. Bansal: You are someone who has been on the outside, who interacts a lot with India's wealthiest family business houses. According to you what is the biggest challenge which family businesses across India are facing today?

Satya Narayan Bansal: For most families the challenges are similar. About 7 – 8 years back if you asked about succession planning, very often the answer would be that my son has graduated from one of the best universities and has already been inducted into the business and getting ready to take charge. Actually the answer was more about succession planning from a business management perspective. Most families, I believe have not really dealt with family succession in a meaningful manner. This second level of succession which is equally critical was never given the importance and priority. The values of the family will be keeping the families together and in the process make the business sustainable. But I think today the basic challenge is the need for a structured succession planning. Though it is being felt but is not being addressed at the right time. It's only getting addressed when you are forced to address it but that may not be right. Nobody wants to rock the boat early because they don't know what will happen and what if something happens and they are not able to address it.

G M Rao: Succession planning is the main thing that families are suffering and fighting on. The founder has to spell out very clearly when he wants to retire and what should be the succession process. In my case, I have made it very clear when I am retiring and we have jointly agreed what should be the succession process. The next generation will decide amongst themselves based on competence and interest, who should take the role of group chairman or business chairman.

Peter Leach: Very often founders feel it's their responsibility to choose. That's normal. The founder can often be the 100% owner and builder and of course has a very good vision, but at the end of the day it's the next generation who have to cohabit the business for the next 30 years +. Therefore if you let them come up with a solution the founder has a different job, which is to bless it, and this is best done while the founder is alive, rather than let the next generation fight it out when the founder is no longer there.

How do you entice the next generation to be part of the family business?

G M Rao: In our family, we believe whoever from the future generations is not interested in joining the existing business, we give venture capital fund separately if they want to pursue other business ideas. Whenever they want to come back to the family business, they can. We have to respect them and design the career path for them.

Peter Leach: This comes to the fundamental question "what is the business for?" When you ask this question, the next generation might not want to come back to an old fashioned manufacturing business, they might want a new business. If the vision of the family is just to have a business that manufactures and is about just doing one thing, they might not want to go there. However, if the whole family agrees what the vision is for the business; which may be to do manufacturing, but also to create a new platform for opportunities to allow individual family members to fulfill their dreams whatever they happen to be – then this can be a great way for them to become engaged. If you take a look at the top 500 successful family businesses around the world they will all have one thing in common and that is that there is a clearly articulated and shared vision, supported by a common set of values; and once you have these fully aligned, a family becomes "unassailable" and they become very very strong.

How does the younger generation, who are desirous of creating a new identity for themselves, relate to their well-established family business houses and join in?

Satya Narayan Bansal: The challenge here is that the business becomes the identity and that sometimes is the reason people do not let go because they feel that I will lose my identity. When you ask the next generation what do you want to do going forward even when the family business is doing exceedingly well, they may not want to be a part of it. The true reason behind the decision is that even if I grow this business, I may still not be identified for my success so why not I go and create something on my own. These are the challenges the families have to grapple with. So when Mr. Rao said that they have provided for a risk capital funds in the family for people who don't want to be part of the family and want to pursue something else, sometimes you need to create this kind of pool to provide the risk capital to prove themselves as the rightful future leaders by establishing something outside the family business before they decide to come back to family business and take charge of it.

Peter Leach: it is all about individuals deciding what roles they want. Once this is known and shared, the families can organize itself around the business. Essentially, there are three kinds of family members in a family business. Let's take a ship as a metaphor. There are "owner managers". They live in the engine room. Then you have the "owner strategists"; they live on the bridge and the third category is the "owner investors" and they live around the pool deck. So each person has to decide who they are and whatever people want to be it is quite legitimate, so long as everybody knows and it is transparent. Having clarity of roles and purpose are the key ingredients in achieving long-term sustainability.

What are the behavioural changes to be brought in by the founder while the family business transitions from the first generation to the next generation and so on?

Tatwamasi Dixit: When the next generation steps in as partners in the family business, the founders must transition from wearing the founder's hat to putting on the partner's hat. Only when they do that, can they dialogue as a business partner and they will then be able to establish an equality orientation vs. a hierarchy orientation. The founder must transition from being authoritative to being supportive. The moment the founder puts on the partner's hat, it implies that the person is telling himself/herself "I founded this business, but I am now running it together with this team". It is crucial that the founder lets go of controlling everything minutely and allows the next generation to make co -decisions related to the family business. This "I" to "We" change has to be brought in consciously, and the founder must be adaptive to new age thinking and approach as the business transitions from the first generation to the next generations.

As the business transitions from first generation to second generation to the third, and so on, what is the behavioural change that occurs in the family wealth dynamics?

Tatwamasi Dixit: Earlier, family businesses always invested all the monies into their business as there was no distinction between business wealth and family wealth. Over time, it got segregated into business wealth and family wealth. As the next generation joins the family business, the concept has changed to "business wealth", "family wealth" and "my wealth". Due to generation change, usually, the behaviour transitions from creation to preservation to consumption. The concepts of "risk money", "risk free money", "family safety wealth" are emerging. It is important to learn how to deal with money in family business right from a young age.

Peter Leach: When family and business are separated with appropriate boundaries, and the family wealth is clearly segregated, the business decisions improve. Why? Because, if all your eggs are in one basket you will not want to risk the family's education budget or schooling or food budget, as the business provides the subsistence and the welfare of the family. Once the welfare, housing and other basic needs are taken care of by the family wealth, and then in business the family can take more calculated risks. It is a common phenomenon that entrepreneurs who sold their first business and put the cash in the bank and then go onto the next business, are always better than the first business, because they don't have a conflict of interest worrying about will their day-to-day business decisions affect my family.

Should next generations go through the same processes that their founders went through? Is that the best way of learning business and working on it?

G M Rao: In our generation, founders employed the family members in senior-most positions right from the beginning. But when it comes to the next generation, a structured career path is being designed based on their qualification and confidence levels.

From L to R: Mr. Tatwamasi Dixit, Mr. Grandhi Mallikarjuna Rao, Mr. Satya Narayan Bansal and Mr. Peter Leach.

Peter Leach: No two families are the same. There are very different practices but there are some pieces of conventional wisdom, which say that you are always better to get some outside experience before joining the business if you can. Sometimes you can't. Sometimes it's good to start at the bottom of the business and work up if you can, if you have the patience to do that.

I saw a case of a gentleman who said to his children, "you are welcome to come into business when you leave university and I will give you a job, but when you are 27 I will kick you out of the business and you will spend 2 years going to different business schools, going to different educational institutions and learning. Then when you come back, you will have a much more senior position."

So he had them in the business from the age of 22 to 26. On their 27th birthday they are sent out and they had to spend 2 years outside. When the elder son came back he was made chief executive. The person had practical experience in the business, then he did serious learning and came back to the business better equipped.

For that particular family that was a brilliant system, but it doesn't work for everybody. If a family member is put on a path that is not right for them personally, ultimately when they get control they won't be in the right frame, they won't be the right person and could destroy value very quickly. It's a very destructive thing to have the wrong person in charge of the business.

Tatwamasi Dixit: Interest, competence, passion and skills sets of the next generation should be determined to design their career path. Just because they are family members, they cannot simply be placed in senior positions as is done by some traditional family business houses. Depending on which stage the family business is in, a bespoke design should be curated for every single family member. As the next generation has an established platform, are more skilled and have greater exposure, they are likely to have a career path which could be different from that of the founder.

Satya Narayan Bansal: Organisation memory is a very good concept and most organisations are now trying to build an archive of information on how they have set up the business. It's important for learning as families can save the stories behind the decision making process what was the decision making point, what were the pros and cons etc. rather than just focusing on the outcome of success or failure. I think that itself is the biggest induction that the family can provide.

In conclusion what needs to be changed in the Family Businesses scenario in India to build a lasting institution?

G M Rao: Family governance is required not only for the family businesses but for the interest of the country. The West had created wealth in the last 500 years and it took them almost 100-200 years to get the family governance in place. Today if one big family fights and they focus only on that, imagine how much the country, economy, GDP and employees will lose. Another thing that will happen with division is, increase in competition.

Peter Leach: I think that the financial community has a responsibility to the nation to make sure that they don't only focus on making a quick return, but they accept that a long term strategy will always outperform a short term one. Therefore, they need to help businesses ensure that succession planning is done in the best possible way to ensure the long-term sustainability of the enterprise concerned.

Satya Narayan Bansal: For the last six years we have been organizing the next generation conference where we have invited family business leaders to come and share their journey, successes, failures and the way they have been thinking about their family businesses. It has emerged into a strong shared learning platform for the next generation. We have seen a tremendous ecosystem build around this conference and I think we have to have these kind of discussions more often.

Tatwamasi Dixit: A more professional approach to family businesses in India will go a long way in contributing to their growth, success and sustenance. Professionalization involves de-centralizing certain processes and empowering management at different levels. Decision-making should not be left only in the hands of owners and family members but also with other non-family managers with expertise. Family managers should function and behave like professionals. They should have a custodian mindset and choose meritocracy over hierarchy.