



Building a resilient family business entails congruence of vision, unwavering commitment, and diligent execution of strategy.

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**FAMILY
BUSINESS**

Building blocks

Family run businesses are a significant segment of any nation's economy. A family business can be a single-owner firm or a large industrial house. In India, Family Business contribute close to 25 per cent of GDP, about \$670 billion (BCG 2020). According to Mint, only 12 per cent of family business make it to 3rd generation and 3 per cent make it to the fourth. Most family businesses fail to survive multiple generations because they do not address succession planning, risk management, and suffer from interdependencies between the family, the business, and ownership. COVID-19 has only accentuated the need for family businesses to build resilience, to survive and sustain black swan moments. Resilience is the ability of the family business to quickly adopt to any disruptions while continuing to protect business continuity and safeguard its investments, people and brand equity.

Thermax, Jagdale Group, Shahi Exports Pvt Ltd, Shahi Exports, Mysore Deep Perfumery,

N Ranga and Sons, Rajoo Engineers, Fouress Engineering, and others have adopted the following principles to stay relevant and resilient in challenging times.

Long-term vision, tempered with realism

Building a resilient family business requires thorough planning and diligent execution. If it is only a single company, then explore what is required to scale and grow. Identify the partnerships and alliances needed to expand to new geographies, and reinvest profits in deepening expertise and acquiring efficient resources. After touching a certain revenue, plan for adjacent markets that can be pursued without efficiency loss. Run the business with clearly measurable outcomes and do not launch unprofitable ventures. Constant pruning, diversification, and expansion are imperative to stay relevant.

Good governance policies, structure, and process

Invest in the governance process, both formal and informal. Create a formal siblings council

or cousin consortium or a family office. Create roles for effective communication, reporting, accountability, disputes resolution, administration, and also to decide on forums/ rules for meetings. Create a charter detailing the vision and values of the family and the business, and the connect between the two. It could also carry details such as board representation, voting rights, nomination, disputes resolution mechanisms, and so on. Importantly, a family charter must also limit exposure to investment risk in markets with government as major

customers as change of policies or change of regimes can make or break a family business. Risk management practices should also be put in place; these would protect the family from exceeding resource limits and also craft mitigation strategies while operating in sectors with strict regulatory environment. Further, audits are a sure-shot way to ensure transparency and protect the businesses from fraud.

Define values and identity

The most critical step in building resilience is developing and

celebrating the legacy of the business, its history, and the values that define it. Pains, setbacks, and wins constitute the threads of history that define the richness and identity of any firm. These are powerful means of inspiring and offering direction to the new generation. So, let these values and identity drive the business and limit opportunism at all levels.

Create rituals and processes for multi-generational bonding. Invest in documenting the family culture that is shaped by members of different generations and their specific interests. Robust family businesses enshrine and celebrate their pride, and ensure business continuity and security by preserving the charisma of their culture.

Invest in capabilities and successors

Working on capacities, offerings, and the capabilities of resources is critical to build a sustainable family business. Continuity and market relevance can be ensured by working on not just products and services, but the business as a whole. The key here is to build capabilities that will make the organisation stronger in terms of management, process, systems, and culture.

Succession must be done in a transparent manner. While the plan for it is rolling, ensure

that the business is not disrupted by the changes it may bring about. The older generation plays a significant role in communicating the business parameters to multiple interest groups and ensuring buy-in.

Finding a successor is also an opportunity to rewire a business; so, let somebody who is going to own and run it in the future weed out suboptimal approaches and bring fresh perspective. Identify successors based on their capabilities, commitment, and interest in pursuing a role rather than on gender or other norms. A grow-from-the-shop-floor approach or internship can help them find their feet in the company. Also, they should not be burdened with constant reminders on results; the focus should be on outcomes instead. Obsession with results may divert their attention to short-term gains.

Create a corpus and protect wealth

An important way to create a sustainable family business is to create a diversified portfolio of wealth by looking beyond just real estate and commodities (read gold). De-risk by investing across all asset classes. Explore the option of overseas investment, as permitted by the government—this will help create assets in foreign countries that could also serve as an education base or market ports for future generations. This, in turn, would undoubtedly help in ensuring higher returns and do better tax planning. Acquiring companies without stretching resources will help to gain trade and supply chain advantages.

Bring in professionals

A family business that can attract, manage, and retain talent will always be more resilient. While family businesses typically focus on optimisation, especially on the resources front, non-family professionals can bring in a high degree of efficiency focus. They can bring in systems and processes that can lead to more transparency, accountability, and enhanced control of the

business. Professionals should be hired for not only their experience but also their attitude—those who can not only lead, but also mentor and guide incumbent resources. And if they have long-term vision, it would help in maintaining continuity of the 'change paradigm'. Actively encourage dual reporting, to professional mentors and family business leaders to seek out feedback and guidance on both task and business related areas.

Imagine the worst, prepare best

Family businesses fare better when there is a clear demarcation between 'family' and 'business'. Operational conflicts can be easily resolved when there is a clear understanding of roles and responsibilities. A good starting point is to align the family's relationship with the business goals and detail a plan with a clear description of roles and expectations, the skills required for each function, and also the chain of command. Lay down transparent compensation rules for those family members involved in the business. Proper mechanisms and processes have to put in place to prevent small problems from mushrooming into major business and family issues.

Building a sustainable family business is all about preparing well to respond to challenges. And resilience comes from the ability to stay relevant by avoiding unwanted expenditure and risks. Building the foundation of a sustainable and resilient family business entails preparation, congruence, commitment, and execution excellence. Such an approach will come in handy while tackling knock-on effects of even major disruptions like COVID-19. ■

References
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