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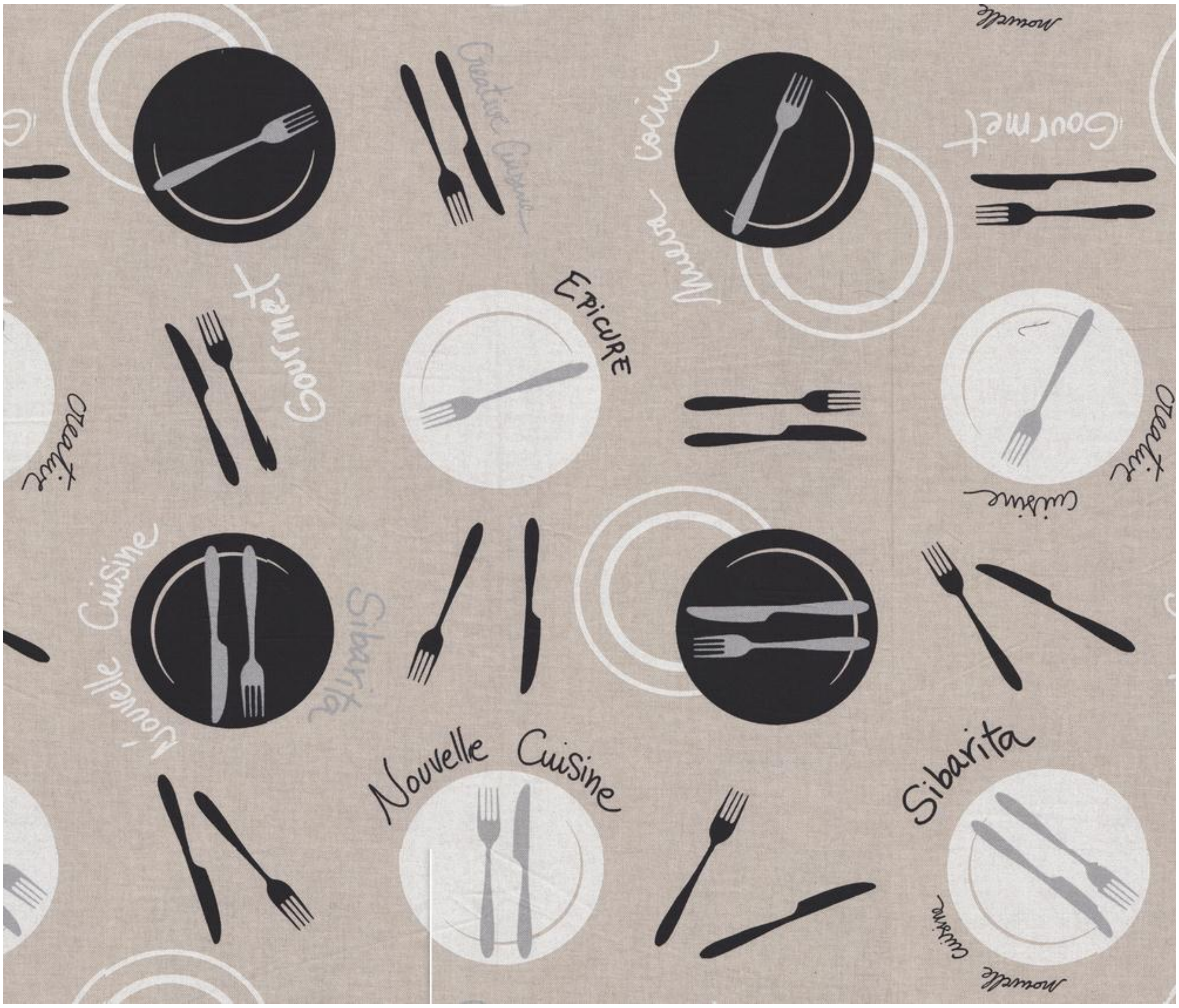

Sustaining Multi-generational family business

Family run businesses are a significant segment of any nation's industrial structure. 5% of US GDP is contributed by family businesses and 35% of Fortune 500 is family owned. They generate close to 50% of employment and 59% of all new job creations (Institute of Family owned business, 2011).

In India 95% of business are family run, and 30% of BSE listed companies are family owned (CII, 2010). Multi-generational family run business are commonly involved in trading, textiles, hospitality, healthcare, accounting, agro-based industries. According to Small Business Administration Office of Advocacy, only in one in three businesses succeed in making from one generation to other. There are no official figures for closure/exit rates in India, but informed estimates are one in five businesses survive beyond second generation. Many family run businesses life span is highly correlated with their founder.

Our experience indicates successful family run businesses have few things in common.

1. Diligent accounting and thrust on profitability

Most successful multi-generational family businesses believe in managing with numbers. Often the family dinner times are quick and dirty review on day-to-day basis and a formal business review monthly. Major expenses are reviewed and risks are discussed. In a novel method, one of the Sindhi family made this a ritual to be discussed in their prayer room and all major financial discussions were done under oath.

2. Succession based on capabilities and passion, NOT on tradition or gender

In cultures where first-born enjoys higher share and is considered a natural leader, many families build their succession on the tradition.

Most successful families created space for the elder siblings to graciously side-step and allow younger, more focused leadership to emerge. Family elders played a significant role in establishing the business parameters, discussed and communicated the same across multiple interest groups to buy the succession plan well in advance.

Case in point is a Bangalore based trading and real-estate business family, which realised despite being a Charted Accountant, the elder sibling of the family of six, did not have the zeal or intensity to carry the business to next level. The third sibling with background in engineering, good admin skills and ability to network with power be was identified as the next family leader. The elder sibling continues to be invested with all the ritualistic values in a traditional Marwari family, and the business growth has multiplied many folds.

3. Plan and go geographically

Going regional and international is very important for family business. One they offer spread of existing business, but more importantly hold the interest of next generation to continue and expand the base. The promise of new land and new country helps in continual investment in the family business, but also can add reverse flows to the parent overtime. A leather company in Agra over two generations has pursued a simple strategy of moving its eligible next generation family member into key cities in India first. Over time, it moved couple of newly wed families to Russia, UK and USA. Over time, each of these nodes not only do substantial imports from Indian parent, but also have diversified into exports to India and other markets.

4. Empower and Mentor early

Once a future leader is identified, successful family businesses start mentoring the person through on-the job exposure and empower him to learn and implement changes. An IT company into 3rd generation ownership has an interesting triad of mentoring process. Two CEO's who had grown the business doing an informal mentoring and an external professional guiding the designated leader on formal process and decision making.

5. Preserve roots and diversify

Many successful multi-generational businesses diversify and build around the personalities and interests of each generation. The idea is similar to a Bricolage, allowing each generation to add and extend the enterprises and cash-in the relational assets built across generations. Some of them devised simple mechanisms for breakouts or cashing out by next generations and designed appropriate methods to preserve multigenerational legacy and continuity.

A third-generation jewellery family in Chennai, had a peculiar problem. It was located in traditional area of Chennai, most of its current clients were in the age group of above 50's. They had three traditional gold jewellery shops that had crafted pendent, chains, etc. against an order and with newer make-to-stock Kerala based jewellers entering the market they were unable to attract newer customers. Their current generation wanted to look beyond traditional business and the family invested in two businesses, traditional attires and other traditional art. The clients for all the three businesses were common, 73% of them being multi-generational clients for the parent. Brand recall, upselling and economies of scope across generation are the benefits gained the family gained.

6. Create a corpus for growth and challenging times

Like families saving for the rainy days, most successful family business believed in investing for a corpus to fund expansion and growth. The funds were administered by a professional investment group and the inter-generational leaders had mandates to plough in x% YoY as the corpus. They set explicit rules for dipping into these reserves and what process to follow.

7. Create rituals and process for intergenerational bonding

The adage family that eats its meals together stays together is apt for success of family business too. Successful business families used festivals and rituals to bond, create relationships and preserve the club. Families also used these occasions to mollycoddle elder siblings who have been replaced on business front, and reinforce their positions and value in family tree. One Gujarati family into timber business for last 3 generations had an interesting *Hundi* concept. All branches of the family contributed 2% of their revenues which was used for three purposes: education, pilgrimage, and investment. Only 15% of the contributions could be used for education and pilgrimage. The allocations were chaired by the senior most siblings of multiple generations to ensure all family members get their turn to tour and rest. However any investment required formal family votes by all the family members.

8. Plan and infuse professionals

Successful family business realise the value of bringing in professionals. They can bring transparency, drive and divergence to the business and can propel new directions. Many business families also bring external professionals to mentor their wards to give them the advantage of 3rd party neutral insights. Successful family business brought in professionals after a thorough vetting my multiple generations and actively encouraged dual reporting (to two different generational leaders) for the outside professional to ward any leanings and quicker induction.