

Family businesses look for outside professionals

A recent survey conducted on family businesses by financial services major Barclays and Dun & Bradstreet (market research firm) revealed that Indian family businesses are now prepared to look for outside professionals as potential successors. This is in stark contrast to the traditional succession planning practice of depending on blood ties for continuity and sustainability of family business. More than two thirds of the respondents expressed their preference for hiring an independent, professional manager to undertake all or most of the management work. The survey covered more than 200 family firms with annual revenue of Rs. 200 crores or more. Most of these family firms were not publicly listed businesses and the sample excluded the very large business houses like Reliance or Tatas.

Satya Narayan Bansal, chief executive for the Indian operations of Barclays Wealth commented about the findings, *"Contrary to popular perception, the adage 'like father like son' seems to be having less relevance (for family business owners). Indian family businesses have started differentiating between business and family succession and are willing to hire capable professionals to focus on continuity of their businesses."* Given the uncertainties in the economic environment and slow growth, this 'paradigm shift' in Indian family businesses assumes a lot of importance, especially for the near future.

Family business owners are even willing to offer a minority stake in the company to attract talented professionals who can take over as independent managers and bring more success to the business in the next 5-10 years. *"Such minority equity is important to align the leader's interests with that of the broader stakeholder population,"* Bansal emphasizes. Another significant aspect of family businesses that came up in the survey was that family businesses are now assigning increasingly high importance to corporate governance. Over 90% of the survey respondents said that corporate governance is crucial for attracting strategic investments and raising capital through initial public offering.

Source: The Economic Times, January 17, 2011