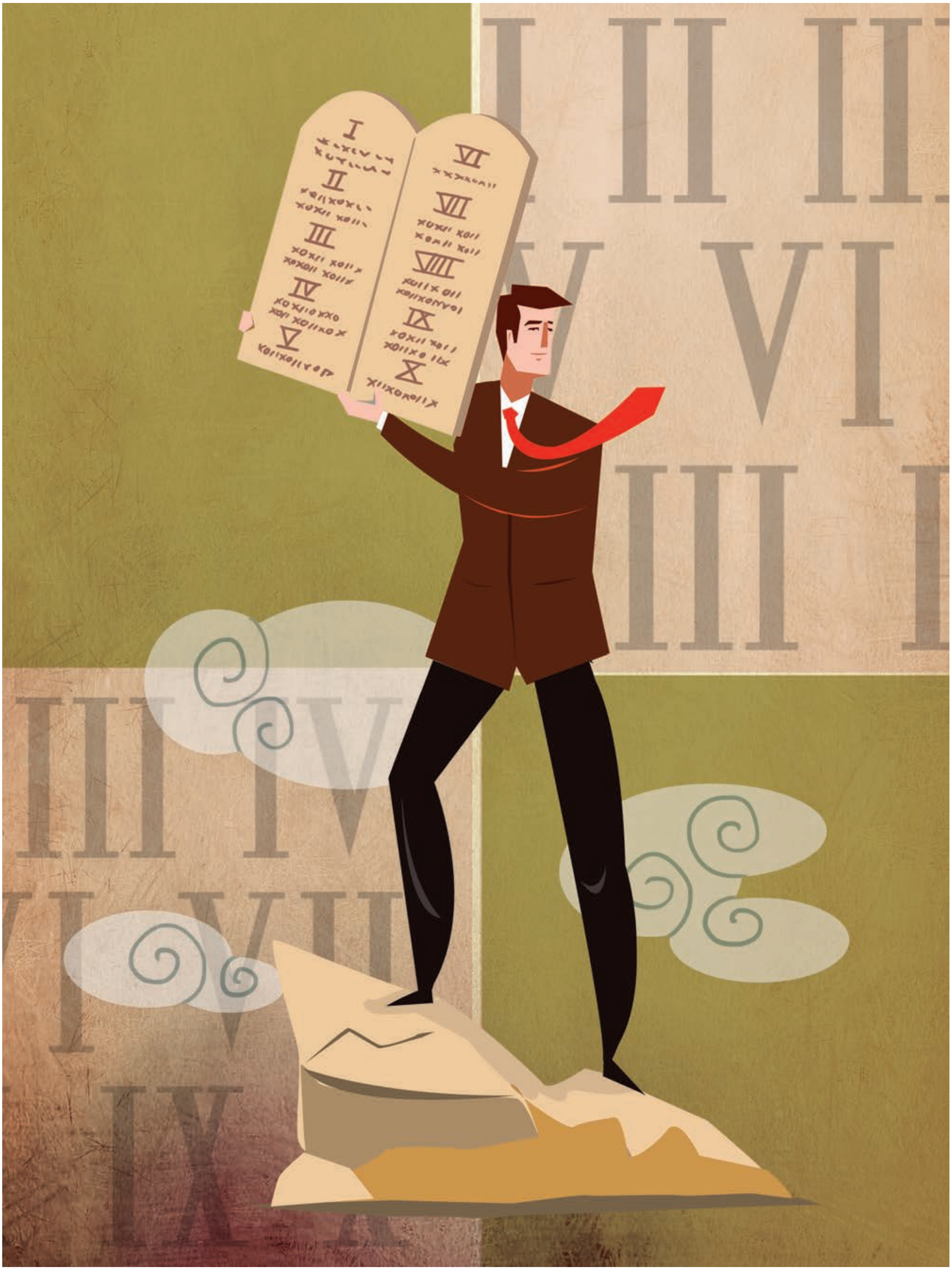
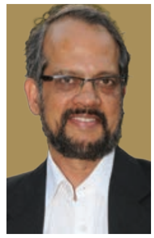


illustration by swapnil redkar



PROFESSOR KAVIL RAMACHANDRAN
IS EXECUTIVE DIRECTOR, THOMAS SCHMIDHEINY CENTRE FOR FAMILY ENTERPRISE, INDIAN SCHOOL OF BUSINESS.

play by the book

88% of current family business owners believe the same family or families will control their business in five years, but succession statistics undermine this belief. Only about 30% of family and businesses survive into the second generation, 12% are still viable into the third generation, and only about 3% of all family businesses operate into the fourth generation or beyond.[1]

Multiple stakeholders and contradicting interests make running a family business a precarious affair. Providing insights into his book The 10 Commandments for Family Business, *Professor Kavil Ramachandran probes into the intricacies of family business governance.*

Why do you think that members of the previous generation should remain a part of the business by 'redefining' and not 'retiring'?

There are two parts to my response. One is the possible roles a family member could play at different points in time. Besides operational management, an organization needs inputs on strategy, growth, innovation, improvement in efficiency, and so on. Members of the senior generation should realize or be encouraged to realize that they could continue to contribute to the benefit of the organization in several ways without being operationally involved. Besides the core business, they could be involved in completing and strengthening the social network, or in philanthropy. In essence, the organization should avoid losing the wisdom of the senior generation.

Two, the senior generation that has completed its term should not feel pushed into oblivion or the unknown. Basically, 'retirement' is a bad word, which means that one's relevance is over and one is too tired to do anything useful. A healthy and energetic senior generation member should be made to realize that each one of us has managed multiple portfolios since childhood. For instance, the portfolio of a student mainly consists of study, leisure, and sleep, but that of a young executive and that of an executive who is married and has a family would involve a different mix of activities. If we consider this angle, a senior person will have opportunities to reshuffle the portfolio of activities. In the process of reshuffling, they need not feel insecure because they are not leaving one ladder of a trapeze to catch another with the fear of falling into a pit without a safety net. This is precisely the reason I say that the senior generation should be redefining their role and not retiring.

It is impossible to completely earmark the roles especially in an evolving organization, that too at the top management level.

"Playing the doubles game [working alongside non-family members] is inevitable, but the transition from always playing alone to playing with a partner is not easy." Why?

A single player is a loner who is in charge of the entire court with no botheration about coordination with anybody else. He or she is more like a startup entrepreneur who does every function by self. Professionalization involves expanding the team and playing a team game. For the entrepreneur or the promoter, the game will be played by two people (or sometimes several people like in a basketball or football game). This involves clarity about the roles and responsibilities, and perfect understanding among [the team members] to handle any situation, including unexpected developments. Doubles game players need to have a lot of flexibility while retaining individual territories.

What are the biggest challenges that hinder a family business person from making this transition?

Some of the biggest challenges faced by family leaders include the feeling of insecurity about the capabilities of the other person. There are uncertainties about what to do next and questions of confidence while moving on. It could be compared to a trapeze player who should be confident of letting go of one ladder before catching another. If the player is not careful, a fall is certain. The person who is moving to play a doubles game should have adequate trust in the other player in terms of capabilities, qualities of integrity and ability to retain confidentiality. This is not an easy transition.

These hurdles can be overcome through a process of creating awareness about the challenges and about the need for moving on to play a doubles game in the interests of the organization's future. Creating awareness involves understanding the process of evolution of the organization and the transformational capabilities required to manage it. It also involves the need to understand that delegation, and further professionalization through empowerment and systems-driven management are crucial. In effect, the single player needs to be mentally prepared for the change.

How can roles be clearly earmarked to avoid potential conflicts?

It is impossible to completely earmark the roles especially in an evolving organization, that too at the top management level. For instance, the term 'full freedom' need not be interpreted the same way by the person delegating and the person who is joining as the doubles player. [However] it is important to define the roles as clearly as possible. There should be a review of the roles from time to time, and the players should have an understanding that any undefined areas of responsibility would be flagged and discussed between them before deciding who would handle it.

There could also be an understanding that any unexpected emergency situation could be handled by either of them.

A fact that recurs in all ten commandments is the need for effective and transparent communication, but this remains the most difficult piece. Why?

Communication is difficult because most people are not naturally blessed with the skills required for it. This is true both in terms of expressing as well as listening. Besides the skill of articulation, there is the emotional preparedness on the part of the people involved to openly communicate. In the family business context, a major underlying fact is that most people play multiple roles. For instance, the head of the family not only wears the family hat—be a husband, father, son, brother, or father-in-law; he also dons the business owner's as also a manager's hat, often that of a CEO's. Such a person is not trained to distinguish between these roles and communicate accordingly. Besides, often business decisions happen in the family environment, and family decisions happen in the business environment. Yet another challenge is the absence of policies for taking decisions on many things that are in the interface of the family and the business. Hence, family members need to be trained on the different roles they play and the implications of poor communication.

I do not agree that a split increases wealth because the growth of wealth depends on market opportunities and presence of good management.

Given that non-family professionals and family professionals have different motivations and values, what should one do to balance the interests of the various stakeholders?

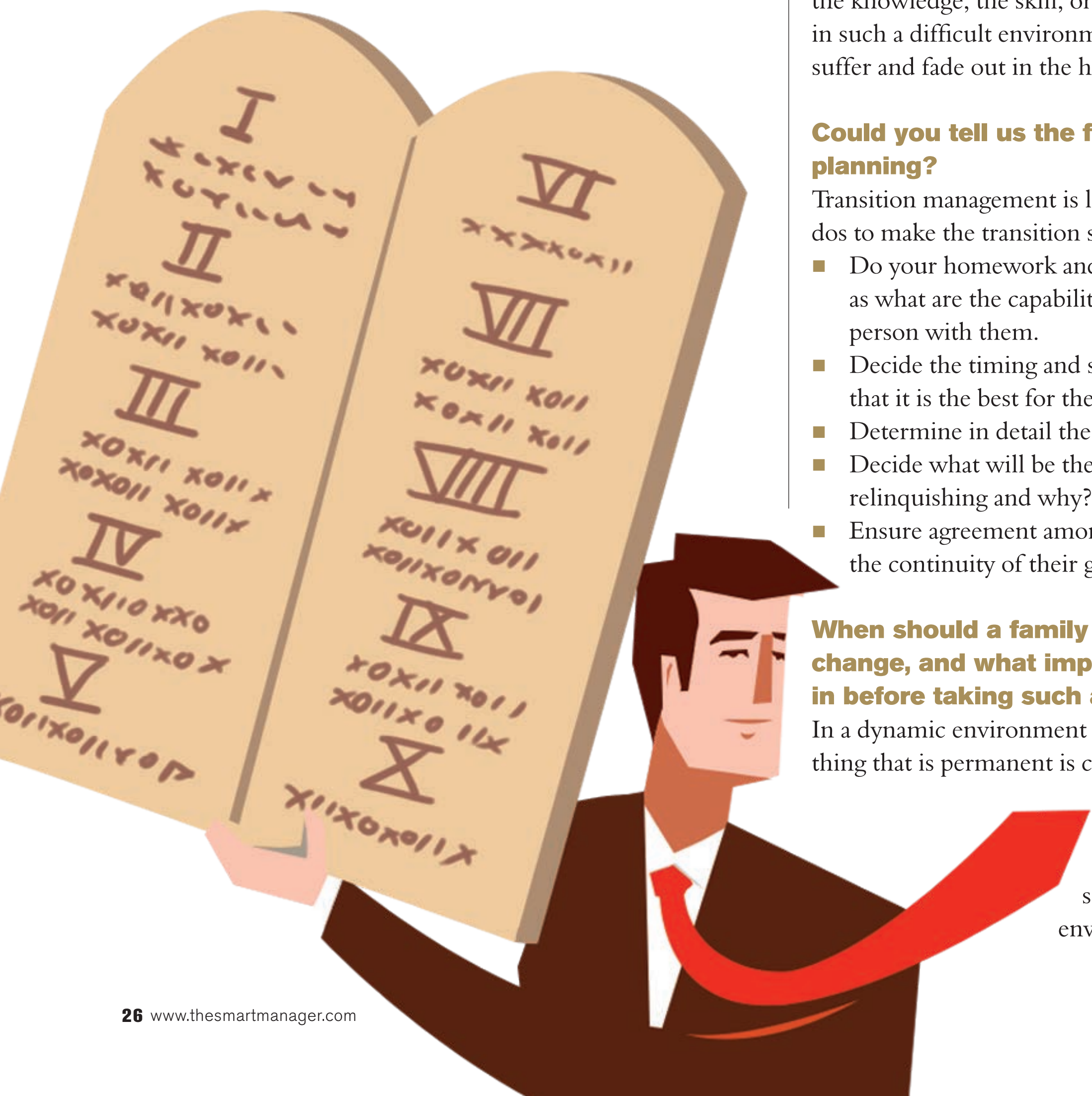
It is important to ensure that there are shared goals for business professionals whether they are family members or not. For this, the organization has to provide an environment that goes beyond salary and career growth, to be an excellent place for work. It should provide a sense of involvement and fulfillment. Non-family professionals should be treated with respect and rewarded adequately. Best-run family businesses clearly articulate the values they believe in and the family representatives would be the first to practice these. In a study on 'professionalisation of family business', I had found quick decision-making, reward for performance, adherence to values, and merit orientation as some of the factors that attract high-quality professionals to family businesses. Retaining talent is a challenge in any organization that does not practice professionalism, whether owned by a family or not.

How do family businesses offer a well-defined growth path for non-family executives? How can they overcome the problem of talent acquisition and retention?

To start with, the business should have a fairly clear growth strategy and intent to develop appropriate human resources. The promoter family has to clearly communicate and demonstrate its intention to practice professionalism at work. Normally, there would be several instances [in which] the family CEO would be tempted to favor family members. This should not happen. Instances of treating family and non-family professionals on par will send strong signals across the organization. It should be clearly demonstrated that ownership rights and management rights are different. Good family businesses develop a strong HR function early on that helps them attract and retain top talent. They will have clarity on managing talent during organizational transition into new growth orbits.

Do you subscribe to the view that a split increases rather than diminish value?

I do not agree that a split increases wealth because the growth of wealth depends on market opportunities and presence of good management. We need high-quality decision systems and processes. In fact, there are major scale advantages of retaining a business under the same ownership. What is required is to decentralize or divisionalize as per the business requirements rather than ownership requirements. Groups or companies that have performed better after a split show that the management did not do adequately to unlock value or have good organizational structure and systems to implement the strategy. Besides, unclear decision-making processes and unhealthy family environment will adversely affect the management's ability to take quick decisions and implement them effectively. It is important for us to remember that many of the well-known, high-growth family businesses of yesteryear faded out after having fiercely fought splits.



Why do you say 'the assumption that owners should be involved in the business day to-day is a myth'?

Ownership does not automatically make someone an able manager as the critical success factors that make a successful manager are different from those that make one a responsible owner. However, there are several instances where the owner has demonstrated high capabilities to be a [successful] manager. This is a wonderful combination since it provides owners the passion to drive the management effectively. The challenge comes when the organization becomes complex and the market environment more competitive. Not all the owners have the knowledge, the skill, or the attitude to be competitive in such a difficult environment. As a result, organizations suffer and fade out in the hands of the promoter.

Could you tell us the five must-dos in transition planning?

Transition management is like a relay race. The five must-dos to make the transition smooth are:

- Do your homework and find answers to questions such as what are the capabilities required and who is the best person with them.
- Decide the timing and speed of detachment and ensure that it is the best for the organization.
- Determine in detail the process of transition.
- Decide what will be the exit route for the person relinquishing and why?, and
- Ensure agreement among the players involved about the continuity of their goals.

When should a family business embrace change, and what implications should it factor in before taking such a decision?

In a dynamic environment such as the present, the only thing that is permanent is change. The various elements of the family environment change constantly as also the competitive, regulatory, socio-political, and technological environment of the organization.

Families and firms that can adapt to meeting the change requirements survive for a long period of time. This calls for flexibility as a family value. Unfortunately, most people prefer to be in their comfort zone and resist change. This is often because of the insecurity feeling involved. All the stakeholders involved should be made aware of the need for change and be mentally prepared to accept change.

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Can you elaborate on the aspect of building the family brand as an anchor for generations to identify with?

Good brands are always respected and valued and people associated with it are proud of their association. This is because of the positive energy a good brand creates. In the family business context, reputed families command respect in all societies. They provide an identity for the family members, and is a huge intangible resource for the family to build further. Hence, it is important for families to think of the elements of brand equity and configure their priorities and activities in such a way as to build the brand further. Every family member has a responsibility to add further equity into the brand.

When you talk about institution building, why do you use the word 'custodian' as against 'owner'?

Custodianship is a value that needs to be inculcated among family members. This is possible only if they realize they were fortunate to be members of the family with an opportunity to enjoy the existing benefits. That also entrusts them with the responsibility of preserving the wealth and passing it on to the next generation. This provides for continuity and a constant process of enrichment across generations. As against this, an 'owner' thinks in a completely different way. He believes that everything is because of him and he has the right to make use of the wealth (material and non-material) in whatever way he wishes. Ownership is highly short-term oriented whereas custodianship believes in the welfare of several generations to come. It creates bonding and responsibility. ■

As told to Poornima Subramanian

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