

Family Governance - the Path of Progress for Indian Family Businesses

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India Inc. is advancing to be at the forefront of the global economy. The backbone of the economy is Small and Medium Enterprises (SMEs). Their contribution is exemplary in terms of jobs creation, exports, and overall GDP.

Almost 92 to 95 percent SMEs are family owned and managed businesses, not to forget that almost 70 percent of top 500 listed companies are family owned. Large family owned business houses have always been in the limelight. The reasons could vary from being innovative to antiquated, superlative growth to bankruptcy, philanthropy to feuds. Whether Ambani, Bajaj and Mafatlal families' splits or Godrej and Murugappa families' four and five generations old lineage, family businesses are the foundation of our socio-economic culture.

The Paradigm Shift

While India is on its path of becoming the youngest nation by 2020, as a Family Business researcher, I am observing a visible change in the family business domain. Two and three generations old businesses are changing their Avatar from "lala companies" to "professionally managed" companies.

The younger successors from families are educated, suave, have a broad vision and global aspirations. As the future leaders, this brigade is getting ready to change the fabric of traditionally managed culture. They prefer operating businesses with modern management techniques, build competent teams, and create transparent systems and processes. Instead of getting stalled in family conflicts, disputes, and non-productive practices, the younger generation prefers to create a professional work culture.

The Big Question

Family owned and managed businesses operate with the ethos of "Family First". Business decisions are taken while keeping the family's wellbeing in focus. With changing preferences of the next-generation successors, can the family businesses survive with the spirit of "Family First"? Is it possible to balance the family's philosophy, culture and personal needs with business performance, profit, and transparency? Can growing families of cousins, in-laws, and relatives work together without disputes and ego clashes?

Family Governance – the Path Ahead

Prudent families who have built their businesses as long lasting institutions such as Godrej, Murugappa, Burmans (Dabur), and G M Rao (GMR) have developed a culture of good governance in the family. These families have developed guidelines and policies for family members to address complexities of family issues in terms of different aspirations, conflicting roles and goals, emotions, values, and matters of inheritance.

Taking a cue from reputed, long lasting family businesses, sensible owner families from the SME segment have also started pondering about the issue of Family Governance. For the businesses at the threshold of transferring their leadership and ownership to the next generation, developing a culture of family governance is the need of the hour.

Family governance is a mechanism, a process, that is developed with the help of a family business advisor or an expert outsider. It fosters the culture of open communication among family members by sorting out differences and focusing on strengths of individuals. Through various policies and norms, the family can develop transparency in dealings, clarity on business roles and rewards, create a prudent succession plan, and ensure the family's wellbeing in the long term.

The paradigm is shifting for family owned and managed businesses. Their survival is threatened if they do not change their gearing with the changing environment and the new generation at the doorstep. Those who are farsighted and have ambitions of becoming business houses are at the vanguard by becoming professionally managed, family owned businesses. May they lead India Inc.'s progress in the decades to come!

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