

# Building Everlasting Family Businesses

*Families are about caring, and businesses are about money!*

## **Analysis by:**

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### **Editorial Board**

Regional Editor India: *Journal of Family Business Management (JFBM)*, Emerald

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# Lets Introduce ourselves 30 seconds each

1. Your name
2. Your family business name & type..
3. How many generations...?

# Background

Family Businesses are critical towards:

1. Wealth creation
2. Employment generation
3. Economic growth of any region.

Closely held family businesses (CHFB) (within MSME) reveal that family values define the way family businesses operate, the way it manages the stakeholders, the way it guides family member and employee behaviours and the way trust is built within organizations, customers and vendors. However, shaping the growth strategies in CHFB undergoes unique challenges, especially sustaining the growth.

# Background

During its growth trajectory, it evolves the complexities including:

1. Ownership issues
2. Managing family dynamics & family harmony within different generations
3. Succession planning
4. Conflicts due to overlap in family and business goals
5. Development of human capital and skills among the family members
6. Absorption of new technologies
7. Strategic decisions to sustain growth
8. Etc.

Therefore, the critical task for family business leaders is to have a family governance structure in place for managing these complexities mentioned with relevant strategies to ensure business growth, sustainability and continuity with a legacy.

## **Open Discussions – 5 min**

What are the issues you think exist in family owned and family managed firms?

# The Challenge: VUCA

In the era of turbulence, business scenarios keep changing at all levels during volatile, uncertain, complex and ambiguous (VUCA) situations.

1. How to develop competency in managing and sustaining family business and being resilient?
2. Desire to bring in cultural changes and a powerful team work, which we call 'winning team of teams'.
3. Next generation must be woven with values set by previous generations.
4. Craft a growth strategy for the family business.

There are no fixed recipes suiting all purposes and most are unique to each family business. While all the above are desirable but indicative to our discussions and way forward in taking this family business management group to the next level.

# Objectives

- To gain perspectives on the unique attributes of family business, its leadership and how to maintain business and legacy across generations.
- To discover and understand briefly how the family businesses are managing themselves and have transformed itself in the wake of challenges.
- To explore the structure frameworks and guidelines for managing the family businesses challenges.



# Discussion and Outcomes

- Strategic challenges
- How to maintain family business over generations
- Is there a process of succession planning?
- Best practices among family businesses to handle the various complexities
- What happens when there are daughters in transition?
- Decision making

The above may be few assorted key take away, setting a direction to focussed discussions for future.

# The participants

- Family business founder managers in the First, Second, third and multi generation
- It is preferred that two generations do attend to understand and appreciate the nuances around it.
- It would be even more interesting if males and females as heir or members in the closely knitted family participate.

# Pedagogy

- Interactive session based on grounded research on the subject.
- Case lets in discussion to have brief opinions from incumbents.
- Brief sharing sessions from select family members in the group.

## Caselet 1: Birla Group – 10 min

### Discussions

- Could Priyamvada have prevented such a situation?
- What was the role of the extended family and friends?
- Did Lodha act ethically?

# **Managing Entrepreneurial Firms and Family Business**

# Family firms are the dominant Business structure worldwide

- 50% registered companies contributing 35-65% of GNP in EU
- 65-90% cos. contributing 50-70% in Latin America
- 95% of North America contributing 40-45% of GNP
- In India 95% Companies contributing 65-82%
- Very few family firms survive beyond three generations
- About a third in fortune 500 are family firms
- Walmart, Samsung, Cargil are family businesses
- Some notable family business groups in India are Marugappa, Dabur, Wadia, Godrej, Kirloskar, A Birla and TataS
- Although most are smaller in size than the widely held firms

## Key concerns

- Human resources- annual bonus key incentive
- Succession planning- more than 50% want to pass the company to family members, 70% expect the family members to assume top management role
- Poor knowledge of inheritance/ wealth tax
- Two-third firms do not have any defined criteria/ mechanism to select family members in business
- Two-third have experienced family member conflicts during last five years
- 50% members are selected without competition
- There are more conflict on strategy and style than on family issues

# In general

- Family firms are older, and have lower sales, fewer employees, fewer permanent employees, a smaller share capital, and higher proportion of family board members
- They are driven by personal preferences about growth, risk and ownership
- They lack genuine long-term business policy or a commitment to growth and evolution
- This may endanger the future competitiveness of the firm



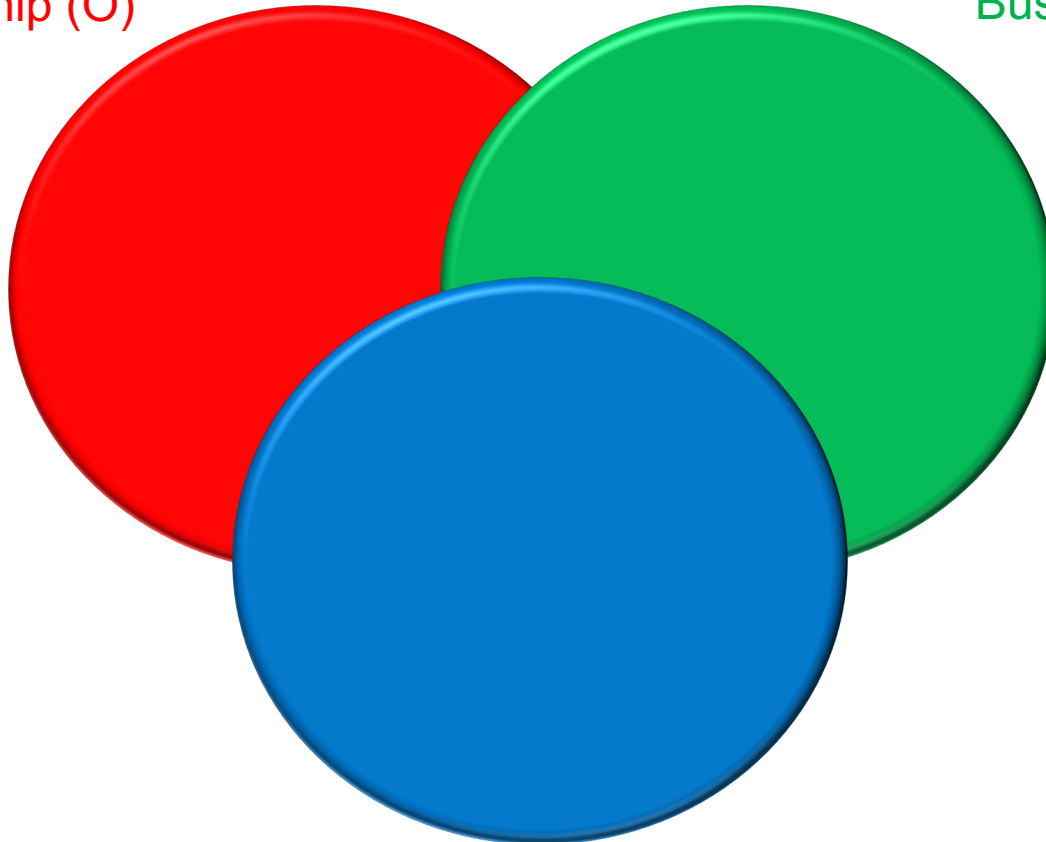
# Types of Family Firms

		Ownership	
		Family	Outside investors
Managerial Control	Family members	<p><b>Family firms - I</b></p> <ul style="list-style-type: none"> <li>-Centralized control, flat structures</li> <li>-Lack of structures &amp; systems</li> <li>-Informal relations &amp; Communications</li> <li>-Altruistic leadership style</li> <li>-Poor knowledge management</li> <li>-Relatively unqualified personnel</li> <li>-Uncertain succession</li> </ul>	<p><b>Indian Business groups- II</b></p> <ul style="list-style-type: none"> <li>-Multiple-firm businesses</li> <li>-Equity crossholding,</li> <li>-Funding from bank /capital markets</li> <li>-Well developed structures/ systems</li> <li>-Formal relations &amp; Communication</li> <li>-Better knowledge management</li> <li>-Highly skilled personnel</li> <li>-Family succession well defined</li> </ul>
	Professionals	<p><b>Professionalized Firms- III</b></p> <ul style="list-style-type: none"> <li>-Multi-firm businesses</li> <li>-Reduced crossholding</li> <li>-Funding by capital markets</li> <li>-Well defined structures/ systems</li> <li>-Excellent knowledge management</li> <li>-Highly talented professionals</li> <li>-Erratic Succession of professionals</li> </ul>	<p><b>Investor driven firms- IV</b></p> <ul style="list-style-type: none"> <li>-multi-divisional structure</li> <li>-Direct investor holdings</li> <li>-Funding from capital markets</li> <li>-Well defined structures/ systems</li> <li>-Excellent knowledge management</li> <li>-Most attractive to best talent</li> <li>-Planned Succession</li> </ul>

# 3-D Forces

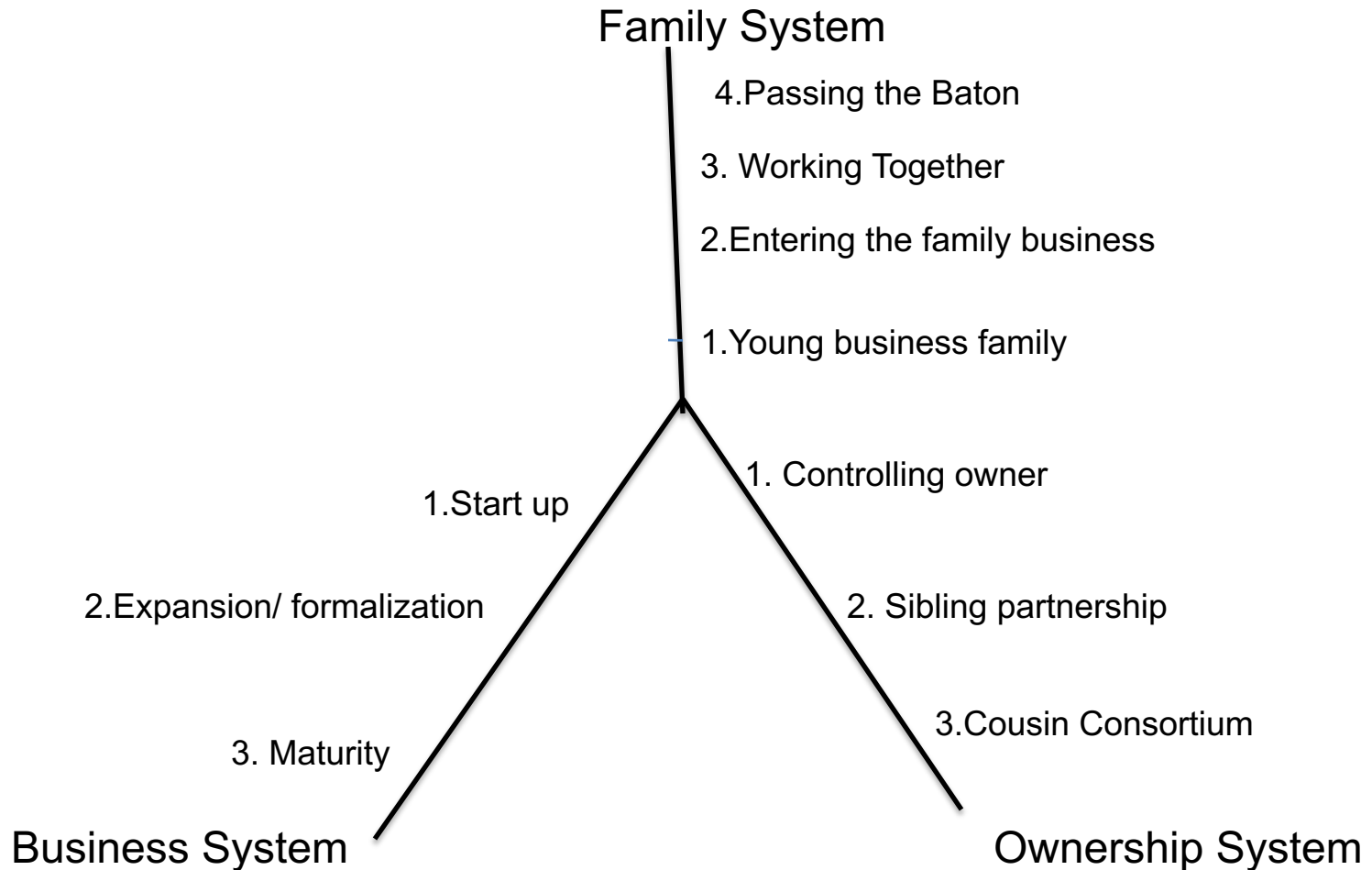
Ownership (O)

Business (B)



Family (F)

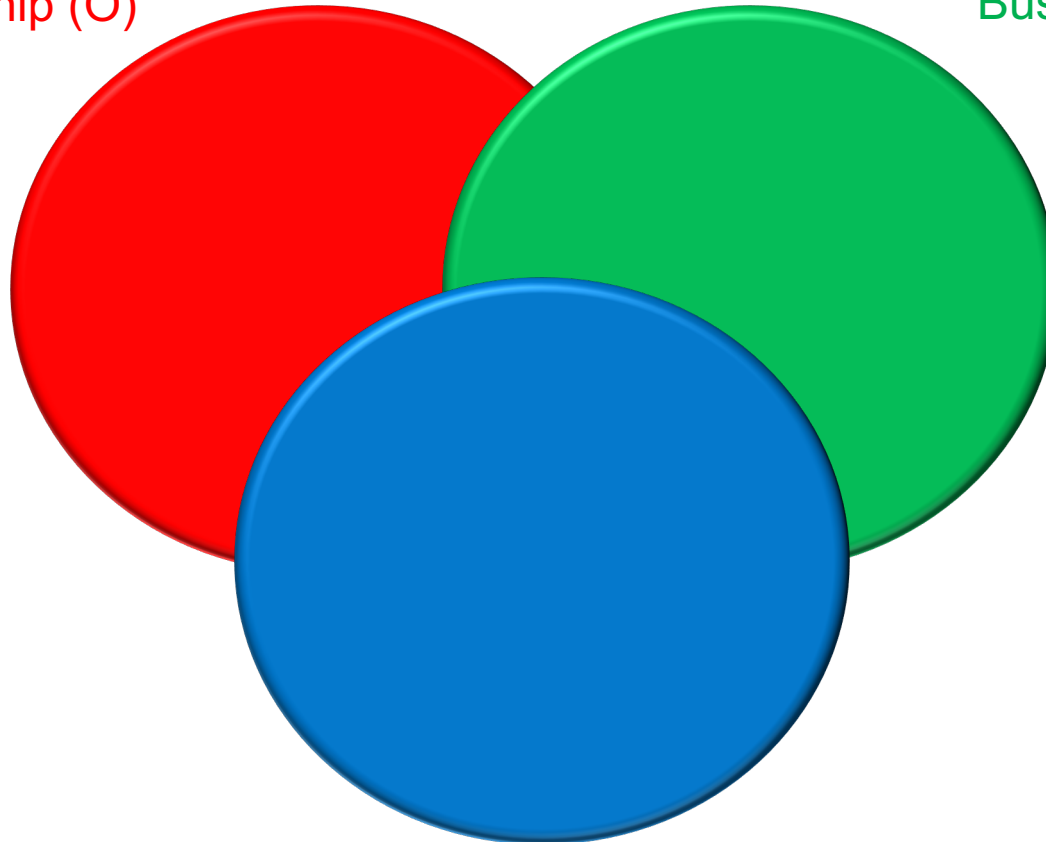
# 3-D Developmental Model



# Managing Entrepreneurial Firms and Family Business: Growth Strategy

Ownership (O)

Business (B)

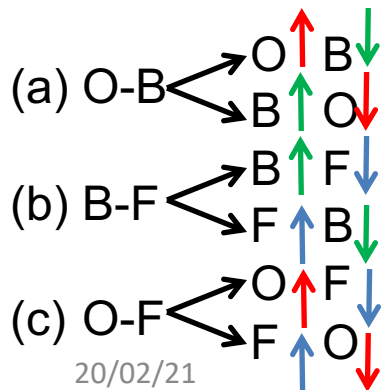
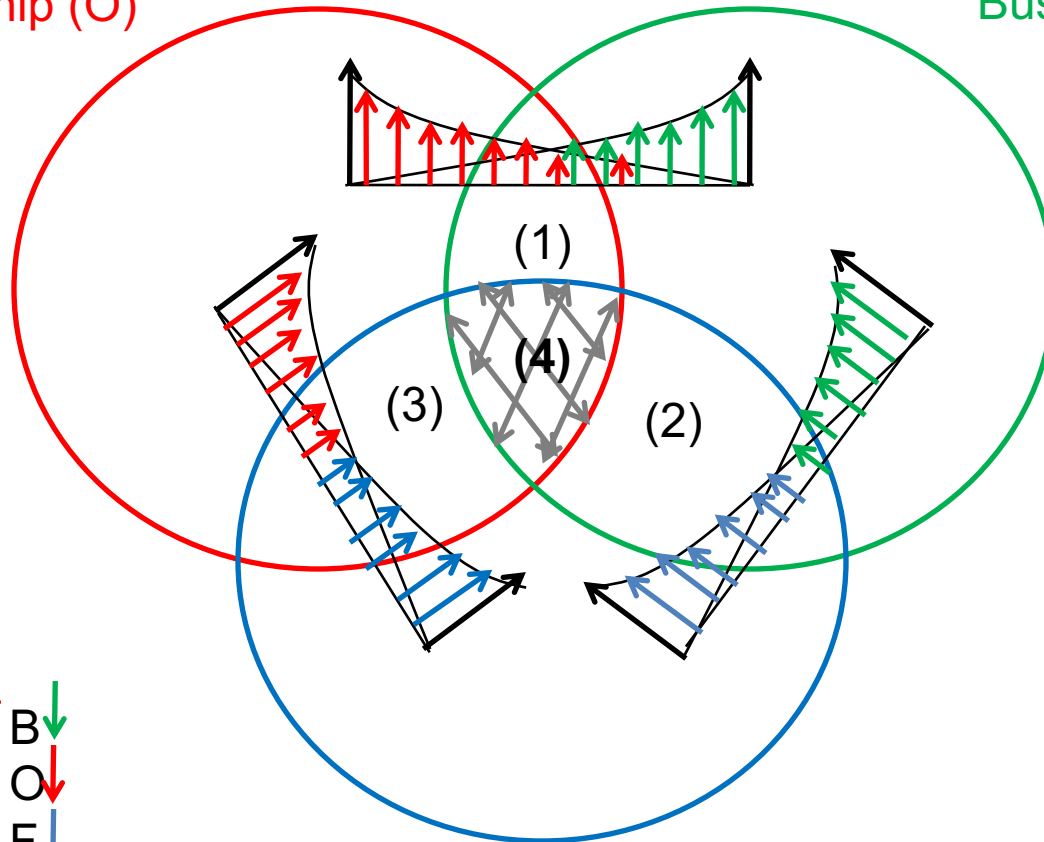


Family (F)

# Managing Entrepreneurial Firms and Family Business: Growth Strategy

Ownership (O)

Business (B)



**(4) The Ideal Region**

**CHALLENGE**



**CONTROL {ECONOMICS? EMOTIONS}  
{ (BUSINESS) ?? (FAMILY)}**

# Growth Challenges

- Maturing Business Life Cycles
- Limited capital for family and business
- Weak Next generation leadership
- Entrepreneurial inflexibility and resistance to change
- Conflicts among sibling successors
- Desperate family goals, values and needs

# Avoiding stagnation: Best Practices

- Single authority
- Succession to most suitable next-gen entrepreneur
- Assure Fresh strategic insights: strategic experiments, budget strategic expenses, encourage independent consultants/ directors on the board, expose next gen to competitive/international environment
- Attract and Retain excellent Non-family managers: emphasize merit. Help them accumulate good capital,, assure career growth



# **Open Discussions: Best Practices- 10 min**

# Best Practices .....

- Create Flexible, innovative organization: share business information openly, champion change and celebrate new ideas, constantly change some things
- Create and Conserve capital: use other people's money, manage strategy to be less capital intensive, quickly establish share redemption plan and dividend policy
- Prepare successor for Leadership: Inculcate the culture of change in successor; Promote good mentoring for successor; Set a date to transfer the responsibility
- Exploit the Unique Strategic Advantage of family ownership: Long-term investment orientation, build strategy around relationships; get into business requiring fast decision making

**Observations: Best Practices- 5 min**

Discussions

# Nature of VUCA

1. What is this VUCA world?
  1. Past
  2. Patterns
  3. Randomness...
2. How companies have to relook at their strategies?
  1. Analyse
  2. Foresight
  3. Scenario Planning...

# What research reflects on FB?

## The Challenges



### VUCA in Family Business

#### **Volatility**

{Changing Values, Knowledge Transfer, Emotional Intelligence, Successful Generations, Succession, Business Environment, Competition, Sustainability, Spin-off's, Leadership, Legacy, Conflicts, Women in FB...}

#### **Uncertainty**

{Knowledge Transfer, Emotional Intelligence, Successful Generations, Succession, Conflicts, Sibling rivalry, Spin-off's, Leadership, Legacy...}

#### **Complexity**

{Knowledge Transfer, Emotional Intelligence, Ba, Values, Sustainable Entrepreneurship, Family System, Succession, Successful Generations, Knowledge Transfer, Conflicts, Spin-off's, Ownership, Leadership, Legacy, Psychological Aspects, Women in FB...}

#### **Ambiguity**

{Successful Generations, Succession, Leadership, Legacy, Psychological Aspects, Conflicts, Women in FB...}

# Response to VUCA

1. Strategic insights
2. Points that owners need to rethink their business models
3. Learning the process of transformation
4. On becoming more entrepreneurial leader
5. On becoming an innovative company
6. On good governance practices
7. Managing family dynamics

# **Response to VUCA - Details**

# Thx, Namaste

—Shaker A. Zahra, Department Chair, Robert E. Buuck Chair of Entrepreneurship, Carlson School of Management

“...will bring insights to leaders in all areas.”

—Pankaj Kumar, Chairman & Prof, HR Management, IIM Lucknow

Failure in itself is not a catastrophe, but failure to learn from failure, definitely is. It is not enough to merely train leaders in core competencies, without identifying the key factors that inhibit their use. Rather, it is resilience and adaptability that are vital in order to distinguish potential leaders from mediocre managers.

Authors Suhayl Abidi and Dr Manoj Joshi bring to readers *The VUCA Company* (Volatility, Uncertainty, Complexity and Ambiguity), the first of its kind in India, on original case studies of 12 Indian corporate failures, since the time of economic liberalization. Each study has been the result of meticulous research over the years and provides insights into behavioural and systemic aspects of failures and under-performance. Through these engaging corporate stories, *VUCA* discusses how individuals and organizations can avoid, minimize and recover from failures.

SUHAYL ABIDI is a practitioner of Organizational Learning & Knowledge Management. He has spent the last 25 years with organizations such as Penguin Publishing, The British Council, Reliance Industries, Essar and Piramal Healthcare.

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SHIKHA SHARMA, MD & CEO, AXIS BANK

# THE VUCA COMPANY

How Indian companies have faced  
Volatility, Uncertainty, Complexity & Ambiguity

SUHAYL ABIDI & MANOJ JOSHI