

# CII-FBN INDIA CHAPTER JOURNAL

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A JOURNEY ON FAMILY BUSINESS

## CHANGE & CONTINUITY

# DRIVING FAMILY BUSINESS

Family-run enterprises that have attained a high degree of success in India are those that have diversified, demonstrated a long-term vision, adapted to change and became truly competitive in the global business arena

Family enterprise is the fulcrum of Indian business to the extent that an estimated 95% of all businesses in the country are family-owned, from large enterprises to medium, small and micro units. The sheer geographical spread of this segment signifies its heterogeneous character, yet a common thread runs across the majority of Indian family enterprises conditioned by customs and traditions and family values.

The role of family business in India's Freedom Struggle and nascent industrialisation post-Independence is well chronicled.

CII FBN India Chapter brings to you the inaugural edition of this journal which is envisaged as a medium to discuss and deliberate the issues linked with the management development of Indian family business. The journal will be published every month. We invite your active participation in the development of this journal.

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Most large traditional business houses in the country trace their early growth to the first part of 19th century when they took up the challenge of setting up India's industries, while contributing to the young economy's growth and development.

In the later years, as India stepped up its industrialisation, it were the family enterprises that translated the Government's growth goals linked with exports, employment generation and balanced development into tangible results. The stability that family business ensured was crucial to the country's sustained development.

When the first wave of liberalisation came about in the early 1990s, serious questions were asked if the traditional business houses had the capacity to operate in a competitive environment that was increasingly turning global. Further, as Indian business progressively integrated with the international business hubs resulting in a new generation of business ideas and innovations entering India, critics once again asked if the traditional Indian family enterprises were adequately geared to handle the new challenges that came up in the emerging business environment.

Twenty years down the line, it is clear to all that Indian family business had not only weathered the aftershocks of the tectonic shifts in the economy but has also revitalised itself to maintain its dominance across the domestic business sectors. Facts underline this. A Moody's-ICRA survey in 2007 revealed that 17 of the 30 Sensex (Bombay Stock Exchange) companies were family controlled. And, some 65% of companies listed on the National Stock Exchange were family-owned businesses. The composition has remained largely the same until now.

The remarkable tenacity with which Indian family business has remained on course raises the fundamental question – what is

particularly Indian about the Indian family enterprises. The heterogeneous character of this segment would suggest there are no straight answers. After all, family business in each region or state in the country is governed by the local social setting. However, it may be said that the Indian-ness of these enterprises comes out clearly in two key areas – financing of business and succession planning.

### SEED MONEY

It is not uncommon for start-up entrepreneurs in India to look to relatives and friends for support for initial business funding. Often times such funding is organised informally,

purely on trust and verbal assurances. In good times, 85-90% of capital for small businesses apparently comes from friends, family and the entrepreneur's own funds. But during times of tight credit or recession, family members are invariably the only funding sources for most start-up entrepreneurs.

There are clear benefits to funding by family or friends, rather than conventional sources, such as a bank loan or angel investment. Funding from family or relatives are sufficiently flexible in terms of interest and repayment terms. This explains the relative ease with which family business has spread out.

### MATTER OF SUCCESSION

Succession planning is another area

where Indian family business has followed its own unique management approach. Traditionally, Indian businesses have been closely controlled by family members. Ownership has always been an emotional issue, and rarely do families have less than a majority stake—either by themselves or through friends and relatives.

With India emerging as an economic powerhouse, family businesses are also making changes in their growth strategies. However, the management control in the majority of enterprises is firmly ensconced in the hands of the family. Back in 2003, a Grant Thornton, which was subsequently reported by internet news outfit Rediff (February 21, 2003), revealed that businessmen the world over may be handing over the reins to professionals, but for Indian entrepreneurs, retaining control over the business and passing it on to the next generation is still the driving passion.

The study said that as many as 46% of Indian businessmen believe that their successor should come from within the family. In comparison, only 22% of North Americans and 24% of Europeans subscribe to this view. As many as 57% of the 185 Indian businessmen covered in the study thought that the shares in a company should be transferred only to family members. In contrast, the majority of respondents in countries like Singapore, Malaysia, Thailand, Japan and Hong Kong had said that the transfer

of shares should not be restricted to family members.

Further, 51% of the Indian respondents said that family members are entitled to differential pay arrangements over other employees. This was substantially higher than the Asian average of 31%, as per the study.

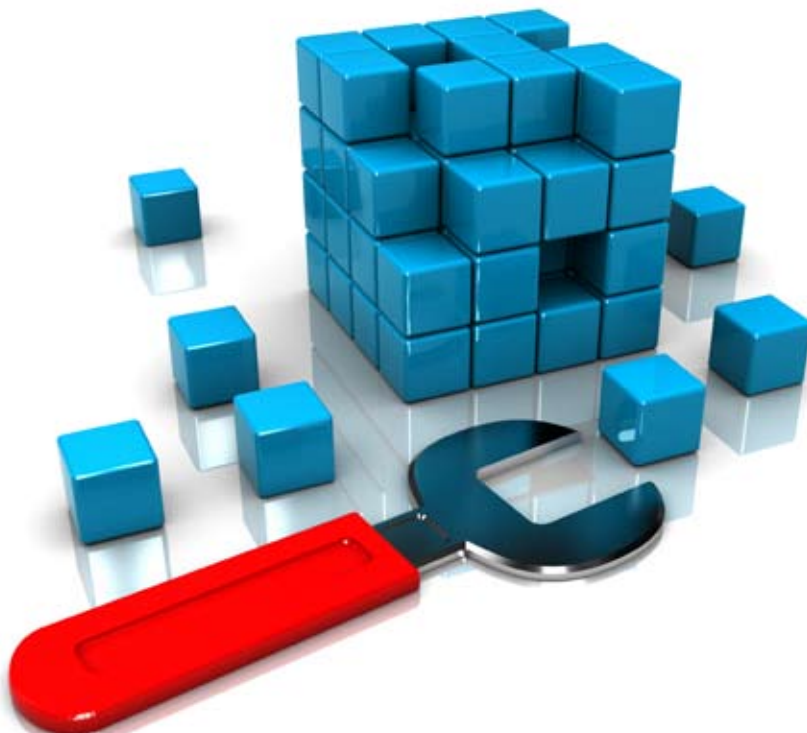
Referring to certain challenges extant in succession planning, Prof. Kavil Ramachandran, professor of family business and wealth management at Indian School of Business Management (ISB), said at a session on 'How to Build Lasting Family Businesses' organised by The Indus Entrepreneurs (TiE), Punjab & Chandigarh and ISB at Chandigarh in June 2008 that "family businesses face a lot of succession challenges and usually the fallout of this is business gets split into various smaller entities. This results in a loss of competitiveness, legal battles and an overall dilution of the brand. Bankers, customers and suppliers tend to lose their respect for the business and a once flourishing entity slowly dies away."

On a different note, Prof. John L Ward, clinical professor for family businesses in Kellogg School for Management said in an interview to Business Today (February 14, 2010) that "succession planning is important but less problematic in India."

"I think because Indian families are small the transition from senior generation to the next generation is somewhat smoother than in other parts of the world. The greater question is continuity planning, which is investing in the culture and governance of the business for the long-term future. This is a larger challenge for Indian family businesses," said Prof. Ward.

Certain studies have reported that families hesitate to address the succession dilemma as it is closely related to the family policy on entry of new generation, retirement of incumbents and mechanisms for resolving conflicts. Quoting a research published by US-based management consultancy Bain & Company, British daily 'Financial Times' reported that "more than 75 per cent of company boards in India do not discuss chief executive succession planning at all."

In comparison, the boards of more than 60% of top-ranked companies in the US discuss their succession plan at least one in a year, while 80% of those



companies have already put in place an emergency succession plan.

Financial Times further reported: "In a country where corporate leaders enjoy extraordinary professional longevity, lack of succession planning is a key failure of boards at many family-owned businesses in India, leaving them highly vulnerable after the retirement or death of their leaders." However, families that successfully survive three or four generations have a complex web of structures, agreements, councils and forms of accountability to manage their wealth.

In contrast, in America families choose their most competent member(s) to manage the business, disregarding age, gender or bloodline. This is a reflection of the family's willingness to separate family hierarchy from organisational hierarchy.

Prof. Ward suggested that Indian family concerns should concentrate more on the quality of governance, particularly through their boards. They should also pay more attention to developing a long-term culture and a strong management development programme.

On professionalising the organisation, Prof. Ward said, "Start early, think of it as a process and not an event, include independent directors to oversee the process, focus on personal development and professional feedback to new generation family members, set target dates for the transition and celebrate the process."

Prof Ward observed that the biggest question about professionalising the management for Indian family business is for the family owners to believe that they can attract the very best talent, delegate great responsibility and challenges to non-family management and support it with an excellent culture. "Too often I find that family businesses in India don't seek the best possible talent that they can attract and don't delegate business and strategic challenges to non-family management," he said.

In Indian family business there are also challenges of multiple stakeholders for the leadership position. Very often there is lack of communication between the incumbent and incoming generations. The incumbents do not know how to handle the succession challenge, while the incoming generation does not know how to raise it.

Mr Peter Leach, a leading family



business advisor, was quoted by The Economic Times in its report on January 17, 2010, saying: "It isn't so much about what goes down in black and white. The work that goes into creating the constitution is often far more important than the constitution itself." According to him, the challenge is to create a shared vision and ensure inclusivity - be it in terms of spouses, parents-in-law or even stakeholders.

#### LINE OF SUCCESSION

Pertinent to note that in Indian family businesses, the first-born son inherits the business. As a result, it diminishes the chances of a fight between heirs of a business family. But often, families use a complex network of investment companies with no direct control in each to control their empires. They control their businesses by a maze of cross-holdings between different companies. In this manner, they minimise tax incidence, but make succession planning more difficult.

As a matter of fact, the Hindu Undivided Family (HUF) is a separate form of business under the Indian tax code. The head of the family, also called the karta is analogous to the chairman of the board of directors. He makes all the important decisions for the business.

Traditionally in India, family businesses were dominated by male members of the family. Female members were excluded from business. However, recently many female members were named successors.

Some companies realise that

succession can turn out to be a sudden, unplanned event in the family. To prevent fights in a situation where the head of the company can suddenly no longer run the business, these companies put into place mechanisms such as trusts, family councils, etc.

A simple approach used by many family businesses is to separate the business from the family assets. Family members who are not active in the business get family assets, while those who work in the company get shares. But this can create trouble when one part of the family ends up owning real estate crucial to the company while another group owns the company itself.

#### CONCLUSION

Looking ahead, Indian family businesses will have to brace for new business challenges and leverage new opportunities. To quote Prof. Ward said, "Indian family businesses should remember that for a long time there were many excellent family concerns that were focused not only on wealth creation but building great institutions for the country. I think for some time now the focus in India is too much on wealth creation and not enough on building an exquisite institution for the future. I hope India will remember its excellent tradition in building great institutions. Indian family businesses can also learn that simplicity of ownership and governance systems and structures can be advantageous." ■

# ‘OUR VALUES CONTINUE TO REMAIN ROCK SOLID EVEN TODAY’

Mr Farhad Forbes, Chairman, CII FBN India Chapter & Director, Forbes Marshall, shares his perspectives on the management of family business in an exclusive interview. Excerpts:



**Mr Farhad Forbes,**  
Chairman CII FBN India Chapter  
& Director, Forbes Marshall

**Forbes Marshall is in business for over half a century. From a family business perspective, how has the management of the company evolved over these years?**

Forbes Marshall was founded by our grandfather, J. N. Marshall, and our father, Darius Forbes, in the mid 1940s. Our father ran the company until the mid-1980s when my brother Naushad and I became responsible for the day to day operations of the business. Today, my wife Rati who handles HR and all the Community and Social Development activities of the organisation, my brother Naushad and I are the three family members in the business. We are part of a management team that includes other highly competent and motivated non-family managers who are each responsible for different parts of the business.

Our parents, with our father as Chairman, continue to be involved on the Board and are aware of important policy matters.

We also have a Supervisory Board that consists of external non-family independent directors. Even though we are privately held and there is no statutory requirements that the Board

needs to fulfill, the Supervisory Board is an invaluable asset to us in terms of providing overall guidance and governance.

**With business diversification, was there a need for greater induction of professionals in top management? Did that alter the family control on business?**

Our father was involved in almost all the day to day details of business operations and it would never have been possible for Naushad or me to be involved to the level that he was. We had to depend on others in his management team at the time, and then subsequently on others who succeeded the original management team. Moreover, like many other Indian companies, Forbes Marshall too benefitted from India’s economic liberalisation in 1991 and the growth we have had made it imperative for us to develop and rely upon a team of very able non-family managers. The family, however, continues to provide overall direction to the business and also influences the organisation’s values, culture and operating philosophy. This influence has not diminished at all.

**How is the company's founding vision maintained over decades? Does it change as the baton of leadership changes hands?**

The company's founding vision as established by our father and grandfather went through some evolution in the early 1990s to reflect the changed post-liberalisation economic environment. Our values, though more formally articulated later, remained much the same and continue to remain rock solid even today.

**What have been the key challenges in terms of success planning?**

Both Naushad and I were very fortunate to have an easy succession because of the far-sighted and progressive attitude of our father. While he did not necessarily agree with some of the changes that were being made, and although he made his views clearly known to us, he allowed us to make our own decisions and would back us 100% even if he originally disagreed with a decision. Naushad and I also found, in hindsight, that he was often right on a particular issue and this made us greatly value and respect his opinions and views on policy issues.

Given how contentious succession can sometimes be we feel extremely fortunate at how smooth our succession process was, and we hope we handle our succession as well for our next generations.

**Would you say that family business management needs to be viewed differently from the management of professionally-managed companies?**

Family managed firms can be as professionally managed as non-family firms and the professional managers can as well be family members as non-family members. So, I don't think a family business with family in management is any less professional than one that does not, provided of course there are good governance practices in place and that these governance guidelines apply equally to the family members in management.

There is one further challenge one has in a family business situation



and that is that, as a family member involved in the business, one needs to also invest time in managing the family. More often than not we spend a great deal of time on the business but little time on managing the family. We need to put in place processes and practices on the family management aspect of things before problems arise.

**Would you advocate the need for knowledge sharing between family businesses within India?**

Absolutely! There is so much we can learn from each other. Though each family business situation is different many of the issues are indeed the same and we can greatly benefit by learning how others have dealt with those same issues. CII FBN provides our members with this opportunity to share and learn from each other through our various activities and forums. It is also a network of sensitive individuals willing to share knowledge and experiences with others in the network.

**Do you see a role for external family business consultants in your company?**

We have used external consultants

and facilitators in our business both within the family and also to work with our management team. We have also benefitted very much from attending the annual CII FBN Family Business Convention with Prof. John Ward that CII has held for the past twelve consecutive years. We try and attend this convention with the whole family present so we all receive the same inputs and then share ideas that we can then implement. There are many good practices that we have learnt from John Ward at these conventions and some of these learnings have been implemented as a result.

**What is the impact of globalisation on Indian family business?**

Globalisation has affected family business as much as it has non-family business. Globalisation brings greater competitive pressure, but it also provides opportunity - for growth of our businesses and also for sharing of knowledge, learning, and adopting best practices. It also enables otherwise small family businesses that would have remained small to create linkages and alliances with other similar firms elsewhere in the world for their mutual benefit. ■

# ‘FAMILY BUSINESS HAS TO ADOPT AN ENTREPRENEURIAL ORIENTATION’

Mr Dennis T Jaffe talks about the new challenges that meet family business, in an exclusive interview



**Mr Dennis T Jaffe,**  
Professor of Organisational  
Systems and Psychology,  
Saybrook University,  
San Francisco

**M**r Dennis T Jaffe helps families manage the personal and organisational issues that lead to successful and fulfilling transfer of businesses, wealth, values, commitments and legacies between generations. He is professor of Organizational Systems and Psychology at Saybrook University in San Francisco. As both an organisational consultant and clinical psychologist, he is one of the architects of the emerging field of family enterprise consulting. Mr Jaffe is the author of ‘Stewardship in Your Family Enterprise’ and ‘Working with the Ones You Love: Building a Successful Family Business’ and co-author of ‘Working with Family Businesses: A Guide for Professional Advisors’, as well as 12 other management books, including ‘Getting Your Organization to Change, Rekindling Commitment, and Take This Job and Love It!’ He talks about the Indian family business landscape in an exclusive interview. Excerpts:

**What are the typical challenges that family owned businesses face in terms of transfer of wealth, values and commitments between generations?**

The major problem is that families seek to do the transfer as a financial transaction, rather than a living process that involves discussion within the family, years of setting things in motion, and working out of genuine differences that exist across

generations with various family members. By avoiding these issues when the founder is alive, they set the seeds for disaster when he is gone. The members of the next generation need time and information and support to begin to prepare themselves to handle the wealth and opportunity that is being passed to them.

**How differently do they pan out in different regions around the world?**

Different countries have different legal systems, and religious and social cultures, that set different expectations and rules for transfer, but surprisingly, there are more differences than similarities. One reason for this is that the members of the next generation are being educated in schools that share global values about business and wealth, and therefore, in different ways the next generation adopts a global business perspective for the family business, which is often at odds with the cultural tradition.

**And, how do you help these businesses overcome the challenges?**

The keys to dealing with these challenges are to engage them directly and early, in a pro-active and collaborative way. While the elder generation makes the decision, if they need to consult and work with the next generation to make sure the parameters are clear and there is a plan for how to transition to the future. There also needs to be preparation and development for the members of the next generation for their

inheritance, and a set of rules that allow the family to make decisions after the founder/ leader has passed.

**To what extent has new technology impacted the functioning of family-owned enterprises? Are these enterprises sufficiently nimble-footed in adopting new technologies?**

There is a tendency for a family business to be conservative, in that they are slow to change and adopt new ways in general. The family and the family business are designed to respect tradition, which makes change difficult. To succeed, the family business has to adopt an entrepreneurial orientation, where they question the ways they do business, and look for new opportunities. This means that the new leadership must be innovative and willing to change, and have the knowledge and capability to take advantage of new options. This is difficult for members of a family who owe respect to their elders. How can they promote change and gain the support of their elders?

**How well did family-owned businesses cope with the global economic meltdown compared with other enterprises?**

For many families, the meltdown led the family to look at their own values about wealth and money, and to question their assumptions about what they could expect. In many families, a sustainability discussion was held, where the family became more realistic about what sort of life the business

could promote for the next generations, and the need for innovation and renewal in the business. Families who were able to use the crisis to learn and grow were able to take advantage of new opportunities and make course corrections.

**Is loyalty a key factor in family-owned enterprises? And, is long-term to near life-time employment still the norm?**

This is a global problem. The family business is loyal to its own family members, and also to long-term employees. This can create a culture where loyalty is more important than performance, and where people who adhere to outdated ways retain control. Every family business today must confront the issue of respect and loyalty, and balance it with accountability and ability to change. Most families have begun, in a respectful and gentle way, to confront this issue directly, as it can only weaken the business long-term.

**You have co-created the Relative Solutions Enterprising Family Sustainability Index, the Aspen Family Business Inventory, and the Aspen Family Wealth Inventory? Can these be applied in the Indian context?**

All these measures have been found to be valid across cultures, as the challenges of family business are universal. The data notes cultural differences, but focus on a set of issues that are relevant to a family business or family office anywhere in the world. We have obtained data from many

countries in the years of use of these tools.

**Which is the best way to promote education and networking opportunities for family business and family wealth advisors, consultants, educators and researchers?**

Many communities have created family business networks, often with both groups of advisors/educators and family members meeting to talk about common problems. Creating a learning community where families and advisors can come together to exchange what they have learned, and talk about the challenges they face, enriches any community.

**What steps would you advocate to increase public awareness about family business?**

I think highlighting the stories both of successful families, as well as those that have faced crisis and learned and changed are helpful. I think when families speak out and go public with their family level challenges and learning, they can help other families see that there is help for them as well.

**Do you see opportunities for family enterprise consulting in India?**

While some families can learn on their own, there is a need for guides for families as they make the difficult transition across generations. Advisors who have learned the skills and best practices that have been learned by families around the world will be much in demand. ■

**ABOUT CII-FBN INDIA CHAPTER**

CII along with FBN International has formed CII-FBN India Chapter with the aim of creating a nationally representative body of members of families owning and managing business in India.

**MEMBERSHIP FOR CII-FBN INDIA CHAPTER IS OPEN TO BUSINESS FAMILIES ONLY.**

**CII MEMBERS**

- For companies with annual turnover of above Rs. 100 crore
  - Primary Member Fees: Rs 25,000 per year
  - Additional Member Fees: Rs 5,000 per year
- For companies with an annual turnover of less than Rs 100 crore:
  - Primary Member Fees: Rs 20,000 per year
  - Additional Member Fees: Rs 3,000 per year.

**NON-CII MEMBERS**

- For companies with an annual turnover above Rs 100 crore:
  - Primary Member Fees: Rs 37,500 per year
  - Additional Member Fees: Rs 7,500 per year
- For companies with an annual turnover of less than Rs 100 crore:
  - Primary Member Fees: Rs 30,000 per year
  - Additional Member Fees: Rs 4,500 per year

(Service Tax - 10.3% is applicable on the Annual Subscription Amount).

Academics and consultants are not entitled to full membership. Family owned consultants can be associate members without voting rights.

**ABOUT FBN INTERNATIONAL**

FBN International is the world's leading network of business owning families, promoting the success and sustainability of family business. FBN International unites some 1,700 family business members representing small & medium sized and multinational companies spread across 50 countries. FBN International organises 75-100 events annually for family businesses worldwide.

FBN International is committed to giving and sharing experiences and insights in an atmosphere of confidentiality and trust. Located in Lausanne, Switzerland, FBN International is a non-profit association founded in 1990 by family business owners. It is a federation of chapters representing family businesses.

FBN International is first and foremost a networking organisation. Its success in this regard is built on three pillars: Advocacy, Education & Research. ■

# CII-FBN INDIA CHAPTER XIII INTERNATIONAL CONVENTION ON FAMILY BUSINESS

The XIII International Convention on Family Business, the annual flagship event in the Family Business arena, is being organised by CII-FBN India Chapter.

**Date** 19-20 April 2011  
**Venue:** Taj Mahal Hotel, New Delhi  
**Theme:** Family Business as Paradox  
**Principal Faculty:** John L. Ward



John L. Ward teaches and studies strategic management, business leadership and family enterprise continuity. He is an active researcher, speaker and consultant on succession, ownership, governance, and philanthropy. He is author of leading books on family business: 'Keeping the Family Business Healthy', 'Creating Effective Boards for Private Enterprises', 'Strategic Planning for the Family Business' (with Randel Carlock), 'Perpetuating the Family Business: 50 Lessons Learned from

Long-Lasting Successful Families in Business and Family Business', etc.

**THE THEMES OF LAST 12 CONVENTIONS:**

- Strategising the Future
- Solutions to Your Family Business Issues

- Managing the Family in the Business Environment
- Keeping the Family Together
- Family Values
- Sustaining Family Business – Succession Planning
- Preparing the Next Generation for Leadership
- Perpetuating the Family Business: A Compelling Vision
- Leadership in the Future
- Great Governance and Management Practices for the
- Resolving Conflicts in the Family Business Environment
- Perpetuating the Family Business.

*For registration please contact: Pooja.jha@cii.in, Ph: 91-9350800950*

## CII-FBN India Chapter Activity Calendar 2011

Name of the Event	Venue	Date
CII-FBN India Chapter XIII International Convention on Family Business	Taj Mahal Hotel, New Delhi	19-20 April 2011
Workshop on 'Building Stronger Business Through Strengthened Family Alignment'	Mumbai	16 July 2011
Workshop on 'Family Values – The Key to Legacy of Continuity and Success'	Kolkata	17 September 2011
Workshop on 'Preparing your Family Business for Strategic Change'	Chennai	22 October 2011
Workshop on 'Family Business Governance – Maximizing Family and Business Potential'	Delhi	17 December 2011
<b>Sensitisation Sessions</b>		
Sensitisation Session	Trichy	1 February 2011
Sensitisation Session	Bhubaneshwar	11 March 2011
Sensitisation Session	Cochin	2 April 2011
Sensitisation Session	Ahmedabad	8 July 2011
Sensitisation Session	Kolhapur	2 September 2011
Sensitisation Session	Jammu	26 November 2011

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