Family Togetherness

The key to family business sustenance.

By Navneet Bhatnagar

Family-controlled businesses are the dominant form of business organisation across the world, and particularly so in many Asian countries. A major challenge that family businesses face is the lack of togetherness or cohesion among the members of the owner family, especially across generations. This often leads to confusion, differences and conflicts within the family and poses a serious threat to the sustained growth and long-term survival of the business. Lack of family togetherness also puts the founder's legacy at risk. Breakups and splits in large business families have the potential to create macro-level disturbances, especially given their massive scale and influence on their national economies. Therefore, in order to thrive for long periods, family businesses need to profoundly understand and effectively address the family togetherness challenge.

Why is togetherness vital to family businesses?

Family businesses are known for their distinct competitive advantage because of unique family resources and passionate involvement of family members. Strong ties in the owner family enable members to pool all their material, emotional and intellectual resources to achieve a common goal. Thus, family togetherness forms the core from which family businesses draw their competitive advantage. Unity enables members to develop shared beliefs and a vision for the future. It helps build trust, loyalty and mutual respect among family members.

Business families that are more cohesive are known to adopt clear strategic direction and effective decision-making mechanisms. They are also more effective in collaborative handling of disagreements among the members, and better able to deal with challenges posed by the external environment. All of these outcomes of family togetherness have a positive effect on the family and greatly benefit the business, by providing it goal congruence, stability and continuity.

What threatens family togetherness?

The biggest challenge to family togetherness comes from ongoing changes in the macroenvironment. Societies across the world, and more specifically in Asia, are undergoing socioeconomic shifts. For instance, individualism is gaining preference over collectivism. The perspectives and preferences across Generations X and Y, Millennials and post-Millennials vary greatly. Economic growth in the developing countries of Asia has resulted in rapid expansion of the middle class, leading to rising aspirations of individuals. These macro-level differences are also reflected in the microcosm of the family. Hence, arriving at a shared vision and strategic consensus is increasingly becoming a major challenge in Asian business families.

At the family level, a major challenge is that each family member has his/her own understanding of family togetherness. It has been observed that even when the family members claim that they are together, the extent of this togetherness varies a great deal.[1] While some believe that sharing of festivities and celebrating together construe family togetherness, others opine that its scope goes much beyond that. This larger context of family togetherness covers not only the operational and financial issues of business but also long-term issues like succession, wealth distribution, retirement and estate planning, which require consensus among family members across multiple generations. These varying notions of togetherness often lead to fissures in the family over time.

Yet another threat to family togetherness is the ad-hoc, personality-driven decision-making process in both the family and business subsystems. This happens primarily due to lack of policies, systems and processes, which allows ambiguities to creep in that lead to decision dilemmas, deviations and conflict. Lack of role clarity, undefined boundaries of the family and business subsystems, and unclear ways of sharing responsibilities and rewards, present a ripe ground for differences to erupt among family members.

Togetherness may also be threatened by abrupt or unforeseen changes in the family. For instance, marriage involves the inclusion of a new member. This member may not necessarily subscribe to the family's vision and values. This incompatibility may lead to discontent and discord, which may result in breakups. In some other instances, the family may make extraordinary efforts or sacrifices to support a sub-unit, like an ailing member or a member who suffered losses in a business he/she was managing. Such efforts call on others to give up their rights over certain resources, which may be deeply disliked and cause a fissure in the family.

Finally, family togetherness comes under threat in the absence of clear and effective communication. Lack of communication among family members is the root cause of differences that gives rise to contentious issues in the family. When lines of comunication are absent among family members belonging to different generations, these differences may become even wider. Without effective communication among family members, minor issues and misunderstandings remain unresolved. Over time, these problems may keep growing and become a serious threat to family togetherness.

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What can family businesses do to strengthen togetherness?

Family businesses need to take several measures within the family, as well as the business sub-systems, to strengthen family togetherness effectively.

SET UP MULTIPLE FORUMS FOR COMMUNICATION

Business families must set up platforms or forums for open communication where members have free exchange of thoughts and opinions. These forums provide opportunities for family members to voice their concerns and openly discuss their differences. Forums also help bring clarity to the decision-making process. Frequent exchanges of ideas enables paradigm shifts. This creates space for diverse viewpoints to coexist in harmony. Care must be taken to ensure that these forums continue to be effective and are supported by follow-up and feedback mechanisms. Open channels of communication will help family members build trust and serve as mechanisms to address contentious issues, thereby reducing internal differences and strengthening family togetherness.

INCREASE INTERACTION OPPORTUNITIES

Frequent family meetings provide opportunities for family members to interact with each other. These meets are even more important if the family has different branches involved in the business. Frequent interactions will renew and strengthen emotional bonds. The next generation and those distant from the family's core will get to know and understand one another better through these events. Frequent informal interactions tend to build mutual trust and harmony, and fortify togetherness in the family. Emami, the Kolkata-based Indian conglomerate group, exemplifies how family businesses can achieve this: members from the co-owner families of Emami regularly interact in both formal and informal settings, keeping their communication channels active and strengthening their mutual bonding.[2]

ESTABLISH STRUCTURE AND MECHANISMS FOR FAMILY GOVERNANCE

Business families must formulate their family governance norms, structures and mechanisms in consultation with all their members. These norms or codes of conduct must evolve through discussions and consensus building. Drafting the family constitution helps in clearly defining the family's vision and strategic direction. The constitution also lays out norms and policies for significant issues such as entry of family members into the business. Clearly defining the roles, rights, responsibilities, rewards and remuneration of family members involved in the business (and also for those who are not involved in business) clarifies the privileges and duties of family members and helps manage expectations.

Clarity on wealth sharing, retirement and succession norms further helps minimise the potential for conflict in the family. A shift from an *ad hoc* process to a policy-driven system removes ambiguity in family decision-making. In such a scenario, all family members have a clear idea of their collective strategic direction. They are better aligned with the family's values, vision and objectives. Policy-based governance and decision-making bring a sense of certainty, enhance mutual trust and strengthen the bond among family members.

Prioritising the need for family governance mechanisms, several renowned Indian family businesses have developed (or are in the process of developing) their family constitution. Prominent among them are the Burman family (owners of the Dabur group), the infrastructure major GMR group, the pharmaceutical major Dr. Reddy's Laboratories, and the Chennai-based conglomerate, the Murugappa group.[3]

BUILD CAPABLE NEXT-GENERATION FAMILY LEADERSHIP

Building capable leadership in the next generation is crucial to improving transgenerational togetherness. When the next generation has a better understanding of the family and business, they are able to develop strong capabilities and leadership qualities and make better decisions. Capable next-generation members are also able to dispassionately and convincingly put forward their perspectives/viewpoints in the family. Such open and goal-oriented interactions among family members across different generations strengthens family togetherness. Several Indian family business groups are developing their next-generation family members to become capable business leaders. These include the Mittals of the Bharti Airtel group, the Premji family of IT major Wipro, the Ambanis of the Reliance group, the Godrejs' and the Piramal family. Most of them have equipped their next-generation members with world-class business/technical education and work experience outside the safety net of their family business.[4]

SENIORS NEED TO KNOW WHEN TO 'LET GO'

Senior generation members must increasingly take on strategic leadership and guidance roles while delegating operational roles to other members. They may continue to play an active role in family governance forums like the family council, and provide guidance and help family members iron out their differences–but they should also provide space to the next-generation family members. When senior members let go of their desire to control everything and are able to accept a reduced span of direct influence, the potential for intergenerational conflicts is greatly reduced. This further reinforces family togetherness. The Chennai-based TVS Group has worked on this strategy, and adopted a federated governance structure where individual businesses enjoy considerable freedom and the next-generation members are driving several of those businesses.[5] However, in the overall Indian context, letting go is a serious challenge as the seniors' need for control has rendered business families ill-prepared for succession.[6,7,8] This frustrates the aspiring younger generation and poses a serious threat to the long-term sustenance of family togetherness.[9]

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Measures to adopt in the business sub-system

ADOPT POLICY-DRIVEN BUSINESS DECISION-MAKING

Family businesses must evolve from *ad hoc* decision-making to policy-driven mechanisms. Whether it is about a family member's entry into business, allocation of roles and responsibilities, reward and remuneration, or retirement and wealth distribution, decisions based on well-defined policies and procedures are likely to get acceptance and create an atmosphere of fairness and justice. Two exemplary cases of adopting policy-driven decision-making mechanisms among Indian family businesses are the Hyderabad-based pharmaceutical company Aurobindo Pharma[10] and the dyes and pigments major, Sudarshan Chemicals.

ROTATE JOBS AND FIND THE RIGHT PERSONALITY-JOB FIT

Rotating family members across jobs will equip them with multiple skills. Job rotation will also help the management match family members' personalities to their job roles. This will improve job satisfaction and enhance productivity. It will help family members understand the pressures and requirements of different job roles, and they gain a comprehensive understanding of the business and its decision drivers. They will also understand and appreciate the contribution other family members make to the business, which will reduce work conflict and improve empathy and family togetherness. Sometimes when a poor job fit becomes a problem to the growth and progress of the family business, it is essential to convince the concerned family member to take an alternative role. This was observed in the case of the Murugappa group when the group CEO, M.V. Subbiah, was asked to make way for another family member to lead the group and Subbiah stepped down in the interest of the business and to keep the family united.[11]

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ESTABLISH A FAMILY BUSINESS BOARD

Family businesses must set up a family business board (FBB) as the family's apex business decision-making body. The FBB should have clear guidelines to ensure alignment between family and business decision-making, and help define the operational domains of family members as well as minimise role conflicts. It will also help in evolving an objective strategic direction for the business after taking into account the perspectives of all family members. This will improve family cohesion and bring goal congruence. Currently such boards are more prevalent in developed nations like Germany and Switzerland, and family businesses in emerging markets like India have yet to come up to the standards of their western peers on this front.

EMPOWER THE BOARD AND PROFESSIONALISE BUSINESS GOVERNANCE

Family businesses need to improve governance capabilities at the board level. This requires an induction of outside professionals and experts as independent directors, who must be empowered to hold management accountable for their decisions. Enhanced corporate governance will bring a system of checks and balances, objectivity and a culture of meritocracy, which will improve mutual trust and fortify family togetherness. This was exemplified in the above-mentioned case of the Murugappa group, where the board was truly empowered and the three independent directors exercised their power to ask Subbiah to step aside for the long-term interest of the business.[12]

In conclusion, family togetherness is not a monolithic concept, but a mix of several layers and dimensions. On the surface, togetherness might appear to be pervasive and uniformly shared by family members but, when probed deeper, some fissures may be found. If left untreated, these misunderstandings may grow over time and threaten the survival of the family business. Hence, business families must periodically examine their state of togetherness and adopt the suggested measures within the family and business sub-systems, which will keep both sub-systems healthy and ensure their sustenance across generations.

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