Family, legacy and you

Perspectives on succession planning and business continuity

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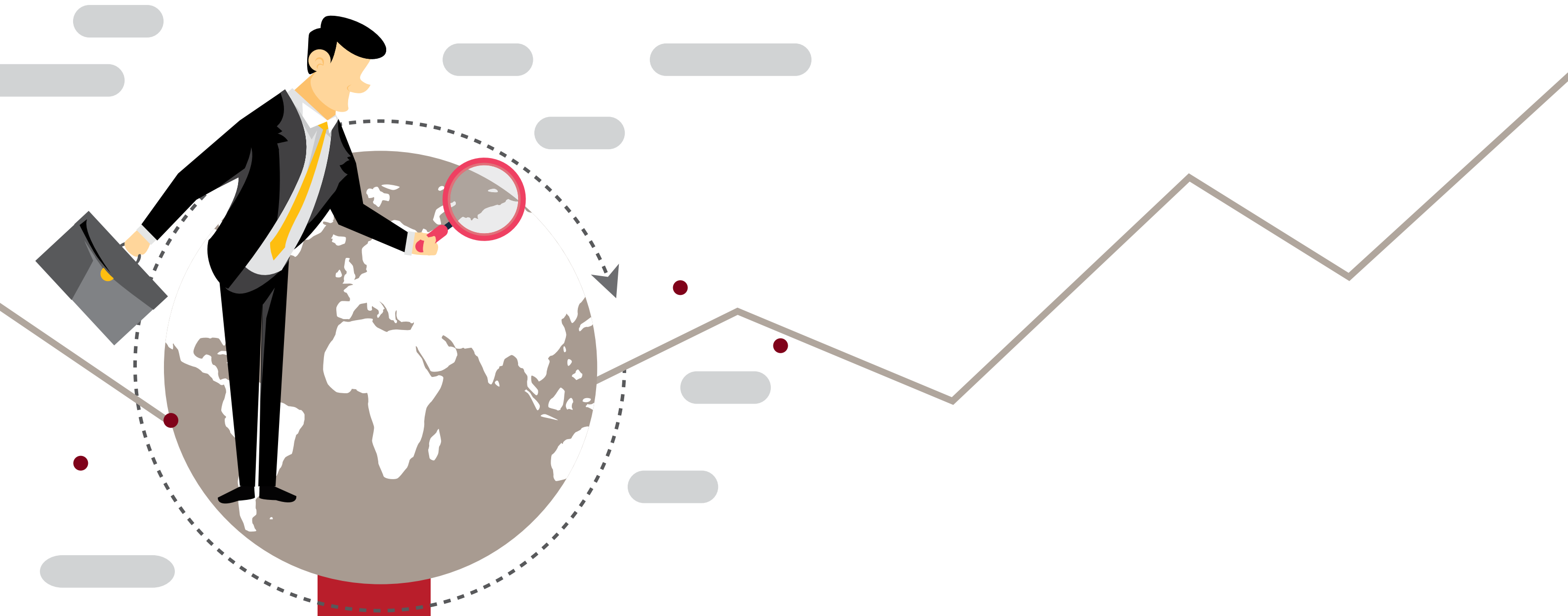

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Foreword

Ganesh Raju K

Partner and Leader,
Entrepreneurial and Private Business

These are exciting times for family businesses. Promising new markets beckon and existing markets offer plenty of prospects for sustained growth and diversification. This is attributed to a combination of favourable factors such as stabilisation of reforms, increase in consumption and demand, increase in investment and an overall positive outlook. By merging ambition with opportunities, family businesses are on an upward growth trajectory.

Most Asian family businesses are built on a strong foundation of values, culture and tradition. These are considered sacrosanct and passed on through generations. Family businesses have a natural insulation to withstand market irregularities because family members and professionals are unified by a common purpose, which makes them more tolerant for risks as compared to their non-family business counterparts. Family businesses are set up with the objective of continuity and take a long-term view of business.

Due to the make-up of family business, issues that can put the business at risk are mostly internal and need to be managed with a combination of tact and formal structures to ensure stability.

Broadly, for a family business, the issues that need to be tackled include the following:

Continuity planning

Each family has a vision for the future and is fully committed to the success of the business. However, it is very likely that family members belonging to the current and next generations have conflicting vision and objectives pertaining to the business. It is important to understand the needs of the next generation and how these can be satisfied while preserving the vision of continuity. Consequently, it is important for family members to agree on an overall vision as well as their own convictions.

Succession planning and generational change

Succession is the biggest threat facing all family businesses. The transfer of ownership and planning the succession process is the most difficult challenge that family businesses encounter. If succession and generational change is not properly addressed, this could easily result in the fragmentation of family businesses, the impact of which could be catastrophic. Who will take over the baton? Should non-family members be on the board? Will the business sustain for generations? How and when do I pass on my assets to the next generation? There are multiple questions that need to be answered while planning for succession of management and ownership. This should not be treated as a one-time event but an evolutionary process.

Conflict management

Given the fabric of a family business, conflicts are inevitable. Managing conflict is the key to not just the survival of the business, but the survival of the family itself. Since there are multiple stakeholders who are invested in the success of the business, it becomes necessary to have a robust resolution mechanism in place to manage potential conflicts. Families also need to identify key areas where conflicts may arise and develop protocols to create unity in dealing with these issues before they arise.

Our Family Business and Next Gen surveys have shown that family businesses globally are beginning to realise that succession planning is a priority and it is necessary to have robust structures and mechanisms to combat the threat of succession. Our in-depth conversations with the current and next generation of leading businesses helps get their perspective on their ambitions for diversification, modernisation, bringing in professionalism and more. It has been observed that families are increasingly adopting measures to safeguard the business from internal and external threats and educate the next generation of family members. Their vision for the business and views are taken into consideration while crafting a succession planning strategy.

We spoke to prestigious Asian family businesses to understand their approach to succession planning, the challenges they face and how they are tackling the issues surrounding succession. We have also captured their ideologies to give the reader a holistic perspective on the critical issue of succession planning.

Family businesses: engines of change

> **"Before the multinational corporation, there was Family Business. Before the Industrial Revolution, there was Family Business. Before the enlightenment of Greece and the empire of Rome, there was Family Business"**
>
> William O'Hara

Entrepreneurship, ambition, resilience, dynamism, sustainability, legacy—these are some of the terms that are synonymous with a family business.

Family enterprises are key catalysts for growth and integral to most economies. Operating in markets with significant potential, these businesses offer stability to the economy, are optimistic about growth, drive job creation and have a long-term view on growth and profitability.

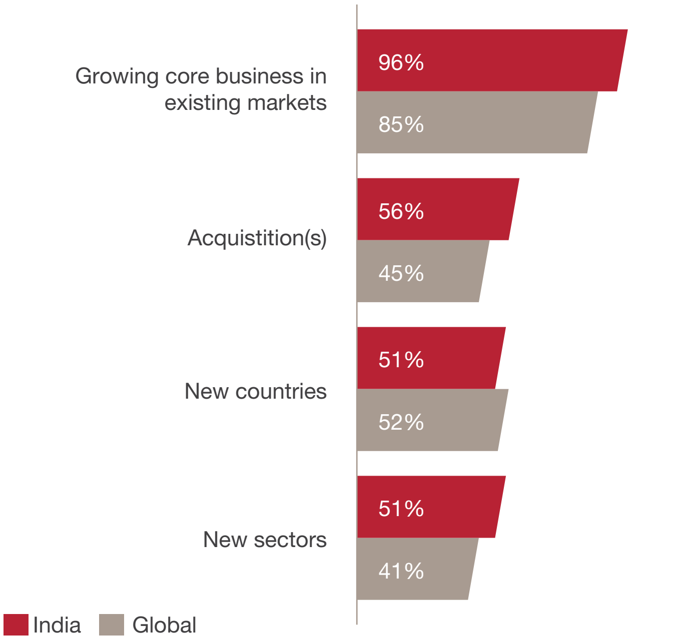
Family businesses are optimistic about growth and contribute to more than 70% of GDP in spite of concerns such as inadequate infrastructure, paucity of skills and uncertain economic growth. Our India Family Business Survey 2016 indicated that 75% of Indian family businesses have grown in the last 12 months and 84% expect to grow either steadily or quickly and aggressively over the next five years.

This growth is expected to come from its core business and also from inorganic expansion into new areas and markets.

The growth agenda poses a significant challenge for even the most entrepreneurial family businesses. As the number of family members increase across generations, the family businesses should also grow by double digits to maintain family's wealth levels for future generations.

As compared to nonfamily-owned businesses, family businesses have been able to weather systemic changes better. These are more entrepreneurial in nature than non-family businesses and the ethos, values and culture is also much stronger. Family businesses have remained resilient in the face of domestic and international change, are aggressive and have the potential to withstand business and economic adversities.

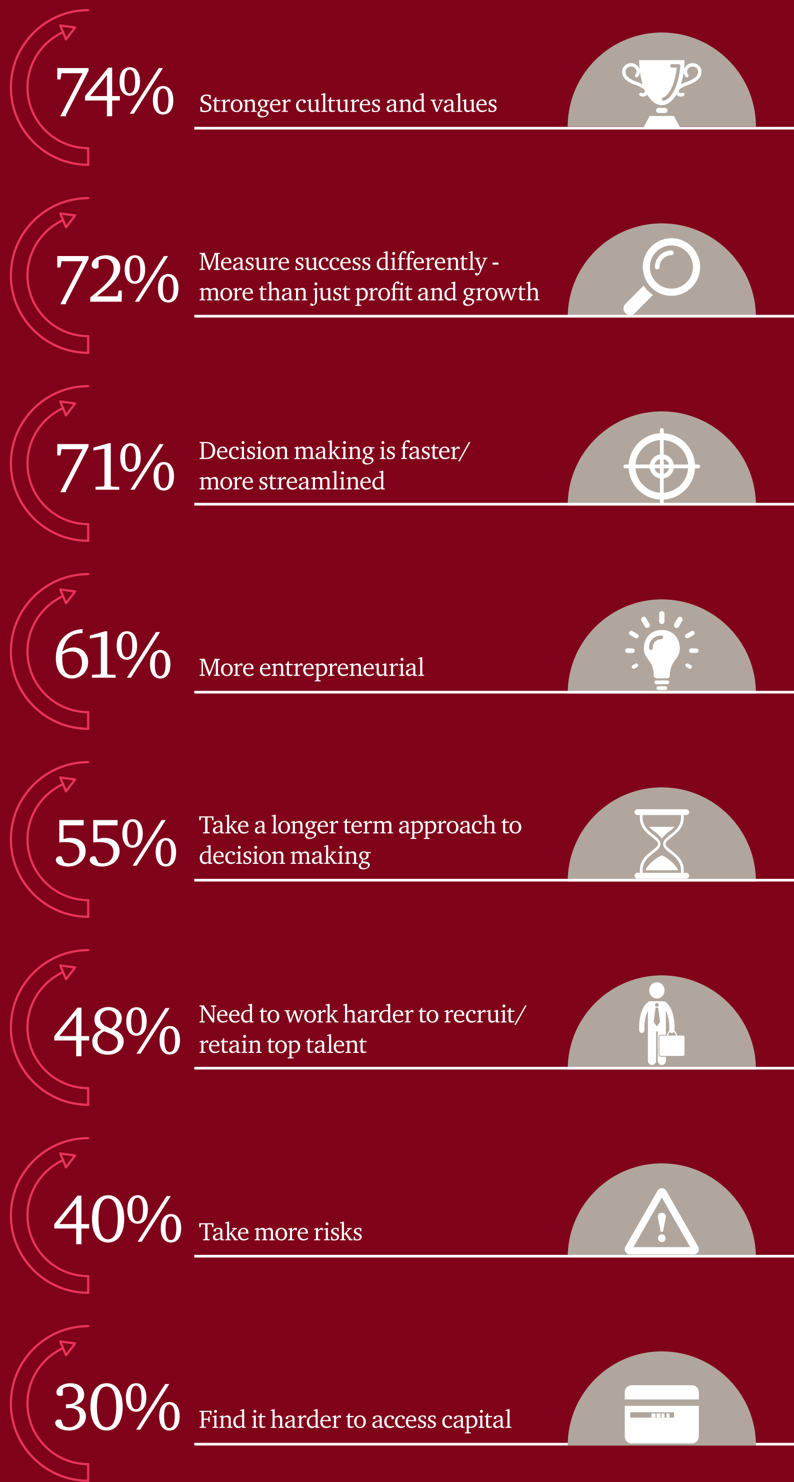
Areas that will play a big role in growth



However, family businesses face dual challenges— they operate in a very difficult global economic environment and also have to manage the transition of the family into the next generation. Despite their ambition and positive outlook, the average life span across family businesses is three generations. Only 12% make it to the third generation and as low as 3% to the fourth generation.

Insulating family businesses from external and internal threats is vital and calls for alignment of family and business strategy and robust governance structures for both families and businesses.

How family businesses differ from non-family businesses



Preserving the legacy: why planning succession is critical

In most family businesses, what starts as an entrepreneurial project turns into an establishment of conglomerates that employs a substantial percentage of the country's workforce, making them invaluable to the economy. Moreover, businesses are going global, which means increased connectivity with global peers and wide penetration into foreign markets, presenting considerable opportunities for growth. In the light of this, it becomes crucial to establish a process that will pick able leaders, who will be torchbearers of the family business.

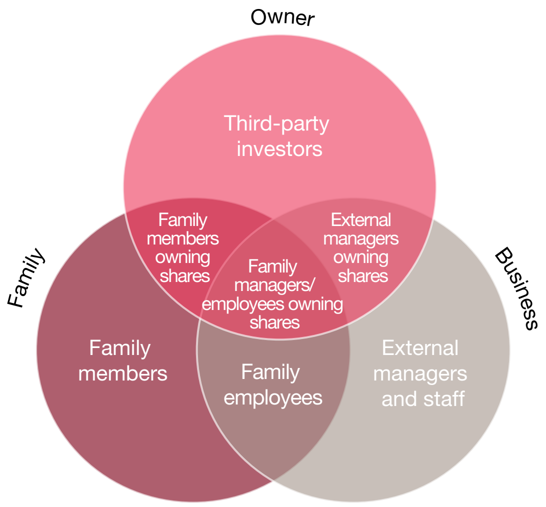
Managing family dynamics is delicate and sensitive

Overlapping roles of family members in different positions in business adds a layer of complexity to its functioning. Decision making with the 'heart' over the 'head' increases likelihood for conflict, shaking strong foundations upon which the business was built.

As one of our interviewees said, "Family businesses generally fail for family reasons."

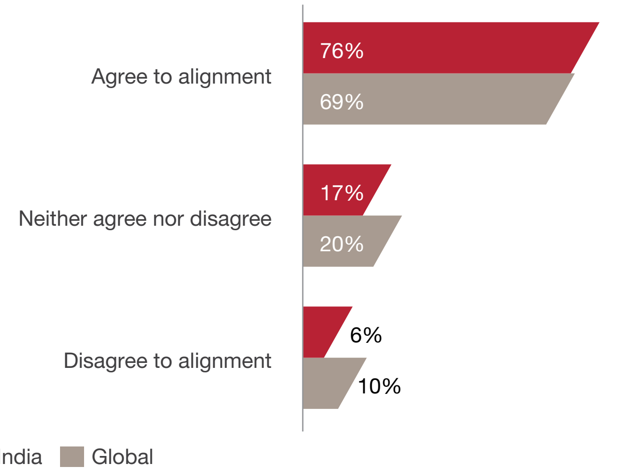
To ensure that personal issues do not interfere with business, open communication, clear documentation of roles and external advisors are encouraged. Therefore, with the help of a clearly articulated succession plan, family businesses have an increased chance of surviving for generations.

Depending on the position of members in the Three Circle model, the roles, duties and expectation of rewards differ.



In the India Family Business Survey, we asked respondents whether the strategy of the business and that of the family were completely aligned. Our survey revealed that 76% of Indian family businesses believe that the family and business strategies are completely aligned. Only a mere 6% admitted to misalignment in interests.

Alignment of family and the business



Although there is high degree of alignment between the family and business, we have seen that there are three key challenges that plague the perpetuity of a family business:

- Continuity planning
- Succession planning and generational change
- Conflict management

Succession has its own challenges. Differing views of current and next generations with respect to the vision and future of the business, absence of well-defined succession plans, inability to attract external management, keeping pace with the new developments in the market and technology, etc., are some of them.

Family businesses are a multi-generational project. Only if we succeed in passing on the entrepreneurial responsibility to the next generation can the project of the family business remain alive

Business succession also touches upon difficult and at times very personal questions such as ownership and leadership, money, power and recognition. Legal and tax issues and an increasing global exposure, compound the complexity that already exists. The solution calls for a deliberate and professional approach to the issue.

A robust governance policy is essential for a family business to survive for generations and avoid conflict between family members. According to our Global Family Business Survey, only 15% of family businesses have a robust and documented succession plan in place. Given that around 40% of family businesses will be passing on the business to the next generation in the next five years, planning for succession is instrumental to ensuring business continuity and keeping the family legacy alive.

Key challenges faced by family businesses

Continuity planning

Continuity planning is vital for perpetuating a family business. It is important that there is alignment of vision and commitment of all family members to achieve the vision that is set out for the family and the business.

Family v. business

In a family business, very often a question arises, 'What comes first, family or business?' The answer to this often drives the vision and how businesses are run and managed.

Families, which put the family first, take decisions with the 'heart' and emphasises on family harmony. Whereas, families, which prioritise the business, take decisions objectively with the 'head' without co-mingling family issues.

Family first

Dhiren Gopal
Featherlite Group

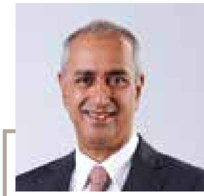
You can't grow alone. As a family we grow together — Leave no one behind!

"In 1965 our father Gopal Ramnarayan while on a Rotary group exchange programme to the US, was intrigued by the aluminum folding furniture. He saw tremendous potential and when he returned to India, he started a manufacturing unit for folding garden furniture, made of aluminum tubes and called it Featherlite.

When my brothers and I joined the business, we had a very clear understanding of what was expected from us and the direction we should head towards. Our business is very unique and customer satisfaction is the key. Although we professionalised certain functions, we believe that R&D, sales and marketing will require active involvement of family members.

When we ventured into real estate, my eldest brother Jawahar took complete ownership of that business along with continuing handling our investments and all financial matters. My middle brother Manohar was given the responsibility of marketing and sales and is involved in both the real estate and furniture business equally.

Business first



Husein Esufally
Hemas Group

What is best for the business is best for the family

"Our grandfather was a man of great foresight and entrepreneurship. He set up his own business after moving out of the existing family business.

By the 1960s, the second generation, comprising his four sons, joined the business and continued the entrepreneurial spirit to develop and expand the business and by the 1970s and 80s, the third generation were ready to come in and make their own mark.

Going public and professionalising was not a vision shared by my two uncles and in 2000 they sold their share to the third generation—Abbas, Imtiaz, Murtaza and me in equal proportion.

In 2001, I was appointed as the Group CEO and the other members of the family took on the role of driving different verticals of the business. In 2003, with the objective of sustaining the business, we embarked on a journey and successfully took the company public.

I was put in charge of manufacturing and R&D along with the task of technology up-gradation-in our plants.

Although our responsibilities were well demarcated and we have our roles and responsibilities clearly defined, in terms of ownership we were all equal. We share all profits and losses equally and realized early on that in a joint family business the upside of being together and working together is always more than the downside. I sincerely believe that key to the success of our business is the implicit faith, respect and trust we have in each other.

We also firmly believe that it is not 'who is right' but 'what is right'. This attitude that we all carry in our hearts and minds helps us work together and live together in harmony at work and at home. As a policy we do not interfere in each other's daily roles and responsibilities and give each other ample space to take independent decisions in our areas of designated roles and responsibilities, this noninterference is probably the biggest contribution we make to each other's growth and success.

This doesn't mean we do not question one another or seek advice on matters of importance or trivial irritations. We all know that each one of us is always available for sounding out new ideas, airing frustrations, and sharing successes.

We debrief, debate and deliberate and sometimes even argue about matters that effect all of us or the business but the final decision is left to the person driving the business. We always trust and respect each other's judgment even if we may not completely agree with it. At the back of our minds, I know that each and every one of us takes that leap of faith into the unknown, knowing that the family has his back, should he or she stumble or fall.

As a family it's imperative that we strive to inculcate the similar values in our children and professionals working in the business. We are now in the process of formalizing our Family Constitution and governance framework so that all our values and ideologies are formalized and passed on for next generations as well.

'Love All Serve All' is a motto our family strongly believes in. For us, it is and always will be, 'family comes first' and all our decisions are taken keeping in mind our family principles and beliefs."

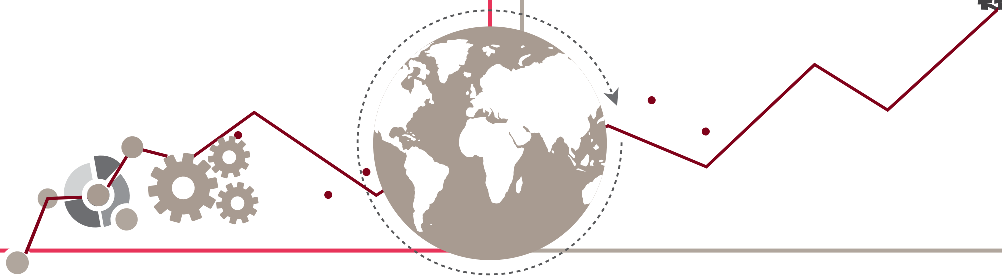
Professionalising the business is something the entire family needs to buy into and it cannot be just one person's vision. It is a journey and we decide, which direction the family wants to head towards.

We recognised early on that we, as family members, can drive things only to a certain extent and taking the company public automatically brought in a certain level of professionalism. We had an independent Board and any differences of opinion within the family, was aired in a Board meeting, which helped us take decisions in a rational manner.

Moreover, we understood early on the importance of the external dimension brought in by professionals and appointed an external CEO. We became stewards to ensure the future success of the family business.

For effective governance of the business, we also established a Family Constitution, which clearly lays out the interaction between the family and the business.

As a family we understood that every business is unique and there is no 'one size fits all'. Our underlying principle is that 'business comes first' and this principle drives all our decisions."



Passing on the baton – Journey of NR Group

Arjun Ranga
NR Group

"Sustaining and perpetuating a business through family values is essential to its survival. Family values is what defines and drives the business."

Arjun Ranga

Arjun Ranga is the Managing Director of Cycle Pure Agarbathies, a brand which is now synonymous with prayer and spirituality.

Given that the business is currently managed by the third generation, we asked Arjun how his family has successfully managed transition to the third generation. He explains, *"Around the time India got independence, my grandfather sold home products and incense sticks in Mysore. The second generation grew the business on the foundation built by my grandfather. From a very young age, the second generation encouraged us, the third generation, to be a part of the business discussions. As a young boy I used to accompany my father to the market for sales and marketing of agarbathis. This exposure helped me understand the family, the business and most importantly, the distinction between the two. Today, my son accompanies me to office during his summer vacations.*

There were also certain ground rules that were laid down for the business. From a very young age, my cousins and I were made aware of what the family business had to offer in terms of perks and travel, provided we chose to be a part of it. As soon as we turned 18, we were also made aware of our shareholding in the business. It was an unwritten rule that all third generation members would need to get a master's degree and also, work outside prior to joining the business. We intend to apply the same rules for the incoming generations as well, to ensure they are well equipped when they join the business.

Our family also created a path to learn different parts of the business and created opportunities to work in different businesses. The second generation had one main business and my father and uncles were given to manage different verticals of the business within defined rules. When my cousins and I joined the business, the business had expanded beyond incense sticks and each one of us managed the chosen business independently. Moreover, regardless of the size of the business, the salary, allowances and perks available to each member is the same."

When asked about the role of the third generation in the business, Arjun says *"The family gave us a lot of autonomy and independence to drive our respective businesses. There was a certain level of trust and safety net of how the family will support us. We all sit on the Board and are answerable to each other, but the ultimate decision is left to the judgement of the family member running a particular business. However, in terms of investment decisions or entering a new business, all decisions are unanimous and everyone has to be on board."* He enunciated the importance of trust amongst the third generation as family members as well as business partners. He agreed that since all decisions need to be taken unanimously, it can sometimes be counterproductive. However, it keeps the family together.

Arjun then touched upon an aspect that is a challenge for all family businesses, which is the succession and transition of power from the senior to the next generation. He says, *"Our earlier generation told us 'you help us structure our exit rather than we structure your entry.' Similar to how my grandfather transitioned the business, my father retired and took a back seat. He took a minority share in the company and transferred half his shareholding when I joined the business and did the same for my brother as well. This gave us tremendous confidence and belief. We also have a similar plan and have clearly articulated a phase-wise transition of shareholding to the fourth generation to encourage them to join the business."*

Arjun reiterates that having a clear succession plan is crucial for the survival of the business as well as ensures transparency and provides clarity. Some of the important aspects he emphasised on include having a family governance code and business succession plan. *"There should be a clear retirement policy which includes defining the benefits and shareholding of the senior generation post retirement. Working backwards, this should form the basis of how the share and benefits will be transferred."*

Arjun signs off by telling us that, ***"altruism is the key to sustenance of our family and we understand the meaning of the greater good. Selflessly putting the family first is key to survival of our business."***

Planning for succession: SRF's experience

Ashish Bharat Ram
SRF

SRF Limited, based out of Gurgaon, manufactures engineering plastics, chemicals, packaging films and automotive components.

We spoke to Ashish Bharat Ram, the Managing Director of the Group, on how his family has planned for succession. Ashish explains, *"In the context of a family business, we can draw comparison to the three circle model. The first represents the family, the second represents owners and the third represents the management. It is not necessary that a family member should be present in all the three circles. Being born in a family and being an owner of the family business is not a choice and you invariably occupy the first two circles of family and owner. However, one can choose whether or not to be part of the active management of the family business. If a family member doesn't have the passion or doesn't want to take on the responsibilities to run the day to day business, he or she should ensure that they assume the role of a responsible family owner and should not interfere in business management. There are many eminent business houses who have completely separated ownership from management roles. Although the family members are a part of the board, they do not interfere in the day-to-day functioning of the business.*

In our case, right from childhood, my brother Kartik and I were exposed to the business and we were groomed by our father. It was ingrained in our minds that our career path would be in the family business. In the 1990s, the options were very limited and I made a deliberate choice to join the family business. From 1995 to 2003, I worked very closely with the professional CEO and CFO to learn and get a deeper understanding of the financial and operational aspects of the business. It is important that when a family member joins the business, there should be buy in of the professionals who are running the day-to-day operations. A family member should be competent to command respect of the professional colleagues. In 2003, I started leading the business.

My father was always very supportive and he groomed and nurtured us. In 2007, he paved the way for me to become the CEO of the company. He gave me the autonomy and space to make my own decisions and never imposed his views. After handing over the reins to us, he would seldom participate in running of the business and would only advise us on strategic decisions. It was my father's thoughtful succession planning which made the transition smooth and free of turbulence.

In the next 10 to 15 years, Kartik and I intend to retire. The key is to know when to let it go. When my father did it back in 2007, his clarity on succession facilitated smooth transition. We will pass on the reins, either to our next generation or professionals but will continue to support them for a few years till they learn and understand the culture and values upon which my father and we have built the business.

We will be more than happy if our next generation wants to join the family business but we don't believe in nepotism. Whether it is the next generation or outside generations, we strongly believe that whoever has the zest, zeal and capability should run the business.

I don't believe in forcing the responsibility of running the family business onto our children. The stakes are high and we want to keep creating value for all stakeholders. If our next generation are interested in joining the family business we are committed to nurture them. It goes without saying that they need to be capable and of course passionate about running the business. At the end of the day we are here to serve the society and create value for our investors."

Succession dimensions

Succession dimensions in the context of family business are twofold:

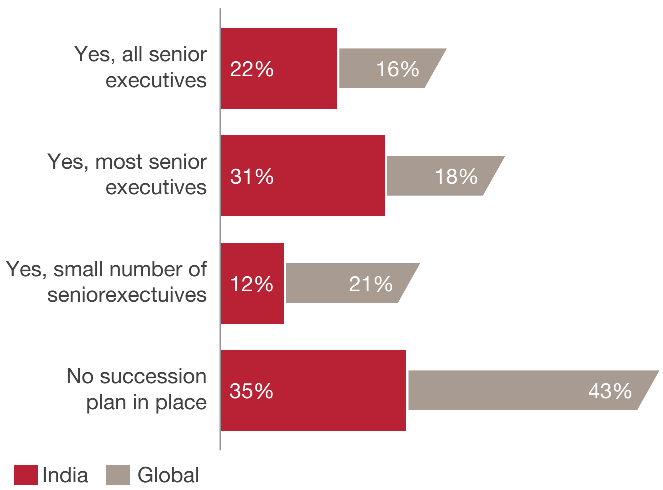
- Succession in management
- Succession in ownership

Succession planning is about devising a strategy to ensure that the ownership and management passes onto the right people, at the right time and right controls are in place when it happens.

Succession in management

Of all the issues faced by a family business, the issue of 'succession' is the most daunting. Many promoters face the issue of 'sticky baton' syndrome, where the current generation hand over management in theory, but in practice retain complete control over things that really matter. As our India Family Business Survey indicated, almost one-third of family businesses do not have a succession plan in place for key senior positions. This creates uncertainty. A clearly documented succession plan helps families take decisions objectively and is instrumental to the continuity of the business.

Succession plan in place



The lack of a formal management succession plan can lead to numerous issues when the current generation ceases to maintain control due to unforeseen circumstances. For instance, the incoming generation may be reluctant, unprepared or unable to step into their predecessor's role. Then again, the founder might identify a willing successor but find that key stakeholders do not support his decision. Early planning will ensure sufficient time to prepare a well thought out plan and also keep it flexible enough to allow course correction as circumstances change.

Family vis-à-vis professionals: the right balance

The aim of every family business is to grow aggressively in future. However, only a few are able to achieve their growth targets. This is due to a gap in the skills required to achieve this. Family businesses acknowledge that there is a need to induct the next generation and/or professionals for new thinking and ideas.

Finding a balance between family members and professionals is challenging. In our India Family Business Survey 2016, we observed that only 35% of the respondents intend to pass on the business to the next generation and nearly half of them plan to pass on the ownership and bring in professional management. However, attracting external talent is a challenge given the lack of clarity on career paths of professionals in a family enterprise.

When deciding between family and non-family members to run the business, the family should objectively identify and evaluate a variety of candidates early on. Whether family or non-family, they should be given the required training and opportunities to grow and the best candidate often emerges over time.

Gen Next: torchbearers of future

Role of next generation

The next generation play different roles in a family business:

- **Stewards**—focus on protecting the profitability of the family business and ensure its long-term sustainability
- **Intrapreneurs**—set up their own venture within the family business, often with the backing of family
- **Transformers**—look at driving change in the firm
- **Entrepreneurs**—set up their own venture outside the family firm

Irrespective of the role they play, the next generation have a clear vision and strong ideas of how they will contribute—either from within or outside the family business.

Gap in expectations

The next generation faces several gaps such as credibility gap, generation gap and communication gap.

Credibility gap: Most next generation find it challenging to bridge the credibility gap, particularly with professionals working in the business.

The next generation are usually equipped with post graduate degrees in entrepreneurship, management, finance or engineering from India or overseas. As indicated by our Global Next Generation Survey 2016, 70% of the next generation have worked outside prior to joining the family business. When they join the family business, they join at junior or middle management levels and work their way up. They report to non-family members and professionals and in their view it helps them build credibility and trust in the organisation.

Generation gap: The differing perspectives and expectations of current and next generation widens the generation gap. Nearly 20% of the next generation in our India Next Gen Survey 2018 feel that their vision is largely different from that of the current generation.

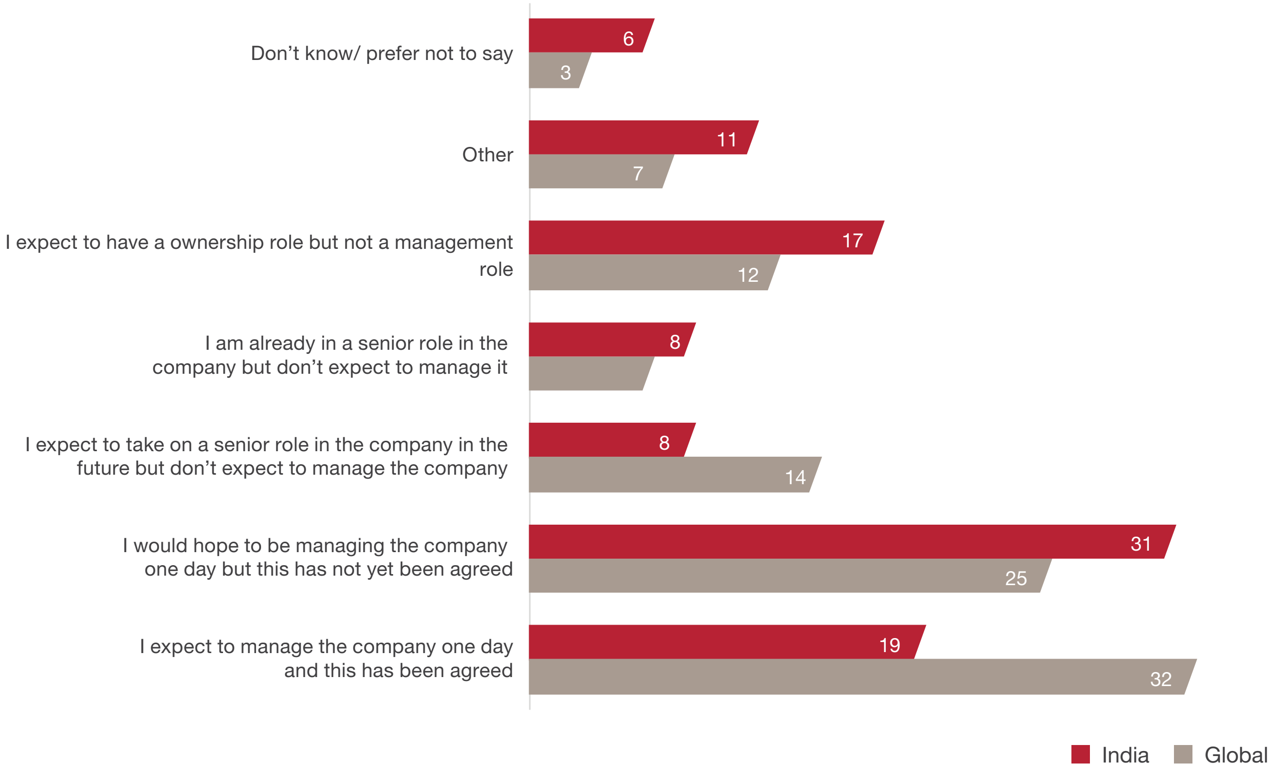
The risk-taking ability of the current and next generation is at two ends of the spectrum. We see that the next generation are more aggressive and open to new ideas. In this age of digitisation, 83% of the next generation participating in the survey think it is important to continuously innovate. However, only 53% of them feel that they are performing well on this front. Having worked outside the business, the next generation also appreciate the need to consult with experts and external advisors unlike the earlier generation.

Communication gap: Only 28% of the next generation strongly feel that they have clarity on their future role. The next generation feel there is resistance to change from their predecessors. Moreover, they are not being heard, particularly when it comes to matters related to modernisation, digitalisation, innovation, technological changes, bringing in professionalism, etc.

The current generation need to have an open discussion about when they would want to step down and who will be running the business. Similarly, the next generation need to communicate their future plans and expectations. Both need to listen to each other's perspective with an open mind and transparently discuss ambitions, role and expectations.

Gen Next aspirations

More than 50% of the next generation expect or hope to be managing the business in the future and only 17% expect to be mere owners.



This is in stark contrast to how the senior generation intend to pass on the management and ownership. 35% of family business leaders plan to pass on management to the next generation, while 48% plan to pass on ownership but will bring in professional management.

88% of our gen next respondents in the Global Family Business Survey 2016, indicated they want to make a difference, 79% have lots of ideas about how to take the business forward, 59% would like to diversify their product portfolio, while 68% believe their firm is unlikely to make this change. This may be the reason why 47% of the next generations are looking to set up a parallel venture, alongside what the main business is doing.

Aligning aspirations: Gen Next perspective

Sabrina Esufally and Sakina Esufally
Hemas Group, next generation

Sabrina Esufally and Sakina Esufally, the eldest of the next generation of members of the Hemas Group, share their opinion on joining the family business and what they would do differently from the current generation.

Hemas is a considerably large business group. Would you consider joining the family business?

Sabrina: Yes, I will be joining the family business in September 2018 and will be working in the healthcare and consumer goods business. My vision for these verticals are to make healthcare and cosmetic products accessible and affordable to local and global markets. Hemas is committed to the vision as well and I'm keen to bring in my competencies to help transform this vision into a reality.

Sakina: Yes, I will, though for a long time I wasn't sure, because I felt a life best lived was one that was created by your own design more than it was about inhabiting the spaces created for you.

To the credit of my family, no one forced me to stay or to consider Hemas as my primary option. That must have been, relatively, a very frightening thought—that a family business that had passed the shirt-sleeves generation, gone public and opened up shareholding, for the first time, to its female family members, had to now consider that none of the eldest members of the Next Gen would join. That fear was, of course, only conveyed through gentle nudging and global wisdom, regardless of the internal panic that must have been building up.

Perhaps ironically, it was the ability to have my own space that has enabled me to come to a considered decision to join the family business. I worked in New York, London and Colombo, in external, independent companies, and regardless of how enticing the role, I realised that I would never be as invested in any business as I would be with Hemas; my learnings would invariably include a comparison to HHL and its operations. And gradually I started to realise that certain spaces may have been drawn for me, but it was up to me to decide how I was to inhabit them.

Making this decision was one of the hardest but most defining things I have done to date. It has been a journey of its own, but it has been a necessary discovery in self and purpose.

What are your aspirations for the business and for yourself?

Sabrina: With the inspiring work that the Group does, I envisage it to be one of the few Sri Lankan companies that offers wellness solutions to the world. I'm excited to be a part of this journey.

Sakina: To work in the role of a steward in an executive position, continuously instilling the right culture into the value drivers that Hemas has been so fortunate to hire; differentiating between short-term gains and long-term revenue flows; and acting as an enabler to teams, regardless of vertical. I am excited to work towards making Hemas agile, malleable and gritty enough to react to environmental and industrial changes that are sure to up-end some of its more traditional activities.

What are the top three things you would change if you joined the business?

Synergies: Hemas is a company working in different but related industries. The company works across sectors such as hospitals, pharmaceutical manufacturing, pharmaceutical distribution, FMCG and logistics. There is room to ensure better synergies between these verticals to optimise the business as a whole. After its IPO, Hemas has scaled significantly, which brought incredible growth opportunities both in terms of M&A and ground-up investment in new industries, but also in existing operations. It is now at a point however, where it needs to consolidate its leading positions in different industries and understand how to map its strengths internally. It is primarily through this process that a company with such a structure can discover hidden sources of dynamism.

Talent acquisition: Redefining the ways in which young talent is identified, hired and nurtured through the pipeline is essential for the continuity of any business. This needs the right balance of personal mentorship and clearly defined KPIs, rather than only an evolution and redefinition of HR policies.

Moreover, ensuring the workplace is a productive, competitive and motivating environment is key to strong performance. In this context, creatively thinking about how Human Resource Management can support the above goal is something that the company will have to continue to work on.

Culture: Hemas is currently heralded as a stable and safe bet in terms of partnership or employment opportunity. While this is not a position it should shy away from, we believe we need to cultivate into the culture the grit and drive that existed in the company at the time of its origin. This is difficult to implement overnight with a public-quoted company and independent management, but we believe a focus on a "try hard, fail fast" mentality could inject a desired sense of innovation and autonomy within the company.

A successful handover: Gen Next perspective

Anil Rai Gupta
Havells India Limited

One of the major challenges that the incoming generation face, is living up to the expectations of the senior generation. Anil is the second generation in the family business and explains, *"My father was a visionary. When you grow up in a self-made, first generation entrepreneur family, there will always be inter-generational gaps. If these are not managed properly it can create rifts, which are not good for both the business and the family. We have seen dynasties crumble due to family feuds.*

I too faced challenges, since my father was a self-made man and his style of working was more intuitive. I joined the business after completing my Masters from the US and was more structured in my approach. Difference of opinion will always be there but the key is to leave behind your ego and work amicably. If I had any disagreement on any issue with my father, it was sorted peacefully and calmly on our ride back home or at the dinner table. I lived by the principles enshrined in the book "How to win friends and influence people" which helped me to influence and understand other people's perspective. I understood early on that no business can prosper with two power centres. I set aside my ego, which helped me understand my father's thought process and vision.

When you work under the wings of a self-made man you have to accept that the control of the company will not be served to you on a platter. In order to succeed, it is important for the next generation to understand the perspective of the senior generation. One has to prove his worth, command respect and gain acceptance."

When questioned on the need for the current generation to prepare the ground for the next generation, Anil says, *"It is imperative for family business leaders to prepare the ground for the next generation while continuing to be at the helm. I am lucky that my father, Mr. Qimat Rai Gupta groomed me for 25 years before I took over. This helped me acquire an in depth understanding of Havells and the intricacies of running the business, without which I couldn't have run the business effectively and efficiently.*

My father had his own ways of developing and grooming the next generation. He put a lot of trust in us. I distinctly remember when I came after my masters he gave me the responsibility to scout for overseas companies, which we can acquire to expand overseas. His liberal thought process and his comfort in working with the next generation gave me the confidence and helped me to reach where I am today.

Running such a massive business requires the right skills, mind set and long-term vision, which my father helped me acquire during those years I worked under his wings. In hindsight I think I sailed with him."

Next generation: training and development

One of the main areas of concern for the senior generation is the training and development of the next generation and ensuring that they are prepared to take on the role, both in the capacity of leaders and stewards. The current and next generation must have an understanding of what 'success' looks like from the business and family perspective.

The key to this is crafting the right training program for the next generation to build their confidence and clarity of thought. The current generation are creating possibilities and providing freedom to the next generation to choose the most appropriate path, in line with their personal ambitions. Some of these initiatives taken by the current generation for training and development of the next generation include:

Management training programme: The current generation creates a management training programme for the next generation joining the business, in consultation with key senior personnel. Spanning over one to two years, the programme gives a flavour of all aspects and functions of the business. The next generation spends three to four months in main divisions and at the end can choose his or her area of interest.

Mentors and coaches: Once the 'path' has been chosen or identified, it must be planned with appropriate measurement mechanisms and touchpoints to ensure KRAs are being met. Mentors and coaches are assigned who act as sounding boards to the next generation and facilitate their career growth.

Shadowing senior personnel: Next generation is also given the opportunity to work first-hand with key senior personnel through shadow learning. This is an effective on the job learning and prepares the next generation for taking on a larger role. It enables them to appreciate the bigger picture, gives them perspective on how decisions are taken and the thought process behind it.

Next generation committee: A committee is formed consisting of all members of next generation including those not working in the business. It gives them the opportunity to attend and observe the meetings of shareholders and board. The committee gives them access to key senior personnel who can impart knowledge about the business and discuss and generate new ideas, which can be shared with the current generation.

Next generation fund: Many progressive families are creating a separate fund for the next generation to foster an entrepreneurship spirit and inculcate a sense of responsibility among the next generation. They are encouraged to scout for investment opportunities, assess and evaluate them and take decisions collectively. This inculcates a sense of responsibility and also, acts as a stepping stone when they become future shareholders of the business.

The fund also supports aspirations of the next generation who want to try something outside the family business.

Himanshu Baid
Poly Medicure Limited

In your view would the next generation be involved in the family business?

As brothers, Rishi, Vishal and I have great chemistry and understanding and have been able to successfully run the family business. We recognise that as cousins the next generation may not have the same level of understanding amongst them.

There is a paradigm shift in the thought process and approach of the next generation. This can be attributed to the kind of exposure they have received. We firmly believe in letting them explore their interests and they are not bound to join the family business. We have created ample avenues for them in case they wish to pursue interests outside the main family business.

In case they wish to join the family business we are more than happy to provide them the environment and support where they can develop and hone their skills.

How do you provide challenging opportunities to evoke the next generation's interest in the family business?

We definitely want the next generation to learn the pre-requisites to run a business. We believe that unless one is well aware of working at root levels of an organisation and learns the nuances of the business, one can never take well-informed decisions to run the business.

We have a clear policy for a family member joining the business. The family member is encouraged to work outside for few years prior to joining the family business. This gives them exposure and working through various levels in the organisation helps them realise their area of interest in the business.

One way to groom the next generation is to give them challenging tasks and the autonomy to make their own decisions. For instance, as a part of our growth strategy we are exploring untapped international markets. If the next generation show the intent, capability and passion to pursue the family business, we will groom and encourage them to take up such international expansion projects and over a period of time each of the next generation can be responsible for a particular geographical area.

Ajay S Shriram
DCM

Is there a plan for training and grooming the next generation?

Before Vikram, Ajit and I took up management roles, we worked at the manufacturing plants. The very experience of working at the factory, sharing meals with employees and getting to know our people helped us understand the fabric of the business and the aspirations of the employees. The experiences we gathered in those days made us wiser and guided us in taking appropriate decisions in leadership roles.

I recall, in early 1990s, we got the opportunity to lead business. We drew upon the wisdom of the professionals and the chemistry between us brothers and the professionals paid off in the long run.

There is significant age gap between me and my brothers. These relationships also require trust and transparency.

We have been continuously investing in strengthening the trust, chemistry, bond and transparency amongst us. For this, all three of us have been going to annual retreats with a special coach for the past 2o years. At these retreats, we perform trust building exercises to clear out our hearts and minds which helps us to better our relationships and understanding. We plan to go on similar retreats with our next generation.

We want the next generation also to understand the diverse nature of our business and the aspirations of our people. They have started working at the manufacturing plants and we believe this experience will help them when they take over the rein and lead the business. However, the choice of joining the family business is completely with the next generation. We do not want to limit their options and if they come up with new business plans or ideas, we will support them.

Towards a common goal: matching expectations

Perspective and expectations amongst the senior and next generations differ. Open and honest conversations can help bridge this gap. Most of the next generation feel that they performed better and learned more when they were given the room to make decisions and more importantly, make mistakes. Exposure to education and external work experience brings to the table ideas on modernisation, professionalism, bringing in external subject matter experts, digitalisation and innovation in the family business. The next generation feels that the senior generation should be more open to ideas and seek more delegation and decentralisation.

The next generation acknowledge that to make inroads into the their roles in the business, they have to demonstrate skills, exhibit patience, take the counsel of experienced business leaders—family or non-family—and take decisions on the basis of information, study, trials and preparation. The process is meticulous, but once there is a solid base of transparent communication between generations and constructive discussions around career paths, alignment of generational ambitions for the business becomes possible. Commitment to the business and willingness to invest time are critical for two generations to work together.

Bringing in professionalism in family business

Non-family members are considered for key managerial positions when:

- The business needs an external CEO to bring new ideas and processes.
- No family successor is qualified and/or willing to take the position.
- The family no longer wants day-to-day responsibility for the business.
- A family member is identified for the position but is not yet ready to take over.
- The family require more flexibility in the hiring and firing process as compared to hiring family members.

Role of independent non-family members

With family businesses looking to become more professional, it is not surprising that 81% of respondents in our India Family Business Survey 2016 have non-family members on their board, higher than the global average of 65%.

In fact, bringing in professionalism is one of the key priorities in the next five years. Many families initially start by having informal sounding boards with non-family members. Over a period of time, they induct non-family members onto their board who act as independent directors.

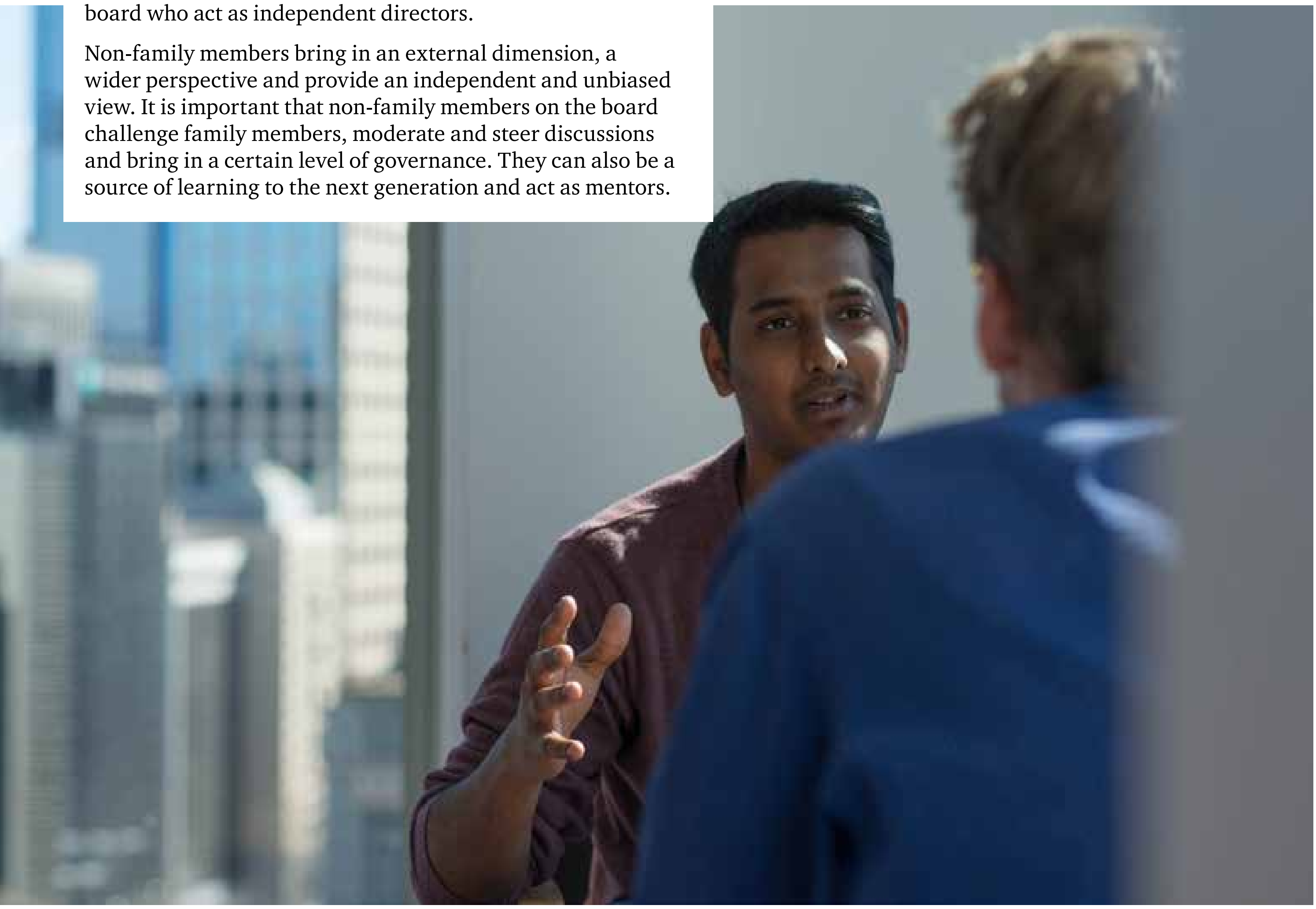
Non-family members bring in an external dimension, a wider perspective and provide an independent and unbiased view. It is important that non-family members on the board challenge family members, moderate and steer discussions and bring in a certain level of governance. They can also be a source of learning to the next generation and act as mentors.

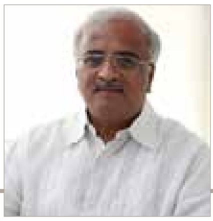
Beyond 'rubber stamping': The contribution the board can make

In our experience, many family firms are not making full use of their board: a good board is much more than merely a 'rubber stamping' body. Here's a summary of areas where a robust and objective board can make a real difference:

Helping the owners separate what the company needs from what the family wants

- Fresh perspectives, relevant experience, and access to influential networks
- Help the CEO move beyond the tactical and the day-to-day
- Ensuring there is accountability across the business
- Assistance with risk management
- Objectivity, independence, and an 'outside in' point of view
- Support and advice on planning for CEO succession
- A 'safe place' for difficult discussions
- Smoothing the transition to the next generation
- Planning and advising on exit strategies





C.S. Sunder Raju,
Atria Convergence Technologies (ACT)

Sunder Raju is a familiar name in the Indian business fraternity. The Atria Group's businesses span across power, internet technology, hospitality, media services, education and real estate.

The ACT journey

Raju mentions that there were a combination of multiple quasi successes and failures before ACT came along.

As a next generation coming into the business, Raju had new age aspirations. After graduation he came back to India in 1982 and the family construction business was not something that excited him. He started a new age computer solutions manufacturing company, Sunray Computers. It was the first Indian company to introduce concepts of 32-bit architecture in UNIX OS. It was a very niche area and it did phenomenally well in the initial stages but Raju found it challenging to create an organisation that will run according to his vision.

Raju explains that the entrepreneurial journey is fraught with management challenges. The company did very well in certain areas but he failed to bind together the pieces to build an organisation, which can sustain itself.

At the same time, there was a need to step into the family business. He closed down Sunray Computers and focused on the family business for the next four to five years.

Being a technocrat, he was thinking about a problem to solve, i.e., how do you deliver education to people below the digital divide. In those days, since computers were still expensive, he figured a way of delivering the digital format to young children using a set top box and television.

However, ACT had its own set of issues. Raju then brought an investor and focused on the broadband sector, which gained momentum.

Bringing in professional management

"There is ownership and management of an organisation. One needs to realise that these are two very distinct entities. Family interests as shareholders is different from operations."

Raju, feels that it is not right to say that every organisation needs to be professionalised. There is a balance and it cannot be put into a template. There is no clear-cut path and depends on the level of growth that the organisation aspires for and one should realise that a few family members do not make a growing organisation. There is a certain amount of time, resources and skill sets required to achieve the growth required.

Fortunately for Raju, he had enough knocks in the entrepreneurial journey to understand that you need to have the right people in managerial positions and you need to delegate responsibilities. And he learned that even though he cannot get a 100% match he can have people who are skilled enough.

According to Raju, "the real challenge for an entrepreneur is to be able to select people with the right skill sets, who are aligned to you and meet your mental makeup. You need to have the ability to articulate your vision and ensure that the organisation is more or less in alignment with your vision and working style.

Finding the right person is an iterative process. In the first few rounds of selecting a CEO, I didn't make great choices but the process made me realise the kind of person I wanted. I was a good canvas guy. I couldn't go through the same thing every single day. What I needed was someone who had the diligence to follow through.

After several interviews and conversations, I found the right CEO. He built the right processes and developed the next in line. I was looking for stars and he was looking for depth. We narrowed down on people who met some of my needs and most of his."

Raju acknowledges that finding the right person is a journey. ACT is now robustly professionalised and can run on its own. Purely from a day-to-day technology perspective, his role has shrunk from 95% in initial years to 5-10% today.

When questioned on delegation, Raju explained that it is one of the biggest challenges. He goes on to say that once a vision is articulated, execution has multiple parts. As an entrepreneur, he feels that one needs to take a step back to decide whether he wants to spend hours in execution or delegate to professionals who will take ownership and get you to where you want to be. There may be a few missteps along the way but just like an entrepreneur who will make course correction, in case of professionals also one needs to hold back and give the space to allow course correction.

"The key to delegation is to have the right amount of controls and picking people the right skills that complement you rather than replicate you."

Succession in ownership

Most Indian family owned businesses have traditionally managed their wealth themselves with most of it being invested in the business and real estate. Coupled with the fact that there are no estate taxes, promoters did not plan for transition of wealth and it was automatically passed on upon death according to the will or in its absence, as per succession laws. However, with each religion subscribing to its own law on succession, this process has become more complex. Moreover, this 'do nothing' approach leads to long-drawn title disputes and fragmented ownership on passing of wealth from one generation to another. In addition, there is no guarantee that family wealth will continue for generations and it is left to the judgment of heirs to preserve, protect and transition the wealth.

With a desire to leave behind a legacy, promoters are now exploring tools and vehicles that ensure a smooth transition to succeeding generations.

Another factor, which is driving the need for ownership succession, is different objectives of active and passive family members. There is a delicate balance to be maintained between dividends and re-investment and a clear ownership succession will articulate the policy keeping in mind needs of the business and the family.

Shuba Kumar
Natesan Group

Natesan Group is based in Chennai and manufactures auto components. We asked Shuba, how the family went about planning for ownership succession and what factors should be considered in choosing an ownership structure?

Shuba said, "We felt the need for planning ownership succession as we were transitioning the management from the founder generation to the next generation. We realised that we needed to have a structured process of succession planning. As a founder-led company, the decision making was with the founder and supported by the board and key members of the management. After the succession, decision making will involve more people, some of whom were not involved in the business and were geographically dispersed. We needed to establish processes that would ensure the transition will be smooth for continuity of the business and harmonious relationship with all stakeholders.

We realised that under these circumstances, the first priority will be to get aligned to what we wanted to achieve together in the business, contribute to society, etc., before we embarked on the specific structure for ownership. We also realised that we needed an objective external perspective and appropriate advisors to take us through this journey.

Choosing the right advisor: We evaluated numerous advisors over two years—family advisors, trust administrators, wealth managers, trust lawyers, tax advisors, etc. Some advisors, focused only on the Family Constitution or dispute resolution with no specific involvement in the structuring of the ownership. Some focused solely on the ownership structure without understanding the foundation required to build ownership structure, i.e, alignment on objectives amongst members. We also had members who lived outside India. Some advisors, did not understand the complexities involved in members dispersed geographically as any structure envisaged had to comply with the laws of India and other countries.

What works, for a situation where all members are based in India, does not work for a situation, where members are globally dispersed.

We finally found advisors who guided us on all aspects of succession planning methodically. They pulled in the required specialists as and when required to make it seamless for us. We started with alignment amongst the members on key areas such as balance between individual members v. the business, ownership v. custodianship, entitlement v. beneficiary etc. As we debated to align, our advisors provided us insights on possible consequences of choices, while giving adequate space to make our own decisions.

We learnt that the best time to discuss and align on the objectives was when relationships were good and there were no specific open issues amongst members. It is never too early to start! It takes a lot of time to gain alignment. We understood that priorities will change from time to time and there is a need to realign at periodic intervals.

Once we had alignment on objectives, the next step was to develop an ownership structure that reflected what we wanted to achieve, keeping in mind various regulatory requirements of the geographies involved. At times when we received conflicting inputs, our advisors were there by our side, helping us reconcile perceived differences in the view points to arrive at a logical conclusion. They were very effective in the end-to-end execution of succession planning from evaluating strategic options available to meet our end goals, to corporate restructuring, all the way to the execution of the required documentation and filings.

Rather than addressing specific factors for choosing the right ownership structure, in our opinion, choosing the right adviser for succession planning is perhaps the hardest part. In our experience, with the right advisor everything else was worked out logically to meet our objectives and expectations.

Philanthropy: giving back to the society

The values of family businesses translate into driving its commitment to philanthropy. With a view to making a meaningful difference to the society and communities in which they operate, several families pledge for initiatives and social causes, which are close to their heart. This goes beyond the corporate social responsibility (CSR) of operating businesses.

The areas of interest and initiatives is typically driven by the founder and perpetuates as the family legacy. Family members who are not actively involved in the family business can also use this opportunity to make meaningful contributions. Philanthropy creates an interactive forum wherein family members can bond, share ideas and also, makes responsible choices. It teaches them empathy and to appreciate the value and privilege of what has been bestowed upon them.

Several large families are adapting a more holistic and structured approach towards philanthropy. The family office provides the necessary infrastructure and supports the family in its philanthropic activities. A separate foundation is created and funds are contributed to drive initiatives. Spouses also actively participate and drive philanthropic initiatives of the family.

Philanthropy also inculcates the importance of giving back to the society in the next generation. The next generation are very keen to continue this legacy and it grooms them to be responsible stewards. They strongly believe in investing in areas, which have social impact and areas, which drive social change.

Some of the key points to be considered while putting in place a roadmap for philanthropy include:

- Identifying focus areas and initiatives that the family stands by
- Structure of the foundation—separate entity or part of the holding vehicle
- Funding of the foundation
- Responsibility, monitoring and periodic review
- Whether charitable foundations should own shares in the family business

"Philanthropy has always been a big part of our culture and values"

Conflicts and misunderstandings

One of the biggest threats to a family business is conflict. Misunderstandings are unavoidable in a family business and can affect its longevity and survival. It not only causes a rift in the business but can also sever family ties.

Some of the reasons for conflict include:

- Difference in expectations between active and passive family members and perception that needs are not met
- Lack of communication and ego between family members
- Co-mingling of family and business issues
- Divergent thoughts and lack of consensus on strategy and how to run the business
- Divergent opinions on choosing the future successor
- Performance of family members where one vertical is not performing well can lead to tensions
- Exit by a family member and valuation methodology
- Decisions about future strategy of the business
- Deciding between reinvestment of profits and payment of dividends

Therefore, conflict management mechanism is essential to maintain harmony at both fronts, i.e., family and business. The first step to putting in place a conflict resolution mechanism is to identify and discuss why conflicts occur and potential areas of conflict. Documenting this minimises future misunderstandings considerably.

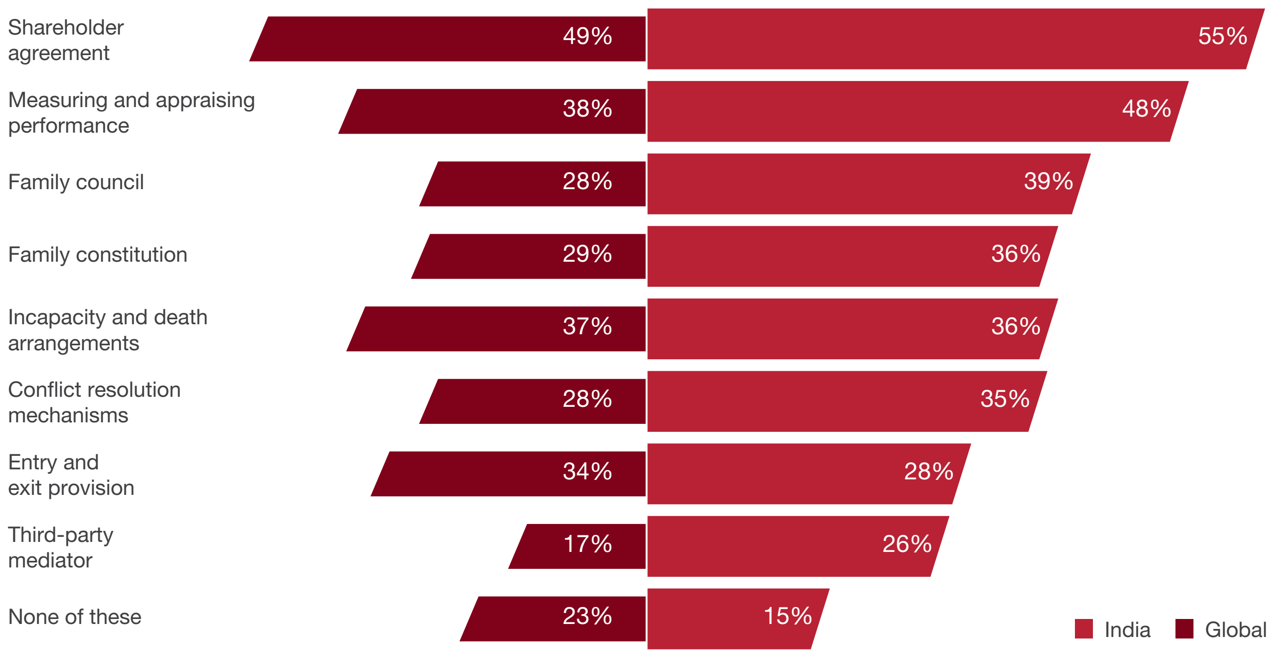
Having a well-documented family governance avoids and minimises conflicts and in the event conflicts do arise, it helps to solve them amicably. In our India Family Business Survey, we observed that 85% of family businesses have at least one conflict resolution mechanism in place.

The first step is to establish clear rules for the family. Creating a Family Constitution is key to establishing such rules and aligning the vision of the senior and the next generation. The Family Constitution creates separate forums, which decouples family and business issues. The shareholders' assembly will focus on business matters and the family council will lay emphasis on family matters.

We have seen several instances where family disputes have been dragged to courts and fought in public. Families are therefore, increasingly creating formal conflict resolution forums where family members can discuss their differences and resolve disputes amicably. Conflict resolution committees with neutral family members and trusted outsiders attempt to objectively mediate and resolve the dispute. The conflict resolution committee provides a forum where family members in dispute can air their differences and hopefully resolve issues in an amicable manner. If the dispute still continues, family members attempt to resolve it through formal mediation or arbitration. Only when these mechanisms fail, should the dispute be taken to court.

A clear conflict resolution mechanism ensures and gives an opportunity to disputing family members to keep their egos at bay, look at the bigger picture and resolve issues for good of the family. Resorting to legal recourse at the first opportunity creates hostility and breaks down family relations. Hence, a well-documented conflict resolution mechanism is key to the continuity of a family business, since it reinforces peace and harmony among family members in both business as well as family.

Procedures/mechanisms in place to deal with family conflict



Family governance: tools for success

Most families have informal undocumented understanding between members. This will be effective only during periods of harmony. The lack of clear lines of demarcation between family and business aspects often leads to conflicts between family members.

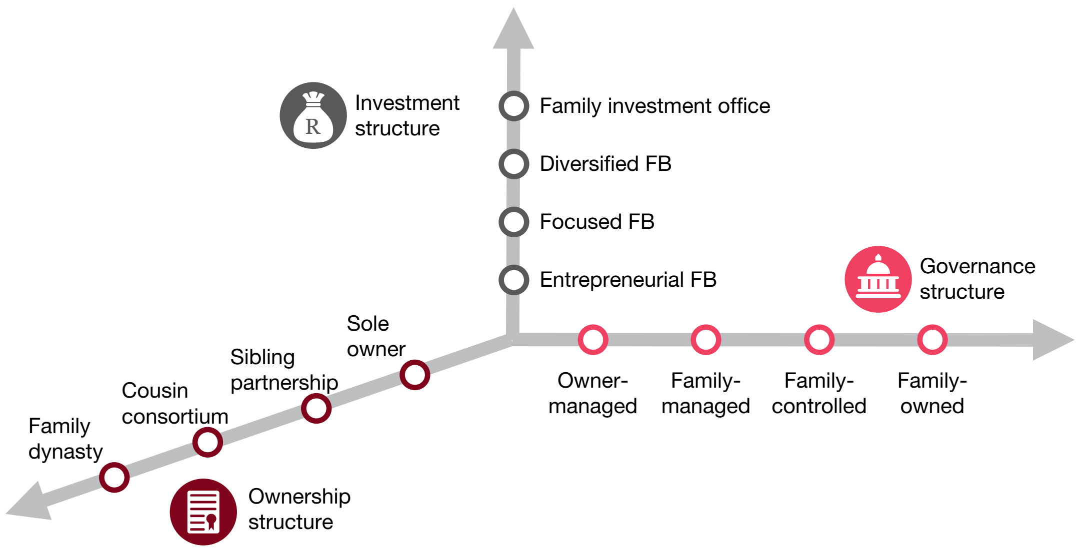
The key to success and growth of a family business is professionalising the business and the family and establishing accountabilities, responsibilities and transparent communication. Some of the widely used governance tools include putting down a Family Constitution, entering shareholder agreements, formalised family values, holding family meetings, taking part in philanthropy, forming a family council, holding training sessions and using conflict resolution techniques.

Prior to embarking on an assessment of relevant governance tools, family businesses will need to consider the following:

- Need to set up a governance framework
- Governance tools that will be required for the family
- Responsibility of implementing governance tools
- Assessment of effectiveness of tools

The Three Dimensions model, developed by Professor Dr. Peter May, provides a framework to assess governance tools, which are relevant for family businesses.

This will need to be assessed on a case-to-case basis and governance tools will need to be identified depending on the ownership, governance and investment structure. A third generation family business in a 'cousin' consortium needs a different model from a founder-driven organisation.



Ownership structure	Investment structure	Governance structure
Sole owner • Dependence on sole owner • Abuse of power • Succession • Emergency plan	**Entrepreneurial FB** • Dependence on founder • Business model • Scare resources • Lack of professionalism • High risk	**Owner-managed** • Dependence on entrepreneur • Succession • Emergency plan
Sibling partnership • Sibling rivalry • Ownership competency • Entrepreneurial spirit	**Focused FB** • Life-cycle risks • Cluster risks	**Family-managed** • Conflicts of interest between active and non-active owners • Envy, jealousy, resentment • Foul compromises
Cousin consortium • Diversity • Old rivalries • Entrepreneurial spirit • Reduced owner identification • Cohesion	**Diversified FB** • Other competencies required • Professional portfolio management • Resource fragmentation • Reduced owner identification	**Family-controlled** • Finding and retaining qualified managers • Principal-agent problem • Reduced owner identification
Family dynasty • Reduced owner identification • Cohesion	**Family investment office** • Other competencies required • Reduced owner identification	**Family-owned** • Sole dependency on third parties • Reduced owner identification

Family Constitution as a tool for governance

The Family Constitution or protocols enable transition from 'family business' to 'business family'. The Constitution documents the family's understanding and the rules defining:

- Family values, vision and objectives
- Business relationships
- Roles, responsibilities and authorities
- Boundaries between family and business

Only 15% of family businesses have a robust, documented and communicated succession plan

A clearly documented Family Constitution brings clarity, strengthens cohesion, minimises conflicts and drives a family towards achieving a common purpose. It brings governance into the family and ensures long-term sustainability of the family business.

In this process, family members deliberate and create practical solutions for the continuity of the family business.

The building of the Constitution is a consultative process between current and incoming generations. It is created with a spirit of fairness and has the buy-in of all family members. The process encourages open communication, unearths concerns and unresolved issues, which have not been addressed and pre-empts issues on transition from one generation to the next.

The Family Constitution should broadly lay down rules on succession of ownership and management, decision-making process, induction of family members into the business, role assignment and membership of various business and family forums. The Constitution helps create a structure and increases bonding among family members.

Several successful families have adopted these rules and understood the need to establish strong intra-generational business relationships. Being brothers, sisters and cousins may not be enough at times.

The basic principles and guidelines set forth in a Family Constitution is expected to continue for generations. However, with changing times it is also necessary to revisit and review the constitution and refresh values and philosophies every 5 to 10 years.

Family Constitution: main aspects

Vision statement

- Ownership philosophy
- Family vision, mission and values
- Business vision and mission

Family ownership and structure

- Ownership of shares
- Holding entity structure
- Who can or cannot become a shareholder
- Governance of owners and shareholders
- Role and responsibilities of ownership Council or shareholders' assembly
- Decision making and voting

Family representation on boards

- Board structure (family and non-family directors)
- Roles and duties
- Election process, terms of office
- Appraisal and remuneration of the board of Directors

Investments by family members

- Restrictions on investments
- New businesses—family v. personal

Family employment policy

- Criteria for family employment
- Family personnel committee
- Appraisal, progression and remuneration

Family council

- Role and membership

Family office

- Type of family office
- Services—administrative or concierge and investments

Next Gen Committee

Philanthropy

Conflict resolution

- Mechanism for resolving conflicts
- Conflict resolution committee

Dividend policy

Exit policy

- Mechanism and process of exit
- Valuation methodology

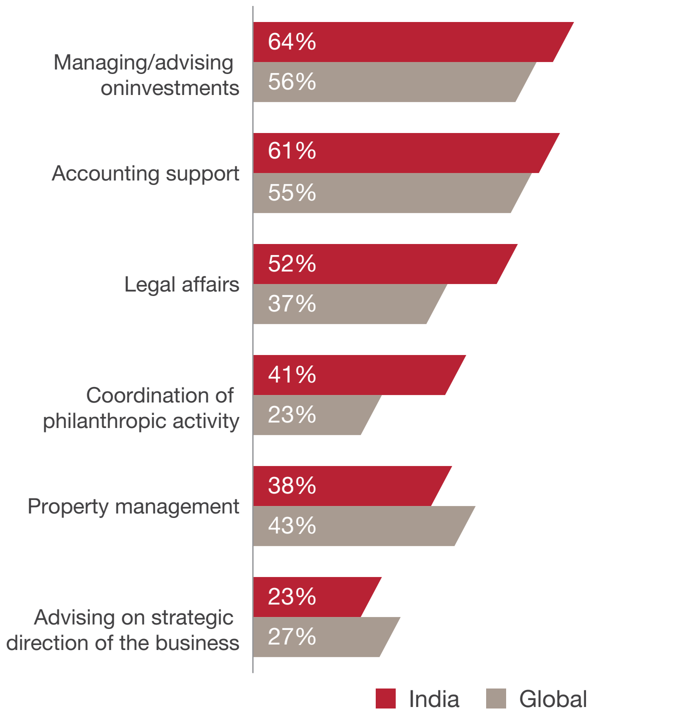
Shareholder's obligation and Code of Conduct

Family office

A family office is an organisational set-up to oversee the personal and financial affairs of family members. Families are increasingly setting up single family offices as they offer more privacy and independence.

In our India Family Business Survey 2016, 55% of respondents mentioned that they have set up a family office. In India, family offices are largely used for managing investments, accounting support, legal affairs, aiding in philanthropic activities and property matters. A low percentage of family offices are focusing on the strategic direction of the business. As families and their businesses grow, the need for the family office to upgrade and look at strategic affairs will also evolve.

Elements managed by the 'family office' (among users)



Scope of family office

The evolution of the family office depends on needs and sizes of family businesses. The objectives and roles will drive the scope of the family office.

Administrative office: Such offices provide concierge and secretarial support, such as household staff management, travel, book keeping and tax compliance. In this case, the family office will employ people with a basic skill set given the role and nature of work to be carried out. The more complex activities (primarily wealth creation and preservation) may be outsourced to external service providers. The family office staff will coordinate between family and external advisors.

Comprehensive office or investment office: Such offices provide end-to-end support including managing wealth and investments. An investment manager will be employed to drive and monitor investments.

Arjun of NR Group gave us an insight into how they have structured their family office. He explains, "We have a family office and a group investment office (GIO). The family office takes care of our personal wealth and day-to-day living. It maintains all property documents, pays taxes, provides services such as IT, plumber, travel desk, etc. A fund is created with a clear allocation of funds and what each family is entitled to."

On investments, Arjun confesses that initially family members would receive several opportunities to invest. However, given their busy work schedule these emails would go unattended or would be delayed for several months. This was very discouraging for entrepreneurs and affected the credibility of the family. The family then identified one person as an anchor who acted as a liaison and ensured closure. On how the GIO makes investments he explains, "As a family, we have identified domains of interest. The GIO has a mandate and investments are classified into financial or strategic. A limit is agreed upon for financial investments and an evaluation methodology has been developed wherein a panel of three independent members source, screen and evaluate investments. Once the initial feasibility study is done, it is presented to the family and one of us is assigned the task and drives the investment to closure through the GIO."

Range of services for family offices

Investments
- Analyse market outlook
- Investment management
- Due diligence
- Governance

Compliance
- Tax planning and returns
- Insurance
- Property management

Enterprise
- Operate family businesses
- Manage real estate
- Business governance
- Philanthropy

Operations
- Recordkeeping
- Reporting
- Bill Management
- Property Management

Succession
- Create estate plans
- Serve as trustee
- Organise training
- Leadership succession planning
- Wealth transfer planning

Technology
- Network/ IT support
- Cybersecurity
- Account and investment systems
- CMR, document management
- Reporting

Legacy
- Family vision and charter
- Strategic planning
- Family governance
- Concierge
- Education plans

Mohamed Aslam Omar
Phoenix Ventures Limited

Phoenix Ventures Limited is the holding company of the Brandix Group, which is one of Sri Lanka's largest end-to-end apparel solutions provider. Aslam was instrumental in setting up the family office under Phoenix Ventures and was given the key responsibility of managing the family office.

When did the need to set up a family office arise?

Family members involved in the business used their secretaries for their tasks and the efficiency depended on that of the secretary. The need to set up a family office came about with the objective of providing skilled and dedicated resources on a common platform, to meet concierge needs of all family members (both active and passive).

The family office was a one stop shop for personal services which may include travel, visas, insurance, healthcare, cars, etc. The services were made available to all members and it was left to the discretion of each member on how effectively they use it. It also managed the accounts of personal investment companies of family members.

The success of the family office depends on the family office manager who run these operations on a daily basis. Our family office manager was tasked with implementing the scope set out for the family office and did a great job in bringing the family together.

How did the family office evolve over a period of time?

The family office was initially set up as a concierge office. As the dividends accumulated in the holding company, we chalked out an investment philosophy, governance framework and set up an investment committee to manage the wealth. We created investment pools such as fixed income, real estate and alternative investments. Each investment pool had different thresholds, investment philosophy, risk appetite and investment strategy.

The philosophy was consevative, since all the risks are taken at operating companies. As a family we wanted to create investments where we are not drivers and receive stable and regular income.

How do you get the next generation involved in the investment office?

The information and knowledge is shared with the next generation. Some of the next generation members are chosen and asked to provide their input and recommendations on investments.

The next generation are also encouraged to suggest investment opportunities to the investment office. The ideas and opportunities are then vetted by the investment committee (which comprises professionals). The recommendation is then tabled and the ultimate decision to invest or not vests with shareholders.

We also set up a separate company under Phoenix Ventures and created a fund for encouraging the next generation to invest and take decisions collectively allowing them to take more risks. This encourages entrepreneurship among the next generation and sharpens their decision-making ability.

Global importance of family businesses

David Wills,
Global Leader - Entrepreneurial & Private Business

From iconic multinationals to local businesses, family businesses form the backbone of economies across the globe. They employ the majority of the world's population, particularly in emerging markets. Whilst the short term is important, family businesses ultimately measure their success in generations. In changing times, this makes family businesses more enduring and resilient to business ups and downs. Family businesses are also more trusted – a significant asset in a world where trust is more fragile and reputations are subject to increasing social and media scrutiny.

Understanding the owner's agenda

At PwC, a deep and long lasting relationship with the business owner is at the heart of what we do. As a trusted adviser, we strive to understand and support the owner's agenda across all elements of family, business and wealth issues. PwC has a long history of working side by side with family businesses and we have a dedicated Global Family Business Leader and a team of dedicated partners and teams who focus on supporting this critical market.

Supporting the next generation

With the maturing of the 'baby boomer' generation, we are poised for the greatest intergenerational transfer of wealth the world has ever seen. As the baton passes, PwC is proud to support, develop and nurture the next generation of family business leaders through our bespoke Next Gen programmes around 'Connect. Learn. Lead.'

Siew Quan Ng
Leader AsiaPac – Entrepreneurial & Private Business

An AsiaPac perspective

Asia is the growth region of this century and much of this growth has been fuelled by family businesses. It is not uncommon to see a number of listed companies here that are led by family businesses. Many are employers to the local workforce and have contributed significantly to the nation's GDP. Hence family businesses play an important role in both Asian economies as well as the social fabric of these countries.

When it comes to India, the working population is set to continue growing and maturing for the next twenty years. This presents significant opportunity for Indian family businesses to pave the way for a continuing legacy, whilst learning and adapting key lessons from their global counterparts.

PwC's Asia Pacific Centre for Family Business Excellence supports this journey by bringing together our network of trusted advisors for Indian families to tap on and working with them to drive growth and sustainability across the generations.

Success of the family and the business

The key to continuity of a family business is encapsulating family values, vision and common purpose into a Family Constitution. A well-articulated Constitution ensures the continuity of the family and the business, brings good governance and acts as a guiding document for succeeding generations.

Most families go through the elaborate exercise of drafting a Constitution seeking to pass on the values and legacy of the family for generations to come and with the hope that the set of principles and framework will guide the family to be responsible stewards. However, post execution, it is business as usual and the Constitution is left on the shelf untouched. The key to success and continuity of a family business is not just putting in place a Constitution but also living by the spirit of it on a day-to-day basis.

The basic principles and guidelines enshrined in a Family Constitution is expected to continue for generations. However, the Family Constitution should not be a static document and needs to be flexible as the family and business evolves. With changing business landscape, inclusion of new members and generational change, it is important to revisit, review and expand the scope of the Constitution and also, refresh the values and philosophies every five to seven years.

The vision of passing on the legacy of a family business for generations can be a reality with proactive planning, governance tools and willingness of the current generation to accept change as they make way for the next generation of family business leaders.

Steps for effective succession planning and business continuity

Peter Englisch,
Global Leader – Family Business

Into leadership...

1. **Get experience outside the family firm**

   As the business landscape becomes more complex, it's vital to bring a broad range of experience to the task of leadership. So develop a career plan that involves working outside, to allow you to acquire the specific skills the family firm needs.

2. **Develop a strategic plan for the medium term**

   The next generation often see the succession process as an opportunity to modernise the business, and there may indeed be a need to do this. But it's important to make changes in the context of longer term objectives, which is why it's vital to have a strategic plan, developed jointly by both the current and incoming generation, and in consultation with all the shareholders.

3. **Broaden the decision-making process**

   As the business passes from one generation to the next, it's important to create an organisational structure which isn't dependent on one single individual. Decisions need to be made collectively, and with proper information and preparation.

4. **Strengthen the role of the Board**

   The board has a key role to play in overseeing the succession process, and in ensuring that family members are only offered positions they are properly qualified to fill. Becoming a member of the board is a useful way for the retiring generation to make an invaluable ongoing contribution.

5. **Clarify what the retiring generation will do**

   The current generation needs to have a clear plan for their life after retiring. This will prevent misunderstandings, or the temptation to interfere. Taking on roles outside the family business – in the community, for example – can be both worthwhile and rewarding.

Into ownership...

1. **Start early**

   It's vital to start the process as early as possible. Everyone needs to know what to expect, and what the timetable is, to avoid misunderstandings and unspoken tensions that could lead to outright conflict. This is especially important for family members who are going to be taking executive roles in the future. Our advice is always to transfer shares during the current generation's lifetime.

2. **Communicate, communicate, communicate**

   Decisions need to be made by a process of consultation and discussion, not dictated by the owner. Everyone with a stake in the future needs to have a say in it.

3. **Do your homework**

   Make sure you know the tax and legal implications of your succession plans. Depending on your circumstances and jurisdiction, some approaches may cause difficulties which may not be obvious until it's too late.

4. **Invest in education**

   The people who are going to be running the business need the right expertise to do that, but ownership demands specific skills too. Make sure all current and prospective shareholders are educated to become professional and competent owners.

5. **Diversify your wealth**

   If the retiring generation rely entirely on the firm to provide a retirement income, that can put a disproportionate strain on the business. It can also make it harder for the older generation to 'let go', because their lifestyle is at stake. So build assets outside the family firm from an early stage.

...what successful family businesses do...

1. Distinguish between company and family
2. Apply proper system of governance
3. Engage and involve the next generation early
4. Value competence over family ties
5. Set up a framework of shared values
6. Invest in family cohesion and do not take family harmony for granted
7. Prepare for the unexpected
8. Plan by objectives and diversify risks for the business and family wealth
9. Allow external advice

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About PwC

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