News Date: 22-08-17 **Publication**: The Economic Times

Home Away from Home

If a clutch of scions is keen to do its own thing, there is a bunch of elders, too, that sees alternatives to the progeny as suitable successors. The succession algorithm in India's family-owned businesses has changed

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Business successions can be come messy — both in family-controlled businesses such as Raymond, where there are multiple court battles being fought between generations of the Singhania family and in a more professional setup such as Infosys, where professional CEO Vishal Sikka quit late last week, unable to manage the constant criticism by company founders, led by NR Narayana Murthy.

In business families, there's additional pressure to manage professional expectations of family members who will also become substantial shareholders some day. The saving grace in the Infosys saga is that the children of the Infy founders mostly do not look at the company as their career — they have too many other things to choose from.

Farhad Forbes, co-chairman of Pune-based engineering company Forbes Marshall, who used to head India's Family Business Network set up under the CII, feels liberalisation of the 80s-90s and lower taxes were key to change in attitude, where families do not any longer see the need to have their children run the business.

Manmohan Tiwana, founder of Wodehouse Capital, feels many of the younger generation of business families would prefer to be investors rather than involved in the empire

Forbes, who is now vice-chair of the global parent body Family Business Network International, Switzerland, says, "Up to the 1980s, due to high taxes, it was imperative for an Indian business owner to be employed in the business and draw a salary and get other facilities as perks to be able to make a living. That has changed after liberalisation and lower taxes made it possible for business owners to generate enough wealth and also earn dividends to support a decent lifestyle without drawing a salary."

Today, a lot of family businesses are seeing this choice being exercised.

OF GREEN SHOOTS AND SUITABILITY

In mid-June, as Mumbai awaited full onset of the monsoon, members of around 50 high networth business families got together at the iconic Taj Mahal Palace & Towers hotel to witness presentations by four promising startups seeking capital. While mostly in their 40s and 50s, there were some older businessmen too. Some had sold their businesses and were sitting on a pile of cash, others were young scions in their 30s attending along with their spouses. Some families were represented by a CEO or a family-office manager.

The opportunities — one each in peer-to-peer lending, artificial intelligence, fintech and parking solutions — were lapped up and friends and family pooled in to make up the cash pile required to buy decent-sized stakes.

Manmohan Tiwana, event organiser and founder of Wodehouse Capital, feels many of the younger generation of business families would rather not be involved in the empire but be an investor. "If they have to manage, it would rather be a new idea starting from scratch that they can scale up quickly." Wodehouse offers family office services, advises business families on managing wealth, helps break up businesses and create succession plans. Tiwana often sees family business owners exploring a larger set of options when deciding on the next generation (see **Planning for the Scion**).

While choice is a luxury, inexperience is often the bane. With rapid growth in the last decade and a half, Indian business families find their companies have scaled up much before their next generation can mature.

Says John A Davis, professor at Harvard Business School and founder of Cambridge Family Enterprise Group, "Typically, companies would grow and change less in a generation, allowing the next to get adequate experience moving up through the organisation and prepare for leadership. Today, with companies growing and morphing so much in a short period of time, the assumption is that the next generation can't gain skills necessary in such large, complex and professionalised organisations."

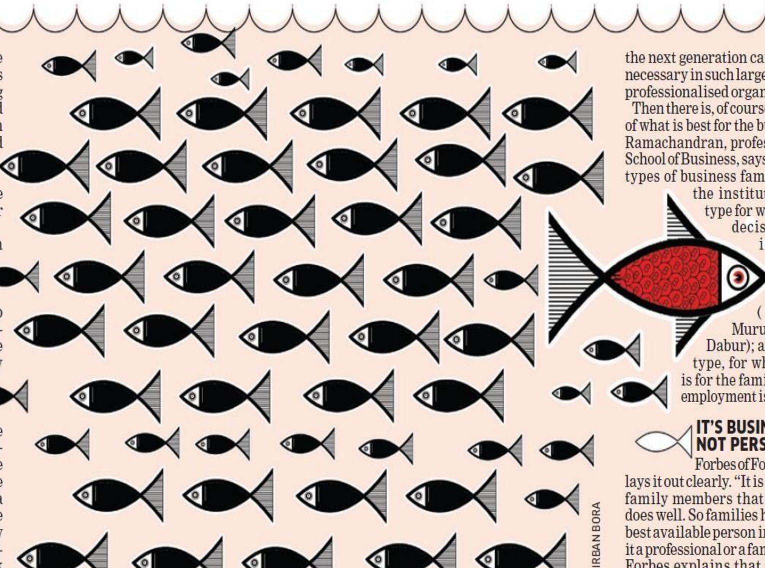
Planning for the Scion: How to do it

Set aside ₹100 crore and mandate bankers to find two fast growing businesses for the two next-gen members to take over as they come of age

Induct children into the family business for five years for experience and then hive off an arm for them to own and manage

Create a family office and let the children be occupied full-time managing the family's investments

SOURCE: Wodehouse Capital


ANIRBAN BORA

Then there is, of course, the question of what is best for the business. Kavil Ramachandran, professor at Indian School of Business, says India has two types of business families today — the institution-building type for which business decisions are not influenced only by family membership (Godrej, Murugappa, Wipro, Dabur); and the second type, for which business is for the family and family employment is critical.

IT'S BUSINESS, NOT PERSONAL

Forbes of Forbes Marshall lays it out clearly. "It is critical for all family members that the business does well. So families have to put the best available person in control — be it a professional or a family member." Forbes explains that sometimes, a family member with all the early conditioning and exposure turns out to be the better choice to take over as CEO.

Almost as if to prove that scions can manage businesses too, Harvard's Davis has actually compiled a global list of those ready to take over from their parents and make an impact.

There is a flip side too, as Ramachandran points out, about families who see employment in the business as critical. "Such family businesses tend to split up in every one or two generations. You will find the next generation of such families occupying leadership positions at an early age."

In India, there are examples of all kinds — families grappling with succession, almost bringing in a direct handover of CEO roles between generations and also letting the next generation do their thing.

Size Matters

HOW SIZE OF BUSINESS TENDS TO DETERMINE SUCCESSION

Sub ₹1,000 crore companies
Still entrepreneurial and likely to introduce children into business with a direct line of succession

Between ₹1,000 crore & ₹10,000 crore
Next-gen members more likely to be keen to move out or be on boards

Above ₹10,000 crore
Older generation tend to play the role of mentors and strategic advisors even if they have executive roles

SOURCE: Grant Thornton India

Arihant Patni, a second generation Patni, now heads the Patni family office, apart from managing a couple of funds, after the core family-owned business was sold to iGate in 2011.

SK Munjal, youngest son of Brij Mohan Munjal, who quit his joint managing director position at Hero MotoCorp at age 56, now heads the family office, apart from looking at acquisition opportunities and driving corporate social responsibility.

Pharma company Lupin has seen founder Desh Bandhu Gupta's son and daughter Nilesh and Vinita take over the reins after a professional manager, Kamal Sharma, led the company for some time. Sharma is still vice-chairman.

In India, families are grappling with succession, almost bringing in a direct handover of CEO roles between generations and also letting the next generation do their thing

At Ceat, Anant Goenka took over as MD at the young age of 30, after serving as deputy to Paras Chowdhury.

In May, Adi Godrej's daughter, Nisaba, 39, took over as executive chairman of Godrej Consumer Products. It is never easy to explain such transitions or keep it smooth. In an interview a day after the transition was announced, Adi Godrej said, "As a family, we have decided not to comment on this subject."

Like Wodehouse, many others are finding this an opportunity to advise traditional business families. Vishesh Chandiok, managing partner at audit and advisory firm Grant Thornton India, says family business services is a focus area for the entire firm. Chandiok points out that his father remains chairman of the audit firm affiliated to GT in India and in that sense, he himself is a product of a family business succession.

For a smaller company — less than ₹100 crore — Chandiok feels it is imperative the owner remains CEO as there is need for entrepreneurial zeal. Various models can exist for operations between ₹100 crore and ₹10,000 crore. For a larger group that has grown beyond ₹10,000 crore, the owner is more like a mentor. "If you take the Ambanis, Anil or Mukesh, they are less CEOs and more business mentors for people who are running the various businesses," Chandiok notes.

Source: http://economictimes.indiatimes.com/news/company/corporate-trends/how-succession-algorithm-in- indias-family-owned-businesses-are-changing/articleshow/60165139.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cpps