

MANAGING COMPLEXITIES OF MULTI- GENERATIONAL FAMILIES

Family and Businesses

The unique world of family businesses

- High Commitment
- Pride- Personal association
- Vision
- Continuity

Family run Businesses consistently outperform Non-Family Businesses in India...

Strengths of Family Businesses

Long
Tenure of
leadership

Silent
Capital

Minimal
Debt

More
profitable
than
counterpa
rt-s

Invest for
Long Term

Family Office
Advisors Program



Another Perspective of Family Businesses...

- Family businesses are considered 'complex'
- Conflicts
- Disputes
- Split
- Lack of discipline

Complexities in Multi-Generational Families

COMPLEXITIES

REASONS

Generational conflict & clashes

- Disrupted relations may lead to conflict and poor performance

Lack of Trust among family members

- Lack of communication can destroy control of assets, relationships and trust among families

Performance Issues in the next generation

- Lack of aptitude and low performance by the next generation

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Ways to mitigate the complexities

Transparency about succession

- Key aspect to survival of business
- Help business identify and develop executive talent to fill leadership positions

Right people are in the right roles

- Frank discussion with next generation vis-à-vis career aspirations.
- Provide a niche to every member to operate without clashes

Prepare the Next-generation leaders

- Training and education programs are critical for ownership and leadership succession.
- Strong support system of family members

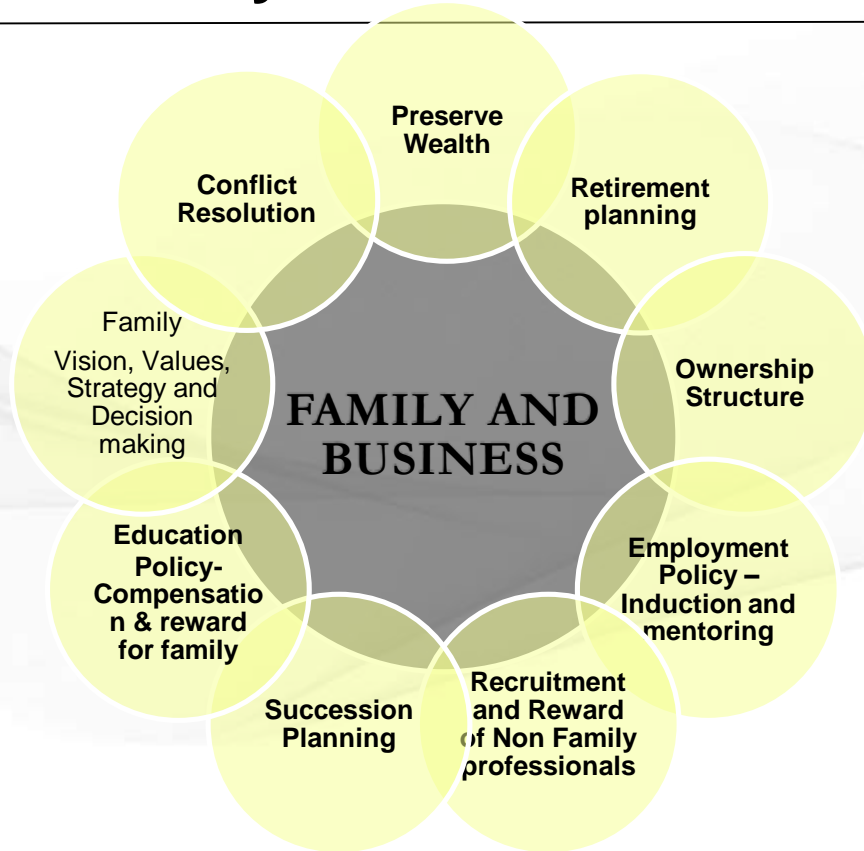
FAMILY GOVERNANCE

Family Governance

- Crystalize a family constitution
- Robust way of managing family like a business
- Family constitution captures all aspects of governance that a family believes will guide progress of the family business with unity & harmony
- Participative process – Enables alignment, synergy & personal development within the family

Well-known multi-generational families have good governance (GMR, Dr Reddy's, Dabur, Murugappa, Merck, Hilti....) and covers various facets (listed few in ensuing slides)

Objectives of Family Governance



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Process for formalising Family Governance Mechanism

Well functioning family governance structure will aim at:

- **Encouraging The Consideration of Important issues**
 - Causing the family to think about and deliberate over important issues relating to succession, growth and the future of the family business in relation to the family.
- **Discussion of Important Issues within the Family**
 - Ensuring that the family discussed these issues and arrives at a consensus. Expectation management is the key to ensure harmony in the family.
- **Formalising Decisions By Way of a Family Constitution**
 - Documenting the plan in a formal family constitution which can be reviewed over time and changed.

Expected Outcome – Managing the Family as a business and managing business as a family

Constituents of a Family Constitution

1. Mission and vision. The family's vision and nature of its commitment to the firm and its continuity.
2. Values. The family values that have successfully guided the firm in its relations with customers, employees, suppliers, partners, competitors, and the community.
3. Family Brand. The use of the family name, relations with the government, traditional and social media. The desired behaviour of the family toward its enterprises and their management is spelled out.
4. Employment policy. The requirements family members need to meet in order to be considered for employment are enumerated.
5. Next generation family-member development. The commitment and procedures guiding the education and professional development of next generation members.
6. Ownership policy. Stock ownership and classes, and ownership transfer policies are defined. Business-valuation processes are often spelled out. Buy–sell agreements in existence are discussed.
7. Family bank and/or family venture capital fund. Special funds allocated to sponsor the development of new ventures or new initiatives by members.
8. Dividends and family benefits policy. Educates and guides shareholders on the expectations for returns on invested capital. It may also, if the family has agreed to it, set a ratio of reinvestment to distribution of shareholder returns.

Constituents of a Family Constitution

9. Liquidity policy. Business valuation, buy–sell agreements in force, redemption funds, if any, and their use in wealth creating events
10. The board of directors or advisory board. Its make-up, standing, authority, and relation to management, shareholders, and other entities are discussed.
11. Family council meetings. Their purpose, primary functions and relation to the board and shareholder meetings are discussed. Membership and its standing and operating procedures are discussed.
12. Shareholder meetings. Their role is discussed, as are their authority and legal standing. Their relation to the board and the family council is also discussed.

 **THANK YOU**