PERPETUITY IN FAMILY BUSINESS – SOME GUIDELINES

{This article is inspired by three masterpieces on the subject – *Lessons from the Worlds Most Enduring Family Businesses – Centuries of Success by William T O'Hara; The Living Company by Arie De Geus and the research of Harno Funabashi*.

Deep and inspiring conversations with Dr. Ram Charan have been a great source of learning. Lastly, my own experiences as a Family Business Practitioner have helped me blend and bind these learnings}

WHY NOT LET CORPORATIONS DIE?

Whether a family company or otherwise, what is so special about enduring companies? Why should they continue to survive? There is no one right answer and it could take hours of acrimonious debate to be able to convince impatient capital, traders and speculative short - term investors looking for quick results and quarterly performance and valuations. It would be even more difficult to dissuade shareholders from buying companies and dismantling them into component parts.

It is finally a matter of how we see companies – are they merely for economic purpose or do they fulfill a larger socio-economic purpose?

1. The average life expectancy of Fortune 500 companies is about 40-50 years and getting shorter.
2. Companies that were once blue chip on the Mumbai Stock Exchange, only a few decades ago, have vanished from the face of this earth.
3. Family companies specifically, account for approximately 65-80 percent of their country GDP. They outperform their non-family counterparts but run the risk of premature mortality given their peculiar complexities.
4. Very few family companies sustain beyond the fourth generation, without concerted action to prevent their decline and death.
5. The present-day value of an average twenty -year old company of maximized profits is likely to be lower than the present-day value of a hundred -year old company of moderate profits- not to mention the value of expansion of these company activities in all areas and geographies of its potential.
6. A company's premature demise is equally damaging to all its stakeholders.
7. When a company dies, the community of people bound with the company is fractured. People lose jobs without a work community – the social costs are huge.
8. The debt the company owes to its previous generations, who gave themselves to its future, can no longer be fulfilled.

At this juncture, we will let the debate take its course and continue to examine what makes companies sustain over generations.

CHARACTERISTICS OF LONG- LIVED COMPANIES.

The characteristics are similar for family and non-family businesses. Family companies have a few more dimensions to ring fence their genetic vulnerabilities.

1. Progressive leadership driven by foresight, values and stewardship of 4 P's – Purpose, People, Planet and Profits.
2. Cohesive culture with a strong sense of identity and *persona*
3. Encourage entrepreneurial diversification and portfolio renewal. Family companies build a robust entrepreneurial pipeline of family talent.
4. Effective partnerships and joint venture capabilities.
5. Conservative in financing with a strong value for frugality, prudent resource and capital allocation.
6. Believe that people are the carriers of knowledge and therefore a competitive advantage - not a pair of hired hands.
7. Build long term psychological contracts with their staff, beyond professional and economic contracts. Treat them as *members.*
8. Committed to continual improvement and innovation
9. Contribute substantially to building their societies and nations
10. Are at the cutting edge of technology, external changes and forces that catalyze the change – money is only a raw material to shape the future.
11. Enjoy immense credibility with their stakeholders
12. Mobility – their key personnel remain or shift to be in the center/ bridge of global finance and industry relevant surroundings – they believe that birds that flock learn faster.
13. Family companies take pains to embody their legacy
14. Family companies that stay below the radar on media and publicity live longer – no press, no ego, no profiling.
15. Family companies that have a participative family culture, processes for managing differences, family agreements/ charters and external independent advisory / board members live longer.
16. Family companies have robust succession process.

Finally, strong values and relationships in the family business becomes the foundation for good family governance. Strong corporate governance builds on sound family governance. Robust corporate governance precedes institution building. Perpetuity follows.

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