

PROFESSIONALISING THE FAMILY BUSINESS – MAKING IT WORK AND STICK

What is a Family Company?

- A family company is one whose ownership is controlled by a single family and where two or more family members significantly influence the direction and policies of the business, through their management positions, ownership rights, or family roles.
- Current family owners intend to pass on control to another generation of the family

Professionalizing the family business is critical for growth, continuity and perpetuity through multiple generations.

CHICKEN OR EGG?

1. Do we hire non-family professionals to prepare the work culture?
OR
2. Prepare the work culture to hire non-family professionals?

My vote is clearly in favour of the second option. Why do I think so?

- Changing the work culture is core to and condition precedent to professionalization
- Family professionals or promoters are in the best position to initiate and role-model the change in work culture – from the top.
- A great professional CEO can take the baton forward and build on it – expecting her to lead the transformation is unrealistic and risky.

Professionalization goes way beyond merely hiring non- family professionals or setting up systems and processes.

Preparing the family company is critical to succeed and sustain professionalization.

What are some of these preparatory processes?

REFRAMING MINDSETS AND VALUES

1. Language - A change in language often heralds a change in culture. Consider using the term “family professional” and “non- family professional” instead of “family director”, “owner”, “promoter”. This signals a move away from the privileges of family ownership to accountability, obligations and merit.
2. Royalty and the Landlord Syndrome :_Accept that non- family professionals are not hired hands to do your bidding – they are potential partners in progress. Don’t be royalty or landlord. Democratize your approach to people and situations.
Treating people with disrespect – chiding them in public, having them run errands for you, keeping them waiting for “royalty” to arrive at any meeting and so on will blatantly compromise your good intentions.
3. Discipline: This is key to the preparation. It covers:
 - Punctuality

- Data centered approach to discussions and decisions
- Transparency of information
- Symmetry of information
- Delivering the promise
- Consistency in your approach
- Documentation
- Prohibit nepotism: merit -based hiring only
- Accountability before entitlement

4. Work ethic and Standards

Professionalization is about standards of education, internship and training – it is important for family owners to respect the body of knowledge, expertise, skills, ethical/ moral obligations/code of conduct, standards of practice and governance.

Family companies must also allow this rigor to inform their business conduct and decisions.

BUILD A STRONG AND INDEPENDENT BOARD:

An independent board strengthens the business. Set up a board and induct credible, competent, warm but independent personalities and industry leaders into your statutory board or advisory board or business council. Encourage them to participate and challenge your decisions – remember, what is good for the business is always good for the family.

It is amazing how their presence improves cordiality and consensus in the business discussions of the family.

ONE VOICE:

If there are two or more working family professionals in the business, ensure that you speak with “one voice”. This can be achieved by deep consultation, a process for managing differences and arriving at consensus. Consensus is not always 100 percent agreement but a clear willingness to support the decision.

LOYALISTS:

Loyal non-family professionals who are qualified, competent and abreast of the best and latest are a huge asset to the family company.

Competent individuals often struggle to align with “loyalists” who have reached their level of incompetence. Separate such loyalists from key positions quickly and tactfully – sooner than later.

HOLDING HANDS AND LETTING GO:

Research has clearly established that successful family companies outperform their non- family counterparts by a multiple of at least two. The personal involvement, entrepreneurial risk and commitment that family professionals bring to their

business cannot be substituted easily. Blending this with the strengths of the non-family professional requires both “holding hands and letting go”. One or the other may be insufficient to manage risks in a VUCA world.

NO MANS LAND:

As brought out by Prof K Ramachandran of ISB in a study sponsored by AMROP, there exists an undefined and hazy role space between the executive family Chairman and the professional CEO. The term used is “No Man’s Land”. This space needs to be negotiated and navigated effectively. Besides systems that clarify decision rights, working as partners in a “pilot/co-pilot” mode, rather than a “boss/subordinate” formation, helps team work, synchronization and high performance.

EMOTIONAL ATTACHMENT:

Many family professionals suffer from over attachment to their business or parts of their business. This hinders proper assessment of the business performance. The board and non-family professionals can help bring objectivity. Let them play the devils advocate in the best interests of your business.

SUCCESSION:

Board members and non-family members have the potential to play a significant role in the inter-generational succession process. Assessments, mentoring and managing the transition. Non- family professionals make very good transition managers as next gen takes charge.

PROCESSES:

Investing money, time and attention in introducing and implementing appropriate processes is a major component in professionalizing the business.

For some time during the early phases of professionalization, personalities over ride process. The habit of decisions based on personalities persists. The messenger and message are confused. As the journey matures, process must be separated from personalities and what is good for the business prevail over what is good for individuals alone.

Family companies have much to gain from professionalizing their company. Medium and emerging companies all the more so.

The right mindset and rigorous commitment with dollops of patience, will see this journey through.

Jan 2019
