Why family businesses are unique and what they need to balance to thrive

Representational image

Synopsis

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Family businesses are the backbone of India's economy. 85% of **Indian companies** are family businesses, and together, they contribute 70% of GDP. Almost a third of the world's largest companies are family-owned.

So, what sets family businesses apart?

- They possess a unique blend of qualities, contributing to their success over generations.
- They have conservative planning at the core, which provides stability and continuity while adapting to changing times.
- They maintain a long-term orientation while not losing sight of the short term.

- They operate with the owner's mindset, prioritising operational excellence and sustained value creation.
- They have a fluid structure, meticulously planned yet agile, allowing them to adapt swiftly to evolving circumstances.
- They embrace risk and exhibit resilience, enabling them to weather economic downturns with poise.
- While businesses operate with the goal of generating profits, it is well established in family businesses that profit is an outcome and not the primary objective. When the purpose is robust and shared among family leaders, the resulting outcome is synergistic.

However, family businesses also encounter a distinctive set of challenges:

- Internal conflicts among working family members.
- An absence of clear roles or goals, and lack of accountability among family promoters.
- The perpetual struggle to balance promoter and professional needs is often complicated by professionals reporting to multiple family promoters. There might also be a spillover of family issues into the business and vice versa.
- There is the delicate issue of succession planning - rarely straightforward and often the cause of intergenerational conflict.

Any of these factors, if left unaddressed, can lead to the decline of the business and severe discord within the family. A helpful way to think about family businesses is that they rest on four pillars, each relying on a key driver:

- Family: Harmony.
- Business: Growth.
- Ownership: Control.
- Individual: Aspiration.

It is tempting to think that all four pillars should always be equal, but that is a misconception. Family businesses go through different stages in their life cycle, and at each stage, one of the pillars tends to become dominant. The family's job is to recognise which pillar needs to dominate during each stage, while ensuring that the other pillars receive sufficient care and attention.

We must ensure that no area suffers to the extent that it diminishes and loses its intrinsic motivation. The goal is to strike a harmonious balance, where even if one area dominates, the others are not severely compromised but rather balanced in a way that ensures their sustenance. This involves continuous reflection, discussion and periodic realignment to keep the **family business** thriving without compromising the family's core values, relationships and needs.

While engaging with family businesses, the desire for growth and expansion can consume substantial family time and capacity. This can lead to misunderstandings, tensions and disputes. There are instances where the business is larger than what the family can manage, making it difficult to sustain success.

Conversely, when the family is too big, the business may not be big enough to accommodate the aspirations of all members, leading to discord. Tensions often centre on competing priorities, such as family liquidity versus business expansion.

Finding the right balance among these pillars requires careful thought. In the family realm, the factors to evaluate include:

- Family leadership.
- Values.
- Culture.
- Support.
- Boundaries.
- Conflict resolution.
- Code of conduct.
- Trust.
- Openness.

In ownership, the key areas are:

- Tangible and intangible capital availability.
- Risk tolerance.
- Controlling interests.
- The cost of equity.

In business, it is important to consider:

- Growth opportunities.
- Unique selling points.
- Governance.
- Alignment of vision.

At an individual level, the factors to weigh are:

- Pursuit of entrepreneurship.
- The fulfilment of personal aspirations.

Fine-tuning the focus in each of these areas is essential if the sweet spot where one can operate most effectively is to be found. Choosing an outsider family confidant can help promoters guide them in finding the right focus at each stage of their business.

Family businesses are living legacies that endure through generations. The essence of family businesses lies in their ability to balance family and business needs. The stories they tell, the knowledge they pass on and the unity they foster are the heartbeat of these remarkable institutions. By embracing the challenges and opportunities that lie ahead, family businesses can write new chapters in their evolving story.

Like the roots of a tree, familial harmony and individual aspirations form the solid foundation for ownership control and business growth, which branch out as the business grows. If these roots are disrupted, the tree risks toppling. Directing the right focus, at the right time, and to the right extent on each pillar is essential for uncovering the 'sweet spot' to operate from to create a legacy.