Perspective:
If Family Business Fail to Change with the Times, They Will Fail

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Change is the only constant in life... The more things change, the more they remain the same... Things are changing very fast... These are all clichés we've heard umpteen times over, and so they seem meaningless to us. But we disregard change at our own peril, especially in the case of family businesses. Because most family businesses are small scale and operate within a limited environment, change often passes them by. We do see some small obvious changes, like the telephone instruments that were used for communication in the 90's for example are hardly used now, and lay around like relics in shops and offices. We have family businessmen who have started to use computers to keep accounts and smartphones to communicate. But do these things only mean that they have adapted to the changing times? The answer is no.

Change is Everywhere and in Everything

The history of business in modern India has been a chequered one. We had a messy partition upon gaining independence and just when we had barely recovered from these, we had wars with neighbours in '62, '65, and '71 followed by the Emergency. During these years were the heydays of the License Raj and there were only a handful of business groups which could get licenses and permissions to start business. They controlled the majority of the private enterprise in India and other ancillary industries. Mostly small family businesses, were subcontractors to these large business groups. It was only in the late 70's and 80's, that most modern businesses begain to change in India. How nascent the business scenario was can be gauged from the fact that the stock market index which is nearing 25,000 now, was around at that time 100! The gold price was less than Rs. 600 a tola, which is again close to Rs. 30,000 now. Anyone who had a lakh of rupees then was considered extremely rich but today the amount has become so insignificant that the word 'lakhpati' has almost disappeared from our lexicon. It was only from the 80's onward, when the Foreign Exchange Regulation Act was diluted to some extent that the capital market in India started to gain some momentum. It was from then till '95 that businesses moved ahead and consolidated.

However, means of communication were so underdeveloped that one had to wait years if not decades for a basic telephone connection! Even the lucky few who had telephones were not allowed to just pick up and call business associates or clients in another city - you had to book a trunk call. Once booked, you had to wait for hours for it to be put through. Not just wait, you had to sit anxiously beside the instrument, afraid to even go visit the washroom because one never knew when the trunk call would be put through - if you missed it, you had to start the process all over again! The only means of correspondence was the postal service, now correctly known as snail mail which would take weeks to reach its recipient and weeks more to come back with the reply. Foreign travel was highly restricted as was foreign investment and so businesses had to be local.

We Paid Employees to Work, Not to Think

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Since most of the business was small and restricted in operation, they neither had resources nor the inclination to hire capable people. Employees were there only for manual labour, to collect or deliver supplies or to keep accounts. They were paid less and were not expected to take any initiatives. Owners were paranoid that if employees got to know too much about the business, they could be threat to the manager. They would ask for more salary or shift to better opportunity. As long as owners were the only ones to know every aspect of the business, no one could take them for a ride. The employer saw himself as a benefactor doing a favour to employees by giving them a livelihood and he was virtually the king of his domain, answerable to no one. Employees had no say in anything and no choice either since the employer could fire them at any time without any compunction as at this skillset there were hundred others ready to take the job at the same or lesser pay.

Limited Resources limiting the scale of operation: Jitini Chaadar hai, Utne Pair Phailaao

Small scale and limited prospects also meant that funding was difficult to obtain and businessmen learnt to live with scarcity of capital. They operated within the limits set by their own resources.

Now look at how much the paradigm has changed. From the year 2002 onwards, business is booming in India. Means of communication are easily available to everyone and what took months to communicate can now be done instantaneously. There are no boundaries whether in the area regulatory or in terms of locality such as the state or even international boundaries. But all this has brought its own set of challenges in terms of skillset, scale of operation, market reach and management. Some of these challenges do not have solutions in small scale. Yet change has become imperative and either 'Change Fast or Perish'.

A look at the new paradigm:

The growth of Professional Mangers: With growth of businesses, complexities also grew. These complexities were in terms of operations, management, finance and accounting and in present business format, a lot of advanced knowledge required in each of these areas are beyond the capability of the owner to manage it all by themselves. So instead of merely hiring semiskilled labour , businessmen began hiring capable people who can perform better than themselves in the specific functional area of operations. This meant letting go of control, but to build an organisation, it was necessary. We see some family businesses are fully professionally managed, but this is still rare. Most old family businesses lack the sensitivity and commitment to build organisations that take care of interests both employees as well as owners. This is still an evolving process.

From Owner Oriented to Employee Oriented:

Owners used to behave like kings or annadaatas (providers of livelihoods) to their employees, but now the balance has shifted. Today, good talent has multiple opportunities. From the scenario where employers used to have hundreds of applicants for the same job, today a qualified applicant has dozens of choices where he or she can choose to work. A typical interview used to be through which employers evaluated a candidates by asking him why he should be hired, but now we have situations where a talented candidate needs to be given reasons why he should work at a particular company. From a situation where the success of a family business was measured by how closely the owner oversaw everything, today a critical success factor in any business is the ability to hire and retain capable people who can do a job better than the owner can. It is time ,the more traditional family businesses recognize and adopt this model , the better for their growth.

Effective Systems and Processes: When the business was small and the owner was involved in every aspect of it, his mind worked like a computer, with all details big and small at the tips of his fingers. Businessmen made a virtue out of their compulsion, and counted on their ability, agility and flexibility to be able to respond to any situation. But as size, complexities and geographical locations grew and spread, the old way of controlling was no longer possible. This call for effective systems and processes to be set in place, power delegated and responsibility assigned to others, something which our traditional family businesses still have to come to grips with. But the choice is clear - either stay small and eventually disappear or lose some control and grow.

Abundance of Capital: From having to depend on their own resources or those of small local moneylenders, businessmen today have capital available from a variety of sources and in various formats. No longer do you have to spread your legs only as much as the size of your sheet allows, now it is 'jitna pair failana chaho, utni badi chadar aa jaayegi.' Or 'Plan your expansion, finance is no problem'.

Slow and Steady Will Win the Race No Longer.

With the market being local, capital being limited, and opportunities few, slow and steady was the way most businesses used to be, and it was right for them, then; not any longer. With an over-abundance of resources and opportunities, the new motto of family businesses needs to be, 'Fast and Focused Wins the Race.'

Drucker, way back in 1964, had mentioned in his book Managing for Results, that the main job of businessmen was to double profits every year. This is very much possible for family businesses in India today as long as they recognise changes that have taken place and adapt their business practices in the areas mentioned above. You just have to start with changing your mindset and like many family businesses have been doing already, doubling or tripling profits will not only be possible, but will happen as a matter of course.

A case study : Crisis of Family Business Arises from Within

I met Rajiv after 10 years, and I was shocked by the change that the time had wrought in not only the man himself, but in his family as well. When I last met them, theirs had been a close, well-knit joint family with a business that was doing moderately well. They were three brothers – Mohan, Rakesh and Rajiv, who lived in great harmony in a single house. Each of them had their wives and children, but all the income from the business went into a common kitty. There was a set monthly allowance for not only the 3 brothers, but for their wives and children as well. Major expenses like health, education, and marriages came from the common kitty, and any expenditure for personal pleasures had to be done out of the individual allowances. They even had rules about things like what the maximum permissible mobile bill could be in a month, and which family member was entitled to what size and model of car at what age.

In those earlier, happier times, this family appeared to me to be the model of progressiveness and purposefulness, and indeed I considered it to the ideal joint Indian business family. But now, when I met Rajiv, the youngest of the three brothers, he informed me that everything had changed. What could have happened? Paradoxically enough, what had happened was that their business had succeeded beyond their wildest expectations, and the family had come into serious money.

Love Binds Families Together, Money can Tear them Apart

Rajiv was heartbroken as their joint family was broken, it had been torn apart causing great pain and distress to all members. It was all smooth sailing when the business was small and income moderate, but when success brought bounty of income into the family coffers, things started going sour. There were different views among the three brothers and their wives on how to deal with money. Some wanted to move into a bigger house, some wanted more expensive foreign vacations, some wanted more prestigious schools for their kids, and everyone had differing opinions on how and where the money was to be invested. These differences soon grew from healthy discussions to heated debates and then to bitter quarrels. So much so that family members stopped talking to each other except when they were fighting.

Eventually, it was decided to split the business three ways, and then each individual family could decide what they wanted to do with their income. Of course, the bitterness and infighting had reached such a state that living under one roof was also impossible, and so the ancestral property was sold and three individual houses purchased. Now, since all the three brothers had taken a share of the original family business, they had gone from being partners to competitors, and price wars and poaching of clients and suppliers was now the norm. Ironically, while success had led to the split, the split in turn led to all three competitive businesses and all had to suffer. This was inevitable, since all three were now viciously undercutting each other's margins, with the result that not one of the three was making any profits.

It being so, I queried, couldn't the three now get back together, and thus be united and successful again? No, replied Rajiv, now the differences were too deep - and the animosity too great - for there to be any chance of reconciliation.

What Leads to Family Businesses being Torn Apart Over Money?

There can be various reasons, and all of the following seem to have played a part in the painful separation of this family:

Contribution vs. Remuneration: When three people work together, it is natural that all three cannot be contributing equally to the business. For reasons of temperament, experience, and ability, one or the other is bound to be contributing the most, or least perceive oneself to be doing so. "If I am responsible for the business being successful, or shouldering the greatest workload, why should the others be earning as much as me?" For example, in a client-facing business, someone who is naturally people-friendly or outgoing is bound to get a greater share of the workload. He will spend more time travelling, meeting with clients, and have more social obligations to fulfill. When all this effort does not match with a correspondingly greater share of the profits that accrue from those very same clients and contacts, resentment is bound to occur.

Income vs. Expenses: Some members of a family are bound to spend more than others, be it for reasons of taste, fondness for travel, or affinity for luxury. But when someone who likes drinking and going out to parties, or has a desire to go to new and different places, or has an expensive hobby, sees his expenses being curtailed because his partner has to get an equal share, he will not like it. Especially if the partner does nothing more than putting all his money into a savings account. The former will think – 'Is it my fault he is so boring, and has no hobbies, wish for expanding his horizons, or desire for entertainment? Why should someone who does not know what to do with his money get the same as someone who does?'

Ego: When one is young, one is learning, and youthful enthusiasm and fire to excel can often lead one to overlook issues like those enumerated above. But with increasing age, and increasing wealth, comes ego. Which leads to the very same issues being amplified. With advancing age, also, one becomes set in one's beliefs, and the ability to understand and accept differences tends to go down.

How to keep Family above Finances

So far, we have seen when and how money can lead families to move apart. But what can be done to keep them together, even when wealth sows the seeds of discord? According to Rajiv, all of the members of his extended family were and are normal people, and not money-hungry freaks. He even said the all of them are still part of a family whatsapp group, where they share a lot of the usual inspirational messages about the importance of kindness, understanding, and togetherness in family life. But all this wisdom is limited to sharing of memes, which are read, appreciated and forgotten, and do not spill over into real life. So what can be done to prevent previously close-knit families from coming to such a pass?

Various wise people have given me wise thoughts on this issue, most of them veering on the philosophical:

This kind of advice can be given only in hindsight and is just an academic exercise at best, with no practical value.
Nothing is permanent in life. Whatever is born is going to die one day, and similarly, any organisation that grows one day will fall apart the next. Even the belief that one can stop the wheel of life from coming full circle, is arrogance.
Different people want different things from life. Therefore, expecting people of different temperaments to stay together harmoniously for extended periods of time, is in itself futile.

While there is merit in all these arguments, I firmly believe it is not only possible but also preferable for families to stay together, both in times of wealth and of penury. More so for business families, because it is they who are most likely to see fluctuations in wealth, and it is they whose family life and finances are tied inexorably together. Keeping this in mind, I have set out a set of measures that can be taken to prevent such familial rifts from occurring in the first place:

Differences are bound to arise even in the closest of families, especially when a large amount of money starts coming in. So, to balance a growing family and a growing business, it is wise to diversify the sources of income. If it had been done in the case of Rajiv's family, for instance, each brother could have handled a separate business, and worked independent of one another, which would have prevented business differences from spilling over into family life.

Prepare in advance for inevitable rifts: Accept that there will be intra-family differences and disagreements at some point in life, and lay out rules and parameters for all members, young and old, to follow. Promote and constantly reinforce family values of acceptance and tolerance, and a culture of discussion and openness. If this is done, chances are all disputes will be resolved before things reach a point of no return.

Another alternative is to bring in an outsider who all the family members trust, to act as a mediator and guide for the family. Have joint meetings with the mediator every four or six months, where all differences are expressed, and ironed out.

As I always say, in a family business, 'family' always comes before 'business.' If business or the money side of things starts taking precedence over family, both are bound to suffer.