



From the Family to the Firm
A view through the
Indian Prism

Family businesses form the ‘backbone’ of Indian economy

Family businesses dominate the economic landscape in nations around the world. India is no exception. In India, family run businesses account for 85% of all Indian companies and account for the vast majority of national output and employment. According to Business Today, family-run businesses account for 25% of India Inc’s sales, 32% of profits after tax, almost 18% of assets and over 37% of reserves.

Not all family-owned businesses are created equal. India has seen its share of some very influential families in businesses that have influenced the economic and political situation of the country. They have existed for over hundred years and have evolved into world-class business conglomerates. At the other end of the spectrum there are also a number of family entities who have continued to be promoter driven. This article highlights on how the traditional family business houses are transforming from their traditional business style to adopt the latest management practices to sustain in this competitive business world amidst the Multi-national Companies.



The business families are commonly driven by the some basic values like mutual trust, cost consciousness, high level of risk taking ability, centralized decision making, agility, culture of driving business by intuition and relationships rather than facts and professionalism. More often than not, the values of the Promoter or owner are the expected values and culture of the organization.

Also, in many families there is the continuing concern for ownership and management, governance, structure and organization. In many family entities there is the lack of separation of ownership from management. The lack of a proper governance framework, which quite often negatively affects the ability of the organization to control its actions, increase the likelihood of irregularities and result in inconsistencies in the way business is conducted. Another important requirement is ensuring proper management of information in the family so

Business Family a complex dual system of family and business

that there is harmony between the three parts - family, management and ownership.

Some owners cling on to the position they hold and do not let go of their ownership. This often becomes detrimental to the growth and professionalism of the organization. Further, with growth in scale of the organization, there is a resultant substantial increase in decision making also. And if this change in the process of decision making is not addressed, the organization will be in a limbo.

The second generation promoters driving cultural change	
About the Client	<p>In 1986, this promoter started his entrepreneurial venture. Initially the company was only supplying paper machines, technical consultancy services to paper industry. Consequently the company set up is own paper mill with modest capacity of 20 TDP. Since then, the organization has never looked back and over the period of time, the paper mill division witnessed a 10 fold capacity increase. The paper machinery and consultancy division also made a steady progress and has earned the distinction of having supplied a large number of paper mill plant all over the country.</p> <p>The Second Generation Leadership The second generation took reins of the company. Both brothers are well qualified and well experienced in paper industry. They brought in new ideas, enthusiasm and dynamism, charting the next leg of growth for the organization.</p>
The Business Challenge	<p>The new leaders however frequently found themselves tied up in the day to day operational aspects of the company, their focus deviated from the strategic matters. The founder fostered a paternalistic culture and had the final say on all matters of the company. Employees would many times supersede their managers and supervisors and reach out to him for all matters including leave and grievances. The arrangement was working efficiently till the company was a small entity. But this culture today was becoming a bottleneck for the management. The MD realized the need for bring in greater authority and accountability to the existing reporting mechanisms.</p>
Deloitte Solution	<p>Deloitte designed a new organization structure with detailed roles and accountabilities for each job holder. While the new structure catered to the organizational need for greater control over the growing workforce, the job definitions laid out the proper channels of communication that allowed decentralization, with employees increasingly working independently and effectively. The new structure also helped optimizing the utilization of the existing workforce, before the organization embarked on its expansion journey.</p>

Management Challenges

- Inconsistencies in the way business is conducted
- “It’s hard to find good, dependable employees”
- “Our high employee turnover causes havoc”
- “How do we mentor or develop employees?”
- “What should I pay for this job?”
- “We can’t afford expensive benefits, so what would be the best alternative for us?”
- “Is a Policy Manual really necessary? We just deal with problems as they come up.”
- “We have so much paperwork and lack processes! Help!”
- “Processes and systems are very basic and at nascent stage “
- Promoter mindsets!

External Business Levers

- Increased competition with opening of the markets and influx of MNCs
- Need for skilled professional talent from the industry to manage growth
- Unrelated business diversification
- Stringent management and governance due diligence norms by prospective PE firms

The situation sometimes gets aggravated further by conflict among family members, in the absence of proper governance framework and succession planning guidelines. Companies like GMR and Dabur have shown foresight in taking proactive measures to separate ownership from management. They have drawn out their Family Constitution specifying the rights, responsibilities and norms for working as well as non-working family members. Many other family

companies are also realizing the need for similar steps to protect the interests of the family in the long term.

These unique characteristics of business families pose unique management challenges in the changing business landscape. Based on our engagements with a large number of family businesses, these challenges are broadly classified into four strategic areas.



Increased competition with opening of the markets and influx of MNCs

Opening of the economy and the influx of multinationals further added to the complexity of a business family ecosystem. Reduced trade barriers, increasing privatization and economical activities to increased competition and eliminating monopolies - have resulted in changing the landscape of doing business in the India. Like other companies, the family-run companies found themselves on the back foot. The rules of the game significantly changed and these companies were finding it difficult to carry their on business. They realized the need to re-examine their business model. This accentuates the need to become professional, not only in the business but also with people in the business (including family members). This calls for a change from the current way of work and systems.

The business families are struggling to attract and retain skilled talent

Iso, the organizations are increasingly facing more and more challenges requiring a new set of skills to operate a successful business model, as these are not totally available within the family. Family run companies are mostly interested in hiring good talent from big giants. Also many senior professionals from the organised sector take this lead since the roles offered are extensive and more motivating. However the lack of governance and transparency in the system raises considerable difficulties for retaining the non-family talent.

The legacy structure may prove ineffective in supporting changing business dynamics	
About the Client	<p>This client is one of the largest JCI accredited healthcare groups in Asia and has some of the best hospitals in India. The legacy of touching lives stems from their philosophy - experience, excellence, expertise and research, which has made the group one of the most desired medical tourism destinations in India.</p> <p>The group today, is an integrated healthcare organization with owned and managed hospitals, diagnostic clinics, dispensing pharmacies and consultancy services. In addition, the group's service offerings include healthcare at the patient's doorstep, clinical & diagnostic services, medical business process outsourcing, third party administration services and health insurance. To enhance performance and service to customers, the group also makes available the services to support business, telemedicine services, education, training programs & research services and a host of other non-profit projects.</p>
The Business Challenge	<p>During the last decade, amidst its rapid growth and transformation into a large, complex business organization, the client came across several challenges in the areas of organization structure and talent management. The legacy structure proved ineffective in supporting changing dynamics of organizational needs. Redundant talent management policies and processes required a revamp in a bid to streamline the processes and professionalize the organization. In this context our association with the client began initially for organization restructuring, implementation of performance management system and compensation restructuring. Since then we have been their trusted advisor on all organizational and talent related aspects.</p>
Deloitte Solution	<p>Deloitte provided the following solutions to them:</p> <ul style="list-style-type: none"> • Deloitte helped in creating a suitable organization structure for the clinical and non-clinical functions of the hospital division of the client such that it would adequately and effectively fulfill the objectives of the company with a clear focus on internal controls, MIS and current regulations. • We further assisted the client in creating an HR policy, restructuring their finance and accounts departments. • Performance review and compensation management of senior executives was another area in which we supported the client, by designing a performance management system and a variable compensation strategy. This procedure, started in 2008, and continues till date. • Assistance in designing the new group structure, governance mechanisms, induction and on-boarding of the new group CEO, and developing a transition plan for the promoters was also executed by Deloitte.

Good talent demanding competitive market placement	
About the Client	<p>The promoter started with Mining as the core business. After mining, the ore had to be transported to different places. The company had to invest hugely in external suppliers for shipping the ores. Thus they decided to do ship building on their own. This idea clicked off well and they started providing service to external clients as well. They have also started with ship repairing. Likewise due to business needs they diversified into many businesses and now have become a conglomerate.</p>
The Business Challenge	<p>The organization had people working with them for a long period of time and they had started complaining about the issues with their compensation. They started comparing the compensation with the competitors. The next generation promoter wanted to do a benchmarking of the salary that they pay to know where they stand as per the market. He also wanted to know if the people in the organizations who were in a particular role for a long time, were actually capable of delivery. He wanted to change the culture from loyalty based to performance based.</p>
Deloitte Solution	<p>Deloitte provided the following solutions to them:</p> <ul style="list-style-type: none"> • conducted an organization diagnostic study • Conducted compensation benchmarking exercise and provided the percentile position of the company as compared to the market • Developed organization structure and key roles and their responsibilities • Designed [policies and performance management system • Did people fitment for the key roles identified by the organization



Client speak

“The work performed is highly appreciated as it was 100% accurate. The solution provided was implemented completely within the organization. The deliverables were explained/ convinced to all stake holders with proper presentation.

I feel proud that we had an association with Deloitte with such a wonderful team.”

Sometimes adding to the complexity is the non-acceptance by the existing employees who are well adjusted to the conventional culture who develop differences with the new entrants recruited from professionally driven big companies.

The need for Diversification to hedge risks in the competitive landscape

Many business families in India have undergone unrelated business diversifications over the period of time. The reasons identified have been many - varied interests of the family members, better opportunities, expertise of a family member or a kin in a particular field, need of the time, etc. The family concern views diversification as an effective strategy of hedging risks and enhancing economic growth and wealth formation.

On the other side, the owner's goal and vision for the business starts getting diluted because of this extreme diversification. The group is initially held together with loose structures that lack logical organization in terms of type of business and/or industry group. In some cases,

certain activities and investments are held and controlled by the owner(s) himself (themselves), in other cases the entities are mixed up in non-compatible lines of business (technology and real estate for example), which inevitably leads to significant challenges in management, control, monitoring and accountability. Such an issue is perhaps one of the by-products of the lack of strategic direction at the group level where entities and businesses sometimes operate in different or in extreme cases, contradicting - directions. The various businesses operating under a single brand name (of the family) need to have one common brand message to continue to be together and grow together in unison – which could be a challenge.

Extreme Diversification calls for harmony in HR systems

About the Client	<p>The promoter of this business was a small time coal trader. He had extremely good knowledge of the coal washing business in India and the need for having washeries in a private limited set up. Government of India has their own coal washeries but due to increasing demand they could not supply adequate quantity of coal to the various industries. This is when the promoter thought of starting his own washeries and leasing it to the government. This idea worked very well and many other players also came into this business. But still he remains one of the pioneers in it.</p> <p>As the business grew, he developed contacts in the mining industry as well. Having very good contacts in the industry and friendships he started off with mining as well. Slowly he realized that they went on acquiring huge land for mining which later were not put into right use. This is when he got into real estate business (commercial).</p>
The Business Challenge	<p>As the business was passing on to the next generation, they saw different work styles being followed in different businesses. These businesses were led by industry experts and bringing in change by just mere discussion was not a good idea. They were also looking at some Investors for expanding their business. The investors had a requirement of having the HR systems and processes in place and synchronized for all the different businesses.</p>
Deloitte Solution	<p>Deloitte Provided a holistic solution to them by:</p> <ul style="list-style-type: none"> • Redefining their organization structure • Identifying the unique roles in the organization and defining the key responsibilities of those roles • Designing policies and processes • Designing a Performance Management System • Redefining the compensation structure to have a common structure for the business and • communicating the change in the organization

The family needs to raise additional funds to fuel to the aggressive aspirational goals

To meet the aggressive aspirational goals of the next generation, the family needs to raise additional funds – either through equity or loans. However, on account of the economic challenges facing the world, it is no longer easy or even possible to raise financing required based on ‘family brand’ or ‘relationships’ alone. Increasingly, the better financing options are available either via foreign funds or through professionally managed financing institutions. Specifically, many Indian & Middle-East based Private Equity investors are

showing increasing interest in investing in the small and medium size family business – which are poised on the verge of rapid growth. However, most of these financial institutions are looking more into business fundamentals and cash flows.

While Investing Firms are riding high on India Growth Prospects, they have strong imperatives on due diligence prior to investing. There is a general perception that promoter-led companies are significantly dependent on the promoters and the management teams are often not robust. Due diligence on the current management team including the promoter, covering areas like management style, senior management compensation, experience, background, as well as the systems and processes is undertaken to get a solid insight for the equity funds on the execution capability of the management team to deliver the promises.

Understanding of the problem goes beyond what is ‘apparent’. It requires exploration deep down the surface

Transforming to make the cut	
About the Client	Founded in 1973, this client is one of the largest agricultural biotech players in India. Riding on a strong research backbone, strategic backward integration and diversification into new markets, they have grown from being an agro-trading company to a world-class seed processing and marketing conglomerate with revenues to the tune of 330 crores.
The Business Challenge	In 2010, the company broke new grounds when a US-based PE firm, announced an investment of \$30 million. "The equity infusion will be used for the company's research and development (R&D), technology and product-related acquisitions, infrastructure and international expansion," underlines MD. But the association prerequisites compliance with stringent guidelines for financial and people performance.
Deloitte Solution	Deloitte partnered with the client in their effort to meet the qualifying criteria set forth by the potential US investor. People performance required alignment people with the business goals, giving them clear sight of their impact on business results. This entailed the reengineering of the company structure, aligned and optimised to the business processes. Supporting market competitive HR policies and Standard Operating Procedures were developed. Last, a KRA based Performance Management System was instituted to reward performance.

GenNext appreciates the need to change from ‘promoter driven’ to becoming ‘professionally driven’

The GenNext of most business families are getting themselves professionally and technically trained, and the business family of yore, which was almost illiterate, is virtually non-existent. When they come back to join the business, they surely feel out of place. The younger generation is more independent emotionally and less hierarchy driven than the older generation. The father’s style of running the show seems outdated and they want to make quick changes. The GenNext leaders realize strong fences make good neighbors, and it is applied to family members too. They appreciate the need to change from a ‘promoter driven’ company to becoming ‘professionally driven’ company. The change however is never one dimensional.

Time for change

To bring a certain change in the working style of the organization, the leaders need to identify the right issues and prioritize them. Many a times the issues or problem areas that seem to exist are very superficial, but have deeper roots to them. This comes in to picture only when one starts addressing the superficial ones. It requires exploration deep down the surface. Leaders in such situations get caught between so many issues that they don't understand how and what to address and which one would help them achieve their goal. Building a sense of family pride would greatly help to sustain family businesses. Moreover, it should be ensured that there is smooth communication between various generations of family members, and between

A "Professionally" driven firm

- Adequate policies, systems and procedures
- Independent directors at the Board level
- Robust financial reporting framework
- Internal audit function with appropriate reporting lines
- Proper budgeting system, including KPIs with related monitoring controls
- Adequate guidelines for proper succession planning

the family's men and women. Also a professional approach to management is crucial. Changing business needs in today's economy require the organization to be transparent and in their systems. This is when the need for an external expert assistance arises.

Organization poised on the verge of exponential growth

About the Client	This organization was founded as subsidiary of a larger parent organization which was originally started in 1933. This organization de-merged from the parent organization in 2006 in order to grow at a faster pace and serve customers and markets better in today's globalized environment. The client has been manufacturing Fine Chemicals and Bulk Drugs since 1985 at an FDA approved plant at interiors of Maharashtra. The current Managing Director of the organization is the second generation owner and has a vision for a rapid growth path, having already grown over 5 times in revenue in the last 5 years. Today, the Client is the world's second largest manufacturer and marketer of certain food grade antioxidants.
The Business Challenge	The Managing Director of the organization has set the company on a rapid growth path and the organization is aiming to grow in to a multi Crore business by the end of this financial year – a significant leap over the last few years. The company wanted to strengthen its HR for the management cadre employees by streamlining some critical HR Processes. By doing this the company envisaged to transition from promoter driven to professional driven organization and also to build a culture of high performance.
Deloitte Solution	Deloitte conducted an in-depth organization diagnostic and highlighted many of the findings from it to the leaders of the organization – some of these are even non-HR in nature. Deloitte then designed a new organization structure for the client along with detailed role profiles and Key Result Areas (KRAs) for each unique role. Deloitte also conducted a Workload Analysis for the management cadre of the organization (at plant and head office) to understand the relative load that each unique role experiences and where some of this could be reduced or increased, or also where some of the activities could be realigned to some other roles. Deloitte then designed a robust Performance Management System that took into consideration where the organization was currently, as well as where it aspired to be, and was made flexible accordingly. Finally, a Variable Pay scheme was devised for the organization taking into consideration the performance across various levels. These interventions were designed and executed in order to ensure that there were concrete processes followed across the company, along with an assertion on the need for higher performance and professionalism within the organization.



Client speak

“We decided to analyze the business structure and put in place an effective performance management system to ensure fairness and give clarity to each employee on their growth path. We selected Deloitte for these assignments because we were reassured by the experience they had in these areas. Their handholding was adequate without being excessive. It is essential that consultants however experienced and knowledgeable be able to communicate with different people from differing backgrounds on their level, and in their language, which the Deloitte team was able to do so. Their availability and willingness to go the extra mile for their client was an experience that we have rarely had and it has endeared them to the team.”

Speedy Business growth requires clear decision making

About the Client	Founded in 1971, the client is in the niche segment of manufacturing quality assemblies and sheet metal compressed components. Their engineering solutions include design, prototyping, tooling, stamping and assembly services. Established by the father, the business is now being managed by the qualified son and nephew. Over the years, the company has acquired state-of-the-art manufacturing and design facilities and has gained trust of clients worldwide with their quality standards.
The Business Challenge	Realizing the speed at which the business has been growing, the younger generation felt that there is need for a professionally run organization. The system lacked clear distinction of roles & responsibilities and level of decision making. The top management had been running the organization by managing everything tactical as well as strategy related. Most of the time the Top Management was involved in crisis management leaving little tile for them to strategize. The organization had a vision but lacked a definite approach to achieving the goal. Decisions made were impulsive rather than being aligned to strategy. The promoter of the organization wanted the top management to focus on strategy and clearly demarcated roles, accountabilities and decision making authority at all levels.
Deloitte Solution	Deloitte partnered with the client in restructuring their organization. The systems and processes in the organization lacked a focused approach and thus a functional structure was recommended to clearly define domain specific responsibilities and accountabilities. The structure was detailed till middle-management level, clearly defining the scope of decision making for each level. The clarity of roles and responsibilities along with the reporting relationship was reinforced in the job descriptions.

Deloitte has partnered extensively with several business families, particularly in the SME segment, in their transformational journey.

As the organization overhauls its business model to respond to a changing business landscape, the structure needs to be streamlined with the new model and the roles, responsibilities and accountabilities need to be clearly spelt out. But there is a perceptible need for change in the organization culture that encourages the desired philosophy. So it is important that new organization philosophy is echoed across all systems and policies uniformly. This change journey requires a holistic approach to realize the full value.

Need for a Holistic Approach to Transformation

Best place to work needs to have all the systems in place

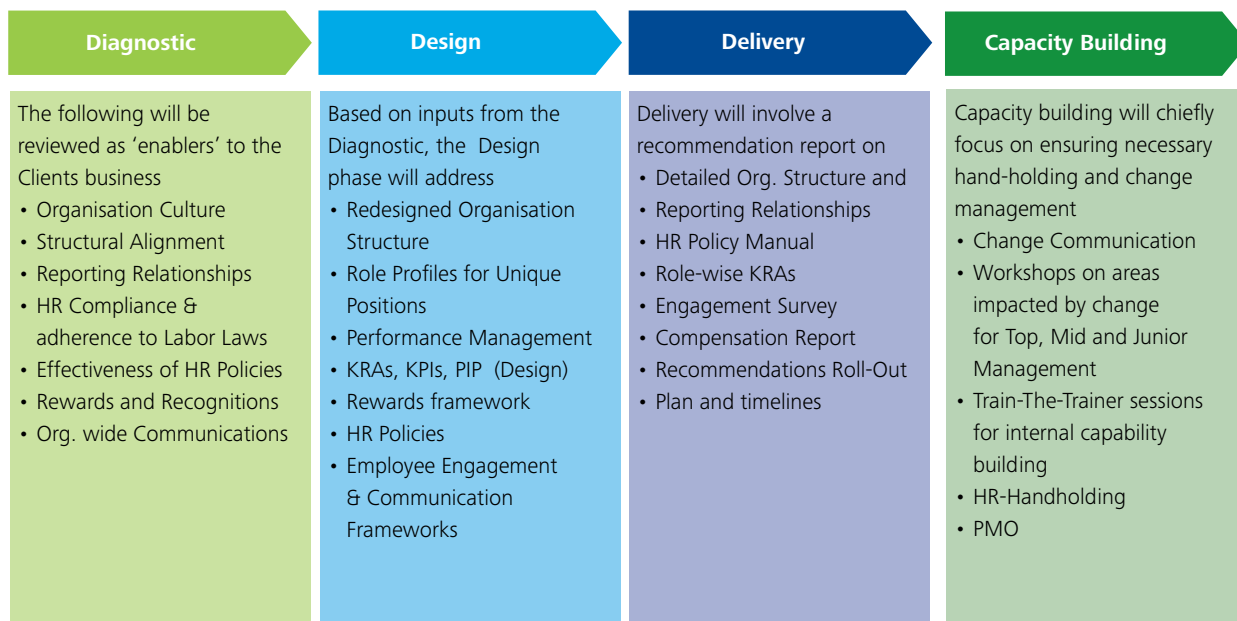
About the Client	<p>Established in 1958, this client is a promoter driven company and a leading manufacturer and exporter of stationary products. With 3 manufacturing locations, it has one of the best infrastructures for manufacturing, vertically integrated plants, state of the art machinery and a dedicated workforce of approx. 2000 employees. For this organization, their employees are their priority and they want to create a perfect work-life balance for them.</p> <p>The first and second generation leadership from the family has been working together in alignment amongst themselves along with defined roles and responsibilities for each of them. The stakeholders are in plans of further enhancing their profits and brand both domestically as well as internationally.</p>
The Business Challenge	<p>The organization has been facing people and systemic challenges in terms of talent development, lack of HR programs, and alignment to business. The employees work as a family and many have been with the company for a very long duration. There was day to day involvement in the operations by the leadership and family members supported by a lack of defined processes, procedures and defined roles of the employees. This was proving to be a bottleneck for moving the organization on its decided growth trajectory.</p>
Deloitte Solution	<p>Deloitte conducted a detailed As-Is analysis of the organization and identified the various areas that needed to be addressed for transforming the current way of working of the organization.</p> <p>The key areas of work undertaken by Deloitte are:</p> <ul style="list-style-type: none">• Redefined the organization structure along with detailed job descriptions, and conducted transition and communication workshops to facilitate implementation of the same• Workforce planning• Designed the grade structure, along with migration of employees to new roles with new grades• Streamlined the HR processes and policies and implement the same across the group to enhance operational efficiency in the organization• Design and implementation of performance management system



Client speak

“The mantra for successful organization is to keep your employees happy. To nurture an organization, you need to grow and nurture your people”

Deloitte end-to-end Human Capital Services



References

- “Family businesses Time to act: A Middle East Point of View”, Deloitte, 2011
- “Sustaining Entrepreneurship in Family Business”, Mrs. Anju Das and Prof. Amit Gupta, ISBR, Bangalore.
- “Road Blocks in Enhancing Competitiveness in Family-Owned Business In India”, Dr. Ritu Bhattacharyya
- “Indian Family Businesses: Their Survival Beyond Three Generations”, K. Ramachadran, Indian School Of Business, Hyderabad



Contacts

P. Thiruvengadam

National Practice Leader
Human Capital Advisory Services India
Human Capital Advisory Services
Direct: +91 80 6627 6108
Email: pthiruvengadam@deloitte.com

Dr. Vishalli Dongrie

Senior Director
Human Capital Advisory Services
Direct: +91 22 6185 4280
Mobile: +91 98339 73458
Email: vdongrie@deloitte.com

Bhavani Kannan

Senior Consultant
Human Capital Advisory Services
Direct: +91 22 6185 4505
Mobile: +91 9920208234
Email: bkannan@deloitte.com

Indrani Halder

Consultant
Human Capital Advisory Services
Direct: +91 80 6627 6363
Mobile: +91 9663133277
Email: ihalder@deloitte.com

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

This material and the information contained herein prepared by Deloitte Touche Tohmatsu India Private Limited (DTTIPL) is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). None of DTTIPL, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this material, rendering professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this material.

©2013 Deloitte Touche Tohmatsu India Private Limited. Member of Deloitte Touche Tohmatsu Limited