



July 2013



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Podium

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Standing Ovation

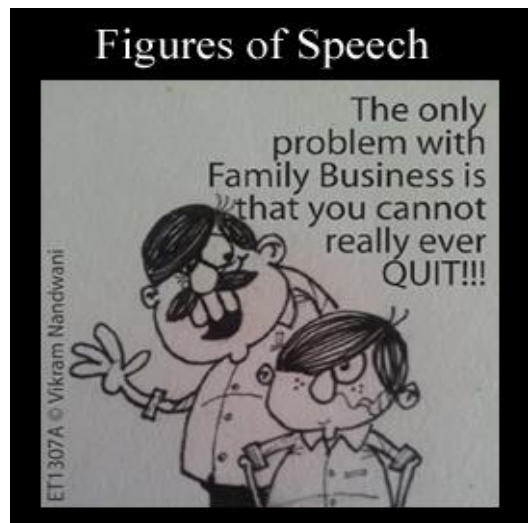
Vidya Poshak, Karnataka

Dear Reader,

In December 2012, Ratan Tata decided to hang up his boots after steering the Tata Group for 21 long years. Cyrus Mistry was appointed as the Chairman to take over the mantle of the salt-to-software giant from Ratan Tata. The news not only marked a generation change but also raised the question whether the new Chairman could carry on the legacy. The House of Tata presents an interesting contrast to the conventional image of a family-owned & family-managed enterprise. In fact, some may well argue that the Tata Group offers a good example of how family businesses can evolve in character and become as professional a firm as any across the world.

This month ET focusses on Family Business. From times immemorial, families have always played an important role in the shaping of the society. Even more interesting is the fact that like any other country, family businesses are the lifeline of India's economy. In India, family-owned businesses dominate the corporate landscape, but are often not appreciated enough for what they truly represent. We hope you enjoy this month's ET which delves into the various aspects that goes behind running a family business.

In **Thinking Aloud** this month, Jay takes a look at the concept of ' Family Business' . He throws light on the pros and cons of running a family business and opines that growing a business requires complete alignment and the ability to decentralize decision making by empowering individuals with confidence. Further, owners today have recognised the importance of hiring the right talent to maximise value generation which can eventually scale up the enterprise to newer heights.



Podium this month features **Professor K. Ramachandran**. Specialized in Family Business, he shares with us some thoughts on the strengths, challenges and risks faced by family businesses in India. He also justifies that it is wrong to classify a family business as a non-professional one opining that it is a mistaken notion that all family businesses are unprofessionally managed. Further, Professor Ramchandran elucidates how family businesses are placed in the wake of unforeseen events in the family and how families should prepare for the same.

In **We Recommend** this month, we reviewed *Tata: The Evolution of a Corporate Brand* by Morgen Witzel. The book throws light on an Indian brand which started out from a humble beginning to what it is today - a well-known corporate brand across the world. Author Morgen Witzel takes us through a detailed journey of how Tata has evolved into a powerful and valuable brand and the unique relationship between the Tata Group and its stakeholders.

Standing Ovation this month features Karnataka based Vidya Poshak which works towards empowering the impoverished, meritorious student community to pursue their post 10th education, increase their employability through skill enhancement and transforming them into contributing citizens.

In **Figures of Speech**, some words of wisdom from father to son from Vikram' s creative point of view.

As always, we value your opinion, so do let us know how you liked this issue. To visit our previous issues you can visit the Resources section on the website or simply [Click Here](#). You can also follow us on [Facebook](#), [Twitter](#), [Linked In](#) & [Google+](#) - where you can join our community to continue the dialogue with us!



Thinking Aloud

Family in Business - Jay

Some years ago a prominent business magazine had a cover feature on ' The Aurangzeb Syndrome' . They spoke about the Mughal dynasty where invariably the son would rebel against the father and in those medieval days, take arms against the father/king, and when successful (as in Aurangzeb' s case – unlike the rebellions of his forefathers), would imprison the old man, besides destroying his brothers & their supporters. Much has not changed in the world of politics & business - as manoeuvring still figures in succession planning, and arguably, this is not restricted to so-called professional firms. But the intrigue is often more visible in family businesses (and in India who would disagree that politics too is Family Business!) where family feuds become media fodder.

Before we conclude that the picture of family business is only one of warring siblings, let' s take a look at the concept of ' Family Business' first. Often believed to be the opposite of ' professionally run' , essentially a family run business refers to a firm where some or many members who own the firm are also involved in actively managing the affairs of the firm. With their daily presence at the office, it is not unnatural to find that most employees defer to the owners in various matters, particularly where there are key implications involved of a financial or strategic nature. Thus, the inevitable reality is that in such firms, the centre of gravity is the family, usually with one patriarch who takes the final call in strategic matters (particularly on issues of capital, markets,

products, growth and people allocation).

The primary benefit of family business is the speed of decision making. Unlike the so-called professional firms where often there are series of ritualistic presentations till everyone is satisfied that their turf needs have been protected, in family businesses tough calls are quickly taken as risk is not anathema to the owner managers. Contrast this with professional firms where they keep seeking to implant 'ownership' into managers who go through a plethora of activities & motions of task completion without truly achieving anything. In family business, since there is a lot of personal stake built into the system, there is no need to artificially motivate themselves with questions of ownership.

While one can continue to talk of the pros of the family business, undeniably there are some strong negatives too. Let's take two for instance.

The first one is lack of generational continuity. Critics point out that family businesses collapse by the third generation, both by the weight and ineptitude of family members. Running a business needs sharp business acumen and that is not guaranteed by heredity. While family arrogance is easy to find and often in abundant supply, the ability to guide a business through stormy seas of change in today's times is a scarce skill.

Another danger is the inability of the owners to create structure and systems to scale up a firm. Inherent to a personalized style of work is the challenges that growth provides. SMEs are good examples of this failure. In such cases, the owner wants to be fully in control of all (and not just key) decisions and emasculates other managers of the firm.

Growing a business requires complete alignment from head to tail in a firm and the ability to decentralize decision making by empowering individuals, who can take calls on the front line and in the thick of things, with confidence. If they are scared to make the calls or if they begin to feel that they will be hauled over the coals even for the smallest error, then very soon managers will remain leaders only in name & keep looking upward to family members for answers at every instance. Very soon you will have a firm full of scared pygmies. Worse still, this will lead to the creation of a bunch of courtiers who only wish to please the family and operate solely by their instinct of self-preservation. Sure enough, bad news from the market place is hidden from the top or travels slowly to decision makers with no one eager to be the bearer of bad tidings. This is particularly accentuated when the news concerns the outcomes or actions initiated as a result of directives from the family. With no one available to speak with honesty and ready to bell the cat, a culture of mediocrity soon permeates the organization.

What is the current situation? Smart owners are now recognising that to preserve, sustain and grow their capital base it could be better to invest their time in hiring the right talent and then allowing the professional CEO to run the firm to maximise value generation for the owner. And, in fact, new breeds of professionally qualified managers are happy to accept the challenge of working with such owners who give them a mandate of growth. Fundamental to this empowerment is a bond of trust that needs to get quickly initiated whereby the professional manager gets additional opportunities to run the firm autonomously. When the professional CEO delivers as per the commitment made to the promoters, this is the harbinger of a win-win relationship which can provide a huge impetus for scaling up the enterprise and taking it to a new orbit of growth.

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Podium

Professor K. Ramachandran, Faculty of the Indian School of Business, Hyderabad.



Professor K. Ramachandran is the Thomas Schmidheiny Chair Professor of Family Business and Wealth Management at the Indian School of Business. He has specialized in family business, entrepreneurship and strategy and has over 33 years of experience as an academic. He obtained a Ph.D. from the Cranfield School of Management, UK in 1986 on a comparative study of the small enterprise policies of Japan, UK and India. He has done research on family business, entrepreneurship and strategy, and has authored/edited six books and published extensively in reputed Indian and overseas journals. His consulting experience includes areas such as family business governance, professionalization, succession planning, strategic planning, and identification of new opportunities for growth, corporate entrepreneurship and turn around strategies in family and non-family environments. He has written several management cases, and has conducted training programmes for family businesses on governance, professionalization, strategic management and entrepreneurship. He has been associated with the FBN International for several years, and has served on various advisory committees of the Government of India, World Bank, Securities and Exchange Board of India.

ET: What are the strengths of a family business?

KR: There are several strengths including the following:

1. Financial support to build business as also to address challenges better
2. Emotional support from family members to withstand pressures
3. Ability to have more hands to help build a business particularly when it is small or medium in size; it is generally difficult to attract high quality personnel at that time.
4. Family background and reputation help raise resources including finances. The social network provides a platform to access scarce resources
5. Long term continuity of the business and its success are the driving forces and not short term profit making is the goal for a family business.

ET: What is the essential difference between a family business and a professionally run firm?

KR: It is wrong to classify businesses as family versus professional. In fact, such classification is based on a mistaken notion that all family businesses are unprofessionally managed. Professionalism and professionalization are unconnected with ownership. Also, with the entry of a large number of family members with professional qualification and orientation this question has to be addressed differently. There are different shades of professionalism practised in family businesses. Some of the family controlled businesses are much more professional than the so called professionally managed organisations!

ET: What are the challenges and risks faced by Indian family businesses?

KR: There are many challenges and risks. Lack of awareness and ability to address issues related to long term sustenance of the family and business is one fundamental challenge. Most families break up for want of any idea about developing and practising good governance. Lack of any clear code of conduct is another. Absence of any definite forum and processes to have transparent communication among family members adds to the confusion. Fundamentally, Asian society has lost the inner strengths of a joint family system without having a clear mechanism to address the multiple challenges as mentioned here.

ET: How are Indian family businesses placed to manage the current economic cycles amid the global economic gloom?

KR: Pretty well as most Indian family businesses have the advantage of a passionate family at the helm as owners and strategists with a large pool of professionally competent non-family professionals to work with. This model is likely to continue for many more years.

ET: Many unexpected and unforeseen events can happen in a family. How should a family business prepare for the unexpected?

KR: The best way is to ensure that all family members are educated on the challenges and opportunities for building lasting family businesses. They should realise that not all family businesses break up in every two or three generations. What they need is the ability to separate family and business matters in a mature way. This needs preparedness on their part to work around a shared vision and set of values.

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We Recommend

Book Review – Tata: The Evolution of a Corporate Brand by Morgen Witzel



A well-researched book, author Morgen Witzel takes us through (as the name suggests) the making and over time, the evolution of Tata as a company and a brand.

The author, through this book discovers what the Tata brand is all about, the values it upholds and how people perceive the brand in India and abroad. It also explores the relationship between the Tata Group and the Indian people.

The book begins with describing what Tata as a brand would stand for, its values from its employees, to its stakeholders, its customers and the society at large. The insightful read is a journey through time, giving readers a glimpse into the dreams of its founder, Mr. Jamshetji Tata, had for the company and the nation, to how Mr. J R D Tata took that dream forward and finally culminating it with Mr. Ratan Tata who took the company to yet another level to establish the brand globally.

Over the years a rich collection of myths and stories about Tata and its leaders have been built up. The book also throws light on these and how these have been instrumental in the making of the Tata brand.

One of the many points, which made and still does make Tata stand out from the rest, is its dedication to societal work. The author opines that the success of Tata as a brand has more to do with social values and the oneness with society which in itself is an assurance of its future business. Apart from this, the company also focusses on other areas which most global organisations would be judged upon. The brand has evolved realising the importance of succession planning in addition to the pursuit of economic wealth. According to Witzel, the sense of continuity in leadership that the Group has provided to the public and adherence to the founding values are what sets the Tata brand apart.

In the latter half of the book, descriptions of how key groups perceive Tata as a brand are looked into in detail. The Tata' s as a brand has come through thick and thin given the challenges such as the modernisation of India and increasing globalisation post 1990' s. The book also highlights some of the lessons learnt in establishing the brand over the years and if any of these lessons can still be applied to establish brands in today' s day and age. It drives home a lesson to corporate brand builders that brand building takes time; corporate brands are co-created and emotional and require authenticity. The book concludes stating that at least over the past decade, among other aspects, the Tata Group has always maintained the alignment of its values, its actions and stakeholder perceptions.

About the Author:

Author Morgen Witzel is an honorary senior fellow at the University of Exeter Business School and a Senior Consultant with the Winthrop Group of business historians. He has authored fifteen books on business management including Management History.

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Standing Ovation

Vidya Poshak – Empowering Educational Community



Established in 2001, Vidya Poshak is an NGO based in Karnataka which works towards empowering the impoverished, meritorious student community to pursue their post 10th education, increase their employability through skill enhancement and transforming them into contributing citizens. So far 19 districts in Karnataka and 5 districts in Maharashtra have been covered.

Its objectives include:

- Financial and academic support to meritorious students who are unable to continue their higher education due to economic difficulties
- Post finance support to students for achieving academic excellence, generate greater employability & to enhance youth involvement for creating better society.
- Associating with teaching community to enhance the quality of education
- Motivate people participation at large to contribute for development of education

Some of Vidya Poshak' s programs include:

- Nurture Merit Program - The programme encompasses nurturing meritorious students from disadvantaged families to enable them to realise their potential. Components include:
 - Financial Assistance in the form of college fees, examination fees and in some deserving, cases, additional assistance towards, tuition and coaching provided to the, meritorious and needy student
 - Libraries
 - Residential Bridge Camps
 - Graduate Finishing School
- Center for Development of Soft Skills (C-DOSS) imparts soft skills training, creates awareness about various career opportunities, trains trainers and conducts workshops for teachers, students, parents and employees.
- School Leadership Development Program (SLDP) is a joint venture taken up by Azim Premji Foundation and the Government of Karnataka in collaboration with Regional Resource Institutions' (RRIs) in which Vidya Poshak as one RRI, focusses on building School Leadership by enhancing knowledge. The objective of SLDP is to help each school leader lead his/her school towards their vision for the school. Each school leader by the end of the program would have an understanding of the factors and resources required for school development and their own role in the entire process.
- Education Loan Awareness and Advocacy Program (ELAAP) – Through ELAAP, Vidya Poshak researches and provides information on various education loan schemes of prominent banks in the North Karnataka

region.

For its noble cause Vidya Poshak deserves a Standing Ovation!

If you want to get more information and support Vidya Poshak, you can visit the website at www.vidyaposhak.org or write to info@vidyaposhak.org

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