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Family firms must pay attention to changing customer needs & relevance of their products, says K Ramachandran

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K Ramachandran, **THOMAS SCHMIDHEINY CHAIR PROFESSOR OF FAMILY BUSINESS, ISB**

Indian family businesses are quietly but rapidly undergoing a fundamental change: they are shedding the garb of protecting and retaining their ancestral businesses, and are grabbing more attractive entrepreneurial opportunities in new industries .

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While this change is a sign of dynamism in thinking on the part of family businesses, this raises concerns about the whole philosophy of unifying a family under the umbrella of a business that is owned or controlled and most often managed by the family, called family business.

Family Business

The concept of [family business](#) assumes involvement of more than one family member that provides them with the source of prosperity and emotional connectedness.

Here the assumption is continuity of the same business(es) across generations. There are two basic flaws in this assumption in the context of a rapidly changing world: One, once the first generation establishes a business, the primary responsibility of subsequent generations seems to be only its management to maintain competitiveness , with no special need for entrepreneurial qualities to identify new and better opportunities.

Two, overall attractiveness of the business will remain high for a long time, if not forever, and the family should develop and preserve its feeling of togetherness from its involvement in it. One of the basic reasons for the failure of family businesses in about three generations is the irrelevance of these assumptions in highly volatile societies and economies.

Over the years, life of most products has been shrinking across the board; only those organisations that constantly addressed customer needs without a myopic eye have been able to adapt, survive and grow. Structural changes in the industries have led to sharper effects of lifecycles at the industry level too.

The impact of such changes is severe in emerging market countries such as India, where structural changes are more pronounced.

For instance, the emergence of industries such as infrastructure, real estate, entertainment , IT and [healthcare](#) along with the eclipse of traditional manufacturing industries such as cotton textiles has tilted the attractiveness of different industries in India. Here, the key capability required for maintaining sustenance and leadership is entrepreneurial management.

Getting Entrepreneurial

It is, therefore, prudent for family businesses to evaluate the attractiveness of their businesses and choose either to move out of existing business or reshuffle the portfolio of businesses to maintain competitiveness.

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They should not be governed by the mistaken notion they should somehow continue with their ancestral businesses even if it means losing competitiveness.

Strategies followed by groups such as the GVK, the Piramals and the Bhilwaras underline this emerging trend. In the case of some large groups, such as the Godrej, the change has happened gradually. In that sense, Indian family businesses may be better identified as business families.

Keeping Flock Together

Lack of an emotionally identifiable inherited physical business often raises questions about what the family members have in common. This is particularly so if the new businesses are diverse and initiated and managed by individual members.

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With growing sense of individualism and demand for reward for individual performance, families need to have some anchor that is shared by all to keep the family as a united business family.

There is no easy answer to such a dilemma. Family businesses should introspect and develop a vision that is shared by all family members. They need to identify and practise good governance policies that will provide them with clarity of purpose of being together.

Families with good governance practices have shared vision and strategy for both their family and business. Such families agree that they are together to create wealth for themselves and the family, and share strong family bonding.

In other words, families without a collective vision and strategy are more likely to split apart. Another fragile area is the common ownership of wealth. Families have to be clear about the ownership structure for different businesses, especially when new businesses are created as separate entities.

Ideally, the portfolio of businesses, young and old, should be controlled under a unified ownership. While encouraging private ownership for personal initiatives, families should avoid moving away from a common ownership formula for the main company.

Transition from owning a family business to having business family is natural in all societies. Entrepreneurial families have to be aware of the processes of developing shared goals and decision processes to address the challenges of drifting into amoebic entities.

As the size of families shrinks, and personal goals dominate career decisions, it is important to understand the advantages of being part of a business family.

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