The Why and How of Entrepreneurship in Family Businesses

The world has become a lot more uncertain in recent years. Long term trends forecast that this will continue, and we have to be flexible, adaptable, proactive and innovative with a lot of initiative to be successful. All organizations, including family businesses have to be entrepreneurial to survive and grow. Unfortunately, for a variety of reasons, members of many family businesses do not realize this, and slowly go into oblivion within two or three generations. Our attempt here is to discuss the criticality of grooming entrepreneurial capabilities among members of business families, and some possible approaches to accomplish the same.

Is it just a three generation life span for family business?

Most family businesses do not survive beyond three generations, though everyone longs for perpetuity. For instance, most Indian family businesses which were successful in the Fifties and Sixties either no longer exist or are no longer the stars. The universality of this pattern is reflected in the adage, "shirt sleeve to shirt sleeve in three generations".

Family fights, poor leadership and resultant losing business competitiveness have contributed to their demise. Families seem to have forgotten the need to cultivate the entrepreneurial spirit within them. Instead, they allowed young family members to grow up under the assumption that they would directly step into leadership positions of existing businesses. Indeed, there is often a genuine need for trustworthy additional hands to strengthen existing operations, but family entrepreneurship suffers in the process. The younger generation prefers this 'helicopter landing' at the top as they do not have to go through the process of 'struggle' to get a new venture off the ground. Family elders too, do not want young members to go through the uncertainties involved. While the startup is like a solo performance, joining an existing business is like entering an existing troupe, which has an established theme to act. The solo act requires one to be confident and capable, and thus entrepreneurial. In essence, families protect the younger generation from potential or perceived threats to their credibility. This protectionist attitude kills entrepreneurship. To add, lack of good quality family governance, resulting in lack of agreement on the destiny of their business and the roles each family member should play to ensure

The younger generation prefers this 'helicopter landing' at the top as they do not have to go through the process of 'struggle' to get a new venture off the ground.

Prof.
Kavil Ramachandran

About the Author...

Professor 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. Earlier he was a faculty at the Indian Institute of Management Ahmedabad. He has a Ph.D. from the Cranfield University, UK..

business competitiveness, makes the situation murkier. Yet another reason for family businesses to become less entrepreneurial globally is the shift in roles that family members get involved in. As their business gets established in a competitive environment, families take care of protecting their newly created or inherited wealth as the key priority; starting a new venture is secondary. Later, when the business becomes much larger, families move up to strategy and governance, leaving operational responsibilities to family or non-family professionals. A pattern that we notice in all these cases, is the assumption that entrepreneurship as a capability is required only at the start of the journey or for the first venture for a family business. Unfortunately, this is far from true.

Why is entrepreneurship critical?

Our rapidly growing economy is also witnessing tremendous social and cultural changes. Young family members have plenty of opportunities to develop and demonstrate their entrepreneurial abilities. These need to be recognized and not seen as threats.

Entrepreneurship is a quality that is critical for the success of both start-ups and established firms. This capability is even more critical for a startup, primarily because of the adverse resource conditions they face. Entrepreneurship can be nurtured in established ventures by entrusting the younger generation with challenges in their existing ventures. This should be seen only as an alternative for special situations.

A close look at successful family businesses would show their inherent entrepreneurial orientation, and ability to tap new growth opportunities as they emerge. This could be about starting entirely new businesses, expanding into new markets or offering new products. Such families have moved beyond the conventional assumption of having a single business forever, irrespective of their product or industry life cycle. They are wedded to the idea of being an entrepreneurial family that creates wealth constantly and believe that starting new ventures is an essential part of the family culture. They believe that one does not learn to run without learning to walk and prior to that, learning to stand up. The cradle of learning can be within an existing business or outside it, but it is always challenging and testing the capabilities of the individual, with success and failure as parts of it.

How is entrepreneurship fostered?

Most families involve children in business decisions in different degrees. While this is useful to get an overall interest and invitation to join business, this is not good enough to nurture entrepreneurship. The best way to develop (and test) entrepreneurship is by insisting on the young generation starting new ventures and proving their capabilities. Since most start-ups do not succeed easily, families should use this also as a ground to build a variety of capabilities in the new generation.

In some cases, the younger generation chooses to start something of their own before considering the option of joining the family business. This could be either because their existing business is not attractive for a variety of reasons, or it could also be a strategic move to gain credibility outside, before joining the family business. For instance, Puneet Dalmia, currently CEO of Dalmia Cement started an internet company with a friend, soon after his graduation from the Indian Institute of Management Bangalore. The venture was funded partially by his father. The entrepreneur duo had to go through a lot of startup hardship before the venture was sold off for a handsome valuation. Later, Puneet joined the family business and led its strategic rejuvenation process.

In several other cases, youngsters have to prove their capabilities by starting their own ventures. This is to prevent the natural possibility of making the business an employment exchange. In such cases, young family members have to prepare business plans for funding by the family individually or collectively. Aditya Burman, whose family controls Dabur Pharma, got his startup capital from his father and uncles, when they were convinced of the viability of a new business he wanted to set up.

The Burman family has collectively resolved that their children would not be automatically parked in the Dabur Company.

In yet another model, families develop career plans for the young generation that starts with their implementing a new project. It could be a standalone venture or even a new operating facility, most often with a lot of freedom but with definite reporting responsibility. The overall assumption is that entrepreneurship is much more about quality of implementation as much as it is about attractive ideas. In short, multiple approaches are being followed by many families, to cultivate entrepreneurial capabilities in their members. A common thread across their vision is to be entrepreneurial and create and preserve wealth across generations. Business families should see nurturing entrepreneurship as a fundamental responsibility. Families should believe in 'tough love' for their children and encourage them to take the plunge before finding comfort zones of safety. That alone will help them avoid writing their own obituary.

Families should believe in 'tough love' for their children and encourage them to take the plunge before finding comfort zones of safety. That alone will help them avoid writing their own obituary.

Image Source: http://continuityfbc.blogspot.in/2012/03/bagg-group-family-business.html