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Why leadership challenges of family business are growing

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By **Kavil Ramachandran**

The phenomenon of 'shirt sleeve to shirt sleeve in three generations'(demise of [family business](#) in three generations) is widely known. At the same time, a number of family businesses have defied this and survived beyond several generations.

This apparent paradox underlines the significance of having relevant [leadership](#) capabilities on both the family and business fronts for their perpetuity. In most families, leadership is assumed to be based on seniority of age, while logically that may not be the prudent criterion to follow.

One should command respect, not demand! Also, the challenges of leadership are often not understood well by all, that too in different contexts. For instance, the capabilities required to lead are dynamic in an ever evolving organisation, whether family or business.

Similarly, rapid changes in social and [family traditions](#) in recent times have led to emergence of nuclear families, redefining the meaning of joint family system and the role of family leadership in our society.

The recent growth in Indian economy and resultant entrepreneurial opportunities have tempted many to think in terms of the need for greater freedom to pursue their interests, giving an impression that without unquestioned leadership authority vested in themselves resulting in family splits, their ambitions would be curtailed.

How should leaders address such multiple challenges? In other words, [leadership challenges](#) of family business are many and growing, and families have to consciously choose the person to lead them carefully.

To start with, most families do not explore the meaning of 'togetherness' that is essential to define the destiny of business and family. It is taken for granted that all family members understand and share the meaning completely. Unfortunately, this is a baseless assumption.

Some of the basic questions are: do we have shared goals, values and ambitions? Do we have clear policies for decisions and processes to create policies in different areas? Are we clear about the implications of accepting the scope of any definition of 'togetherness'? Are we ready to openly discuss these issues? In the absence of some answers to the above, leadership will naturally become a tougher role to play.

One of the basic reasons for this role to be challenging is that it is often a discovery driven journey for the leader. In most cases, the leader has never functioned in similar situations earlier; this is particularly so for leaders of rapidly growing mid-size family businesses who face structurally different challenges often. They need to constantly upgrade and update themselves in terms of their knowledge, skill and attitude to make their capabilities relevant for addressing emerging situations.

A leader's position is that of a king who does everything in the interest of the people. It is a responsibility. Families have entrusted in good faith in the hands of the leader the responsibility to preserve and grow their material and spiritual wealth.

However, many leaders do not demonstrate the values enshrined in their position, leading to family conflicts. For the same reason, in certain large family businesses, members choose their leaders carefully based on their existing and potential capabilities and not on their personal closeness to other members or seniority in age.

Leaders should be clear about what and whom to lead. This is a relevant question now because of the need to create decentralised decision-making mechanisms to accommodate the demand of the family members to have personal space to pursue their interests. The evolving dynamism in expectations of the family members add



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to the challenges of leadership.

Hence, new questions arise, such as: is the leader supposed to be leading a confederation of loosely-linked family entities or a cluster of closely knit family units? Should the leader be driving all aspects of the business covering entrepreneurship, operations, strategy and governance of all businesses or not? Whom all should the leader be accountable and how?

This is an area often not proactively discussed and decided openly by family members. Leaders have to communicate clearly and effectively rather than assuming the nature of their responsibilities. Families need to develop policies and codes of conduct for themselves that will make the leader function smoothly. In certain cases, it may be team leadership, but the underlying assumption is the goodness of the family in the long run.

The leader is a custodian of the family wealth, both spiritual and material. Often what it constitutes is not defined. Should the leader be responsible for bringing about changes or be an umpire facilitating changes? What are the mechanisms for ushering in changes in traditions to make them contemporary while retaining values as they are?

A leader will be able to answer such questions only if the person has an open mind to listening to others and learning. One has to be current in a fast changing world, and involve others to develop their family policies.

A good leader should behave like a steward, listening and consulting others while developing thoughts and action.

In a family business where every member has a share in the wealth of the family, the need to involve all in discussion is important. There have to be policies in place for decision-making and avoidance of impasse. This will happen only when the leader is compassionate about the views of other family members. The position bestowed on the leader should not give an impression of permission to do whatever one wishes.

The leader should take initiative to consult other family members, including youngsters and women who are not involved in business while developing the future road map for themselves. This is true whether there is a single leader or separate leadership for business and family. Clarity of purpose should be the driving force.

An effective leader would believe in contextual leadership. This means that different family members would play some leadership roles in different contexts. For instance, while one may be the [family leader](#) for societal activities, another may be the best for negotiations and yet another for strategy-making. Such complementarity can be fully used only if the leader believes in the role of a conductor of orchestra. Not otherwise.

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