GOVERNANCE & PERFORMANCE IN FAMILY BUSINESSES

V. RAMAKRISHNAN

SESSION IV

IMPACT OF PERFORMANCE ON FAMILY BOARDS.

THE FAMILY BOARD CONSTRUCT
IMPACT ON
△ ACCOUNTABILITY
△ TRANSPARENCY
△ INTEGRITY
The Family Dilemma

- **Prosperity versus Loyalty**
  - Competitiveness vs Coercion
  - Productivity vs Privacy
  - Profitability vs Power
  - Growth vs Geriatric Practices

- **Need for Capital versus Loss of Control**
  - Name Lending vs Need Lending

- **Internal Generation versus External Funds**
  - Organic vs Inorganic Growth
DYNAMICS OF FAMILY OWNED AND MANAGED BUSINESSES

› GENERATIONAL CHALLENGES
› THE FAMILY BUSINESS MODEL & ITS VARIANTS
› THE SOLUTION

Family Businesses are Emotional Swamps

FAMILY BUSINESSES ARE
› FIRST EMOTIONAL ATTACHMENTS
› SECOND THEY ARE SAFE, STEADY SOURCES OF MONEY
› THIRD THEY ARE SOCIAL UMBRELLAS

ALL ‘IRRATIONAL’ NEEDS

TYPICALLY
› LOYALTY IS A VIRTUE
› PERFORMANCE IS A THREAT
› UNDERPERFORMANCE IS TOLERATED IF NOT EXPECTED
› TENDENCY TO LIVE ON PAST SUCCESSES
› PATIENCE & COMPLIANCE ARE VITAL & VALUED VIRTUES
Coming to Terms with Generational Characteristics

- **THE GENERATIONAL CHARACTERISTICS**
- **FOURTH GENERATION**
- **THE DIFFICULTIES OF BEING A SCION**
- **THE LIMITING CHARACTERISTICS- 2ND/3RD GENERATION ONWARDS**
- **SOURCES OF CONFLICT**
- **BASIC CONFLICT- INWARD FOCUS**
- **TELL ME THE GOOD NEWS..& DON’T...(THE DOUBLE WHAMMY)**
- **DIFFICULTIES IN ASKING THE RIGHT QUESTION**

The Difficulties of Being a Scion

- **AS A STUDENT**
  - ENVY
  - PRIDE IN SAHAVASAM
  - RESTRICTS CIRCLE
  - NO PEER SUPPORT MECHANISM

- **AS AN EMPLOYEE**
  - PEOPLE DON'T LET YOU FAIL
  - PEOPLE ALWAYS HAVE AN ANGLE

- **AS A COLLEAGUE**
  - NOT POSSIBLE AT ALL

- **AS A BOSS**
  - FROM DAY ONE UNDER THE MICROSCOPE
  - COMPARISONS WITH FATHER, GRANDFATHER, BROTHER ETC.

- **AS A OWNER**
  - CONSTANTLY BEING WATCHED
  - PEER GROUP SUPPORT CAN BE HIGH

- **OVERSEAS**
  - DON'T GET THE SERVICE WE SEE AS BIRTHRIGHT
Tell Me The Good News……& Don’t…..
(The Double Whammy)

- **1st Generation Intolerant of Criticism**
  - “If only you knew what we went through…”

- **2nd Generation Only Hears Praise**
  - ‘Chip of the Old Block’

- **Most Are Told Only What They Want to Hear**
  - The Time Servers

- **Others Are Told What Is Felt They Need to Hear**
  - The Role of the Grey Eminence

Difficulties in Asking the Right Question

- **Loyalists Afraid or Cannot Ask Difficult Questions**

- **Employees Cover Up Family Errors**

- **Newly Hired ‘Professionals’ Seldom Have Any Experience Dealing with Similar Situation**

- **Consultants Seldom Understand Role of Family Dynamics in the Management**
Consequences of Generational Infirmities

- **ACCOUNTABILITY IS IRRITATING**
  - MANAGEMENT BECOMES ADHOC
  - DIRECTION INFIRM

- **TRANSPARENCY DROOPS**
  - COVER UPS & DEVIous RESPONSES BECOME THE NORM
  - SYA STARTS BIG TIME- PROBLEMS DELEGATED UPWARDS

- **SYSTEM AND INDIVIDUAL INTEGRITY FLAGS**
  - RELIABLE AND HONEST PEOPLE MIGRATE
  - CANNOT ATTRACT AND RETAIN HIGH PERFORMERS

The Stakeholder Business Model

OWNERSHIP
(BOARD OF DIRECTORS)

BUSINESS
(MANAGEMENT)
The Shareholder Business Model

1. Ownership
2. Business (Management)
3. Direction

The Family Business Model - Family Managed

1. Family
4. Family member, not employee
5. Director & employee, not family
6. Family member, CEO but not on board
7. Family member, director, & company employee

2. Ownership (Board of Directors)
3. Business (Management)
The Family Business Model - Professionally Managed

Rules of Engagement - Ownership, Family, Board Balance

1. FAMILY & OWNERSHIP
2. OWNERSHIP & MANAGEMENT
3. OWNERSHIP & DIRECTION (BOARD)
4. FAMILY, OWNERSHIP & MANAGEMENT
5. FAMILY, OWNERSHIP & BUSINESS
6. DIRECTION & BUSINESS
7. DIRECTION & MANAGEMENT
8. FAMILY MEMBER NOT EMPLOYED & DIRECTION
9. DIRECTOR & EMPLOYEE NOT FAMILY BUT ON BOARD
10. FAMILY MEMBER –CEO/COO- NOT A BOARD MEMBER
11. FAMILY MEMBER, EMPLOYEE & DIRECTOR ON BOARD
12. WHERE ALL CONVERGE
### Vital Questions

- **HOW DO THE FAMILY, THE BOARD AND BUSINESS INTERACT?**
  - HOW SHOULD THEY INTERACT?
  - WILL THESE RELATIONSHIPS CHANGE OVER TIME?
  - IF YES HOW AND WHY?

- **WHAT IS THE CHECK & BALANCE?**

- **WHO IS GOING TO ADMINISTER THE CHECKS AND MAINTAIN THE BALANCE?**

### MNC’s versus Family Businesses

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<th>MNC’s</th>
<th>Family Businesses</th>
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<tr>
<td><strong>PLANNED</strong></td>
<td><strong>STRATEGY</strong></td>
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<td><strong>UNDER MANAGEMENT</strong></td>
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- **I GENERATION**
- **MENTAL MAP**
- **II GENERATION**
- **EYEBALL COMPASS**
- **III GENERATION**
- ??????????
The Middle Road for Family Businesses

- PLANNED
- COMPLEX
- SOPHISTICATED
- DO’S & DON’TS
- PERFORMANCE
- INTEGRITY VITAL

THINKING VS PLANNING
- ADAPTIVE
- PRACTICAL
- PRODUCTIVITY DRIVEN
- ACHIEVEMENT ORIENTED
- INTEGRITY PRESERVED

FLEXIBLE
- HIERARCHICAL
- MINIMAL *
- ONLY FOR TRIVIAL
- LOYALTY
- IGNORED

- I GENERATION
  MENTAL MAP
- II GENERATION
  EYEBALL COMPASS
- III GENERATION
  BUILD A CULTURE
  OF PERFORMANCE

Direction - 3 Dimensions

- DIMENSION 1 –
  HOW THE BOARD RUNS AND WORKS

- DIMENSION 2 -
  DELIVERY OF GROWTH AND PROFITABILITY

- DIMENSION 3 -
  IMPROVING THE COMPETITIVENESS AND
  PRODUCTIVITY
Accountability & The Family

- ACCEPT ACCOUNTABILITY OF PERFORMANCE
  - USE OF CAPITAL, CASH, TANGIBLE & INTANGIBLE ASSETS
  - LEVERAGE FAMILY VALUES TO BUILD PEOPLE-
    HIRING OUTSIDERS SELDOM DELIVERS RESULTS

- DON'T DELEGATE FAILURES!

- WORK AT DEFINING AND REFINING STRATEGY,
  STRUCTURE AND SYSTEMS

- RESPECT COMMUNICATION HIERARCHY; DON'T
  CREATE CHAOS OR BOTTLENECKS

Transparency & The Family

- IF FINANCIAL PERFORMANCE IS EXPECTED STRATEGY
  & NUMBERS MUST BE TRANSPARENT
  - CLEAR AND UNIFORM SET OF STRATEGIC & OPERATIONAL POLICIES

- STRUCTURES SHOULD BE VISIBLE AND REASONED-
  NOT WHIMSICAL
  - PAY FOR PERFORMANCE MUST BE OBJECTIVE AND RATIONAL

- SYSTEMS
  - PROCESS INTEGRITY MUST BE GUARANTEED & ENCOURAGED
Integrity & The Family

- Strategy has to be realistic and goals set achievable
  - Coherence and cogency vital - avoid MBLBR

- Structures must be visible and understood
  - Aimed at leveraging talent fairly

- Systems must be adhered to faithfully
  - Family cannot subvert system

If you Can’t Measure it, you Can’t Control It

“People respond to what’s inspected not what is expected”

- Measure what you must; not what you can......
  - The board, the directors, the enterprise, the individual
  - Measure what is to be controlled.

- Embed control in system

- Link all control & measurement to strategic objectives desired (outcome)

“Being metrics driven is an important part of scaling to be a very large company. In the early days you could feel it, touch it. Now that is more difficult, so it has to be measured”

Ebay CEO Meg Whitman
THE SOLUTION FRAMEWORK

CREATING A DIALOGUE MECHANISM
A FORMAL, PARALLEL “FAMILY” BOARD

- CREATING THE FAMILY CONSTITUTION
- ROLE OF THE FAMILY BOARD
- TASKS OF THE FAMILY BOARD
- FAMILY COUNCILS - MECHANISMS FOR BUILDING TRUST
- ROLE OF THE ELDERS
- ROLE OF TRUST
- STREAMLINING FAMILY BOARDS
- EQUIPPING FAMILY MEMBERS TO DIRECT THE BUSINESS
Family Boards – Answer to the Ownership-Direction Dilemma

ESTABLISH A CONSCIOUS BALANCE BETWEEN:

- PERFORMANCE AND COMPLIANCE
- DIRECTION AND MANAGEMENT
- STEERING THE CONTROLS AND CONTROLLING THE STEERING
- OVERSIGHT AND INTERFERENCE
  - (HAND ON STEERING, FOOT OFF THE ACCELERATOR AND BRAKE)

Essence of Leadership

“I have learned that it is necessary to navigate rather than rule,”

……

“I have learned that we all have strengths and weaknesses, and a leader needs to evaluate that personally and in others, and play to their strengths. It really means knowing your own limits and that of other people.”

……

“I learned not only to build neighborhoods but to be a good neighbor. I learned that one needs a moral compass, that loyalty and respect are earned and that good communications are vital.”

Lynda Barness, president of The Barness Organization, home builders based in Bucks County, Pa. After five and a half years of running her family business – a company founded nearly 80 years ago by her grandfather and run for 50 years by her father