

## THE SUCCESSION PLAN

## PASSING THE BATON

Many owners assume that their children will want to enter the family business, or they put pressure on them to do so. Under the Western family business model the advice is that while the children are growing up it is important to try and keep an open mind about this possibility, and to remember that their perception of the business is being formed mainly on the basis of what the senior generation tells them about it.

The senior generation should try to find a balance that enables their successors to share their dream, making sure excessive pressure is not put on them to make them feel that they have no choice but to be part of it. Telling them about the exciting and challenging aspects of running the business as well as the negative considerations can help. Letting them get first-hand experience of the firm, perhaps working in it during school and university holidays, may also assist. But enthusiasm for their entry into the firm should be balanced by making it clear that the family will understand and support them should they choose other careers.

Education is a key factor in the evolutionary process underway in India's family business sector, fuelled by the way modern management education has helped transform the Indian corporate environment. For example, Aditya Mittal, chief financial officer of ArcelorMittal Europe, the world's largest steel firm, graduated with honours from the Wharton School of Business. He learned the ropes at Credit Suisse before taking over responsibility for mergers and acquisitions at his family's firm. It has been argued that much of ArcelorMittal's growth, and its role in consolidating the worldwide steel industry can be attributed to Aditya's M&A activities.<sup>46</sup>

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<sup>46</sup>Jennifer East (2010). 'Lessons From India's Leading Family Firms', *Campden FB Online*. Available at <http://www.campdenfb.com> (accessed 9 September 2010).

At the end of the day, the next generation's decision to join should be freely made and based on a thorough understanding of the privileges and responsibilities that come with the job, and an acceptance of the hard work and commitment required. Inadequate preparation and training, or undue pressure, risk condemning the next generation to unfulfilling careers, and the business may suffer too.

#### IN-HOUSE TRAINING AND DEVELOPMENT

The heir apparent in most Indian family businesses is likely to join at a senior level, but some families value an upward progression of roles within the firm, occasionally beginning at the lowest level. For example, family members of the next generation joining DCM Shriram Consolidated (discussed in Chapter 6) are expected to dirty their hands before they can progress up the organisation. Thus Ajay Shriram's son, Aditya, was posted to the Kota shop-floor as part of his induction process before he could take over as VP of the cement business, and his younger brother, Anand, is expected to begin his business career in the same way.

While learning every job on the way up can have a value in particular businesses, the development of managerial talent is a long process, and care should be taken not to waste time on direct experience of menial tasks simply for its own sake. The important point is to make sure that all training is worthwhile and appropriate in relation to the career development strategy set out in the written succession plan.

The traditional model in India for preparing the next generation involves fathers taking the lead responsibility in the training process. In less hierarchical societies elsewhere in the world because of the emotional involvement and more pronounced psychological rivalry, parents are generally seen as poor teachers, and it is often thought worthwhile for young family

members joining the firm to establish a special relationship with a non-family mentor figure within the organisation. A key manager who has been with the firm for a long time and who knows the business inside out will often be available to take on this dual role of teacher and friend. For a young person joining a family business, a mentor relationship can operate largely free from all the emotional aspects of the family connection, and is almost always valuable.

Defining the roles for the next generation carefully, setting objectives and providing feedback are important. Conflict and uncertainty over their functions in the business can be a major source of tension. Young family members need to know what is expected in their jobs, and they also need regular feedback about their performance, including recognition for achievements and constructive advice on aspects of their work and leadership development that need improving.

International research has concluded that the best results are generally achieved by setting up tailor-made, systemic programmes for developing the next generation,<sup>47</sup> starting by looking at the individual and deciding upon their capabilities, strengths and development needs. For most individuals, the focus will usually have been on what it takes to join the firm, not what it takes to own it or lead it. Knowledge transfer to the next generation should be accompanied by behavioural learning, action learning and hands-on experience learning. Building confidence among young individuals so that they can take over and be good at the job is very important. Next comes team development—

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<sup>47</sup>The approach described here is adapted from Penny Webb (2005). 'A Systemic Approach to Responsible Ownership'. Paper presented at the 4th National Forum Conference of the Institute for Family Business (UK); *Success Through Family Teamwork: Working Together Across the Generations*, Birmingham, 19 May 2005.

combining individual assessments to uncover team dynamics. Team member learning is fostered in areas such as influencing skills—how to work within an organisation so as to make an impact—and the ability to communicate effectively and manage conflict constructively. Then there are the inter-generational and executive interfaces—deciding on the extent to involve other generations and non-family executives in developing the next generation for responsible ownership.

Some of these ideas are gaining favour among India's senior family businesses. Built over four generations of a close-knit family, the Godrej Group today is one of the country's largest engineering and consumer products companies. Adi Godrej has strong views on the importance of education and tailor-made in-house training when preparing the next generation in family businesses:<sup>48</sup>

All family members must be professionally qualified to the same standard as the other employees. They should be graduates of management schools in the US such as Wharton or Harvard and train as management trainees for two years, just as those who join us do. After about four or five years they get into an accelerated position—like the professional managers who will be the day-to-day CEOs. They have brought a lot of fresh ideas, professionalism and innovative thinking.

IMD Business School's Professor Joachim Schwass has drawn together some key conclusions on effective successor development strategies. Growing into the role of business leader can best be

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<sup>48</sup>Gavin Knight (2009). 'Change is Constant', *Campden FB*, Spring, 25–27 at p. 27.

facilitated, he believes, if it is understood as a managed process:<sup>49</sup>

Three important lessons have been culled from the experience of leading family businesses. First, successors must submit themselves to a career development plan. Second, the successors must systematically develop their own vision for the future of the family and business relationship. Third, the leadership transition from the outgoing generation to the successors should be staged as a formal celebration... A growth-based initiative by the next generation recognises succession as a phased process that begins with personal development and discipline. It is this humility, coupled with a transparent development process, which has the potential to obtain the support of family and others as the successor qualifies for the leadership position.

#### THE NEXT GENERATION'S VIEWPOINT

The perspectives of the next generation on succession were discussed in Chapter 6, but an extra point worth making here concerns inter-generational respect and cooperation. The next generation often have a valuable role to play in the seniors' retirement process. If relations with seniors have centred mainly on the business, trying to cultivate more personal ties is a good starting point. Make an effort to understand what retirement means for them (encourage discussion of their hopes and fears), acknowledge the importance of their achievements, and help them to draw up and implement a detailed succession plan along the lines discussed earlier. If they are worried their usefulness will

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<sup>49</sup>Joachim Schwass (2005). 'An Effective Successor Development Strategy', in John Ward (ed.) *Unconventional Wisdom: Counterintuitive Insights for Family Business Success*, pp. 97–115 at pp. 109–110 and 114. Chichester, UK: John Wiley & Sons Limited.

end when they step down, look at ways they might continue to have an input and maintain some involvement with the business after retirement.

A coherent strategy like this, based on communication and a shared understanding of the issues, provides the common ground on which to preserve a constructive relationship with the senior generation, as well as helping them to overcome the main emotional difficulties of the succession process.

Inter-generational help oiling the wheels of succession can sometimes come from unexpected quarters. In introducing the case note on the Lumax group earlier in this chapter, we discussed how D.K. Jain of the second generation distributed his shares equally to his sons early on while he was still active in the business, in part because of problems that had arisen in an earlier transition when the business was being passed down to the second generation by his father, S.C. Jain. Communication between the first and second generations had broken down, but D.K. Jain's eldest son successfully mediated between the two elder generations in his family, helping resolve the communication impasse and smooth out the path of succession.