

Second Generation Non-Entrepreneur

Entrepreneurship is often associated with personal and financial risk-taking and a high degree of uncertainty when it comes to future benefits and growth. On first impression, these characteristics seem incompatible with the traits of family businesses known to act more conservatively and risk-averse in order to secure the existing wealth and core business activities for future generations. In his article, however, Bharat Joshi, Director of Associated Container Terminals Limited, India, demonstrates that entrepreneurship and family businesses are in fact inextricably linked and essential to mutual success.



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One of the greatest ironies of our times is thus: Entrepreneurship and tenacity are pre-requisites for the creation of successful businesses from scratch; but when successors of these businesses attempt to demonstrate these very same virtues, they are often cautioned or discouraged.

Why should a thriving (family) business, be subjected to the risks and turbulence of entrepreneurship? Conversely, can any organization, at any stage, be sustainable, deprived of entrepreneurship?

This Catch-22 puzzle warrants a closer look.

Entrepreneurship inherently entails risk-taking appetite, innovation, initiative, and doing things differently (if not doing different things, altogether).

On the other hand, responsibilities in a family business entail guardianship of existing business and revenues, respecting the structure and protocol of the organization, avoiding reckless action (read risk) that may jeopardize the enterprise, and not acting in any

manner that may demoralize troops or create a rift in the family.

At first glance, the twain surely do not appear very compatible. However, there is common ground: Both types of responsibilities, in entrepreneurship and family businesses, hinge heavily on the principle of deferred gratification. Both require the actors to look beyond a small immediate gain, towards a greater long-term benefit.

Also, often the buck stops with the entrepreneur/ heir. And the "skin in the game" often puts about everything at stake—both, monetary and intangible.

However, these very qualities often mean that entrepreneurs see themselves in a permanent role, with no clear intention of walking away from the business at an advanced stage.

Vishesh Chandiok, National Managing Partner of Grant Thornton (India), asserts "Entrepreneurs are often driven more by long term value creation than by short term gain—families that are in business would do well to establish formal policies on the family's



interaction with the business over this long term- admission, retirement, remuneration, succession.”

If differences are often superficial, and expert advice is available, why can't they be resolved, and a balance be struck on the degree of entrepreneurship, as it were i.e. do not upset the applecart, but keep the business a living, evolving creature? The answer is painfully simple: the older generation at the helm, and the younger member in the wings just often do not seem to speak. Or at least they tend not to address these issues in a forthright and objective manner. In many cultures, especially in Asia and the Middle East, it is very awkward to bring up issues that involve discussions over succession, clear definitions of roles, and matters that involve an “individual versus collective” debate.

Hence, procrastination invariably follows. An extreme, though useful example is that of pre-nuptial arrangements. Quite the norm in many cultures in the west, and considered essential when substantial family fortune is at stake, these legally enforceable agreements dictate the financial and

legal rights of bride and groom in the marriage, and in the unfortunate event of a divorce. Though prudent, such a notion would violently be rejected by parents of bride and/or groom in an Asian environment.

The view in matters concerning the family vis-à-vis family business is somewhat similar:

Youth often believes it would be of no use to approach sensitive, though pressing issues as senior members and the more experienced members sometimes do not consider these very same issues to be of great consequence.

So what is the recipe for breaking this stalemate?

Channelising the entrepreneurial spirit of young, ambitious family members can result in quite the win-win end result for all concerned. However, the definition of entrepreneurship must not be as narrow as for instance setting up another dot-com business with an eye on a quick (and enriching) exit. Families who have merged/managed entrepreneurship within the family business structure, and turned it into a strength have invariably used one of the following models (pursuant to

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close scrutiny):

a) Co-investing in a personal capacity with the young prime-mover of the venture (who retain most of the stake, risk and reward)

b) Forward or backward integration, with the scion spearheading the initiative.

c) Diversification, with a strategic objective of mitigating business and industry risk. Youth are particularly adept at managing sunrise industries, which can fit the bill well.

d) The family business acquires a strategic stake in the new venture.

This process would be further aided with the recognition that entrepreneurs often are better at managing certain stages of the business life cycle than others. For instance, a founder of a business might be better at taking an enterprise from the seed capital stage to execution and profits, but might falter when the business requires organic growth, or a shift in gear.

The above solution, which by no means is the solution for all situations, comes with its own share of issues: resolving a potential conflict of interest if the individual's venture is in the industry as the family enterprise; keeping the due diligence fair (resisting the temptation to use it for shooting down ventures for personal reasons); and managing interpersonal

complexities that might arise out of a sense of competition from other members of the family.

While foreseeing the final result of such ventures is no easy task, in an entrepreneurial utopia, all concerned would accept some of the above lessons, while the younger members would not indulge in entrepreneurship for entrepreneurship's sake. At a later date, when the young enterprise is a success, the family or core business could look at divesting at a profit, or retaining a smaller, strategic stake.

And, well, in case of failed ventures, those who dared, and those who funded them, can take heart from knowing that some of the most respected leaders of family businesses today started off as talented scions, but with notable and public early failures.

Often perspective is what makes all the difference; failed entrepreneurial ventures are no different from attempts by Multi-national companies to diversify, often in sunrise industries, with a less than perfect track record. So sit down for that heart to heart chat over a brewing pot of tea, and do not shy away from differences of opinion. It is probably what conceived the family business in the first place. ♦