

GOVERNANCE FIRST

For family businesses, corporate governance is more critical than non-family organisations. An eminent panel deliberated on the issues surrounding it

Alokesh.B@timesgroup.com

The first family business roundtable - part of the ET Family Business Forum presented by NxtGen Datacenter & Cloud Technologies - held in style in Mumbai with Cyril Shroff, Managing Partner of Cyril Amarchand Mangaldas, and a member of ET's Family Business Advisory Board, pointing out that in the past five years, conversations around family businesses and governance have come out of the woodwork. "The role of family constitution, creating succession structures, these are being thought about in a far more scientific way," he said, adding that one big challenge he sees is "how do you implement in a transparent way the family governance piece and make it interlinked with the corporate side".

Diwan Rahul Nanda, Group Chairman of security company Topstrup, said that promoters tend to get a lot of flak from everyone, but "promoters hold the values of the family business together

and second generation are also the people who a) bridge the gap between the first and third generation and b) who uphold the values of the first generation and they are the ones who bring corporate governance into the business". Nanda, a second generation entrepreneur, stressed on ethics being the critical pillar for corporate governance in family businesses.

Soumya Rajan, MD & CEO of Waterfield Advisors, who is also on ET's Family Business Advisory Board, said that governance challenges change as family businesses evolve. "Typically, in a founder stage, there is quite a large reliance on key people rather than process, and therefore you do find governance standards maybe a little weaker," she said, adding that corporate governance gets progressively stronger as families evolve generation to generation.

Dilip Piramal, CMD of VIP Industries, pointed to the importance of meritocracy in an organisation. He said VIP's MD is his second daughter Radhika - the eldest daughter is a writer

who has an office in the company's premises, but doesn't interfere in company affairs. Plus, Radhika is the first family MD of the company - Piramal himself was never the day-to-day CEO (except for a few years early on), and he employed professional CEOs.

An important aspect was brought in by Pradeep Choleyil, Chairman and MD of Choleyil Pvt. Ltd., which makes Medimix soap, when he said that it is critical to differentiate between business income and family income in the context of governance. Aligning the family business to the next generation - who may or may not be interested in the business - was another important aspect, he said.

Ritesh Khandelwal, Director-Finance of Nxtgen Datacenter & Cloud Technologies, felt that corporate governance had its roots in India with Kautilya's Arthashastra, but today's challenges are primarily two: 1) the formation of board or how the board manages, that's where you bring in transparency and fairness. 2) Succession planning needs to be taken care of at an initial stage rather than leaving it for the end when issues develop with siblings.



STANDING (FROM LEFT): Vidhu Shekhar, Vijay Sampath, Ritesh Khandelwal, Diwan Rahul Nanda, Pradeep Choleyil
SITTING (FROM LEFT): Cyril Shroff, Ranjan Banerjee, Dilip Piramal, Soumya Rajan

Two eminent people joined from SPIJMR, one of India's top B-schools - the Dean of the institute, Ranjan Banerjee, and Vijay Sampath, who heads the college's family business centre. Given the criticality of family businesses to India's economy, Banerjee felt conversations between generations are necessary so that family businesses don't destroy value. And Sampath pointed out that most family businesses in India are

small enterprises, and for them issues of family and business can't be separated. "In those companies, there are no boundaries... they realise too late that they have sucked out too much of the capital for value to be created."

Completing the line-up at the table was Vidhu Shekhar, Country Head of CFA Institute, who held a flag for the minority shareholder. He said that families start a new business using

existing networks and resources, and the line between family and business blurs. "Minority shareholders really don't get the value out of this new business that is being promoted out of the old business," he said.

These, and many more issues were deliberated upon, creating a wealth of knowledge. **Read more comprehensive coverage on economictimes.indiatimes.com/familybusinessforum**

FAMILY BUSINESS GOVERNANCE: KEY TAKEAWAYS

🍊 Ideally don't just bring in a professional leader, but work with him for sometime

RANJAN BANERJEE
Dean, SPIJMR

🍊 You cannot mix family with business - you have a fiduciary responsibility as a director

DIWAN RAHUL NANDA
Group Chairman, Topstrup

🍊 Two challenges need to be looked into - how the board manages, and succession planning

RITESH KHANDELWAL
Director-Finance, Nxtgen Datacenter Technologies

🍊 The big issue is the exit - when one branch of the family is not happy, what are the rules of exit?

CYRIL SHROFF
Managing Partner, Cyril Amarchand Mangaldas

🍊 We have been a very professional company right from the inception, always merit oriented

DILIP PIRAMAL
CMD, VIP Industries

🍊 Differentiate between family income and business income, otherwise there won't be governance

PRADEEP CHOLAYIL
CMD, Choleyil Pvt. Ltd.

🍊 As the business grows, the corporate governance standards need to necessarily get better

SOUMYA RAJAN
MD & CEO, Waterfield Advisors

🍊 The bulk of family businesses are small enterprises - that's where most of India's capital is locked in

VIJAY SAMPATH
Head, Centre for Family Managed Business, SPIJMR

🍊 In Asia, most family business owners don't want to give up control to professionals

VIDHU SHEKHAR
Country Head, CFA Institute