Russia's Stealth Family Businesses

A challenging environment and historical baggage hinder Russian family companies from achieving their full potential.

A pillar of Russian economy until the 1917 Bolshevik revolution, family enterprise has been making a comeback since the collapse of communism in the early 1990s. Today's Russian family businesses, however, are a far cry from the multi-industry empires forged by the Stroganovs, Demidovs and Morozovs in Tsarist times. Little is known about them despite their **growing contribution** to the economy. To shed some light on family businesses in Russia and the challenges they face, we studied 42 companies managed by members of at least two generations of the same family.

Hidden gems

To study Russian family businesses, you have to find them first. So low-key are they that one might struggle to identify even the top players. Most family enterprises are not named after their founding families or even consider themselves to be family businesses. Well-known examples include top meat producer **Cherkizovo Group**, founded by Igor Babayev, and Siberian retail chain Maria-Ra, founded by Alexander Rakshin. Of the 42 companies that took part in our survey on condition of anonymity, only six bear the name of their founders. Several of our respondents said, "If you hadn't told me, I would never have thought of my business as a family company."

Blame it on a negative image of family businesses in Russia. They are seen as hotbeds of nepotism and corruption in a country where people are already ambivalent towards enterprise and business in general. Said the founder of one family business: "Everyone considers family businesses to be mafia clans."

Another reason is historical. During the Soviet period, individualism was eschewed in favour of collectivism and humility. Entrepreneurs who came of age under communism often shy away from naming their companies after themselves. Personal safety concerns further underpin the Russian penchant for keeping a distance from their own enterprise. In the 1990s, many Russian companies did not disclose their beneficiaries to protect them from rackets and extortion. Since then such risks have significantly decreased, but old habits die hard. As one respondent explained: "I am trying to keep a low profile. If your company has your name, it creates certain risks."

All in the (nuclear) family

On average, only 3.4 family members – typically the couple who founded the business and one or two of their children – work in the family firms we surveyed. Rarely are more distant relatives such as siblings, cousins, uncles or aunts roped in. Even spouses of the founder's children are usually left out as they are not considered family. "Our father is quite sceptical about inviting his sons-in-law to join our family business," a respondent told us. "He says: 'Husbands come and go, but business is forever.'" Such narrow definition of family limits available talent pool, yet could help mitigate risks of potential conflict around ownership and management succession.

In Russia, founders also control family businesses by keeping a tight grip on ownership. Seventy percent of the companies in our survey are fully owned by the founding generation and lack any established principle or mechanism to transfer ownership to the next one. One reason being that Russians generally have low regard for legal norms and property rights. Founders also tend to be leery of the fitness of their children to take over. The owner of a retail business told us his children would have to earn his trust first. "If they successfully manage the company for several years, I will think about transferring the shares," he said.

Another factor is the relative youth of today's Russian family business founders. The average age of founders in our sample is only 56; most of them simply don't want to relinquish control yet.

The most surprising finding was that half of the respondents don't want their children to follow them into business. They cited hardship ("I don't want my kids to work 24/7 like I do"), personal safety ("To be a businessman in Russia is a highly risky business") and the perceived futility of handing the business to the next generation ("I can put my daughter at the table with important people who help me to do my business, but when I am gone they will not talk to her, they will try to grab the business from her").

To be sure, some of the characteristics and challenges of Russian family businesses are universal. The **Global Family Business Survey 2018** by PwC shows that succession issues, access to talent and professionalisation are among key challenges faced by family firms the world over. Based on our research, we offer three recommendations to Russian family enterprises that could also be useful to family businesses everywhere:

1. **Use your name**
   The name of a family business is an important intangible asset. It helps to build the company's credibility, establish trust and lasting relationships with clients and suppliers, and develop a sense of identity among employees. Forty of the 50 oldest and 28 of the 50 largest family companies in the world are named after founders. Walmart and Sumitomo Corp are just two famous examples. Family business owners should consider family name a major asset and actively use it in marketing, talent management, vendor management and community relationships.

2. **Invest in family governance**
   Business families need to devise formats for regular family interactions, fix their ownership structures, set rules and mechanisms for management and ownership succession, as well as for business and family decision making. The process will take time, it will be painful, but it will help family companies create a solid foundation for sustainable growth.

   The wealthiest Russian families have started to formalise and professionalise management of their wealth. There are about 100 single family offices in Russia and as many as 20 multi-family offices, according to **data** compiled by Bloomberg. Some families have established family constitutions and councils to govern their affairs.

3. **Prepare the next generation**
   Not every child of a successful entrepreneur has the talent or motivation to become an effective business operator. Parents should provide their children with opportunities to develop and apply business skills and reflect on the experience before the latter decide whether to join the family enterprise. Whichever way the next generation lean, the knowledge they acquire would be invaluable in a country where such know-how remains in short supply.

*The survey was conducted by the **Ward Howell Talent Equity Institute** and INSEAD's **Wendel International Centre for Family Enterprise**.*

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