

The Family Office as the Engine Room of Governance



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The number of family offices in India has grown almost sevenfold in six years, from about 45 in 2018 to nearly 300 in 2024, managing close to 30 billion dollars between them (PwC, 2024). Anecdotal evidence suggests that the actual numbers are much larger. The instinct behind the boom is sound. Though the understanding of what a family office is for is far too narrow. Ask most Indian families and they will describe an investment desk: a place to manage the wealth, optimise the tax, and park the surplus. Investing is probably less than a tenth of what a serious family office should be doing. The other nine tenths is the quiet, unglamorous work of holding a family together across generations.

That work has a name. It is governance. And the reason most Indian families struggle with it is that they treat governance as a document to be signed once and filed away, when it is really a set of meetings, decisions and records that have to keep happening, year after year, whether or not anyone feels like having them. About a third of family businesses reach the second generation, roughly 12 per cent reach the third, and only 3 per cent survive into the fourth (Ward, 1987). The families that cross that last threshold are rarely the ones with the cleverest patriarch. They are the ones who built a structure to run the governance and then resourced someone to keep it running. Whether that structure is formally called a family office, housed within a holding company, or handled by a dedicated unit or division, it is doing the essential work of a family office.

Governance is a verb, and somebody has to do it

The gap in Indian family businesses is not a gap in intent. Most owners know they should have a family constitution, a shareholders' agreement, a forum where the family talks about the business. The gap is that nobody owns the doing of it. Globally, only 30 per cent of family businesses have a constitution and just 19 per cent have a formal mechanism to resolve conflict (PwC, 2023). The Indian figures are almost certainly worse. The corporate side of the house has no such problem, because the law will not allow it. The Ministry of Corporate Affairs, SEBI and the Reserve Bank mandate boards, committees, audits and disclosures, so they get done. On the family side, nothing is mandatory, and so very often nothing happens.

This is precisely the vacuum a family office should fill. Someone has to convene the family council, take the minutes and circulate them. Someone has to schedule the family business board, the bridge that carries the family's voice into the operating company. Someone has to run the values sessions for the children, track the will and the holding structure, and keep the dividend policy alive. Merck of Darmstadt, in business since 1668 and now in its thirteenth generation, runs a family university with structured modules in family history, finance and governance that every young member must complete before they can stand for a board seat (Bhatnagar, 2019). That is the machinery of continuity, and it sits well outside the remit of an investment desk. A family office that does only the investing has built a treasury and called it something grander.

The expensive problems all live in the overlap

The three-circle model of family, ownership and business is familiar to everyone. The trouble sits where the circles overlap. A relative asks the founder to place an unsuitable son in the business; the founder knows the boy is wrong for the job, yet as a family member, he cannot say no, and the business quietly absorbs the cost. A founder used to drawing money on a need basis finds it difficult when the private equity investors on his board tell him that dividends have to be planned against profit and future investment. The conflict lies in the overlap between owner and manager.

Left unmanaged, these overlaps escalate along a predictable path: a dilemma becomes a deviation, the deviation invites scrutiny, scrutiny hardens into a difference of opinion, differences accumulate into a dispute, and the dispute ends in litigation, ultimately destruction of wealth and relationships. Governance interrupts that cycle, and it can do so at any stage.

Studying 530 Spanish family firms, Arteaga and Menéndez-Requejo (2017) found that those which adopted a written family constitution saw measurably stronger performance within two years, with the effect most pronounced in later-generation firms and those with several family owners, exactly the families where overlaps multiply. The family office is what turns those rules into practice: an owners' council where shareholders air their concerns, a dividend policy that pre-empts the next owner-manager-investor conflict, an employment policy that settles who may join the business before a relative asks. Rules written and then operated stop differences from becoming disputes.

The family must scale its governance as fast as it grows

A first- or second-generation family is easy to govern. There are one or two children, the business is expanding, and roles find themselves. By the third and fourth generation the family has moved from a sibling partnership to a cousins' consortium, with seven, eight, nine claimants, spouses from different backgrounds, and members living in different

cities. Mobility and opportunity have scattered families that once shared a single roof and a single dining table where values passed down by osmosis. When the natural glue weakens, structure has to take its place, and the structure has to grow at least as fast as the family.

The danger is governance that calcifies. Murugappa wrote one of the earliest family constitutions in the country, yet it carried no clause on whether women could sit on the holding company board, and that omission erupted when Valli Arunachalam went to court for a seat after her father's death (The News Minute, 2020). A document is only as good as its capacity to be amended. Contrast the Godrej family, which in 2024 restructured a 127 year old group through a carefully negotiated Family Settlement Agreement and avoided the open warfare that has consumed many business houses (Business Standard, 2024). The difference is active stewardship of the governance, and that is a family office function. It runs the next generation forums and shadow boards that let young members rehearse a board meeting before they sit on a real one. It commissions the mentoring that decides which cousin is groomed for which vertical. It holds the liquidity to fund a next-generation member who wants to build something new rather than inherit something old. None of this happens by accident; it happens because an institution is actively working to make it happen.

Conclusion: from vault to engine room

John Ward made a simple observation that family businesses forget at their peril: families are so busy running the business that they neglect to plan for the family. While the business has its vision, strategy, capital and board, the family needs a vision, values, agreements and forums planned in parallel, and the ownership needs its own structure rethought as the enterprise grows. The family office is the only entity positioned to hold all three planning processes at once, the family, the ownership and the business, and to keep them aligned.

So the question for every chief investment officer and head of a family office is worth asking plainly. Of the pillars that carry a family across generations, the values, the communication forums, the ownership agreements, the conflict resolution, the next-generation development and the administration that keeps them all alive, how many does your family office actually operate today? If the honest answer is one, you have a long way to go, and the time to start the conversation with your family is now. Protecting the wealth is the easy part. Building the engine room that protects the family who owns the wealth is the work that decides whether there is a fourth generation at all.

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