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## Discussion-Opinion-Editorial™

# Family Governed MOGI and SAM Businesses: Are they ready for the Challenges of Transition, Depressed Market and Increasing Competition?

(Part-1)

Family businesses have always been an integral part of the economy and society in any country. Largely founded on the joint family principle of ownership and management, their contribution has always remained very high. The obvious importance of family business in India – the Indian economy is majorly driven by entrepreneurial capitalism. In India, fifteen of the top 20 business groups in 2016 are family-owned. Together, they controlled nearly Rs.26 lakh crores (\$390 billion) of assets at the end of FY16, accounting for 84 per cent of the combined assets of the top 20 business groups. Globally, in some countries, many of the largest publicly listed firms are family-owned. The perks of being in a family business are the visibility and exposure that one gets into every aspect of running the company. You will have to be directly in touch with many stakeholders like vendors, landlords, government and customers. Another advantage is the constant knowledge transfer one can get from their predecessors and ancestors who have set up the business from scratch and understand its pulse. Even then you have to find your own way of doing business as dated methodologies and legacy. The family businesses are also common in mineral-Oil-Gas-Integrated (MOGI) and Stand Alone Minerals (SAM) industries.



## Challenges Faced by Family owned businesses

1. Emotions, 2. Informality, 3. Tunnel vision, 4. Lock of formalised strategy, 5. Remuneration problems for family employees, 6. Role confusion, 7. Lock of talent, 8. High turn over of non family employees

## Large Family-inherited Business for Mogi and SAM Firms

### Gina Rinehart, Australia



Australia's Gina Rinehart, the chairman and director of Hancock Prospecting group, had a net worth of \$18.6bn in July 2014, making her the world's richest mining magnate and the sixth richest woman billionaire. The 70-year-old businesswoman, ranking 44th in the world's richest list, is also the richest

billionaire in Australia. Gina Rinehart inherited Hancock Prospecting from her father Lang Hancock who died in 1992. Hancock Prospecting holds significant equity stakes in the Hope Downs iron ore mine and the Roy Hill iron ore project in the Pilbara region of Australia.

### Alisher Usmanov

Alisher Burkhanovich Usmanov (Uzbek: Alisher Usmonov, Russian: Алишер Бурханович Усманов; born 9 September 1953) is an Uzbek–Russian businessman and oligarch. By 2022, Usmanov had an estimated net worth of \$19.5 billion and was among the world's 100 wealthiest people.



Usmanov made his wealth after the collapse of the Soviet Union, through metal and mining operations, and investments. He is the majority shareholder of Metalloinvest, a Russian industrial conglomerate, which consolidated in 2006 JSC Metalloinvest's assets (Mikhailovsky GOK and Ural Steel) with those of Gazmetall JSC (Lebedinsky GOK and the Oskol Electrometallurgical Plant)

## German Larrea Mota Velasco and Family, Mexico



German Larrea Mota Velasco, the chairman of Mexico's biggest mining corporation Grupo México in which he along with his family holds over 50% stake, has estimated net worth of \$30B making him the fourth richest mining billionaire in the world. Grupo México's mining division is

comprised Southern Copper Corporation, which operates in Mexico and Peru, and the American Smelting and Refining Company (ASARCO), which operates in the US. Germán Larrea Mota Velasco owns the majority of Mexico's largest copper mining company, Grupo México, which also has

operations in Perú and the U.S. Under his leadership as president and CEO, Grupo México expanded into the infrastructure and rail transportation sectors.

## Iris Fontbona and Family, Chile



Chile's Iris Fontbona and family, control the Luksic Group and hold major interests in a number of mining companies including the UK-listed copper mining major Antofagasta. She had a net worth of \$14.5bn by the end of July 2014. The 71-year old widow Iris Fontbona inherited Luksic

Group from her husband and the founder of the company Andronico Luksic who died in 2005.

Luksic Group's controlling stake in Antofagasta is the biggest holding of the group. Antofagasta, with Los Pelambres, Esperanza, El Tesoro and Michilla mining operations, produces copper with gold, molybdenum and silver as by-products. Luksic Group, through its subsidiary Quiñenco, also holds 64.3% interest in Chilean copper and aluminium products maker Madeco, apart from stakes in certain banking, energy, transportation and port services companies in Chile.

## Alejandro Baillères Gual, Grupo Nacional Provincial



Alejandro Baillères Gual (born May 1960) is a Mexican businessman, the CEO of Grupo Nacional Provincial, and the son of the billionaire Alberto Baillères. Grupo BAL owns significant holdings in mining and refining companies Fresnillo and Industrias

Penoles in addition to maintaining holdings in some insurance, retail, brokerage and health care companies, had a net worth of \$20.4bn combined.

Industrias Penoles is a Mexican mining conglomerate specialising in the extraction, smelting and refining of non-ferrous precious metals including silver, gold, copper, zinc, tungsten and lead, as well as chemicals production. Penoles directly operates six underground mines in Mexico and is the biggest producer of refined silver, whereas its subsidiary Fresnillo operates three underground and three open-pit gold and silver mines in the country, including Fresnillo, one of the ten biggest silver mines in the world.

## Hamid Jafar

Crescent Petroleum is the first and largest private upstream oil and gas company in the Middle East. Founded



in 1971, Crescent Petroleum is headquartered in the Emirate of Sharjah, United Arab Emirates (UAE), with current operations in both the UAE and the Kurdistan Region of Iraq (KRI). As of 2023, Crescent Petroleum and the Iraqi Ministry of Oil have signed three twenty-year contracts as the company focus its efforts in aiding the redevelopment of Iraq. Crescent Petroleum is also the founding and largest shareholder in Dana Gas, the first and largest publicly listed private-sector natural gas company in the Middle East. The company is a subsidiary of Crescent Group, a diversified family business that includes Crescent Enterprises, a multinational company headquartered in the UAE, as the other main subsidiary. Crescent Petroleum's chairperson and founder is, Iraqi businessman Hamid Jafar and its CEO is Majid Jafar.

### Mine, when and fair

Three simple words that cause a lot of the difficulties for family owned businesses.

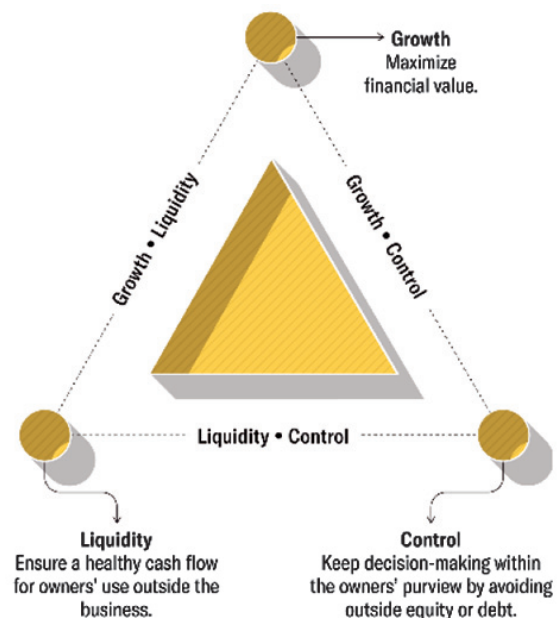
The first word is “mine” when it’s used to collect all the benefits of business ownership in only a few hands to the exclusion of others in the family and the key employees who contribute so much to the success of the business.

The second one is “when” – as in, “You always picked on me when we were kids.” A family that’s unable to set aside the grievances of the past and deal with one another in the present works in a state of continuous warfare. That’s no way to run a business.

The third word that can bring grief to family businesses is “fair.” It’s a word that usually denotes balance, high-mindedness and happy outcomes. But “fair” has the potential to cause some big problems when it justifies the poorly thought-out distribution of business ownership and benefits among successors and heirs. “I want to be fair to all the children” is often the opening line in a family business

tragedy. A basic premise of family business management is that those responsible for running the company should have the authority to do the job. For the founders, that’s seldom a problem, because the people who start the business usually hold the voting stock and therefore all the required decision-making clout.

But when ownership is divided among members of later generations, the authority can be diluted. A business founder who was gripped by a compulsion to be fair, for example, handed each of his three children one-third of the company. The one child who ended up running the business was in trouble because the other two consistently cast their two-thirds ownership votes for fat profit distributions instead of equipment maintenance and debt retirement. The CEO finally gave up in frustration.



*(To be continued in part-2)*