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The Challenges of Family Business in India

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Abstract

India is one of the leading countries in entrepreneurial spirit and innovation. It is apparent from the fact that almost 80% of Indian businesses are either entrepreneur driven or family-owned-and-managed. Predominantly small and medium in size, these businesses are the backbone of Indian economy with considerable contribution to GDP. They generate huge employment in the private sector and also play an important role in the social upliftment and welfare. History of Indian businesses indicate that many business houses like Tata, Birla, Bajaj, Walchand, Modi, Thaper, Dabur and others witnessed that with the opening of the economy and the influx of multinationals the family-owned businesses and the private sector recorded loss and took a back seat. It was felt that the family-owned business and family-owned business houses would lose their place in the industrial map of the country. Every business is faced with challenges. However, family businesses face unique threats, and therefore if not recognized and addressed quickly, can drastically affect their success. This paper reveals the common threats that every family business faces and also these suggests how to overcome them.

Keywords: Entreprenuer, Family-Culture, Economy, Nepotism, Feud

Introduction

Family business is defined as a company owned by one or more family members. In some cases, a family business may be owned by more than one family.[1] A family business is a business that is owned, controlled and operated by the members of one or more families. Family businesses drive the economies of almost all the countries in the world. In the United States, 90 percent of all firms are family businesses.[2] However, outside the United States, family businesses in many countries have made even higher contributions to their economies. Even today a large fraction of businesses throughout the world are organized around families.[3] The Murdochs at News Corporation, the Waltons at Walmart or the Ambani's at Reliance Industries are just a few of the many

1 www.businessdictionary.com, accessed on 10.09.2013.

2 Max S. Wortman Jr, 'Critical Issues in family Business: An International Perspective of Practice and Research', published online in www.sbaer.uca.edu/ research, accessed on 02.09.2013.

3 M. William and S. Antoinette, *How do CEOs see their Role? Management Philosophy and Styles in Family and non-Family firms,* Published online, accessed on 04.09.2013.

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current business dynasties whose fortunes and misfortunes the media has scrutinized closely. Family firms are characterized by a concentration of ownership, control and often key management positions among family members, even after the retirement of the firms founders'. Over 75% of all businesses in India are owned and operated by families and account for over 50% of all employment.[4] Many researchers and academicians observe that family businesses don't survive beyond the third generation. Family Managed Business in India-The Opportunities and the Challenges, 'there is a famous cliché, which is quoted frequently and seems to have been accepted as a universal truth: The first generation builds, the second generation consolidates, and the third generation destroys the family businesses.[5]

The Hay Group's research study too supports this view as 'more than 72 percent of family owned businesses do not survive beyond the third generation. Moreover, research found that only 55 percent of family businesses survive after ten years of existence while the same comes down to 27 percent after 20 years.[6] Among the few issues that most of the Indian family businesses have been facing is that of succession planning. In this regard more recent the moot point is the selection of daughters as successors.[7] 'One of the largest trends in family business is the amount of women who are taking over their family firms. In the past, succession was reserved for the first-born son, and then it moved on to any male heir. Now, women account for approx. 11-12% of all family firm leaders, an increase of close to 40% since 1996. Daughters are now considered to be one of the most underutilized resources in family businesses.[8]

The Indian family business has been merely tolerated by government. Yet it has managed to remain the main employer and the user and creator of economic resources. It has been the primary supplier of goods and services to Indian society Indian society has not allowed the traders and Industrialist to dominate the national political agenda. For long it has created bureaucratic legislative and political obstacles to keep the Indian family business from growing too powerful.

The majority of Indian family businesses are quite young. India faced wars in 1962, 1965 and 1971; it was only after 1980 that the economic environment became more business friendly. As a result the period from 1980 to 1995 was one in which a large number of family businesses were established and prospered. Many of those family

4 http://www.indianfamilybusinessday.com, accessed on 10.09.2013.

5 http://www.imaindore.com/indore_manager_issue_mayjune13.pdf, accessed on 10.09.2013.

6 http://www.smallbusinessinstitute.biz/resources/Documents/Proceedings/2013%20SBI%20National%20Conference%20Proceedings.pdf, accessed on 10.09.2013.

7 P. Merchant, Director, Center of Family Managed Businesses, S.P. Jain Institute Of Management And Research, India, article published online, URL: http:// www.fmblinks.org/article/family-managed-businesses-in-india-theopportunities- and-the-challenges, accessed on 10.09.2013.

8 Cfr. note 6 above.

businesses split up over the last few years due to family differences. There are some families with large business operations, but the majority are SMEs. Family businesses have a culture that is often at the same time entrepreneurial, flexible, paternalistic, agile and frugal. Since the family's name is at stake, they stand for values, long-term commitment, relationship orientation, and dependability. Indian family firms are also highly efficient. They often have to work with limited resources and make the most out of it. A multinational car plant can get free land from the Indian government and access to financing from capital markets, but for the majority of family businesses each step is a challenge. Yet, they embrace it with a true entrepreneurial spirit. Indian family businesses also have distinct advantages, particularly that of vigilant ownership. The family owners' commitment and visibility leads to higher productivity in the business. Their dedication and perseverance enables them to extract opportunities from complex non-routine problems. In addition, family firms also tend to be less bureaucratic and can take fast decisions. Their stakes are emotional as well as economical and they are likely to look for sustained value creation. As a result they can move faster with unconventional logic, can go counter-cyclical and can reach for new opportunities.

Facts of Family-owned Business in India

Firstly family relationship is the most important factor in determination of the position a Person holds in the business. Secondly family members including those who are not contributing or are involved in the business are on the Board of Directors. Thirdly few cases have been very successful and thus are synonymous with family-owned businesses in India. The Aggarwals and Guptas in the North, the Chettiars in the South, the Parsees, Gujarati Jains and Banias, Muslim Khojas and Memons in the West, and Marwaris in the East; and of these, the Marwaris have been the most successful. Fourthly every caste has a very dominant culture that is followed in the business by all. Fifthly family, extended family and relatives have a very strong sense of loyalty to the family that automatically translates as loyalty to the business. Sixthly the single minded dedication of the CEO and the family ensures that family-owned business survives through the toughest times. Seventhly Sons and male members are more likely to hold higher positions and succeed the CEO. Role of women is that of facilitator to the male members and as the mother figure to the family and employees. The paper is an attempt to study the Challenges faced by family-owned businesses and also to find out how it will overcome the same. It also describes how the Indian family business and its entrepreneurial spirit play an important role in India's growth.

Uniqueness of Family Businesses

We have to understand the uniqueness of a family business from the above paragraph. Family and business, two interactive dimensions create a family business, usually

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owned and managed by two or more family members. It means owners' values, attitude, and biases influence organization's strategies, planning, and performance. The family's beliefs impact business objectives. For example, a religiously inclined vegetarian family may not venture into a non-vegetarian food business however good the business opportunity seems.[9]

In other forms of businesses like public sector enterprises, multinationals, and public limited corporations, ownership is treated as a separate issue from managing the business. Professional executives are responsible to operate the enterprise and take decisions in line with the business objectives and profit goals. Performance and meritocracy for employment are of prime importance. Whereas, in case of family businesses respect, trust, and sacrifice among family members take priority over achieving business targets. Bonding and sharing among family members allow them to take business risks, encash growth opportunities, and keep entrepreneurial spirit alive. A united family is the best social insurance one can have. Family members can understand and support each other in the moments of crisis which may not be expected from outsiders", opines Jayantibhai, 85 years old patriarch and chairman of S K Pharma Group.[10]

Yet in family businesses, major impediments for growth are lack of common vision and candid communication among family members. Often business goals and objectives clash with family's beliefs and traditions. For example, poor business performance of a family member could be overlooked because of his seniority in the family or an incompetent family member could be employed in the business because of his relationship. Family members managing the business as owner-managers may have different ambitions, personalities, and competence levels. When their vision and long term objectives differ, conflict is bound to take place. Besides, when there are two or more successors in the business, lack of succession planning by the elder generation can create a lot of problems. What is a better example than the Ambani family[11] Lack of communication and transparency in financial dealings are sure to create strain in the relationships of the family and negatively impact the business performance.

The Role of Family Business in the Economy

There is also a need for young leaders to understand the role of their businesses in the Indian and global economies. Forums like the Conclave can help to facilitate this understanding.

9 URL: http://blogs.welingkar.org/index.php/campus-corner/challenges-onthe- path-of-progress-for-family-businesses-in-india, accessed on 9.08.13

10 *Ibid.*

11 Dhirubhai Ambani, Indian Business Tycoon, Founder of Reliance Industries, made the company public in 1977 and by 2007 the family fortune stood at $ 60 billion.

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According to the CII's Family Business Network (India chapter), the gross output of these family-run businesses accounts for 90% of India's industrial output, 79% of organised private sector employment, and 27% of overall employment, superseded only by the government and Public Sector Undertakings, companies in which the government owns the majority of the equity.[12]

Challenges: The Question of Survival

Indian family businesses enjoy various advantages due to their inherent characteristics and a social culture that supports their structures. However, these advantages can be destroyed if the family is not united; as the family grows, the challenge is to keep a sense of unity. The following are a set of typical challenges that Indian family businesses face today.

Indian family businesses are going through a paradigm shift. Economic reforms of 1990s have been a turning point for Indian businesses and more so for the family businesses. Onslaught of global competition, stress on productivity and adaptation to new technologies are creating tremendous pressure on the eco system of family businesses. Business families are experiencing a surge in feuds and break-ups leading to a decline in profitability and prosperity. Conflict in family businesses shows that in India more businesses are split in the first generation itself than the later generations. Small and medium sized businesses get divided among two or three successors and become smaller, each with limited resources to sustain in the changing environment. Family businesses are facing three challenges which are significantly influencing and changing the pitch for survival and prosperity.

Socio-Cultural Changes

The change at socio-cultural front is eminent throughout the country. With urbanization, rise of nuclear families, influence of media, modern lifestyle and thinning boundaries of caste and religion, the joint family structure is almost extinct thereby affecting the business structure. Individualism, equal opportunity for both genders, participation of women in family businesses are also influencing India's socio-cultural constitution. According to Mohanbhai Patel, a renowned industrialist and philanthropist:

> Today's younger generation is more independent emotionally and less enterprising than the older generation. Before individual choices and aspirations clash, it is prudent for the head of the family to decide the boundaries for each member working in the family business. In agriculture parlance we say that

12 URL: http://www.kpmgfamilybusiness.com/family-owned-businessesbackbone- indias-economy/ accessed on 3.07.13

strong fences make good neighbors, and it is equally true for family management also.[13]

Defining Authority

It is very difficult in family businesses to define authority. If a younger member is made CEO he/she may find it very difficult to tell his/her father/mother, uncles/aunts, grandparents or elder members of the family to change their style of functioning. The youngster cannot caste off his/her role in the family as an obedient youngster and takes on the role of the leader of the business. Many members in the family also tend to overlook decisions taken by younger members even if they are at positions of authority. This makes management of the business very difficult for the younger generation. Family employees should discipline themselves to work within the bounds of these lines of authority

Next-Gen Succession

The greatest challenge concerns the gap between family generations: a founder of business is used to doing everything himself therefore developed the unique culture of the present Indian family business they are as inward-looking, owner centric, smaller scale, with a restricted perspective, and conservative mindset. This business culture eventually becomes a hurdle in absorbing outsiders. The same business culture also poses a serious challenge in absorbing the next generation family members for example different generations, seeing the world differently are supposed to work together. It can be a difficult thing as the young generation is often in a hurry and has big ambitions, while their elders are more conservative and skeptical. The gap keeps on getting wider and wider. When conflict escalates between fathers and sons it is often the mother, who takes the role of CEO (Chief Emotional Officer). This is a common story in many Indian family businesses.

Family Feuds

There is simply no fun and games when it comes to family feuds in the business. Family businesses are faced with internal conflict that typically arises from the inability to separate business and personal lives. Sometimes the feuding is due to the varied interests of each family member, personal egos or personal rivalries that spill into the business environment. Regardless of the cause, if it does not find a way to stop the feuding, it will be absolutely impossible to define and achieve common goals for the business. In addition, excessive conflict in an organization can increase employee turnover and create a hostile work environment.

13 URL: http://www.indialink-onlineline.com, accessed on 3.07.13

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Nepotism

Managing family is a delicate matter, and it is important to be aware that the fastest way to alienate the people who work for the company and there is a need to develop a business culture based on nepotism. Everyone wants to help out family, but hiring, promoting, and paying someone based on a familial relationship rather than on their actual merits and abilities, is a recipe for disaster. Due to this non-family employees will lose the motivation and desire to work for the company. In addition, family employees may become complacent because they will not face consequences for non-performance. Ultimately, nepotism does not empower the employees.

What comes first: Family or Business

India as a country has a very high family orientation. It is therefore seen that family members are trusted with all important jobs since outsiders are not trusted. It is almost impossible to give a job to an outsider if a member of the family has shown an interest in the same and it is almost unheard of that the family members is ready for the top most post and it has gone to an outsider. Sometimes jobs and responsibilities are given to family member's inspite of being aware of their inability to perform them. This ultimately affects the business and its bottom line. If a member of the family has to be in charge of operations, he or she should be capable of using efficient management techniques and be thick-skinned enough to live with family bickering and tough enough to make his or her decisions.

Human Resource

In family-owned business the family has to be always accommodated first with jobs. This is a facet nobody can deny. But the bigger problem is not hiring of incompetent family members but how they affect other employees. In some cases, family members and relatives can demoralize the organization by their dealings with other employees. They may loaf on the job, avoid unpleasant tasks, take special privileges, make drastic errors and not be reprimanded etc. Untalented family members should be put in jobs where they will have minimum contact with other employees, out of the mainstream of decision making.

Retaining non-family professionals

It is a big challenge in family-owned businesses to retain non family professionals and if they cannot be retained then such businesses are plagued with high workers turnover. This is mainly because promotions are closed to them after a certain point and they see relatives being pushed into executive offices inspite of not being competent. Family-owned businesses have not been able to keep the morale of their non family

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professionals very high. This has affected their growth aspects because no family can have members that can look after all aspects of business. Outsiders are necessary and managing them is very important.

Women of the Family Joining the Family Business

Indian family businesses are still largely male dominated. The role of women in business and employing women is largely accepted and encouraged in India. However, when it comes to hiring women in the family business, there are reservations. Within the Indian social context of business families, bringing up the children is considered primarily a responsibility of the mother. Thus, whenever the issue of women in the family business is raised, it is subject to her ability to balance between her duties at home and her duties at work. However, as more and more women are highly educated, they are demanding a share in the family business. The traditional family model is still disapproving of it, yet increasingly it will have to respond to these demands. It is only reasonable for family businesses to tap into this huge source of talent.

Conclusion

The Indian business landscape has started expanding fast. With the involvement of the older generation alone, such growth is unthinkable. While the parent generation needs to accept this, the next generation has to learn to appreciate their parents' wisdom and understand that there is no substitute for hard work. The solution to these challenges requires an understanding of the family business dynamics and a separation of people from problems. Family business members should learn that no one is wrong but that each generation has a different culture. Once families learn about these cultures and understand the need to appreciate different perspectives, whether young or old, they will be able to harmoniously work with professionals as well as across generations. Thus, if family businesses can manage these dynamics, they will be better placed to reap the benefits of the great range of opportunities in the Indian economy and beyond.

Therefore Indian family-owned business needs to incorporate into their strategies the following suggestions to overcome one or the other challenges that these business houses are facing today. Firstly, defining the goals of the company clearly and ensuring to carry everyone on board. Secondly, outlining each family employee's role and responsibilities and hold them accountable. Thirdly, keeping an open line of communication at all times. Fourthly, addressing all concerns quickly and in a non-emotional manner. Fifthly, creating a fair promotion and salary system that is based on individual merit and ability. Sixthly, taking a management course to learn how to separate emotions from the management process. Lastly, by providing opportunities for advancement in the business for non-family employees and also preparing a succession plan to ensure that the business lives on across generations.