

## **FAMILY BUSINESS ORGANISATIONS IN INDIA**

A family owned business is any business in which a majority of the ownership or control lies within a family. Family businesses exist all over the world for centuries, 80% of the world business is controlled by families. Family businesses constitute the largest size in terms of ownership contribute significant to the gross national product (GNP), total industrial employment and total exports of the country. The world's oldest family business is a construction company named 'KongoGumini' of Japan founded in 578 AD and is currently managed by the 40<sup>th</sup> generation.

India is a country where family owned businesses are much respected, better governed and contribute immensely to the country's economic and societal growth. Over the past two decades, the performance of family businesses has been better than either public sector or even multinational companies.

In India larger part of businesses are under the control of the families. It is estimated that 91% of the business in India is controlled by families. From

'Mom and Pop' store to large conglomerates one finds family run businesses. Most of the big corporate business houses like Tatas, Ambanis, Birlas, Godrej, Wadias, Munjals, Mahindra, Thapars, Mittals, Shaparji Paollonji, Jindals, Adanis, Anil Aggarwal – Vedanta, Bajaj, Ruia, Ranbaxy, Times of India and many more are all controlled by families. The role of family and the family patriarch is quite important in India. Long term commitment, family bonding, loyalty towards customers and employees, social identity, hands on training experience, risk taking capacity, fast decision making, respect for generations and family culture are some peculiar features of family businesses in India.

A lot of economic activity comes out of the family. In fact, the word economy itself comes from the Greek word "Oikonomia", which roughly translates to "the management of the family or household". Economics was first read in ancient Greece. Aristotle, the Greek Philosopher termed Economics as a science of 'household management'. Family businesses have always been

an integral part of the economy and society in our country. Largely founded on the joint family principle of ownership and management, their contribution has always remained very high. Globally, in some countries, many of the largest publicly listed firms are family-owned.

Family businesses clearly have an enormous potential to create a winning brand provided they are able to efficiently organise and streamline their performance, and earn the trust of their customers and employees.

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.

Family-owned businesses are often perceived to be ideal because family members can be great team support and they form a loyal foundation for the company, they also tend to exhibit more dedication towards fulfilling a common goal. Most of the family run businesses are known for the ethics that they follow and it naturally creates a legacy for the coming generation to

continue. When the family members have a common vision, well defined roles, open communication, and transparent systems of operations then the business can survive any test of time.

### ➤ **GROWTH**

Over the last 15 years, the largest Indian family businesses have shown higher revenue growth when compared to similar non-family businesses in almost every industry where they are both present. They also have lower profitability and have taken on more debt in most industries compared to non-family-owned businesses.

Family businesses constitute a significant number in terms of numbers and in terms contribution to economy. Globally, as well as in India, family businesses contribute to over 70 per cent of the GDP (size of economy) of most developing and developed countries. In the case of India, this could be even more because if you go deeper into the economy almost every small enterprise is family run. The issues faced by family businesses are not entirely the same as any business entity. Generally, family business has

a long-term vision, and are not motivated by so much of quarterly result pressures, especially if you are not a listed firm. Most family businesses in India and abroad are unlisted.

### **US, China top list; India is home to 111 family-owned businesses**

India has the third-largest number of family-run businesses in the world after the US and China, according to a report by Credit Suisse. The country has 111 family-owned business with a combined market capitalisation of \$839 billion.

Indian companies owned by families generated average annual returns of 13.9 per cent since 2006, more than double the 6 per cent reported by companies that were not.

#### **➤ ADVANTAGES OF FAMILY BUSINESSES**

##### **1. Commitment and unified leadership:**

It is natural that all family members demonstrate and share a level of commitment to the firm since the core of any family business is a shared

business vision and identity. That dedication is hard to find, much less replicate, in any other non-family business organisation. Because the family firm's vision is as consistent as it is cohesive, it opens more opportunities for business development and the business' continued success. It also results in a more unified leadership and promotes solidarity in and among all the family members running the firm. This can be seen as a sense of loyalty is imbued down to the organisation's other staff members and/or employees.

If there are disagreements between family members, a family-owned and -run business has the unique advantage of getting things done, resolving conflict, and moving towards realising a common goal without the burden of office politics. Stability

Family-owned and -run businesses can achieve, maintain, and elevate a sense of business stability in its leadership and overall organisational structure and culture.

Family positions and seniority can determine and define the organisation's leadership, making way for leadership longevity. Well-founded policies are delivered better if there is an overall stability to the organisation.

## 2. **Trust and authenticity**

Essential to all business organisations, trust is a unique and very evident in most successful family-owned and -run firms. Because trust is a given, with inherent trust among family members, the business's leadership can talk, discuss, and disagree more openly and freely. As the business's leadership employs a greater sense of trust, staff members/employees are allowed to enjoy a freer space for authenticity that can result in brilliant business ideas. When effectively harnessed, authenticity and the culture of trust can make way for professional growth and the firm's overall development.

## 3. **Flexibility and versatility**

Most often, the firm's leadership that is comprised of members of the same family or clan are willing to take on several different roles and workloads simultaneously to make sure the company succeeds.

Because of this flexibility and willingness to give more than what is expected, it drives continued success, enrichment and a better understanding of the industry. This includes the job or jobs that are to be done, the employees under the firm,

the customers targeted, as well as the present reality and future endeavours of the whole organisation. This understanding can help family members formulate better ideas for the creation/development of products and services that the company offers to its customers/clientele.

## 4. **Vision and long-term goals**

Family-owned and run businesses place importance on hitting business goals and the overall company vision in a long-term period rather than a short-term period.

This long-term perspective, when properly moulded and intelligently utilised, allows for creative decision-making and strategy development. The pressure is not to come up with reports and strategies for investors every quarter. Rather the focus is to utilise resources to projects that are perceived to not only benefit the family-owned and -run company in the present all the way into the future.

5. **Common values** - you and your family are likely to share the same ethos and beliefs on how things should be done. This will give you an

extra sense of purpose and pride - and a competitive edge for your business.

6. **Strong commitment** - building a lasting family enterprise means you're more likely to put in the extra hours and effort needed to make it a success. Your family is more likely to understand that you need to take a more flexible approach to your working hours.

7. **Loyalty** - strong personal bonds mean you and family members are likely to stick together in hard times and show the determination needed for business success.

8. **Stability** - knowing you're building for future generations encourages the long-term thinking needed for growth and success - though it can also produce a potentially damaging inability to react to change.

9. **Decreased costs** - family members may be more willing to make financial sacrifices for the sake of the business. For example, accepting lower pay than they would get elsewhere to help the business in the longer term, or deferring wages

during a cash flow crisis. You may also find you don't need employers' liability insurance if you only employ close family members.

## ➤ **DISADVANTAGES OF FAMILY BUSINESSES**

1. **Family conflict** - conflict can arise in any business, but it's important to consider that disputes within a family business can become personal as the staff are working with the people closest to them. Bad feelings and resentment could destabilise the business' operations and put your family relations at risk. Deep-seated, long-lasting bitter fights and quarrels can affect every single person within the firm and can draw divisive lines. In 2005, a famous dispute between the sons of Reliance Industries founder Dhirubhai Ambani, Mukesh and Anil, divided India's largest petrochemical manufacturer. When all was said and done Mukesh retained control of the petrochemical business, while Anil became chairman of Reliance Capital, Reliance Communications, and Reliance Energy.

2. **Nepotism-** Some family businesses are reluctant to let outsiders into the top tier, and the result is that people are given jobs for which they lack the skills, education, or experience. This, obviously, has a far-reaching effect on the success of the company. In particular, it's very difficult to retain good talent at lower levels if their performance, and their ability to succeed in the long run, is consistently being affected by incompetence at higher levels. More family firms are recognizing this issue and are taking care to strategically place outsiders in certain positions when necessary.

3. **Succession planning: A 'Perennial Problem'** – Indian family businesses are facing major challenge of succession planning. Succession means change from one generation to another. It means change of leadership. It also involves set of emotional issues, accepting new responsibilities, change of leadership issues. It is a revolution in which the culture of the organization is restructured by the next generation, who brings with them new ideas about how business should be run, how to develop new working practices, new

staff, new loyalties etc. So succession represents a major transition with the fortunes of the firm resting on how successfully it is to be negotiated. Many times due to lack of succession planning it breaks family business causing to uncertainty among staff, suppliers, customers and family.

Many family business owners may find it difficult to decide who will be in charge of the business if they were to step down. The leader must determine objectively who can best take the business forward and aim to reduce the potential for future conflict - this can be a daunting decision. Family businesses face the biggest threat of continuity. Only 10% of the family businesses pass on to the third generation.

4. **Women of the family joining the Family Businesses** – Indian family businesses are still male dominated. Now a day the role of women in the business and employing women is largely accepted and encouraged in India. Whenever the issue of women in the family businesses is raised she has to balance between her duties at home

and her duties at work. Now this huge source of talent should be properly tapped by the family businesses.

5. **Resistance to Change-**With the ever-changing market environment of today, business and internal business dynamics are increasingly prompted to evolve and to cater to change. After achieving a certain level of success, family businesses develop a comfort zone, often with the view that actions that led to success in the past will continue to bear fruit going forward. As a result, there employees experience discomfort and confusion. These challenges can be exacerbated when younger, second generation business owners join the business and propose new ideas and practices.

6. **Key Man Risk-** In smaller family businesses, critical tasks and knowledge is often concentrated with a few individuals. Often, companies find it challenging to develop back-ups to these individuals. Unexpected absence of these individuals, whether temporary or permanent, could disrupt the functioning of the business.

7. **Management Bandwidth-** Family businesses typically evolve into relatively flat organizations, with a small group of top managers, often promoters and a few trusted personnel, managing a wide base of 'executors'. Decision-making across functions is often concentrated with the top managers while middle management is often not developed. As operations expand to a larger scale, the business begins dealing with a wider geographic reach, product range, organization breadth and customer base. However, in a family business setup, decisions and operations typically continue to be centralized. Dependence on a few individuals could hinder timely and effective decision making, which constrains business performance. Additionally, one of the core strengths of family businesses during the early years is strong relationships between the management and various stakeholders; at a larger scale, it could become challenging for a small group of managers to maintain relationships across all stakeholders.

➤ **Measures to overcome family business challenges and problems**

1. **Family Constitution** – It is a written document which outlines the family's values and pre - agreed rules for how family members can participate and be recognized in the family business.

2. **Developing a Succession Plan**

– Succession plan is one of the largest challenges faced by family businesses and in most cases the process of it is resisted. Succession becomes an issue when the senior generation does not allow the junior generation necessary room to grow effectively. It includes goals for the succession process, timetable of transition stage, contingency plans in case of unforeseen happening. Ideally a family business should begin the process of succession planning a decade or more before in the event. Choosing a successor decision must be based on qualification regardless of family dynamics.

3. **Family Gathering and Get Together** – There are lot of opportunities for the family to have get together i.e. holidays, birthdays,

anniversaries, special events, and weekends in the summer home, going for movie, sports events, celebration of festivals etc. These gatherings help to ensure that emotional needs are gratified within the family and that business is not used as the arena for the fulfilment of these needs. This helps to balance and strengthen family relations and family bonding.

4. **Appointing an outside Board of Advisors**

– To succeed conflicts in the business appointment of independent third party as advisor who will act as impartial mediator. This maintains balance between family and business conflicts.

5. **Training** - Organization should have the facility of conducting special scheduled training programs when any family members enter in the organization. This training should provide specific information that related to organizational goals, expectations and obligations of the position in the organization.

6. **Free and open communication**

– There should be always free and open communication among family members to discuss family and business issues. If there is



strong communication, it will not disturb family and business environment. It will maintain healthy work balance between family and business.

7. **Conventions** – The conventions offer a good opportunity for the next generation family to familiarize with the new and emerging challenges that a family must meet.

8. **Family Council** – The family council safeguards cohesion unity and continuity of the family. The purpose of the family council is to keep family's social responsibility sustain the family's culture and traditions and help the family members with education and personal development.

## **CONCLUSION**

One of the popular myths about family businesses is that they are unable to adapt easily to increasing competition and technological progress. But as the new generation steps in, the family businesses subsequently have the advantage of entrepreneurial spirit and flexibility. Indian family businesses

have moved far ahead and now have a global presence. While the previous generations have laid the foundation of the business, the new generations have become instrumental in strengthening the same and are capably forging ahead, bringing in impactful and positive changes not only at the company level but industry at large.

Family business members should learn that no generation is wrong but each generation has different skills and culture. Once families will understand about these changes and need to appreciate different perspectives whether young or old, they will be able to harmoniously work with professionals and across generations. Parent generation need to accept the involvement of new generation. The next generation has to learn to appreciate parents' wisdom and understand that there is no substitute for hard work. Thus if family businesses can manage these dynamics, they will have great range of opportunities in Indian economy.

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