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# Addressing challenges of family business in India

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**Abstract**
In most of the countries, much of retail trade, small industry and all types of service are in the hands of the family, from the corner store to the most high-tech manufacturing items. More than 70 percent of the hundred largest corporations and 99.9 percent of all enterprises in India are either family-owned or controlled. Not surprisingly, this has had a significant impact on the conduct and development of business in the country. The family business exhibits distinct operational characteristics and also unique set of problems and challenges. It is against this backdrop, the present paper is devoted to discuss the nature of family business in India and also unfold the unique challenges and problems in family owned businesses. Further, suggestive measures have also been provided to make family business more effective in India.

**Keywords:** family business, succession planning, the agrawals, the family constitution, the three circle model

## Introduction

Family and business have been coeval since time immemorial. While family is one of the oldest surviving social system, family business is the oldest surviving economic system (Goode, 1982) [4]. Business history depicts that most countries have family businesses playing significant roles in their economies. Family businesses constitute the largest size in terms of ownership, employment and total exports of the country. Though estimates do vary from country to country, these are above 60 percent in the majority of the cases.

Family businesses exist all over the world for centuries- from shoemakers to confectionaries to farmers. Over 80 percent of world business is controlled by families. They employ around 50 percent of world work force and contribute around 40 to 50 percent in the world Gross Domestic Product (GDP). Family business has been as common in the Indian economy like elsewhere in the world.

The term family business conjures up different meaning to different people. While some view it as traditional business, others consider it as community business, and still others mean it as home-based business. Shanker and Astrachan (1996) [8] note that the criteria used to define a family business can include: Percentage of ownership, Voting control, Power over strategic decisions, Involvement of multiple generations. and Active management of family members. Litz (1995) [7] suggests that a business can be defined as a family business when its ownership and management are concentrated within a family unit. Furthermore, he argues that to be considered a family business; the business members must strive to achieve, maintain and/or increase intra-organizational family-based relatedness.

## Family Business in India

Family business in India had been in practice since long, of course, with its changing nature and structure over the period. India enjoys a rich and glorious history of family owned business. The origin of family business in India is traced back to the bazaar system in the ancient times. Initially, family business in India started in the form of trading and money lending involving the hustle and bustle of the bazaar. It was also confined to certain communities, notably the Jains and Marwaris especially in the Northern India. Right from the Indus Valley Civilization to modern times, family businesses in India are thriving and growing at an aggressive rate. The House of Mewar is the world's oldest family owned business. It was founded in 734 AD and has been unbroken for > 6 generations. We may claim to be the pioneer of family business. Its industry form is relatively of recent origin, going back largely to the British rule and the First World War.

Initially family businessmen were engaged in small-size businesses requiring small investments managed by themselves only. But, once they entered into manufacturing sector, they felt the need for more and heavy investments not manageable by themselves. At the same time, they also knew that once they allow someone to join business, their control over management of the business will weaken which they, however, did not want. In such a case, family businesses inducted their family members or relatives or friends in the business by allotting them blocks of shares while making sure that the majority control and, in turn, the management of the business remained with the promoting family itself. This is how corporate management was born embedded by a combination of joint stock principle and family control over business.

Cawasji Davar set up the first cotton mill, or say, the first manufacturing enterprise in Bombay (now Mumbai) in

1854. Consequent upon this, some trading communities started textile mills in Mumbai and Ahmedabad during the last half of the 19th Century. The trading communities emerged as 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 all over India. Most of the prominent industrial firms on the contours of Indian business during the 1950s were in the hands of just 18 Indian families and 2 British houses.

Jamshedji Tata started his varied business enterprises like cotton mill in Nagpur, the Taj Hotel in Mumbai, his famous steel plant in Jamshedpur and several real estate developments. These enterprises, in turn, prompted other people to join the business foray. A number of families such as Birlas, Bangurs, Khaitans and Goenkas started their business in Kolkata and developed the city as a centre of commerce. Some of the features of family business in Indian context are:

- Family-owned businesses are the highest creator of wealth in India.
- More than 70 percent of hundred largest corporations and 99.9 percent of all enterprises in India are either family owned or controlled.
- Family business in India is largely caste-related. Every caste enjoys a dominant culture which gets duly reflected in their family business also.
- The pace of splitting family businesses started accelerated in the country beginning with 1970 and since then, it has been increasingly growing.
- The environment of family business in India has significantly changed over the period.
- One of the significant changes in family business in India is induction of Professionals to manage the affairs of business. Tatas, Birlas, Reliance, Wipro and Murugappa Group are some of the illustrative family business employing professional manages to look after the management issues of their businesses.
- The management of as many as 461 out of 500 most valuable companies is still under family control in our country.
- Some of the largest Indian family business firms are:

The Tata Group (Jameshedji Tata), The Murugappa Group (Dewan Bahadur A M Murugappa), The Dabur Group (Dr. S.K. Burman), The Birla Group (Seth Shiv Narain Birla). The Wadia Group (Sir Lovji Wadia), The Godrej Group (Ardeshir Godrej), The Kirloskar Group (Kirloskar Brothers), and The Modi Group (Raj Bahadur Gujramal Modi) etc.

**The Agrawals: Dominant and Successful Business Families**

The Agrawal families has emerged as most dominating and successful in business in India. Now-a-days, Agrawals are mostly referred to as Marwaris. The Agrawals claim descent from the legendry king Agrasena of Agroha. According to the legend, Agroha was a prosperous city and hundred thousand traders lived in the city during its heydays. An insolvent community person as well as an immigrant wishing to settle in the city would be given a rupee and a brick by each inhabitant of the city. Thus, the person would have hundred thousand bricks to build a house and hundred thousand rupees to start a new business. Gradually the city of Agroha declined and finally gutted in a huge fire. The residents of Agroha, i.e. the Agrawals, moved out of Agroha and spread to other parts of India. In his book, 'Agarwalon Ki Utpatti', Bhartendu Harishchandra categorized Agrawals into four branches:

1. Marwaris,
2. Deswal,
3. Purabiya and
4. Pachihiye.

**Global Family Business Scenario**

Family business exist all over the world for centuries from shoemakers to confectionaries to farmers. Over 80 percent of world business is controlled by families. They employ around 50 percent of world work force and controlling around 40 to 50 percent in the world GDP. The world's oldest documented family business is a construction company, named 'Kongo Gumi' of Japan founded in 578 AD and is currently managed by the 40th generation. Prince Shotoku brought the Kongo family members to Japan from Korea more than 1400 years ago to build the Buddhist Shitennoji Temple, which still stands in Japan. Over the centuries, Kongo Gumi participated in the construction of many famous buildings, including the Sixteenth-Century Osaka Castle. The Kongo family still continues to build and repair religious temples.

About a third of the companies listed in Fortune 500 are family business (Lee, 2004) [6]. Even in US, the most professionalized business nation, more than 80 percent of all enterprises are family-owned businesses which create its 40 percent of GDP. A new study by the Center for Family Business at the University of St. Gallen, Switzerland highlights the 500 largest family-owned companies by revenue. The report underscores that family-owned firms, which make up 80 to 90 percent of firms worldwide, are important drives of GDP and Job growth.

It is globally accepted that a family business is one which has

1. At least one representative of the family or Kin formally involved in the governance of the firm,
2. In case of listed companies, if the persons who established or acquired the firm from their families or descendants possess at least 25 percent or more of the decision-making rights mandated by their share capital and
3. The share capital controlled by the family is at least in the second generation or beyond.

Family-owned and/or family-controlled firms consist of the largest proportion of business throughout the world and dominate the small to medium sized business landscape. Accordingly, the family is an important dimension, critical not only for entrepreneurial activities and firm competitiveness but also for regional and local development.
Britain's family-owned small businesses are among the fastest grouping of all enterprises in the country and had contributed more than £ 200 billion a year to the UK economy in 2018 and onwards. Family businesses are economic powerhouse. They create jobs, pay taxes and help build vibrant communities. Family-owned business are the backbone of the American economy. They account for 64 percent of US GDP, generate 62 percent of the country's employment and account for 78 percent of all new job creation.
Study of Standard and Poor’s 500 reveals that

- Over 75 percent of all registered companies in the industrialized world are family businesses (OECD).
- One-third of fortune 500 has families at their helm.
- 70 percent firms in the United Kingdom are family owned.
- Of Italy's 100 top companies, 43 are family owned.
- Family owned firms employ about 50-60 percent of the work force in the industrialized world.
- In India too, 95 percent of the registered firms are family owned.
- Companies with founding family participation performed better than non-family businesses.

Some of the largest family business firms worldwide are:
- Wal-Mart (USA): Sam Walton Family
- Samsung Group (South Korea): Lee Family
- Flat Group (Italy): Agnell Family
- McCain Foods (Canada); McCain Family
- Shimao Property (China): Huli Family
- Swire Group (UK): Swire Family
- Tata Group (India): Tata Family
- Birla Group (India): Birla Family

**The Challenges for Family Business**
Although family business has been an integral part of industrial economy of India, it also faces some major challenges but not confined to the following only:
- One of the peculiarities of family business is that the boundaries between work and family are quite intermingled, complex and also multifaceted.
- Management succession has been found the second major challenge facing the family businesses everywhere in the world including India. Research studies on family business have reported that, on average, only 30 percent of family businesses surviving to the second generation and only 10 percent make it to the third generation (Zimmerer and Scarborough, 1998) [11]. Around 5 percent survive beyond three generations. The statistics is pretty alarming.
- One of the challenges family businesses face is sibling rivalry. The sibling rivalry ultimately culminates to split in family business. As Ramchandran (2009) puts, family businesses are found to split up like amoeba as they grow and very few of them survive beyond three generations. We have seen split in family business due to differences and ego clashes among members during the past decade among the Modis, the Walchands, the Raunag Singhs, the Bhai Mohan Singhs and a dozen other Joint family firms who have separated (Das, 2010). Sibling rivalry destroys family business is very well confirmed by rivalry between Ambani brothers.
- Family members bring a unique dedication to their business, but they often can't provide all the experience and knowledge that the company needs. A business cannot survive unless it chooses the very best person for each position and sometimes that person may be an outsider That's why it's important to hire outside the family as necessary and to accord these professionals the same respect, compensation and opportunities given to a relative in the same position.
- The Joint family system, once the bedrock of the Indian social structure in India, is experiencing severe strains and threats and, in turn, increasingly losing its place in the social structure.
- Joint family does not work in the long run in the same way as socialism does not work. Differences and ego clashes among family members pose problems.
- With a family business the challenges are to combine the most rational world of business with the most emotional world of family.
- The challenge faced by family businesses and their stakeholders is to recognize the issues that they face, understand how to develop strategies to address them and more importantly, to create narratives or family stories that explain the emotional dimension of the issues of the family.

Besides, Indian family business have some weaknesses that make them ineffective. Das (1999) has identified the four most important weaknesses among Indian family businesses *viz*.
1. An inability to separate the family's interest from the interest of the business,
2. Lack of focus and business strategy,

3. Short-term approach to business, leading to an absence of investment in employees and in product development and
4. Insensitivity to the customers, largely because of uncompetitive markers, but resulting in weak marketing skills.

**Well-thought Succession Planning is Needed**

Family businesses face unique situations and, in turn, challenges that set them apart from the typical business. Foremost among them is maintaining a fine balance between business and family, that is, making decisions and undertaking actions that will honour the family value as well as benefit the business. Well thought succession planning is needed. Succession planning means planning for succession or making preparation on who will succeed the owner leader of the business. Succession planning is a process for identifying and developing family members with the potential to succeed the key role of owner-leader in the business. Charan *et al*. (2001) [2] opine that succession planning is concerned with developing the second order owner-leader to run the family business.

In nutshell, business succession planning needs to be done with serious thinking. Making a successful succession planning for a family business requires the following steps:

- Family members should be educated and helped to understand the value of putting a succession plan,
- An exit plan should be prepared,
- The right successor should be identified by competence, not by any other considerations and compulsions and
- The identified successor needs to be groomed and developed to assume the headship of the business.

**Remedial Measures**

No doubt, there are challenges and pitfalls that make family business suffer. But, it doesn't mean that family business cannot run effectively. There are ways that family business can do to be effective and successful:

- The boundaries between work and family are inter-related. A properly balanced approach is necessitated for running the family business in an effective manner.
- Good succession planning makes the family business survive and thrive generation after generation and absence of it derails the business down and die out. Hence, there is a need for solid succession planning in family business to make the business perpetuate through generations, through thinking and solid preparations is required.
- Ultimate focus of running family business should be family as business, not business as family.
- Profits earned by family business should not be used for meeting family requirement but should be reinvested in the business to further strengthen and sustain it in the market place.
- Be cautious about the implications of hiring family members in the business to avoid likely conflicts and confrontations among the family members.
- A family business entrepreneur should delegate decision taking to those who are competent and capable of making right decisions.
- Family business entrepreneur should view big and broad, that is he/she should consider others' interests as well while running the business. In other words, the entrepreneur while running business should strike a fine balance among three broad perspectives of family business: Family, Ownership and Management.
- Because family business runs for a long period of time, hence there is always a need to have a good management succession plan in place to carry on the business effectively. While planning for management succession, entrepreneur should keep six factors into consideration: The role of the owner during the transition, family dynamics, income for family members employed in the business and shareholders, business conditions during transition, treatment of long-term and loyal employees and tax consequences.
- For maintaining harmonious and cordial atmosphere in the family and business, family rules or Family Constitution be framed.

**Ten Commandments of Family Business**

Ramchandran (2009) has identified ten dimensions of a family business which are interrelated between succession planning and conflict resolution and ownership structure. It is the synergy created by the interaction and reinforcements of these ten dimensions that help family businesses to perpetuate. He terms them the ‘Ten Commandments of Family Business’. They are as follows:

1. Family Vision, Strategy & Governance,
2. Business Vision, Strategy & Governance,
3. Conflict Resolution Mechanism,
4. Preserving Wealth,
5. Ownership Structure,
6. Induction & Grooming,
7. Retirement and Estate Planning,
8. Recruitment and Reward of Non-family Professionals,
9. Compensation & Reward for Family and
10. Succession Planning.

**Conclusion**

A family business is one actively owned and/or managed by more than one members of the same family. Deep rooted Cultural values, a Joint family Structure, so many reasons make India the bedrock of family owned businesses. There has been a paradigm change in the Indian family business from business as family to family as business. Making family business more effective, the Three Circle Model of family business should be implemented. A fine balance among three broad perspectives of family business-family, ownership and management-should be maintained. The family constitution is also proved to be helpful. The family constitution elaborates about the good governance practices to be practiced in the family business. Like corporate and political governance, family governance facilitates the smooth running of family business. Nurture family business with much care. It has relevance not only in the present era but prospective growth in future also!

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