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Indian Family Businesses: A Contemporary Analysis

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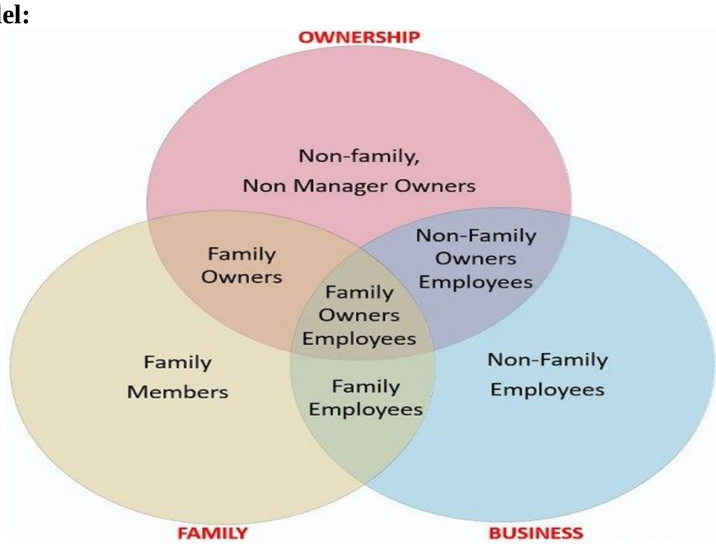
Abstract: Globally for centuries, business was owned and governed by families of business acumen and reputation. India is no exception. Families' contribution to build nation's wealth by their entrepreneurial business activities is seen in all periods of Indian history, from princely states to pre and post-independence periods. The prominent family business houses in India are Tata Group, Aditya Birla Group, TVS Group, Kirloskar Group and Godrej Group. As per India Corporate Solutions Group's study in 2015, family business contributes around 79 percent of GDP annually and India has 108 publicly listed family owned businesses making it third highest in the world behind China and USA The dynamics of family business plays crucial role in sustainability and growth of family business in India. This paper aims to examine spread, challenges and opportunities of family business in India from contemporary studies and suggest measures to overcome difficult situations.

Keywords: Family Business (FB), Family Firms (FF), Non-Family Firms (NFF) Family Business Group Firms (FBGF), Stand-Alone Family Firms (SFF).

1. Introduction

All commercial enterprises in which decisions are centralized with the owners and their children are considered as family owned and managed business enterprises

Family business Model:



The family business model offers opportunity of participation of family and non-family members in running business either as owners or employees.

Socio-Economic Contribution by Family Business

Many successful businesses today have their humble beginning as Family business in the world and in India, The examples are Walmart, Berkshire Hathaway, Ford and Dell Technologies in USA, BMW group in Germany, Toyota group in Japan, Hyundai, Samsung and LG in South Korea and Tata Group and Reliance in India, The socio-economic contribution of terms of development of ancillary industries in MSMEs Sector and generation of employment and income opportunities for their network partners and employees is praiseworthy.
The socio-economic contribution is manifested in several studies conducted in the recent past.
The report of Corporate Solution Group (2015) brings out contribution of family business around 79 percent of GDP. This report India ranks third in the world i terms of number of public listed companies behind China and USA.
The Deloitte Report (2013) also brings out that family firms constitute 85% of total companies in India states that family firms constitute 85 per cent of total companies in India and constitute a lion share in employment and domestic output.
CII Report (2019) brings out that Family Business constitutes 60-70 percent of GDP of most developed and developing countries.
A Business Today article (2020) citing Deloitte research report brings out that family businesses contribute to 18 percent of India corporate assets, 25 percent of corporate sales, 37 percent of corporate reserves and 32 percent corporate profit after tax.

Key issues of Family Business

Austrian Institute of SME Research Final Report (2008) highlighted issues of Family Business are common to all countries such as lack of political support for family enterprises, inability to meet financial obligation, lack of management and entrepreneurship education, limited access to finance for growth and lack of continuous availability of skilled workforce.

2. Literature Review

Family businesses are a significant force in the global economy, contributing substantially to employment and GDP. However, research on their performance compared to non-family firms presents a mixed picture. This review examines the existing literature to understand the impact of family ownership and involvement on firm performance.

Positive Impact on Performance

Several studies support a positive association between family ownership and firm performance. Achmad et al. (2009) found a direct link between ownership type and economic performance in Indonesia. Similar findings emerged from studies in Japan (Allouche et al., 2008), the USA (Anderson et al., 2003), Germany (Andres, 2008), and Bangladesh (Badrul et al., 2014). These studies highlight potential advantages of family businesses, such as long-term focus, commitment to quality, and efficient resource allocation.
In the Indian context, Bang et al. (2018) emphasized the crucial role of family businesses, which constitute a vast majority of firms in the country. Chahal and Sharma (2020) also found superior financial performance for family firms compared to non-family firms in India. Studies by McConaughy et al. (1998, 2001) and McConaughy and Walker (1998) in the US context further support this notion, suggesting that family-controlled firms with founders or their descendants as CEOs outperform non-family firms in terms of efficiency, value, and debt management.

Unique Strengths of Family Businesses

Beyond financial performance, family firms possess distinct strengths. Ceja et al. (2010) identified core values like generosity, humility, service, and excellence as key differentiators contributing to their success. Kaur and Singh (2018) highlighted commitment, knowledge continuity, reliability, and pride as strengths of Indian family businesses. These values foster a strong sense of ownership and a long-term perspective, potentially leading to superior performance.

Challenges and Mixed Findings

However, the relationship between family ownership and performance is not always straightforward. Studies by Barontini and Caprio (2006), O'Boyle Jr. et al. (2012), Poutziouris et al. (2015), and Subekti and Sumargo (2015) found no significant difference in performance between family and non-family firms. Lee (2004) observed similar performance levels for family and non-family SMEs in Spain. These findings suggest that other factors besides family ownership significantly influence performance.

Furthermore, family businesses face unique challenges that can hinder their growth. Bhattacharyya (2007) pointed out competitiveness issues faced by family firms in India, mirroring challenges observed globally. Succession planning, professionalization, and potential agency conflicts are some of the key concerns identified by Chittoor and Das (2007), Chrisman et al. (2006), Claessens et al. (2000, 2002), Cucculelli and Micucci (2008), Dieleman et al. (2013), and Kavediya (2017). These challenges can negatively impact performance if not addressed effectively.

Moderating Factors and Context

The impact of family ownership on performance may also depend on contextual factors and the level of family involvement. Garcia-Castro and Aguilera (2014) emphasized the importance of considering other variables alongside family involvement when analyzing performance. Studies by Bertrand et al. (2008) and Ramachandran (2006) highlight the influence of family size and culture on family business dynamics. Additionally, research by Faccio and Lang (2002) suggests geographical variations in the prevalence of family-controlled firms.

The existing literature presents a complex picture of the relationship between family ownership and firm performance. While some studies find a positive association, others report no significant difference or even a negative impact. These variations likely arise from the influence of moderating factors and contextual differences. Family businesses possess unique strengths but also face specific challenges. Further research is needed to explore the interplay between family involvement, governance practices, and performance across diverse contexts.

Rationale and Scope of Study

Globally studies on different aspects of family business have been carried out. In India also studies on Family Business are in place. The article examines contribution of Family Firms in Indi and also brings out challenges and opportunities of family firms in India. The article suggests measures to overcome challenges of family firms' business in India.

Objectives of the Study

Major objectives of this studies are as under.

- To study family firms' contribution in India.
- To examine challenges of family firms in India and measures to overcome the challenges.
- To study opportunities for family firms' business in India in the global context.

3. Research Methodology:

The descriptive study draws inputs from published research articles and print media.

Analysis and Findings:

Contribution of family firms in India: for the period 1990-2015 is summarized below:

- The stake of Family firms in total revenue of all listed firms in India is 50% and this marks their contribution to 13% of GDP of India
- Listed family firms contributed 26 percent to the GDP of India.
- FGBF's contribution to India's GDP is 21 percent and SFF's contribution to India's GDP is 6 percent.

- The family firms’ contribution to indirect taxes is 28 percent of total indirect taxes.
- The family firms’ contribution to direct taxes is 18 percent of total corporate direct taxes.
- The contribution of family firms in developing manufacturing capacity in India is praiseworthy.
- The contribution of SFF in developing service sector in India is also praiseworthy.

Challenges faced by family firms and remedial measures to overcome the challenges:

- Global Studies stressed three important challenges of family business firms common to all countries including India such as Sibling Rivalry, hiring no-family members and succession planning.
- Rivalry for compensation is a major cause for Sibling Rivalry. The other issues such as absence of role clarity, use of pay as control tool by the founder, emotions attached to pay and position, secrecy in business dealings are also contributing to Siblings rivalry. The transparent pay and governance rules according to Siblings qualification and experience will help in reducing Siblings conflicts.
- Family firms face greater challenges in hiring employees not having family affiliation. Family dynamics are not same as business dynamics. The need for hiring non-family members arises when the family members lack in requisite skills and expertise in their business. The possibility of frequent conflicts in operational matters cannot be avoided in this situation which is counterproductive to business growth. The sound corporate governance mechanism defining clearly role of the family and non-family members is prerequisite to prevent occurrence of conflicts. The transparent rules relating to pay and promotion for both set of employees need to be in place based on qualification, experience and performance of employees to prevent conflict situations.
- Succession Planning is a challenge of family firms. The studies at global level indicated that just 30% of all family businesses last into the second generation and only 12% make it to the third generation. The reason is poor talent management. The measures to prevent failure of family firms from poor succession planning are good corporate governance, choice of right successor, clarity of roles and responsibilities, mission statement for the guidance of successors of the business.
- The socio-economic issues in India present unique challenges to family firms in India such as internal family conflicts, emotions in business, biased decision making. Internal family conflicts arise on account of varied interest, ego and personal rivalry of family members. The role of founder/elderly member is critical to prevent family conflicts. Emotions of family members are related to family members with different temperament. Their behaviour impacts their dealings with internal and external stakeholders of the business. The guidance and mentoring of founder/elderly members will resolve behavioural issues to a greater extent. The biased decision-making situations in family firms can be met by appointing independent consultant to help family business managers to arrive at unbiased decision in conflict situations

Opportunities for Indian Family Firms:

- The family firms can explore opportunities to sustain and promote family businesses if greater thrust is given to strengths and measures are taken to remove inherent weaknesses.
- The strengths of family firms are Love, Devotion and Trust. The trust is based on close connectivity of family members in personal and professional pursuits. The family culture helps in shaping organizational culture. The vision and ethics of family is also reflected in sound organizational performance The growth and sustainability of firms initially commenced their business as family firms such as Tata Group, Birla Group, Godrej, Infosys, Wipro and others are such examples.
- The weakness inherent in structure of family firms needs to be addressed to mitigate adverse impact on organizational performance. These weaknesses are actions/decisions based on emotions of founders and their decedents. The skills insufficiency of family members in the business, jealousy, personal interest opposed to business interest are other weaknesses faced by family firms.

Findings

- Family firms play pivotal role in socio-economic development in India.
- Family firms contribution is immense in development of small businesses leading to creation of productive jobs, employment opportunities and skilled workforce

- Proactive policy measures of government and funding agencies in India are necessary to help family firms to play their role constructively in development efforts.
- The higher education institutions support in terms of imparting training to founders and successors of family business will help them in circumventing factors of inherent weaknesses of family business model.

4. Conclusions

The issues and challenges of family firms in India and family firms globally are same. The issues and challenges are unique and attributed primarily to structure of family firms. The successful transfer of family management from one generation to next generation is difficult area to be addressed. The family enterprises play key role in socio-economic development of India. The policy makers, funding agencies need to initiate policy measures conducive to promote growth and sustainability of family firms in India. The founders and promoters of family enterprises in India also need to take proactive measures by setting sound corporate governance framework and by ensuring implementation of measures in true spirit. The family firms can follow benchmark of corporate governance policies and practices of successful family group firms in India.

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