Road Blocks in Enhancing Competitiveness in Family-Owned Business In India

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Context

A Family-owned business is one that is owned and managed (that is controlled) by one or more family members.[1] Family-owned firms are – "organizations where two or more extended family members influence the directions of the business through the exercise of kinship ties, management roles, or ownership rights."[2] A family – owned business is any business in which a majority of the ownership or control lies within a family. It is also a complex, dual system consisting of the family and the business. Members involved in the business are part of a task system and also a part of a family system and these two systems may overlap.[3]

Family – owned businesses exist all over the world and some of the worlds oldest firms are family- owned eg. Kongo Gumi of Japan was founded in 578 AD and is currently managed by the 30th generation. Some of the largest wealth creators and businesses are family owned like Wal Mart.[4] In India too, the highest generator and creator of wealth are family – owned businesses. The issues faced and the interests involved by family-owned businesses all over the world are more or less the same. The importance of the family in business and the blurredness of the distinction between business and family are predominant issues.

FAMILY-OWNED BUSINESS IN INDIA

India has seen some very influential families in business. These families have made a lot of difference in the business and industrial culture of the country. These families have existed for over hundred years and have influenced the economic and political situation of the country. Until the government of India took a very socialist stand on investment the family-owned businesses in India were very successful and Tata Airlines was among the top 10 Airlines in the World. The economy of the country was gauged for several years on the basis of the growth and development of the family business. In the 1970's Private owned firms, 93% of which were family-owned at that time, were put though very regressive policies to control growth of private wealth. This huge period between 1970 to 1990 created a lot of problems for the private sector (most family-owned) and rendered it quite unfit for global standards. With the opening of the economy and the influx of multinationals the family-owned businesses and the private sector was at a great loss and on a back foot. It was felt that the family-owned business and family-owned business houses would lose their place in the industrial map of the country. Time has proved this to be wrong because the family-owned businesses have proved to be very strong in their determination to carry the business on. But there are several road blocks that have ensured that Indian family-owned firms are not global leaders in their field.

The paper is an attempt to study these road blocks and also to find out how the family-owned businesses will overcome the same. Very major road block "succession" has been studies by the author in her Doctoral study because the scenario has changed since succession has been studied again.

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[1] The Practices of Effective Family Firm Leaders by James Hunt & Wendy Handler journal of developmental entrepreneurship (JDE) Volume 4, Number 2, Fall/Winter 1999:

[2] Davis, J. A. & Tagiuri, R. 1982. *Bivalent Attributes Of the Family Firm*. Santa Barbara, CA, Owner Managed Business Institute.

[3] Ritu Bhattacharyya – Are Leaders Made or are they Born : A study of Business Houses in Pune – Pune University -MPhil. 1996 – Chapter 2

[4] www.familybusinessmagazine.com/oldworld.html

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INTRODUCTION

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. [5]

CHARACTERISTICS OF FAMILY–OWNED BUSINESSIN INDIA[6]

1. Family relationship is the most important factor in determination of the position a person holds in the business.
2. Family members including those who are not contributing or are involved in the business are on the Board of Directors.
3. Few castes have been very successful and thus are synonym 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. Of these, the Marwaris have been the most successful
4. Every caste has a very dominant culture that is followed in the business by all
5. Family, extended family and relatives have a very strong sense of loyalty to the family that automatically translates as loyalty to the business.
6. The single minded dedication of the CEO and the family ensures that family-owned business survives through the toughest times.
7. 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 CHALLENGES FACED BY FAMILY-OWNED COMPANIES

The challenges faced by family-owned firms vary according to the size of the company and its level of development. There are some large family-owned companies that have their operations on an international level. These companies have made the transition from family company to a corporate family. They have professionalised their management boards, diversified their ownership and, issued shares on the stock market. In such cases, the challenge is on governance between the management board and groups of shareholders.

Majority of the family owned companies operate like extended family units. All decisions are centralised and taken behind closed doors and guarded from everyone. There is lack of communication and management is closely held by a few members of the family. Family members can never hold all position therefore, professionals are present but do not have any freedom in decision making they are mere implementers of decision taken by family members. The challenges are more in such family-owned businesses.

Challenges faced by family-owned business are different from the challenges faced by non-family business. When close relatives work together, emotions often interfere with business

[5] Ritu Bhattacharyya - Succession process in family-owned business in India – Pune University- PhD . 2001- Chapter 1

[6] Ritu Bhattacharyya - Succession process in family-owned business in India – Pune University- PhD . 2001- Chapter 3

decisions. some family companies face challenges of control of daily operations while others face a high turnover rate among non-family members. Some companies have a sever problem of growth because some of the relatives are unwilling to plough profits back into the business. Some businesses face challenges of funds management and others find it impossible to employ all family members fruitfully. Many family-owned firms find the morale of non family employees very low because the trust factor in outsiders is very low and family members are given benefits they have not worked for, Most family-owned firms face the problem of SUCCESSION PLANNING which even the most professionally managed family-owned firms are guilty of ignoring.

Some of the major challenges faced by family-owned businesses that are resulting in them not acquiring world class status are:

1. Non participative family members: Every family-owned businesses have some members who are actively involved in the business but there are stake holders who are not actively part of the business like mother, sisters, uncles, aunts, in-laws etc. These people are interested only in dividends and earnings and not in the growth of the business they are unable to comprehend the problems of operating a business. Relatives who are engaged in daily operations judge major matters from the viewpoint of the production, sales and personnel necessary to make the company successful. Obviously, these two viewpoints may conflict in many instances.
2. Family emotions: Emotion is a big dimension in family-owned firms, as brothers and sisters, uncles and aunts, nephews and nieces, and fathers and children work together. The problem arises in recognition of these dimensions of emotions and to make objective decisions. It is hard to make objective decisions about the skills and abilities of each other, especially when some members rake up unpleasant instances to question abilities. Emotional outbursts are many in family-owned businesses and the quarrels and ill feelings of relatives have a way of spreading out to include non-family employees. It is very difficult to keep the bickering from interfering with work and the company becomes divided into warring camps.
3. Family or Business what comes first? 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. Some times jobs and responsibilities are given to family members inspite of being aware of their inability to perform them. This ultimately effects 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.
4. Human Resource: In family-owned business the family has to be always accommodated first with jobs. This is a facet no body 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.
5. 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 father/mother, uncles/aunts, grandparents or elder members of the family to change their style of functioning. The youngster cannot caste off his role in the family of an obedient youngster and take 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
6. Fair to all approach: Family in India have always prided themselves in being fair to all in the family. Inspite of large families with limited resources we traditionally believe in “mil bant ke khanna” this philosophy has also manifested itself in family-owned businesses where the business pie must he shared by all equality and the sharing must not mean that any member of the family gets less. This thus results in fragmentation of business and cross holdings to ensure that the weaker family members share is taken care of even if he/she cannot operate his business. In families this philosophy has worked wonderfully but in business it has spelled doom because Indian family businesses are split up in every generation thus keeping the size small and uneconomical as compared to global standards. Cross holding have meant that the rivalry within the business continues and there is bitterness among family members that adversely effects business.
7. Retaining non family professionals: It is a huge challenge in some family-owned companies to retain non family professionals such companies are plagued with a high 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 professionals very high this has effected 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.
8. Speed of excepting change: Change is something that does not happen in family-owned businesses in India, change is undertaken as a last resort when it is believed that the business will close down. In order to survive in the global arena it is essential for business houses to change at a fast rate and adapt to changing business times.
9. Succession Planning: Succession planning is almost absent in family-owned business in India. Even the biggest private sector company in India Reliance faced huge problems after the patriarch died because there was not clear succession planning it was believed that the younger brother would stay under the wings of the elder brother though the cracks were visible even when Dhirubhai Ambani was alive. The split in the company was not amicable and resulted in a lost of loss to the investors wealth and Reliance slipped from its position in the Forbes List. If business leaders like Dhirubhai Ambani who is revered for his foresight in Indian business did not tackle the issue of succession very little is expected from other business houses.

MANAGING THE CHALLENGES

As is evident from the challenges listed the biggest problem or challenge of family-owned business is not being able to demark between family and business. The line between the two is very blur and they seem to intermingle a bit too often, which is not good of the business. It is very difficult to keep the family aside and then manage the business because family has always held center stage in India and our traditions do not permit us to be straight forward and tell family members some home truths. This inability to communicate will family members on their role in the business has resulted in conflicts that have ruined the growth of family businesses. The person designated by the family and the shareholders to manage the family firm has to take a few strong steps even if they may hurt family members in the interest of the business. If the business prospers the family also stands to gain.

The challenges can be taken care of without going into drastic mode of getting an outsider to manage the business, though some times it may be necessary, but have a strong communication network by the CEO with the family and the non-family members in the business. Non participative family members: Every family has non-participative family members. These are members of the family who are given a share in the business for reasons that make no business sense most of the time. Stock holding is given to parents out of respect and they generally think in the interest of the business but some times their interests may clash with the business because they are trying to protect the interest of the family. An example is Bhai Mohan Singh of Ranbaxy who fought when Dr Brar was made Chairman of Ranbaxy after his son Dr Parvinder Singh death, though Mr Brar was his sons choice. Bhai Mohan Singh ensured that he resigned and his grandson Mavinder Singh took over as Chairman. Other non-performing family members could be sisters, brothers-in-law, maternal relatives etc. These members are not directly from the family and some times have no concern even for the family they are only interested in the returns they receive. Selling their stock to outsiders is not an option for them because family loyalty is strong. They are not part of the business, though would want to be, they mostly feel they can do a better job, or sometimes feel that they are being treated as parasites, thus they are disgruntled and create objection just to make their presence felt. These members have to be conveyed clearly of their 'non-participative' status in the business and must be kept out of matters related to business. They should not be allowed to sit on the Board and give advice of matters related to business.

Family emotions: It is very difficult to keep emotions out of anything. It is believed by many business thinkers that emotions are very essential to operate a business. But these emotions and passion have to be related to business. Family-owned business finds family emotions playing havoc with business. Ego clashes, sibling rivalry, hurt among the earlier generation, dissatisfaction, feeling of being left out, deriving importance etc are some of the problems that are general seen. The head of the family has a very large role to ensure that these emotions stay out of business. Controlling of ego clashes and sibling rivalry is tough but all the same if the head of the family encourages open communication among family members and has a system of mentoring every member who enters the family business then these issues can be controlled.
Family or Business what comes first?: The family-owned business management needs to be very clear about the demarcation between family and business. The blurring of line between the two leads to business decision that are in the interest of the family and not in the interest of the business. In case the business needs to survive along side the international organisation the family needs to take a back seat and the interest of the business needs to precede, some time at the cost of certain family relations.

Human Resource & Retaining non family professionals: No family-owned firm can have enough, aptly trained family members to look after all the all the functions of the business. As family-owned firs grow in size they also need professionals at top positions. Non-family professionals have always felt left out or alienated, the management may not be going out of its way to make them feel so but the closeness of the family makes the divide very strong plus the preferences given to family members the absolute absence of punishment or reprimand to them also creates a problems. If the family is promoting non competent members for top position it is even worse. In order to grow family-owned firms need to strictly put in HR policies that are same of both non-family and family members. Thos the compassion and familiarity will not and cannot change efforts can be made to curb it.

Defining Authority: Every family members needs to be told clearly about his/her role in the business and overstepping into other peoples authority especially those of non-family professionals must be discouraged. Even among family members even if a younger members of the family is at a position his authority should not be overlooked by other elders of the family because if that is done other employees may also not respect his position and may spread rumours outside of the business to the effect that can harm the business.

Speed of excepting change: Family-owned businesses in India have lived in a protected business environment of very long. They are a little slow when it come to accepting change as compared to their counterparts across the globe. Family-owned business are not used to spending money on R&D and also ploughing back profits into technology development. The family (which also holds the majority of the stock) has got used to fat dividends and is not ready to give them up for the purpose of growth of the firm. The younger members in the family understand the importance of change and they must try and convince the elder members and non-participative members on the importance of change and the increase in earning capacity after the change.

Fair to all approach & Succession Planning: Succession planning is something all the family-owned firs must start doing. Succession planning must not mean dividing the pie among all family members but it must mean finding a role of each family member in the group without having to divide the group. This is a long way but if planned right from the time the younger generation enters the enters the business. If the younger generation is convinced about their skills and role in the firm where the eldest may or may not necessarily be the group CEO and the best man is the CEO, he may be non-family too the business has a larger chance of staying together. If the business is not split they have a chance to compete with the best in the world. If all the cotton mills and jute mills of the all the Birla Group are put together they will be a very formidable force in the world cotton and jute market but since they are fragmented over different family groups they are not even leaders in the domestic market. Being fair to all in succession planning is absolutely not possible because all children may not be equally gifted in business such family members who do not have a flair for business can be compensated in other terms like giving them a fixed income or giving them property which is worth same in value etc. What need to go to whom should actually not be decided by the family this job should be handed over to an outsider who will not be biased in his assessment.

Conclusion

Though it is easy to give family-owned firms advise no how they can overcome their challenges and be global players it may not be very smooth. Family ties and traditions are very deep rooted in family firm. Some families tried to separate ownership and management but it did not work for the long and unfortunately in many of the cases the movement of the family outside the management resulted in fall in the business fortunes and the family was forced to get actively back into business. This has resulted in old timer giving this example to all that the family keep the interest of the business paramount and an outsider never thing that it is his baby. The dialogue continues as to what is best for family-owned firms in India.

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