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Role of Family Business in India and Impact of Financial Strategies

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Abstract – For three generations and beyond the article tends to examine the path of family business in India. Over the years, family companies have faced many obstacles, and the position of leadership has moved from internal leadership to the integration of external family business leaders. The paper starts with a brief on the past and essence of family business in India, accompanied by the problems of external business leaders and their incorporation. The essay would also discuss why family-owned firms want to make the move to work professionally, and how the performance of the transition is influenced by possessing sufficient motives. We would also discuss what makes effective and unsuccessful methods, evaluate the problems associated and offer recommendations for better practice.

Keywords: Family Business, Impact, Financial Strategies

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INTRODUCTION

In India, as elsewhere, family companies constitute most enterprises. In recent years, economic liberalization and rapid development of the industrial base have not only generated growth opportunities for many, but have also checked their capital capacity to react to them; some have opted to pursue the position of a custodian of their current resources and pursued the preservation route, while others have followed more of an entrepreneurial road of manipulating their opponents Their families is one of the main tools for both of them, and the prosperity and health of their relatives is their primary concern. In the last decade, particularly after economic liberalization started, many of them have faced a major dilemma: choosing between combinations of costs and returns from business development and the maintenance of family wealth. Of necessity, this is intertwined with the responsibilities of their corporations and households. Due to the reciprocal dependency of two ecosystems (family and business) that have intrinsically contrasting characteristics, they are intriguing. Succession planning, remuneration and reward preparation, recruiting and incentives for non-family professionals, retirement and estate planning, induction and grooming, ownership arrangement, asset preservation, dispute resolution, business direction, strategy and governance, family vision, strategy and governance are some of the main factors that define the cohesion of both the family and corporation.

In India, enterprises have been moving from family management to more skilled operations for years. This pattern has three major causes:

1. In today's frenetic market climate, the increased difficulty of activities. There is a growing appetite for external experts, whether firms are developing globally or merely increasing the size of their activities (i.e., someone from outside the family).

2. When promoters stand down to help them survive in the long run, the businesses require suitable leadership as well as talent. Although representatives of the family can aid in this transition, evidence has demonstrated that businesses considering foreign executives are more likely to succeed.

3. Areas are being highly dynamic, independent of the sector. In order to remain viable, it is important that organizations have different management backgrounds to critically analyze the capabilities, vulnerabilities and risks of the company and enable them to plot a positive course of action. Any firms have been ineffective in achieving this change from being predominantly family-run to recruiting external leadership experts for myriad purposes. Challenges vex the whole process, and the transition to skilled leadership is not one effective model, so each situation would be exceptional.

The paper aims to briefly explore the trajectory of family business in India, its stages of transformation accompanied by difficulties and the need to incorporate external leadership for potential growth. For three factors, we are based on mid-sized businesses:

1. Medium-scale firms are increasing increasingly, which creates a good opportunity for an outside specialist to be taken on board.

2. Since they are younger and their society is more responsive to recruiting diverse management and inspiring transformation, these businesses are more willing to introduce an outsider.

3. Skilled executives, who may not hesitate to seek a CEO role for a conventional organization with a developed business and a history of effectively onboarding external leaders, might be more cautious to enter a young and medium-sized company with less documentation.

THE ROLE OF FAMILY BUSINESS IN THE ECONOMY

There is also a need for young leaders in the Indian and global economies to recognize the position of their companies. The gross production of these family-run firms accounts for 90 percent of India's industrial output, 79 percent of organized private sector jobs, and 27 percent of total employment, according to the CII Family Business Network (India chapter), replaced only by government and public sector corporations, companies in which the government holds much of the equity.

Challenges Faced by Family Business In India

Due to multiple challenges in family companies, big company houses spanning three or more generations face the burden of development and sustenance. Any family company has faced daunting challenges or may face them. And if they do it 'by the rules' obviously, the complexities can appear over whelming. Family-owned corporations continue to address serious obstacles, such as:

Splits: There are splits that contribute to a breakup of the business, including a dispute between father and son or even family members. For e.g., the Birla Community broke into several firms after Mr. G. D. Birla's death.

LPG: Liberalization, outsourcing and globalization pose a significant threat to companies operated by families. So, it needs to be met with a fresh range of tactics by the family firms.

HR Issues: Maintaining the Indian brain is a big challenge for Indian businesses to access untapped talent, provide them with industry standard salary packages and other remuneration, delegate control to them and allow them room to function.

Transnational Attack: Multinational firms are more professionalized, concentrated, coordinated and willing to take shots and, owing to their global product and service quality risks, pose a major challenge.

Restructuring: The altered market situation involves a great deal of improvement in overall business operations and strategies, but it was painful, expensive and compulsory for most of these business houses to adjust. Owing to a lack of initiative taking capacity, too little may adjust from inside.

Lack of Professionalism: Lack of skilled leadership and disagreements between professional CEOs and members of the family who manage the business. In such businesses, divorce from management ownership is still a problematic topic, while the need to assign a competent boss is generally agreed, difficulties emerge in terms of conflicts of styles and approaches to operating the business.

Other Challenges: The other challenges involve the following:

- Seniority, rank and gender;
- Kids do not want to confront problems;
- No help from the parents' side;
- Brothers and sisters are always hesitant to give their siblings power;
- The younger kid has stronger talent than the older one;

Children are really successful with numbers, just not with persons.

IMPACT OF SUCCESSION ON FINANCIAL

Structure Current analyses of the effect of inheritance on the financial structure of family businesses are focused largely on cross-sectional evidence, analyzing variations in the capital structure between founding and descendant-controlled family businesses. In addition, the literature is also inconclusive with regard to the succession impact on the organization of wealth. While some studies found that succession has a positive impact on debt financing, other studies find that succession and debt financing have a negative association. These findings are attributed either to a different need for debt financing (or the desire to borrow) or to a different supply of debt financing (or the capacity to borrow) for generations of developing family enterprises.

Several reports show that as family companies shift from one generation to the next, owing to a decreased readiness to take risk, they become less likely to attract debt financing. discriminates between family firms where the company serves the family (family orientation) rather than family firms where the family serves the company (business orientation), found that as family firms grow over decades, family orientation becomes more important. Family-oriented businesses are more hesitant to utilize "risky" external capital outlets, since this could dilute influence of the family. descendants typically have a lower propensity to accept chances relative to their ancestors, in a related manner. They aim to escape a heavily leveraged capital system, since they have a greater preference for wealth accumulation instead of more wealth formation. The unwillingness of several smaller family business owners to use a heavily leveraged capital structure is a consequence of the ability of the family to pass a healthy business across multiple generations, thus safeguarding the reputation of the family and the lifework generated by the creator. Therefore, greater risk tolerance and reduced ability to attract debt capital minimize the financial capacity accessible to family enterprises of the next decade, which is compatible with the likelihood of inflation.

Furthermore, the analysis of Schulze et al. also originated from the concept of increasing stagnation after succession (2003). Using an agency viewpoint, Schulze et al. suggest that with any change from a family business to the next generation, stock ownership is likely to become more dispersed. This will contribute to a conflict in priorities between the shareholders sitting on the company's board, who tend to limit their financial control because the heightened danger has a detrimental impact on the stability of their personal portfolios. There would, though, be a further dispersion of ownership in the cousin consortium, mainly occurring in the third and later centuries. At this point, family owners' risk expectations would be more aligned with those of institutional investors and public sector shareholders, contributing to a higher propensity to accept risks and utilize debt financing. The findings of Schulze et al. (2003) indicate that there is a lower propensity to bear risk relative to controlling owners and cousin consortiums, particularly in sibling partnerships, since increased levels of loss aversion, target misalignment, and disputes between family members decrease the desire of these businesses to use debt to finance their investments. The perception that heirs are less likely to participate in hazardous practices when they have traditionally spent substantial sums of money to purchase into the business themselves.

Studies based on the lower capacity of family businesses to receive debt funding following a succession often advocate the deflation viewpoint. For instance, data asymmetries between bondholders and shareholders into account and find proof that succession from the creator to the next generation may be deemed detrimental to their capital because the descendants can be less eligible to lead the company. Other scholars point to the possibility that the amount of family members participating in the corporation is typically expanded through inheritance. Intra-family disputes may result in an increase in the number of active and passive family shareholders after succession higher dividend payout ratios, and less exposure to reinvesting retained earnings. disputes between families are a significant contributor to the loss of family company. Creditors will also be less likely to supply debt to family businesses run by the next generation.

OBJECTIVE OF THE STUDY

1. To study about the Role of family business in India

2. To study about the impact of financial strategies in family business

3. To study about the effect of generation which started the family business

4. To study about effect of religion of owner of family business

REVIEW OF THE LITERATURE

Lorna Collins, Nicholas O'Regan, (2011) During the past decade, family company has grown dramatically and today it is a well-received and valued area of inquiry. It has maintained its technical origins by achieving scholarly recognition. The paper suggests that it is time for a re-think because, rather than the whole family business structure, the emphasis of previous family business study has been quite confused with small and medium-scale research (at least in the UK) and with various areas of the family business. Family business management and analysis needs to incorporate new analytical insights and methods to continue its remarkable upward trend, particularly those who come from disciplines such as psychology that currently have tenuous ties to family business studies. It also needs to embrace practitioner-based learning and build valuable dialogue among stakeholder groups in the family business community.

The key emphasis of **Alexandra Dawson (2012)** is on the construction of human resources in family enterprises. Three primary contributions will be made. First through defining the fundamental aspects of human resources, it facilitates our perception of human capital in family enterprises, including not only expertise, talents and abilities, but also individual attitudes and encouragement. Second, the paper addresses the circumstances in which family enterprises will establish and maintain a balance of priorities between individual human resources and corporate objectives over time. Depending on if the natural world is static or active, these factors can differ. Third, the paper answers the call of strategic leadership theorists to reflect on the person level as well as on the (predominant) party and organizational structures.

Holt et.al (2010) state that by further investigating the authenticity and reliability of the family effect of Klein, astrakhan, and simonies of control, practice, and cultural size, the area of family business study is advanced. Data from 831 family enterprises were examined using exploratory and confirmatory strategies to test the measurements establish validity. The hypothesized model of three variables has arisen to involve society, power, and experience. Extending the previous effort, the convergent validity metrics were checked by measuring disparities between the score of the indicator and the senior generation's wishes and the next generation's devotion. An initial degree of convergent validity supports the findings.

In order to enhance academic comprehension of the partnership between entrepreneurial orientations (EO) and the development of family firms in two fields, **Casillas et.al (2010)** reviewed the existing study. The authors say that various external variables-environmental dynamism and environmental hostility-and an internal variable-generational participation-depend on the EO-growth relationship. They often consider EO to be a hybrid build integrated from numerous independent dimensions and connected to them. Using data from 317 Spanish family-owned corporations, the findings reveal that a) EO has a positive impact on growth only in second-generation family-owned enterprises; (b) the moderating effect of generational participation is linked to risk-taking.

The 25 papers that have been particularly important in defining the state of the art of family business analysis have been reviewed by **Chrisman et.l (2010).** This study were defined on the basis of a citation study of a family company report written in the four publications reporting much of the research during the past 6 years. The writer's summaries some essential studies and present their most notable contributions to the existing perception of family business by academics. The authors are able to provide recommendations for future study in the field by recognizing similar trends among such studies.

METHODOLOGY

It has already been mentioned that while sampling, discretion was used to try and ensure sufficient distribution of respondents, to include a broad variety of organizations, including all levels of main variables chosen relevant to the enterprise and the respondent. The variables selected were those that might impact the likelihood of inheritance management performance in the organization, which is the dependent variable included in this analysis. This portion of the chapter is used for the presentation of the results in the collection of data obtained for this study, to demonstrate the degree of coverage of these variables. In order to illustrate the magnitude of the key variable distribution in the sample used, frequency tables were designed with acceptable class intervals for and key variable linked to organizational variables, such as organizational scale, company generation and respondent owner-related variables, such as faith and owner-respondent age class. Variables correlated with the entity are presented first, accompanied by variables relevant to the respondent owner.

RESULTS

Effect of Generation Which Started the Family Business

There is little bearing on the likelihood of performance in inheritance management in the generation that began the family business. Tables 1 (a to (b) below display the effects of the cross tabulation and checks for hypothesis testing.

Table 1 (a) Cross tabulation between Generation which started the Family Business and Chance of success

Generation of Family Business	Chance of success in FB Inheritance					Total
	Very low	Low	Medium	High	Very high	
I started	2	7	8	7	15	39
Parents started	7	16	18	19	14	74
Grand parents orabove started	3	7	4	19	4	37
Total	12	30	30	45	33	150

Table 1(b) Correlation between nature of constitution of the organizations and Chance of success

		Chance of success in FB Inheritance	Type of Organization
Chance of success in FB Inheritance	Pearson Correlation	1	.368(**)
	Sig. (2-tailed)		.000
	N	151	151
** Correlation is significant at the 0.01 level (2-tailed).			

A correlation study between the existence of the Family Company organization's constitution and the probability of achievement reveals a modest (0.368 Pearson's Correlation coefficient) but a positive correlation at 99 percent significance level between the variables 94. As the essence of the Family Business Organization's constitution shifts, the probability of achievement often rises. Indirectly, the corporate divisions of ownership, association, private limited and public limited corporations often reflect organizational scale and professionalization. As in the previous example, this can be clarified by the claim that as market size and professionalization grow and there are more mechanisms in place to make things less reliant on the owner and his qualifications, then when inheritance needs to arise, it impacts the organization less, raising the probability of performance.

Effect of Religion of Owner of Family Business

There is no impact on the probability of performance of inheritance management on the faith of the owner of the family firm.

Tables 2 (a to (b) below display the effects of the cross tabulation and checks for hypothesis checking.

Table 2 (a) Cross tabulation between religion of owner of the Family Business and Chance of success

Generation of Family Business	Chance of success in FB Inheritance					Total
	Very low	Low	Medium	High	Very high	
Hindu	10	15	13	27	3	68
Muslim	0	11	13	4	10	38
Sikh	0	0	0	2	5	7
Christian	2	4	4	12	15	37
Total	12	30	30	45	33	150

Table 2(a) Correlation between Religion of Owner of the Family Business and Chance of success

		Chance of success in FB Inheritance	Type of Organization
Chance of success in FB Inheritance	Pearson Correlation	1	0.37(**)
	Sig. (2-tailed)		0.000
	N	151	151
** Correlation is significant at the 0.01 level (2-tailed).			

A correlation study of the family business owner's religion and probability of performance reveals a moderate positive correlation (Pearson's Correlation coefficient of 0.370) between the factors at the significance stage of 99 percent. There is an improvement in the probability of performance in inheritance management of family business as the faith of the owner of the family business varies from Hindu, Muslim, Christian and Jain.

We have shown from the research provided in this chapter that the degree of coverage of these variables is sufficient for the set of data gathered for this report. For each main variable relevant to organizational variables, such as organizational size, company generation and respondent owner related variables, such as faith and owner respondent age class, hypothesis test results were performed to verify the impact of the variable on the probability of success of inheritance in family business.

CONCLUSION

For family-run businesses, the decision to bring an external expert on board is not straightforward. When certain members of the family fear about losing ownership of everything that has been internally regulated for years, there will be a strong degree of mistrust. It may be hard to mesh, at least initially, the cultural suit. And unfair demands can be heaped on the new boss. Yet although arduous, these challenges are not insurmountable. And the consequences for the enterprise can be quite good, contributing to an external executive who carries a wise organizational outlook, wide-reaching personal relationships and important global expertise.

It may be a daunting challenge for an external specialist to assume a role with a family-run firm. The community may be challenging to understand, and when the new executive first arrives, there can be a strong degree of mistrust. The new recruit can stay determined and be vigilant, because progress would not appear immediately. A young professional will succeed in even the most entrenched family-run company by continuing to conform to the accepted community and adding experience and connections to the family environment.

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