

# Role of Family Business in India : Challenges & Suggestive Approaches

Dr. Prena\*

BAR Janta College, Assistant Prof., HOD, VPO Kaul,

Kaithal, Haryana

**Abstract - A family business is an enterprise in which two or more members collaborate , managed and controlled the family business. India have glorified and enrich history of family business. Over the year, family organizations have faced many barriers, and the position of administration has shifted from internal leadership to the collaboration of outer family business leaders. Reliance, MDH, Tata Birla, JIO, Infosys Limited etc. family businesses are the best example of successful enterprises over the more than three generations. But still family businesses are facing major problems and challenges like confliction between family members, lack of succession planning, Lack of training, Communication gaps, No written documents, sibling rivalry etc. If new generation respects old generation and considers their experience and at the same time old generation should consider creativity of new generation, then family businesses will have more opportunities in Indian economy. 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. We would also discuss what makes effective and golden rules / methods needed to save the business in the family. Existing literature on family businesses brings out their significance globally. The prevalence of family businesses is a phenomenon that is universal and found in most countries worldwide, although their relative impact on economies does vary. This article reviews papers in the accounting and finance literature on family businesses around the world and shows that the involvement of family members in the business may have a positive, negative or no impact on its financial performance. In the Indian context, the literature review indicates that India's rich and ancient history seems to be interrelated with the family-run businesses as the principal means of business organization. The paper gives a glimpse of the status of family businesses in India since independence and the distinct characteristics of Indian family businesses.**

**Keywords - Challenges, Family Businesses, Communication gaps, succession planning, Businesses Organizations**

-----X-----

## INTRODUCTION

A family business is a commercial institution in which controlling , directing , governing , managerial functions is influenced by multiform generations of a family , related by blood or marriage or adoption , who has both the aptitude to affect the insight vision of the enterprise and the eagerness to use this potentiality to continue discrete goals. There are two or more members in any business any business and the maximum partnership or controlling lies within a family. In India , in broad sense , family companies established most business and projects . In recent years , financial modernization and fast improvement of the industrial ground have not only created growth probabilities for several , but have also checked their investment potential to respond to them ; some have chosen to continue the position of a guardian or protector of their present resources and followed the conservation pathway , while others have dogged more of an enterprising road of manipulating their

adversary. Their families are one of the main weapon for both of them , and the success and strength of their kith and kin is their essential interest . India got the 3<sup>rd</sup> highest position in running family – owned businesses. 90% of all businesses in the India are covered by Family-owned and Family – control businesses . Here , family businesses are one of the most important participator to prosperity and enterprise development in every country. Of pre-requisite , this is conflicting with the role and responsibilities of their partnership and households. In the last , especially after financial modernization started , many of them have faced an extensive difficulties : selecting between aggregation of costs and returns from enterprise development and the allowance of family affluence . Due to the complementary dependency of two ecological community (family and business) that have essentially contradictory attributes , they are fascinating .

Most of the business families face particular management challenges because of the disparities in behavior & ambitions of family members. On entering of new member in the family business, it becomes difficult to separate the family and business. Indian family businesses form the 'backbone' of the Indian financial aspect and hence there is the requirement to expand the life cycle of Family Businesses so that the economy can continue to reap advantage from their participation. Progression planning, compensation and wages arrangement, recruiting, selection, encouragement and incentives for non-family specialists, retirement and domain preparation, induction and admonition, partnership settlement, asset conservation, conflict decision, business approach, direction and administration, family perception, design and bureaucracy are some of the major causes that explain the adherence of both the family and enterprise. This article examined the papers in the computing and business composition on family businesses around the world and shows that there may be a positive, negative or no impact on economical achievement if family members involved in the business. In the Indian scenario, after studying the literature, it is found that India's wealth and history seems to be interdependent with the family businesses as the fundamental means of business institution. The paper gives a glance of the status of family businesses in India since independence and the distinct characteristics of Indian family businesses.

In India, now people are changing their working strategies and nature by moving their culture from family administration to more professional and experienced system for generations. This arrangement has two major reasons:

- When any organizer is incapable of running a company for a long time, at that time the business needs an appropriate guardianship as well as capability to run it smoothly. Although, representatives of the family can assist in this development, evidence has accepted that businesses assuming foreign controlling are more likely to be accomplished.
- In today's time, when the market's environment has become frenzied, difficulties in running business/enterprise; it is needed to increase the demand of some external experts, whether companies are growing globally or simply increasing the size of their activities (i.e., someone from outside the family).

The objective of this paper is to briefly explore the path of family business in India, its phases of alteration maintained by challenges and the needs to assimilate an external administrative leadership quality for the growth and development.

### IMPORTANCE OF MID – SIZED BUSINESSES (SMES)

1. SMEs help to develop many new job opportunities, drive the desires of innovation and expand the tax base. It also increases the competition in the market place.
2. It helps to encourage handicrafts and executive skills. Moreover, these businesses earn foreign exchange through exports of their goods which means that financial power transfer in different sectors. Hence, such businesses are encouraged more in equal distribution of national income.
3. The economic growth rate in different countries such as Korea, Afghanistan, Taiwan and Japan is directly corresponding to the commotion in SME role actions. It plays a vital role in bringing industrialization revolution in China where approx. 99% of the total business ventures are mid scale enterprises. These SMEs together produce around 60% of the total industrial output and approximately 40% of the total profits and taxes achieved by the various industries in China.

### REVIEW OF LITERATURE

- Alexandra Dawson (2012) : The main concentrations on the development of human capital in the family businesses in India. It has 3 factors need to take under considerations : firstly ; to understand the meaning of human capitals in the businesses, it is important to know the dimensions of its outlines, which includes not only experience, knowledge, talents, skills, caliber but also individual behavior and inspiration. Second, the study of conditions in which family businesses can attain and persist the interests between the individual capital needs and institutional targets. Third, the article shared by approaching management employees, to focus on the personal level as well as on the institutional level designs.
- Chrisman et al (2010) has studied the 25 articles that have prominently affected in structuring the outlook of research on the family businesses. These works are orderly based on the citation investigation of family business published over the past 6 years in the journals. Through the journals, authors have studied briefly and discuss their most essential contributions to researcher's present understanding of family business. By comprehensive study, the authors are able to give proper guidance for future research.

### OBJECTIVES OF THE STUDY

1. To understand the role of family business common in India.

2. To analyze the problems and challenges faced by Family Businesses .
3. To study the Suggestive measures to overcome the challenges of Family businesses in India.

## THE ROLE OF FAMILY BUSINESS IN THE INDIAN ECONOMY

Family businesses are one of the oldest and most common form of business partnership. In earlier time , when professional companies and firms were not prevalent , family businesses become the backbone of the nation by generating the number of jobs and hence, increase the economic rate of the country. In India , family businesses subsidized around 79% of National GDP annually 1. At present , India has 109 publicly – listed , family owned enterprises , which make it the 3<sup>rd</sup> highest in the world . It beats China at 167 and the US at 121 ( as of 2015).

In India, keeping business ownership within a family is a deeply-rooted practice that surfaced after 1900 with their share of total capital growing consistently, while that of the British declined concurrently from 1900 to 1947. Today, India boasts a rich and illustrious list of family owned businesses. This model of enterprise has survived through the British Raj and the post-Independence controlled-economy phase, and has flourished in the post liberalization stage since 1991. In the controlled economy phase (prior to 1990), family businesses had faced relatively less competition from external organizations and received government backing in the form of subsidies or other similar forms of aid that played a major role in their significant growth trajectory. This, in addition to the ability of family businesses to indigenize products and services to suit Indian markets enabled them to grow and earn attractive returns. Following the liberalization of the Indian economy post1990, the influx of Multinational Corporations (MNCs) in India was expected to initiate the downfall of these family set-ups. On the contrary, family businesses have competed strongly and have continued to remain relevant, predominantly due to certain inherent synergies such as faster decision-making and greater focus on relationship building. Family businesses in India have demonstrated the ability to grow rapidly from small beginnings, achieve scale and to make a significant contribution to national and global economies.

## CHALLENGES FACED BY FAMILY BUSINESSES IN INDIA

- **Jealousy** – This situation happens when each member ( involves in the family business) have some share in the investment. After some period of time , when business expands; each member get opposite with each other . Because every shareholder can't devote equal time and amount in the business. Some of them , starts to pull down their

invested amount at the middle time. It causes to feeling of unfair and undue discrimination.

- **Preserving Non Family Employees** – They may also have problems in balancing the family business working environment. They are favored to work in structured communal condition. In family businesses , there are defined liabilities for progress and development because members ( involved in the business) put command in all leadership level within the business.
- **Conflicts** – A Family member or entire family may not interested in the business and unable to balance the family with the business which results in the conflicts between the members.
- **No bifurcation of business and affections** – It is not an easy task to separate family business from affections. In order to take proper decisions in business and to keep proper balance between employees and customers , it is important that there should be no interference of emotions in business.
- **Unfair Decisions Authority** – In a family who takes high scale amount have higher authority to take maximum decisions in the family which is totally unfair with the other members of the family. Because the power of the money has suppressed their efficiencies , abilities and capabilities .
- **Lack of training** – When any fresher enter in the family business , no special training has given to them. Even the members who join the business are unaware about the aims and objectives of the organization , progress , leadership and skills bunch needed to run and persist the business.
- **Inadequacy of succession outlining** – Succession means change of leadership from one generation to another. It also include the attitude of emotional problems, acquiring of new duties , change of administrative concerns. Sometimes due to lack of inadequacy of succession outlining ( planning) it breaks the bonding between families businesses.
- **Limited funds** – Public limited companies have number of outside sources to expand their business but family business have confined options to raise the funds. Because of limited resources of the business , the survival and growing rate of the business can be suffered much.
- **Communication Gaps** – There is communication gap between the family members which results in the raising of many family issues and sometimes ignore the emotions of each other.
- **No formal written documents** – In a family business , the role and responsibilities of each member is not defined properly . They were unaware about the business norms , policies , process which causes issues like

- share of share , benefits , dividend , pay scale, exit policy from the business. Such conflicts are common in the business at any time which directly affect the growth and development of the business.

### SUGGESTIVE MEASURES TO OVERCOME FAMILY BUSINESS CHALLENGES AND PROBLEMS

- **Family written documents( construction)** – In family business , there should be well – designed structure deal with families morals and pre- agreed norms for all those members who have some proportional share in the family business.
- **Progressive Succession Plan** – It includes proper plan and strategies. This become an issue when senior generation don't give much space to the junior to grow effectively. It includes proper plan and strategies. It includes goals for the succession systems, transitional time table , contingency arrangement in case of any mishappening.
- **Family get Together** – There are no. opportunities to have get together of the family members like anniversaries , birthdays , holidays , summer/winter vacations , festivals celebrations , etc. These gathering are not only simple meeting but ensures emotional needs accomplished within the family and this will be helpful to develop good bonding between family members.
- **Appointing Advisors** – In order to overcome from the business conflicts , it is important to appoint an independent third party as an advisor who will act as unbiased mediator . This will be helpful to keep balance between family and conflicts.
- **Proper Training** - There should be facility to conduct special training programs on time to time for newly member enter in the family business . This training gives them specialization skills to reach the objectives of the organizations .
- **Open Interactions** – There should be free communication among family members so that they can do wide discussions on business problems . Strong communication always create good environment which strengthen the business emperor.
- **Meeting** – The conventions/ Meeting gives opportunities for next generation to get find out the challenges and problems that a family should know its weakness and hoe to expand the business worldwide .
- **Family Assembly** – The family assembly pact as guardians cohesion agreement and persisting of the family. The aim of the family assembly is to keep social duties sustain the families environment and culture.

### RULES TO SAVE FAMILY BUSINESS

**Rule 1 :** Formulate policy frame work rules – Succession plan is one of the important aspect for formulating policy framework and rules. Succession plan should outline exactly how the transfer of leadership will occur and should establish the criteria that hires must meet before moving to role of leadership.

**Rule 2 :** Families must serve the business - Members of the family should give their best performance as per the expectation of the company. Members of the family business should perform as effectively as non family members of the business.

**Rule 3 :** Future outlook – Business firms should have proper core values which proves to be yardstick for performance of business. Family members should believe that present strategy proven to be obsolete in long run for the same company should be flexible in nature.

**Rule 4 :** Accountability addressing the issue – Should be one of the major criteria for transition process in family business. Family members should be made clear about what is expected from them by business .

**Rule 5 :** Addressing the issue – Family business who focus on improving their overall company performance should take structured approach through addressing the issue by careful examination of its core value and understand their relevance in relation to success of business.

**Rule 6 :** Creating shared vision - It refers to communicating vision , objective of the company and non family members of business. Communication of information takes place through various sessions of meeting in company.

### RESEARCH METHODOLOGY

It is the particular process or techniques which is used to classify , determine, choose , process and analyze facts or information about the topic of study. It enables the reader to critically analysis , evaluate the validity and reliability of methodology part mentioned in the research paper. It generally means to the factual “ how” of any given fragment of research . More precisely , it gives us information about how researcher has systematically design the topic to ensure reliable and valid outcomes that helps to reach the research aims and objectives decided to do before the study. For example , how the researcher decide the content and designing for sample :



- What type of data is needed to collect ( and what information should be neglect)
- From where the data has been collected ( also referred as “ sample design”)

For fulfilling the objectives of the research, the descriptive research and survey method design will be chosen.

## DATA COLLECTION

### Secondary Data

For reaching the objectives of the research, several Journals , Magazines , books , articles , websites , internet, government's report etc. scanned and relevant conclusion will be reach during the thesis work.

## CONCLUSIONS

The family business continues to be an essential component of the global financial aspects and a location for understanding arguments in family relationships internationally. For family business , it is not straightforward to involve some external expert as an advisory body. Managing conflicts efficiently in the process of succession plan is vital to conserving the affect family enterprise has on our economy and families themselves. The issues like mistrust and conflicts arises when members of the family have fear in the mind to lose the his authority that he has been maintained for several years .At that either he will withdraw his shares from the business or create much conflicts among the other family members which directly causes fall down the enterprises . It is unfair demands can be heaped on the new boss. Therefore , whether the family business is running in the foreign or across the world , one needs to be aware of the 5 points in which conflicts is the most likely to occur :

- 1) The mutual acceptance of roles
- 2) The agreement to persists the business
- 3) The propensity of an incumbent to step aside
- 4) Succession planning because conflict in family succession is universal.

The corollary for the business can be quite good, participating to an outer 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. While India boasts a large and ever – growing list of family –owned businesses , none are spared from the many arduous tasks needed in order to grow . Throughout each business' particular growth story , there are several phases that present unique challenges. If the business wishes to maintain the family – oriented business structure, they must navigate these phases with great care an precision.

## REFERENCES

### Websites

- [1.] <https://journals.sagepub.com>
- [2.] <http://www.journals.com>
- [3.] <https://www.withum.com>
- [4.] <http://www.ignited.in>
- [5.] <https://www.alvarezandmarsal.com>

### Books

1. Dutta Sudipt, August 1997, Family Business in India, Sage publication, ISBN – 10: 0803993277, ISBN - 13: 978-0803993273
2. Piramal Gita, 1997, Business Maharajas, Penguin publication, ISBN - 0-14-026442-6
3. Merchant of Poona, July 2014, Sakal Publication, ISBN: 978-98-80571-38-6
4. Biryani Prakash, 2010, Bharatiya Udojika Shunya Te Shikhar, ISBN: 978-81-8907-79-6
5. Bagachi Subroti, September 2011, the High Performance Entrepreneur, Penguin Publication, ISBN – 978- 93-86361-56-7
6. K.Ramchandran, Indian Family Businesses: Their Survival beyond Three Generation, Indian School of Business, Hyderabad.
7. Leaver Lindsay, 2010, Family Research Report on Family Owned Business in India- History and Present

---

## Corresponding Author

### Dr. Prena\*

BAR Janta College, Assistant Prof., HOD, VPO Kaul,  
Kaithal, Haryana