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Challenges Faced by Family Business in India and Measures to Overcome them

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***Abstract*: This paper intends to discuss the challenges faced by family business in India and remedies to solve these challenges. The family business in India differs from other Western countries because of the number of family members, their close relations, their structure etc. But they face problems due to poor succession planning, lack of defined strategies, decision making, urge for power, family politics etc. Problem usually starts when the family business passes to next generations, with increased number of family members, cousins, siblings and in-laws.**

***Keywords*: Succession planning, diversification, challenges, remedies, competition.**

1. Introduction

A family business is a company owned by one or more family or family members. Family firms and family businesses account for around two thirds of businesses around the world. If we look at different economies, in every single economy, the private sector will be chiefly made up by family owned businesses, consisting of small and medium size. A large number of the biggest companies in the world have a tradition of family-ownership. Samsung, Ford, Walmart, Toyota, Wolkswagen, Lego, Idea are the notable family owned companies in the world. Around 70 to 90% of the global GDP is annually created by family businesses, 65% of jobs worldwide are created by them and 85% of family businesses are formed with the help of family money.

Family Business have distinct features like tradition, succession, innovation, passion. They received lesser attention until 20 to 30 years ago. All businesses face challenges, may be related to changing economy, appointment of right employees, getting substantial share in the market, increasing the area of operation or increased competition in the market. Family businesses also need to face these challenges. In addition to these, family businesses face unique set of challenges because of the nature of their business structure. Many of these challenges will be found when the second and subsequent generations enter the family business.

2. Objectives and methodology

A. Objectives

- To study the challenges faced by family business in India.
- To suggest measures to overcome the challenges faced By family business in India.

B. Methodology

The present study is Descriptive in Nature and for the purpose of study, data is extracted from secondary sources viz. from journals and related websites.

3. Challenges faced by family businesses

A. Family problems

Family problems affect the family business in a great way. Emotion, divorce, separations, health or financial problems create difficulty in the day to day functioning of the business.

B. Lack of external view

They suffer from lack of outside opinions, new ideas and diversification in operation. All members in the family may not always have the same opinion. The similar upbringing and life experiences of family members may lead to a uniform view of the business. To face competition, business needs to have an external view of the company.

C. Succession

Many face the difficulty in planning for handing the power to the next generation, leading to great political conflicts, clashes and divisions within family. Eg: Reliance.

D. Role Confusion

It may face the difficulty in defining the roles and responsibilities of family members in the business. Some members may just take the undue advantage of their legal rights on the business.

E. Lack of talent

It may face the difficulty and pressure of hiring family members in the business, especially when they lack the skills and experience to handle the jobs. Further it may face the difficulty to fire them, if they are not working properly.

F. Compensation problems

Family business may find the difficulty of providing dividends, salaries and other benefits to the non-participating family members.

G. Conservative

The older generation may put resistance to ideas and changes proposed by younger generation. This will create restlessness in the younger generation.

H. Growth problems

A huge challenge for a family business is determining the sources of capital and resources. Further resistance to new investment opportunities and re-investment come in the way of growth of the business.

I. Centralization of authority:

Authority and control in family business is centralized and is influenced by family tradition instead of good and scientific management practices.

J. Communication

It may face communication problems created especially by role confusion, emotions, political divisions or other relationship problems among the family members.

K. Informal

Absence of clear policies and business norms for family members is one of the problems that comes in the way of its success.

L. Training

The informal culture found in many family businesses can result in lack of approach to training new employees, whether they are family members or not.

M. Exit Plan

All businesses need a plan for the future. Family businesses often lack a defined strategy about retirement, transfer of responsibility or sale of business. This is also true in succession planning.

4. Remedies

A. Bridging gap

Family firms can go for medium-term strategic plans to link their present business goals with the long-term ambitions of both the family and the business. This has implications in areas like investment in innovation, and in obtaining finance for growth.

B. Professional help

This will reduce sufficiently the intensity of the emotions generated by the problem, so that they can see possible alternatives more clearly and make choices more freely.

C. Right mix

To face the competitive world, they should acquire the right mix of talent, technology, ideas and innovations.

D. More time and resources

They should devote more time and resources on entrepreneurship and innovations in the existing operations.

E. Training

There should be a specific training programs for both family and non-family members to integrate them with the company. This should provide specific information related to the goals, expectations and obligations of the position.

F. Strategies

Strategies and goals must be changed from time to time according to the relevance demanded by the company and economy.

G. Retirement and estate planning

Long term planning, retirement and estate planning should be done to cover the necessities and realities of older members when they leave the company.

H. Clear definition

There should be clear definition of roles, responsibilities, powers, positions and remunerations of family members in the business.

I. Performance appraisal

There should be continuous appraisal of performance of both family and non-family members equally. And the rewards, promotions must be based purely on merit.

J. Selection of suppliers

While selecting the suppliers also, family businesses must not favor based on their relation with the suppliers. It should also be done on merit.

K. Creation of trusts:

Creation of Trusts or Holding companies, having the shares of the parent company can be used as a measure to avoid family conflicts and interference of family members in the business. Family members can be given the shares of the Trusts or holding companies.

E.g.: Tata and Murugappa Group

L. Management

Top management positions can be filled by recruiting professionally competent non-family members along with family members.

E.g.: Wadia Group, Dabur

M. Territory of power

There should be clear definition of territory between family and non-family members and no one should be allowed to cross this territory. This will help to minimize conflicts and to have healthy relations between them.

5. Some case studies

A. Reliance

On 8th May 1973, company was incorporated in Karnataka state as a public limited company under the name Mynylon Ltd. to manufacture synthetic blended yarns and fabrics, polyester filament yarn, polyester glass shells and colour TV picture tubes.Later it became India's largest business empire having petrochemical, refinery, oil & gas related operations, cloth, telecommunications etc. Reliance Industries, split because of the ownership issue between the Ambani Brothers after the death of their father Dhirubhai Ambani, founder of Reliance. It began in 2004, when Anil Ambani, the younger brother questioned ownership claims of Mukesh Ambani. In 2005 their mother, intervened and split the company between the two brothers. This is the result of lack of proper succession plan and predefined system of conflict management in business. It got split after second generation.

B. The Murugappa group

The Murugappa Group was founded by Dewan Bahadur A M Murugappa in 1900 as a money lending and banking service. Later they extended to areas like general insurance, fertilizers, manufacturing bicycles, steel tubes etc. It is currently in the hands of fifth generation, mainly due to its strong succession plan which was drawn up in consultation with Arthur D. Little, well-known business consultant. The family members play the role of advisors in the Board and the Chairman position is filled on the basis of competence.

C. TATA group

Tata is one of the oldest family business in India. It was established by Jamshedji Tata in 1868 as a trading company. Now it has set up a number of industries which include Tata Motors, Tata Consultancy Services, Tata Power, Titan Industries, Taj Hotels etc. It has 32 listed companies with a market capitalization of 6 trillion. The number of people employed in various Tata companies are more than 4,50,000. The shares of Tata Group Companies are owned by a holding company. The family members hold shares of the holding company. But their current problem is Mr. Mistry, who holds one-fifth share in the holding company. He has placed his younger son in the company's Board. Tata may face the problem from Mr. Mistry's hold in the company as the number of family members increase.

D. The Dabur group

It was founded by Dr. S. K Burman in 1884. Currently it is the largest manufacturer of Ayurvedic medicines in India. Dabur offers 260 medicines for treatment of a range of ailments. It employs around 3000 people. In 1990, they replaced their several family members with professional non-family members in the Board and CEO position. This sudden change effected on the smooth functioning of the business. But soon they realized the art of handling situations with a different outlook and to maintain balance between family and non-family members in managing the business.

E. The Wadia group

It got its foundation when Sir LovjiWadia got contract to manufacture ships and docks for the East India Company in 1736. The group started in 1879. Currently they have 5 listed companies—Bombay Dyeing, Britania Industries, Bombay Realty, Go Air and national Peroxide. The current chairman is Nulsi Wadia. They have also their presence in aviation, healthcare, real estate, auto components, chemicals, engineering, plantations and retail. Since 1879, each generation had only one son, and so there was no succession problem, as the management passed from father to son. The current generation of Nulsi Wadia has two sons and both of them have joined the business. After 2002, they have brought a new set of non-family members for the top management positions. And Wadia's two sons have not been given these positions, taking into consideration the succession planning.

F. The godrej group

It was founded by Ardeshir Godrej in 1897 to manufacture locks. They are present in industries such as soaps, refrigerators, consumer durables, electronics, furniture, industrial engineering, real estate, agri-business, construction, information technology and FMCG. The group has revenue of $3.5billion. It also holds shares in most of its companies ranging from 50 to 100%. The Godrej group employs more than 26,000 people. The present chairman of the group is Adi Godrej. The family members play the role of trustees in the business. Presently, the fourth generation is looking after the business. The new generation joins the group by joining the lowest executive position and goes up to the higher positions depending upon his performance. There is a systematic grooming process for younger generations by the family members and outside professionals.

6. Conclusion

Family business face many challenges and problems in their working. The generation gap can be filled by understanding, respecting and accepting each other's values and ideas. The new generation should first respect the hard work of their parents in upbringing the business. The older generation must properly introduce the newer generation to the business, provide them proper training, welcome their new ideas and reward them according to their talent. Professional help could be taken to solve certain matters. They should be careful in running the business in such a way that it is fair, transparent and does not hurt its business morale.

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