

A STUDY ON PROSPECTS AND CHALLENGES OF FAMILY CENTRIC BUSINESS IN INDIA

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ABSTRACT:

Family Business goes through various stages of growth and development over time. Many challenges are found once the second and subsequent generations enter the business. Every business has its unique set of challenges and problems. The Family Business is in no other way different. Family-owned business like Tatas, Birlas, Ambanis, Godrej, Wipro, Essar, Bharti and Muruguppa Groups are dominating the country's Corporate Sector however, still facing challenges such as appointment of successors, Talent-infusion, Governance and transparency in functioning etc. Just see the Reliance Group which has been split between the two Ambani brothers - Mukesh and Anil; the Tata Group too, has been searching for a successor to Chairman - Rattan Tata. Using sound principles, family experience helps in determining family's vision for the life, one wants to live; in developing a strategic plan to achieve that vision and using proven-planning, communications and team-building tools to make it a reality.

KEY WORDS: Corporate Bastion, Family-Centric, Stepping Stones, Career Pursuits, Talent-Infusion, De-risking Rights, Proven-Planning.

INTRODUCTION:

Blood runs thicker. Keeping within the tight-knit family Unit is a good way to get family business ahead. We may take here, the examples of the TATAS, the BIRLAS, the BAJAJS and the AMBANIS who are ruling corporate bastions and know it better that they have achieved it because

they are the intelligent entrepreneurs. Indeed, India has a strong hold of successful establishments and its immemorable history. The dynastic Institution in business is nothing new to our country. Family business thrives here because we the Indians lend to be primarily family - centre, and have a long historic tradition of profession being passed on from generation to generation - Father to Son or, Mother to daughter.

By taking few examples, we may better understand that it is the family business - suppose, a lady after doing fashion designing course joins the hand of her mother and sets up a garment business. She takes care of designing clothes while her mother looks after sourcing and execution of the project in Marketing. Her father and brother looks the day to day activities of the project where around 60 workers are on the job. Her one sister and cousin too are managing finance, accounts and other external activities of the business. So, it is called family business. We may take one more example of it - suppose, a young man of 25 after qualifying the course of Chartered Accountant joins the hand of his father , already a practicing C.A. since 1980. And, his grandson at later stages comes into the same profession after him. So it will be third generation doing the same family business , while his grandpa is continuing the promising over-whelming profession of its own.

Undoubtedly, joining the established family-run-business by the closed blood -relation is the old customary of our country because we Indians are

used to be family-centric and have had a long historic tradition of professions being passed on from one hand to another in a close blood relation. It becomes readily available most obvious career choice for the children born within the family.

Family experience helps us in determining our family's unique vision for the life one wants to live, developing a plan to achieve that vision and using practiced planning, team-building tools to make it a reality. It is the established fact that it is always better to invest in our family. One enjoys the family-experience making family's background / foundation together a beautiful setting. He/She learns the planning-techniques to handle successfully the day to day logistics, creating the family more qualitative. By setting the family priorities, one may find the way how to spare the time and energy to enjoy family time with one another. It establishes no doubt, a family identity by conducting fun-culture and team-building exercises to define family tradition, family norms, its values. On the other hand, it is proved a good planning tool to articulate family's vision and goals and to achieve successfully. It is advisable to the children to join their peers in the family so that they may strengthen the family-unit through their educational activities, knowledge fun and frolic.

In modern techno-economic context, an entrepreneur is one who manages the risks of the enterprise, visualizes the opportunities, takes bold steps in establishing enterprise, co-ordinates various factors of production and gives a fresh-start to the business. An entrepreneur evaluates the business opportunities in the context of personal capabilities, strengths and weakness; arranges for the capital and obtains the necessary licenses required to start an enterprise. He/She acquires the technical know-how and acts as a guarantor for the financial institutions. A successful entrepreneur is that who has identified goals and vision for the business, and has ability to manage the show. One who puts one's efforts to develop a good relation with employees, customers, suppliers financier and other regulatory bodies, is named as successful entrepreneur. Entrepreneurship refers to the process of doing new things or doing things that are already being done in a new way. It can also be described as a creative and innovative response to the environment. It constitutes activities transforming them into the viable business reality.

Entrepreneurship really looks for an opportunity for the new product by scanning the environment of production/service. Planning and organizing for the setting up manufacturing unit and simultaneously

arranges for Finance, technical -know-how and Raw Material etc. It is therefore, an urge or prosperity to own and start a good business unit, required in the region. An entrepreneur must possess some unique personality traits/character of self confidence, result orientation, risk-taking ability, leadership and good communication skills. Entrepreneurs exist in the economic system either in form of producers or service-providers. Agricultural entrepreneur falls in the category of producers and one who takes the activities such as agricultural crop raising, marketing and inputs to agricultural crop such as pesticides and fertilizers etc. They are motivated to raise agricultural production through latest mechanization and application of modern technologies. However, it requires effective and current R&D knowledge to develop new product/knowledge/service for the society, at large. On the other hand, it requires a good financial support from financial / banking Institutions on easy terms. Family Business plays a very significant role over all.

Family businesses at Small Scale level are often affected adversely owing to poor management, higher fixed cost, marketing or, financial problems; sometimes due to certain factors which are beyond the individual reach like mechanical/financial breakdown, sudden decrease in demand and new government regulations, on the way. That is why there are many such occasions when an entrepreneur has to face failures, even though he/she tries his/her best to succeed. There are some factors which are beyond his/her control which deprives success. Henceforth, entrepreneur should accept failures as a part of game of the business and learn from such failures. Failures should become the stepping stones for his / her success rather than discouraging him/her in accepting new challenges. It is therefore, advised to get failures analysed critically and find the ways and means with a view not to be repeated in future. Experience shows that women contribute a lot significantly in running a family business mostly in indirect form- enterprises in which women hold the controlling share are in fact , run their names by men who control decision-making and major operations. It is precisely, independence that society has denied to women all along. Entrepreneurial world is mainly dominated by men. Women in family businesses enter into entrepreneurship but face a lot of problems, as compared to their counterparts particularly in social front. They spend much time to lessen their family tensions than commonly business venture and try to make the balance most of the time,

between personal lines and career pursuits. Still, government support, financial support, along with the support of other family members place them a step ahead in taking entrepreneurship as a career.

Role of promotional agencies like National Alliance of Young Entrepreneurs (NAYE) and Industrial Development Bank of India (IDBI) is pioneering in promoting entrepreneurship among women. NAYE organizes Seminars/Workshop/Training programs to give exposure to women entrepreneurs. IDBI has setup Mahila Udyog Nidhi (MUN) and Mahila Vikas Nidhi (MVN) sponsoring delegations and for participating in trade fairs Skill Development is also taken up in women's polytechnics and Industrial Training Institutes. Under various schemes like World Bank Sponsored Programme to upgrade polytechnics, separate Institutes have been set-up for women. And the course-design is kept in mind the special needs of women, such as their preference to work from their homes which would enable them to also fulfill their household responsibilities. A major hurdle for trained women is the participation in family business as family routinely provide financial as well as emotional support for sons, not to daughters preferably. It is hereby advisable that women beneficiaries must be induced themselves to claim greater decision making authority in family business, whether they are run in their name or, not, And, this may happen only with greater confidence induced by greater knowledge and experience of dealing with the external world and from moving with other successful women entrepreneur. All this may be achieved in training environment, especially one in which the women is discriminated in family environment.

To encourage more passive women entrepreneurs whose men folk run business in their names and to actively involve the women in their business within family, efforts will be required to be made covering all such women in family through training programs. Repeated exposure to women who are successfully managing enterprise might encourage some women who are passive now to involve themselves to a greater extent. Women are more actively involved giving shoulders to their related counterparts in family, especially in field of marketing. NGOs, Banks and the government are now supporting sufficiently women entrepreneurs than men. Teaching profession, within family, constitutes a large number of service sectors and employs large number of women. Priority is now being given to women in order to provide amenities/finances required by them, preferably in

small scale industrial sector like easy mobility, closeness to their homes, child care facility through established crèches, as a part of common facilities / amenities. Credits are also available for women through plethora of schemes but these are still bottlenecks and gaps. Women really do not enjoy the authority to pledge, dispose of assets and families are notoriously vary of using them to support enterprise for the women in family.

A great difficulty has been felt by women entrepreneurs in marketing. They often, depend on male of the family in this area, because marketing is meant mobility and confidence in dealing with external world. Women are usually faced to turn men in family for assistance. It is because of running household duties in parallel; mobility problems, lack of self confidence and year of success. The needful managerial and technical skills are also found lacking which is a great barrier to the growth of women's business in India. Family Disputes, Favoritism and a spill over of work into family affairs are some of the most common matters dealt with family partners that work together.

Dr. Reddy's Laboratory Ltd. is leading family business at Hyderabad. In accordance with the opinion of Mr. Prasad, G.V., the Vice-Chairman and CEO of the Laboratory, the Laboratory can successfully be transformed in to a global pharmaceutical company as he said in his presentation on "Managing Transition" at the first Asian Invitation Conference on Family Business". According to Mr. G.V. Prasad, Vice-Chairman and C.E.O of Dr. Reddy's Laboratory Ltd., Hyderabad, Talent-infusion, grooming, improving governance and building a global organization are the challenges in the transition from Family owned business to a professionally managed company.

Mr. Ashwin Choski, Chairman, Asian Paints, India said "We retained the key strength in R&D expertise, ability to attract resources and strong pipeline of the products. This resulted in growth for the company from \$ 234 million in 2001 to \$ 1.5 billion revenue at the end of March, 2007". According to Mr. Choski, Transparency, Trust and Accommodation were the vital for a Family Business to succeed. "Asian Paints was set up in 1942 by four families and till 1997; there were no major challenges from family side. We had taken professional help to face the situation in 1997. When a family, which has the face of the company, decided to exit by selling their shares in the market". he recalled. At any point of time, family business is a natural evaluation and with the passage of time and business growth, the challenges would

come up. "The biggest challenge always is arriving at a common understanding at the family level". Mr. Choski felt.

'PADRE NOBLE, HIJO RICO, NIETO POBRE' is a very famous popular saying in Mexico about Family Owned Businesses, means 'Father, the founder of the company, son rich, and grandson poor'. Obviously, the father works hard and establishes a business at his own, the son takes it over and enjoys with riches, makes it grow while in the third generation, the grandson inherits the business of family with empty bank accounts. No doubt, every business organization has a unique set of challenges and problems. The family business is no different. Many problems exist in corporate world, but may be aggravated and exaggerated in a family business. Family businesses go smoothly, get growth and develop over the times but problems naturally arise when the next generation comes on to the throne, and takes over the business. In order to avoid the poor show or, poor house business, we may extend help to those who come in family business as subsequent successor with following challenges:-

01. FAMILY DISPUTES :- Commonly, it is observed that disputes very naturally exist in most of the families especially business family houses. It is very rare, where there is an ideal industrial family house. As soon as second or, subsequent generation secures its place in family business, generation gap causes certain confusions, conflicts and disputes in legal terms.

02. FAVOURITISM :- At one stage father, mother, son or, sister commits mistake in deciding his/her succession in family business; the person who deserves but not chosen for succession, junior in relation or, age supersedes due to favour, fever of favouritism prevails in family.

03. EMOTIONS :- In-house eruption of emotions results in gaps in between the two, regarding health or, financial matters. Critical situation comes in picture in case separation or, divorce cases come on the way.

04. COMMUNICATION GAPS :- Owing to fear, anger or, envy, it happens that the things which are required to be there could not be communicated among the concerned persons in the family and the matter is interpreted in other senses.

05. SUCCESSION THREAT :- Lack of planning to hand over the responsibilities to the next generation gives rise to great in house conflicts and confusion. Family Business is therefore divided in thoughts and shatters.

06. OVERLY CONSERVATIVE APPROACH :- Difference in opinion, thoughts and planning because of rigid or, traditional approach, causes friction, conflict and distance between the two. Older family member tries to preserve the status quo and resist changes by younger generation.

07. IMPROPER COMPENSATION:- Due to the accidents or, mis-happening if a family partner goes-in-active and does not receive balanced compensation, in terms of financial benefits/dividends/salaries etc family business is adversely affected.

08. INCOMPETENCE:- Lack of tunnel vision, lack of written strategy and lack of talent, all are the cause of break in family business and are proved to be a serious threat/challenge to the business. In absence of clear policies, roles and responsibilities, break-down in family relation may happen at any point of time.

09. NO UPDATION OF KNOWLEDGE:- There all the members of family should be exposed to latest knowledge; training to all particularly family members is the need of hour, when we integrate family members into a company. Information related to goals expectations and obligations of the position must be got up-dated with latest developments.

10. LACK OF PARTICIPATION:- In day-to-day work, if members are not actively participative in business, it becomes difficult to supervise/control them, other members of the family. Lack of control causes irritation and family atmosphere is totally disrupted, remain not easy to sail.

11. FINANCIAL FRILLS: - Surplus money when becomes un-manageable due to lack of proper planning becomes sometimes cause of concern. On the other hand, inadequate capital availability becomes a matter of concern. Sometimes, recovery of sales becomes long, due to credit sales.

12. PRODUCTION PROBLEM:-It happens when raw material/labour is not sufficiently available. Production is affected by that. Quality of production becomes not possible due to wrong selection of Plant, machinery or, equipments. If production efficiency is poor, it affects the business.

13. MARKETING MATH: - In case, there is lack of marketing strategy and marketing support system is not supportive, the business is directly affected by that. On the other hand the unhealthy competition is another factor to be considered, for the purpose. Sometimes, the market trend is also not predictable.

14. MANAGERIAL MATH: - Business should be adaptable to the modern changes. If there

is poor access to modern technology latest technology is not properly addressed it will definitely affect the quality of business. It also matters, the inappropriate priorities by the entrepreneurs.

15. CONSTANT POWER CUTS :- Long run power cuts have become frequent feature of the day which affects industry-micro or small, medium or, large very adversely. It is a major challenge to the business of the day. Diesel is the next alternative to the electrical power, it is also becoming costing day-by-day. It resultantly, increases the cost of production, which is not desirable is today's competitive business world.

16. HEAVY TAXATION (INCLUDING VAT ETC.) :- Family business face today a lot because of this, such micro/small business are preparing a plan to shift from Punjab to neighbouring states like J&K, Himachal Pradesh and Haryana here taxation is a greater relief to the business.

17. TODAY'S RECESSION :- A great challenge as 'havoc' is being observed today in global perspective. Business is badly affected by the attack of cruel hands of recession across the world. Punjab is not untouched to it. The condition of State Business units is also too poor. Loaning adds fuel to the fire of recession of today.

18. GOVERNMENT POLICIES/RBI NORMS :- Rigid Rules, Hard norms and high taxation policies of the government touch the business directly. Number of small business units are either sick/closed because of bad impact of these factors. Family members struggle but sometimes it becomes out of their reach. Tight grip of the Government or, Government financial agencies makes the businessmen helpless and nervous.

19. MANIPULATIVE POLICY OF POLLUTION CONTROL BOARD :- Every business has maintained its treatment plant within the business premises. However, the manipulative attitude of Pollution Control Board puts the business persons in hot-water. It is a great challenge to make the balance - how to continue the business and how to handle the officials of pollution control board who manipulate the matters for one reason or, the other.

20. LACK OF TRAINED MANPOWER, A PAUSE ON WAY TO DEVELOPMENT :- More than 90% workers/manpower is not completely trained for the trade/business in which they are required to touch global standards for maintenance of quality in production/services. It is a big challenge to the business of today to have complete trained manpower; whether they are semi-educated or, semi-

skilled. For making experts on quality basis, it is the requirement to maintain/have trained manpower in business of today, when the competitions too tough.

21. SPILLOVER OF WORK INTO FAMILY AFFAIRS :- It is the common feature in family businesses which put forth the challenge for others. Some work which is interpreted or, switched over to other participating members of the family or, too much unmanageable for the other members(s) of the family, it becomes irritative family affair which affects the business, adversely.

Fresh entrepreneurs face funding problems/challenge at the very outset of the business, when starting out their own such people try to get the seed money to build / start the business. Conventional wisdom suggest the most successful entrepreneurs in attracting investments would have the best traditional skills; writing good business plans, formulating strategy or, having a good business, very much competitive and profit-bearing. But, we found that it was not that simple for the businessmen because all the entrepreneurs claim that they have fantastic ideas and may of them can present seemingly good business plans. The biggest effects are easily on in a new venture's life, when investors lack concrete information about founders and their teammates. Every entrepreneur has de-risking right at the start of the business.

Today, India based companies have access to more efficient sources of capital and can attract exceptional talent while expanding business at large. These changes in mind, have determined a new set of challenges, especially for those micro or, mid-sized firms that are competing internationally. India is a country where small and medium sized enterprise (SME) sector has traditionally played, and continues to play an important role in the economy. Family Business too, rely on informal finance and a nexus of personal relationships as a part of their ordinary business administration. India, in practice performs poorly in terms of enforcement due to an insufficient number of courts, their lack of specialization in corporate and security law matters and lengthy litigation procedures.

Indian Entrepreneurs need to pay attention towards domestic as well as the most recent developments regarding recession-risk-management around the globe, where the process is more mature, especially in Europe, Australia and North-America, if they wish to remain globally competitive. Innovation is not just about creating new ideas; it is also the ability to put those ideas into action. An increase in Manufacturing

Sector (SME) workforce is mandatory for India's Welfare. Undoubtedly, manufacturing is the backbone of every economy and its global competitiveness is more important for creating employment, and to nurture the agriculture, food-processing and Service Sector Industries. Such industries contribute about 25% of Gross Domestic Product (GDP). It is beyond doubt that India has to increase its manufacturing share from 25% to 45% to create employment for millions of its people while concurrently attracting MNCs, and encouraging Local manufacturers to become MNCs. According to Percy Barnevik, CEO of ASEA and Asea Browth Boveri (ABB), if a country manages its industries well, makes them globally competitive and focuses on core-competence, where there will not be any recession at all.

He intended to create a culture of entrepreneurship among those who live below the poverty line; according to him, a mass mobilization of millions of very poor people into productive employment is required, if India wants to achieve its proper growth, potential. A large shift work force from agriculture to manufacturing will help improve rural incomes and reduce poverty level. Entrepreneurial Training, creating literacy and providing coaching for start-up of new enterprises - it is all to develop products and services for both the domestic and international markets and be a sub-suppliers for export industries such as textiles. When the women are properly trained, they are as good as other women in running the small family enterprises.

In spite of key challenges to Family Businesses, still there are some insights/opportunities, which can bring family together at one particular platform in-tact. Few opportunities, as follow, may be kept in mind always for the success of Family Businesses. :-

01. FAMILY MATTERS BE KEPT AWAY FROM THE WORK PLACE :- Work and family are two different spheres of life and creating a clear distinction between the two will ensure that the family and business both will prosper. However, it is always laudable if we keep the personal and professional roles apart.

02. REMAIN RESPECTFUL AND FRIENDLY TO FAMILY MEMBERS WHILE MOVING IN PROFESSIONAL CAPACITY :- Keeping on very position in family business, one should not abuse the power; one should not be blind to common sense and dignity. When criticizing the family members, one should be cool and balanced friendly and respectful.

03. MAPPING OUT A CLEAR PATH FOR CAREER PROGRESSION IN FAMILY :- In order to accommodate the future contingencies and expectation in a family, there should be a clear succession plan before all the family participants who will be the next successor of the whole business. All the expectations must be kept in line and pre-decided, so that the succession be clear to all for avoiding uncertainly in all the sphere of the business.

04. NOT FORCING ANYONE TO CARRY ON :- The option should be kept open for all whether not to carry out business unwillingly and leave or, branch out at any stage whenever he or, she wants, irrespective of thinking whether the family business is run by the family member or, by the outsider. It should be the clear outlines for the business whoever wants to carry it out, he/she should carry it out willingly and contributing it significantly progressively.

05. ADOPTING THE 'EQUITY' PRINCIPLE FOR ALL THE EMPLOYEES :- All the business employees should be treated equally be professional while dealing with the employees. It should be there, to allow all the employees equal access and strongline of communication with all so as to small and strong feeling of contentment. Biased approach is never recommended. Rather equal participation there should be adopted involving all employees in the decision making process of the business, so that they may feel privileged.

One should determine one's family's vision for the life one wants to live, develop a strategic plan to achieve that vision and use the proven planning, communications and team building tools to make it a reality.

Annexure - One INSTITUTES OFFERING

ENTREPRENEURSHIP EDUCATION

- 01 NIESBUD :** National Institute for Entrepreneurship and Small Business Development - established by Industrial Ministry to Coordinate andthe activities of various Institutes/agencies involved in entrepreneurship and Small Business Development. It provides Short Term Training to the individuals in entrepreneurship education.
- 02 EDIT :** Entrepreneurship Development Institute of India - it is the trainers training Institute in entrepreneurship development and undertakes research in this area.
- 03 NITIE :** National Institute for Industrial Engineering - it provides short term courses in

various fields which help the trainer to run the business successfully. It offers two week training the trainers programmes of entrepreneurship development.

- 04 SISI** : Small Industries Service Institute - it provides entrepreneurship awareness program for industry wise to various groups.
- 05 NSIETI** : National Small Industries Extension Training Institute - it conducts courses for Small Industry Entrepreneurs to manage the unit.
- 06 C-END** : Centre for Entrepreneurship Development and Growth
- 07 NASEY** : National Association of Self-employed youth.
- 08 NEDA** : National Entrepreneurship Development Agency
- 09 NAYE** : National Alliance of Young Entrepreneurs.

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