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Thomas Schmidheiny
Centre for Family Enterprise

FAMILY BUSINESS

The Emerging Landscape

1990
to
2015

Nupur Pavan Bang
Sougata Ray
Kavil Ramachandran



Family Businesses: The emerging landscape 1990-2015

Nupur Pavan Bang

Sougata Ray

Kavil Ramachandran

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Family Businesses: The emerging landscape 1990-2015

Nupur Pavan Bang, Sougata Ray and Kavil Ramachandran

1. Introduction

The year 1991 was a momentous year in the contemporary economic history of India. It ushered in a new dawn to Indian economy with the unleashing of sweeping economic reforms across sectors of the economy. The widespread reforms were expected to bring about significant transformations in the structure, operations, allocation of resources (including capital) and competitiveness of the businesses in India. Industrial activity, in the otherwise agrarian India, started in the late nineteenth century by traders looking at alternative ways of making money. They took on the mighty British and Anglo Saxon agencies and emerged as the most dominating economic powers in the Indian Economy by the early 1950s. The period of licence-quota raj stifled the growth of these economic powerhouses, which were mostly privately held family businesses, in the 1960s and 1970s. However, being protected from competition in an insular economy, they continued to be a dominant force in many of the traditional industries where the State owned enterprises and Multi-national companies had negligible presence.

When the economy was opened up in 1991, there were widespread apprehensions about the capabilities of the family owned and managed businesses to withstand the pressure of the newly created “freedom”. The firms that operated in a controlled and regulated environment suddenly became vulnerable to competition for resources, markets and capital. There was so much emphasis on self-sufficiency, prior to 1991 that quality, productivity and efficiency were not on the radar. Eighty six percent of all research and development in India was funded by the state in 1991 (Forbes, 2001).

Craig E. Aronoff and John L. Ward in a research paper published in the Family Business Review write about peoples’ perception about family businesses, “...*To them, family businesses are quaint relics. Others regard the family business as an ideological icon, a mostly rhetorical symbol that combines motherhood and apple pie with entrepreneurial drive... whether family owned businesses are a thing of the past or a model for the future*” (Aronoff & Ward, 1995). When the Indian economy was hit by the wave of liberalization, similar doubts crept into the minds of “*executives in large corporations, dealers in corporate finance and securities, our colleagues on business school faculties, journalists, and elected or appointed government officials*”¹ with regards to the Indian family businesses. To quote from a special issue of Business Today published in 1998, “*After the seeds of entrepreneurship were sown in the 1860s-when the*

¹ Aronoff & Ward, 1995

*first cotton mills came up in Mumbai-the family has survived colonialism, partition, and modernisation to remain at the helm of business. But will it emerge through liberalisation with just as much impunity? Will its reign over the country's corporations, reflected in ownership and control of 93 per cent of all companies operating in India, be perpetuated? Or will the family business house fall victim to the incompetence- and uncompetitiveness-devouring forces that are reshaping the Indian economy and the business landscape?"*²

The firms that had little or no need to innovate now had to compete with new entrepreneurial ventures and foreign firms. The families that had learned to maneuver the state bureaucracy to get licenses did not know how to focus on the customer or to market their products. Family Business Groups such as the Thapar, Mafatlal, Lalbhai, Shriram (DCM) and Shah (Mukand) which were amongst the top 50 business houses in the country at the beginning of the 1990s lost out to the new entrepreneurial ventures of families like Adani, Dr. Reddy (Dr. Reddy's), Mittals (Bharti) and Shanghvi (Sun Pharma). Other top business houses like Tata, Birla, Ambani (Reliance), Bajaj and Mahindra had to reinvent themselves to stay relevant and on top.

There is no uniformity in the response of family firms to liberalization and concomitant outcome. There are many firms that have done well, the others have not done so well, yet others have totally disappeared from the business scene and a new class of family businesses have emerged. This has led to the emergence of private enterprises, family businesses in particular, as the most dominant force of Indian economy. Hence, twenty five years after the initiation of liberalization, the time is now ripe to systematically study the evolution of family businesses in India since 1991.

Many interesting questions beg systematic enquiry, like- did the entry of foreign firms take away the market share of family businesses, did the family businesses innovate and become customer centric to stay on top of the game, did family businesses change structurally to meet the new challenges that liberalization posed and many others come to mind. The Thomas Schmidheiny Centre for Family Enterprise at the Indian School of Business has undertaken a multi-pronged, multi-staged study to explore the evolution of family businesses in India. This paper, the first in a series of papers, reports some of the early findings of the study.

In this paper, we report the collective trends exhibited by the family businesses and other ownership categories like the state owned enterprises, the multinational companies, etc. Specifically, how did the family firms perform in term of contribution to the Indian economy- Gross Domestic Product (GDP), taxes paid to the exchequer and creation of assets? Did family businesses change structurally post liberalization and did they take advantage of liberalization? We look at the heterogeneity within family firms and also compare and contrast family firms with non-family firms.

² The strategic response, Business Today, January 07, 1998, <http://www.businesstoday.in/magazine/cover-story/indias-business-houses/story/16696.html>; accessed on June 22, 2017

We study 4,809 firms listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) of India over a period of 26 years (1990-2015). The study reveals that family businesses not just thrived in the increasingly competitive world, but also contributed significantly to the economy. With economic liberalization, many new firms, domestic as well as foreign, could start operations in India. Family businesses continued to increase their share in number of firms, assets and tax contributions to the nation. A large number of new family firms emerged in the 1980s and 1990s with different characteristics than the traditional family firms affiliated to family business groups. Our analysis puts to rest the doubts and reinforces Aronoff & Ward's belief, and ours too, that family businesses are not just the past, they are the future and an integral part of the journey of India to becoming an economic powerhouse. *Their capacity to transcend time is their greatest strength* (Aronoff & Ward, 1995).

The remaining of the paper is structured as follows: section 2 presents the industrial background of the Indian economy in brief, section 3 details the method used to classify family and non-family firms and also the data used, section 4 presents the analysis and findings and section 5 reports the implications and conclusions.

2. Background

India has a long history of trade and organized economic activities, especially along its coast lines. Yet it remained fragmented (Khanna & Palepu, 2005) till the advent of the British rule in India. Families and communities started to organize themselves as an alternative to the institutional voids in access to capital, labour and protection of various rights (Gollakota & Gupta, 2006; Khanna & Palepu, 2005). The joint-stock companies Act of 1850 and the formation of the BSE in 1875 further helped the large companies operating in the pre-independent India to structure themselves. The 'Managing Agency' system, wherein the promoter(s) had a partnership or a holding company that floated companies (Goswami, *The Tide Rises, Gradually- Corporate Governance in India*, 2000), helped the controlled companies overcome some of the capital and labour concerns. The managing agents also fulfilled managerial functions, acted as agents for sales and purchase and carried on export and import trade (Hazari, 1965). It can be said that they were both, shareholders and managers. They maintained control over the operating companies through management contracts, financial practices and share and voting arrangements (Brimmer, 1955)

The period around the first world war saw the rise of the Indian trading communities, especially the Marwaris. The Marwaris were traditionally traders and moneylenders and did not have any dearth of funding. They also made money in raw jute, shares and futures trading. They started to buy the shares of British and European managing agencies and also set up their own managing agencies, thereby moving from being traders to industrialists (Goswami, 1989). In the 1940s, the rich and powerful families in India gained further control of the agencies managed by the

European and British as they divested their stakes (Varottil, 2015)³ owing to being cash strapped, in debt and inefficient. Around the time India became independent, in 1947, industry and services contributed to just about 40 percent of the GNP and they were concentrated in the hands of a few large business families, especially the industrial sector. Few business ‘houses’ like the Tatas, the Birlas, the Mafatlals and the Walchands controlled, through their subsidiaries, “almost every line of modern productive activity”. These business houses had substantial controlling power on the entire economy due to their sound financial position and diverse activities. Though, none of them had a monopoly in any industry (Chaudhuri, 1972).

A socialistic mindset and fresh memories of the excesses of East India Company prompted the architects of the independent India to embrace Soviet-style economic policies and planning, that were highly centralized (Sanders, 1977) and stressed on self-sufficiency. The period from 1947 to 1990 was characterized by high tariff rates, restrictions on imports, foreign exchange, private and foreign investments, creation of state-led monopolies and nationalization of banking and insurance sectors (Kotwal, Ramaswami, & Wadhwa, 2011). Many industries were reserved only for the public sector, such as oil and gas, power generation and distribution, atomic energy, mining of certain minerals, etc. Since the restrictions placed on the private sector did not apply to the public sector, the public sector companies, also known as State owned enterprises (SOEs) grew to mammoth sizes. In comparison, the private sector companies in other industries remained smaller when compared to companies in the same industries in other countries due to various restrictions, regulations and limited access to finance (Kochhar et. al., 2006).

Industries (Development and Regulation) (IDR) Act 1951 and the Monopolistic and Restrictive Trade Practices (MRTP) Act, 1969 were enacted to avoid concentration of economic power in the hands of few firms and groups (Kochhar, Kumar, Rajan, Subramanian, & Tokatlidis, 2006). Ironically, acquiring licences and ‘playing the licence game’ became the major competitive advantage of some of the business groups due to their easy access to the powers that be, their understanding of the system and the loopholes in the system that allowed the officials to act on discretion (GoI, 1969; Chaudhuri, 1972; DeLong, 2003). As a result, the top family business groups in the country actually prospered during the most stringent period of controls (1951-1969), even though their growth was arrested after the enactment of the MRTP Act (Rajakumar & Henley, 2007).

This period lasted till 1990, after which the government was forced to liberalize the Indian economy due to a balance of payments crisis. While 1991 is seen as the year in which widespread policy reforms were undertaken to open up the Indian economy, the process of cautious or “reforms by stealth” actually started in the late 1970s. By the mid-1970s, the industrialists had started to lobby for removing import restrictions and relaxing controls.

³ The managing agency system was abolished in 1970 based on recommendations of various committees set up by the government of India (Hazari, 1965; Varottil, 2015). The system that was considered to be the need of the hour in the early 19th century had started to indulge in rent-seeking behavior, mismanagement of the firms and funds and fraud.

Reforms in the 1980s laid the foundation for the full-fledged, systematic and systemic, wide spectrum of reforms in 1991 (Panagariya, 2004).

Many sectors that were earlier reserved only for the public sector, such as telecommunications, power generation and distribution, mining and airlines, were opened up for private players. A new wave of entrepreneurial ventures, in traditional as well as new sunshine industries emerged post-1991. Reforms allowed families to allocate capital more efficiently and increase private sector participation in the market (Zattoni, Pedersen, & Kumar, 2009). Norms were also relaxed for foreign multinational companies to set up businesses in India.

The reforms ushered India into the league of the fastest growing economies in the world (Table 1). Throughout the first half of the 20th century, while India was still under the colonial rule and economies world over were reeling under the pressures of wars, the Gross Domestic Product (GDP) of India grew at a dismal average rate of 0.8 percent. Post-independence, the protectionist and inward looking policies of the government kept the average growth rate at 3.5 percent, lower than that of the world economy, till modest and cautious reforms began in the 1980s (Das, 2007). Since 1991, India has opened up to foreign investments, international trade, removed barriers and tariffs and there has been remarkable adoption of technology and adaptation to competitiveness since then. As a result, the growth rates have been second only to China, which opened up earlier and more inclusively (Alessandrini, Fattouh, Ferrarini, & Scaramozzino, 2011).

Table 1: Indian Growth 1900-2015

	1900-50	1950-80	1981-90	1991-2000	2001-10	2011-15
GDP growth rate in %	0.8	3.5	5.6	6.2	7.4	6.7

Source: 1900-2000: Das, Gurucharan. (2007). "India: How a rich nation became poor and will be rich again", <https://gurcharandas.org/rich-nation-poor>, accessed on April 10, 2017; 2001-2015: Data Source- World Development Indicators,

<http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?contextual=default&end=2015&locations=IN&start=1961&view=chart>, accessed on April 10, 2017, averages calculated by the authors.

3. Data and its description

Despite their significant contribution to the Indian economy, family businesses remain a largely unexplored area of research. One of the reasons for this is the difficulty in identification of family businesses, leading to the lack of a comprehensive database on family businesses. In the literature, family businesses are generally classified on the basis of ownership, management and succession or business continuity. In the family business literature, 79 percent of the studies used ownership, 53 percent used management control, 28 percent used directorship, 15 percent used self-identification, 9 percent used multiple generations and 7 percent used intra-family

succession intention, as the criteria to define a family firm (Machek, Kolouchová, & Hnilica, 2015).

We identify a firm as family firm if the first condition of significant ownership is met and any one of the other two conditions are met:

a. An equity ownership above 20 percent by family members or family controlled firms as on date (2016) or the last shareholding data available. The cutoff of 20 percent is deemed to be appropriate as it has been found that individuals/families are able to control companies with much lower shareholdings due to large number of other shareholders that are widely scattered or financial institutions as shareholders that are not interested in the management of the company (Bagchi, 1967)⁴.

b. Family member as chairman of the board, or two or more family members⁵ in the board of the firm. Once it is established that a Family has more than 20 percent shareholding in a company, we try and find out if the family also exerts management control on the company. Wherever the Chairman of the Board, the Chief Executive Officer (CEO), the Managing Director, or a person with any of the 75 designations as mentioned in Annexure 1 is also a promoter and member of the family holding more than 20 percent stake in the company, that company is considered to be a Family Business.

In cases where the information about the Board of Directors was not available or it was difficult to determine whether the individual is a family member or not, the Annual Report of the company and the website, especially the History section and the Team/Management/Leadership sections, was explored to gain clarity.

c. Multiple generations or multiple members of same generations, actively involved in business. If a classification could not be arrived at through conditions (a) and (b), then the website of the company, along with search on the internet to get more information about the company was explored. If steps (a) and (b) satisfactorily classify a company as family, then we did not perform step (c). But if there was ambiguity in step (b), as there were companies where a family owned more than 20 percent shares, but the company was managed by a non-family CEO or Managing Director, in such cases, we looked for whether the stake of the company was being passed on from one generation to the other and the members of the family were involved in the company as owners, even if it was not in a leadership role.

An example of this would be Andhra Cements Ltd. The company is owned by a company which is a part of the Jaypee group. The company is run by professionals who are not a part of the family. Only one member of the family is a part of the Board of Directors (based on surname

⁴ No significant changes were observed when the ownership cutoff was relaxed to 15 percent or increased to 25 percent.

⁵ Family members were many times identified using the 'surname' matching approach when any conclusive evidence of relationship was not available. See (Machek, Kolouchová, & Hnilica, 2015) for a primer on the approach.

‘Gaur’). However, Jaypee Group is an old group with ownership being passed on from one generation to the other over time. All this information collectively enabled us to classify the company as a family business.

The above criteria have been primarily used to classify companies into Family and Non-Family businesses. If there was ambiguity, in spite of performing steps a, b and c, then we checked if the company belonged to a known family business group (BG)⁶. There is no strict rule that can be applied to associating a company with a business group. Prowess database of Centre for Monitoring of Indian Economy (CMIE) uses the available data, its intelligence and its judgement in associating a company to a business group. Sixty four percent of the companies were classified by Prowess as Private (Indian). This did not give any indication about the ownership or affiliation of the companies, except that they were owned by Indian entities (Individual, Hindu Undivided Family, Corporates, Institutional Investors, Banks, etc). Similarly, Private (Foreign) and NRI categories, did not give much indication about the ownership and affiliations (Table 2). The remaining 684 unique groups represented 1,999 companies.

Table 2: Ownership Group data

Ownership Group	No. of Companies
Private (Indian)	3,893
Private (Foreign)	204
NRI	5
Others (684 unique groups)	1,999
Total	6,101

For companies, where we had ambiguity for the purpose of family versus non-family classification even after performing the steps a, b, and c, we looked at the Prowess classification for ownership group. If it was a known family BG like Tata, Birla, etc. then we classified the company as Family. If it was an unknown group or classified as Private (Indian) or Private (Foreign) group then we did further manual check.

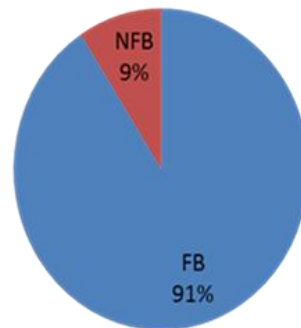
Using the detailed process mentioned above the data were classified into two categories: Family Businesses (FBs) and Non-Family Businesses (NFBs). We arrived at a sample of 4,809 firms where we could decisively classify the companies; 91 percent of it constituted Family businesses (Exhibit 1a) and the rest were non-family businesses.

Porta, Florencio, & Shleifer (1999) found that in countries with weaker shareholder protection norms, even large corporations tend to have controlling shareholders who are often the founding family members. This was found to be true for India as well as 91 percent of the companies had

⁶ BGs are companies that belong to well-known family business houses and also non-family groups.

founding family members as controlling shareholders, either directly or indirectly (through a holding company).

Exhibit 1a
Total Family vs Non-Family



Once the firms were classified as family and non-family, we further classified them into sub-categories based on their ownership. Ownership structure is found to have relationships with performance, governance and strategy of firms in India (Chakrabarti & Ray, 2016). Businesses in India are characterized by many differing ownership structures. Prior literature on BGs does not distinguish between family and non-family business groups. Similarly, the prior literature on family businesses either focus on business groups or family firms irrespective of whether they are a part of a group or not. BG affiliated firms are usually bound together by various multiple ties such as common ownership, directors, products, financial, or interpersonal ties. Moreover, there is typically a core entity or dominant coalition, offering common administrative or financial control, or managerial coordination among the member firms (Granovetter, 2005). We believe that the family firms that are not affiliated to any business group will behave differently than the group affiliated ones.

Therefore, Family businesses were further classified into Family business group affiliated firms (FBGFs) and Standalone family firms (SFFs). SFFs are family firms that are not part of a business group. Non-Family Businesses were further classified into State-owned enterprises (SOEs), Multinational subsidiaries (MNCs), Other Business group affiliated firms (OBGFs) and Standalone non-family firms (NFFs)⁷.

SOEs or public sector undertakings as they are commonly referred to in India, are legal entities that are created by the government in order to partake in commercial activities on the government's behalf. It can be either wholly or partially owned by a government and is typically

⁷ For a detailed description of SOEs, BGs and MNCs see Chakrabarti & Ray (2016).

earmarked to participate in commercial activities. Examples include Indian Oil, NTPC, ONGC, Coal India etc.

MNCs are firms that have entered India through foreign direct investment. These firms make investments through which they acquire a substantial controlling interest in a domestic firm or set up a subsidiary in a foreign country (Markusen, 1995). Examples include Nestle, Cadbury, Microsoft, etc.

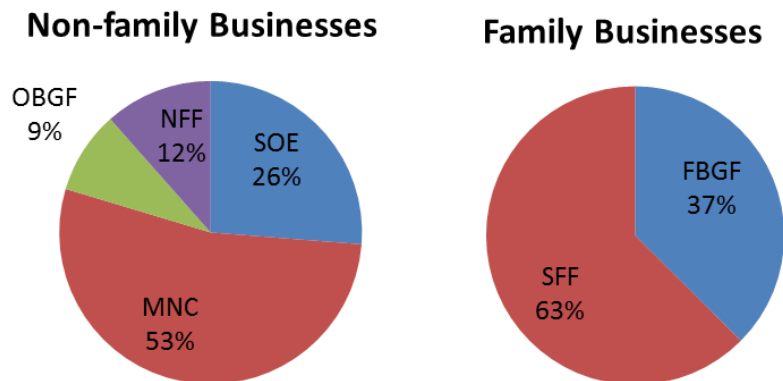
Other Business group affiliated firms (OBGFs)- One key characteristic of Business Groups in the literature is ‘kinship’ amongst top management. Business groups affiliated family businesses are therefore BGs in the true sense and have been classified as FBGFs in this study. The other firms that meet the criteria of business group affiliated firms to a large extent but the top management in the various affiliated firms are not related in any way have the ‘kinship’ that a family has missing. They are hence classified separately as OBGFs. Examples are the ICICI Group, IVRCL Group, Larsen and Toubro Group, among others.

BG affiliated firms which were SOEs or MNCs were classified under SOEs and MNCs, not under OBGFs. For example, the companies under the State Bank of India group would be a part of SOEs.

Standalone non-family firms (NFFs) form the remaining set of firms in the dataset. These firms are usually characterized by distributed ownership and a high degree of professionalization. Examples include Infosys, ITC, Global Trust Bank Ltd. etc.

Out of the total 4,367 family firms, 1,636 belonged to FBGFs and 2,731 were SFFs. Out of 442 non-family firms in our sample, 116 belonged to SOEs; 236 belonged to MNC subsidiaries; 39 belonged to Other BG affiliated firms; and, 51 were Non-family firms. Exhibit 1b illustrates the distribution of the firms by ownership category.

Exhibit 1b



We considered all companies listed on the BSE and NSE for a period of 29 years from 1988 to 2016. The above classification was done using data from the Prowess database, websites of the

exchanges and companies and information available on the internet. There were 7,735 unique firms in the super set of listed companies, this included companies which had delisted or merged, as on April 01, 2016. Missing or ambiguous data on ownership, shareholding and management brought down the list of companies to 4,809⁸. Most of the data in Prowess were available from financial year 1990 onwards. Also, data for many companies were not updated/ available after financial year 2015⁹. Hence the analysis was done for the period 1990-2015.

We find that the SFFs became a force to reckon with post liberalization (Table 3). On closer scrutiny, their rise began during the first wave of reforms in the 1980s. Hence it will be interesting to study this class of family businesses separately from the business group affiliated firms. Similarly, the non-family/ other business group affiliated firms also grew in number post the first wave of reforms, in contrast with family business group affiliated firms that were the earliest dominant ownership category.

Table 3: Ownership category wise incorporation of firms

	FBGF	SFF	SOE	MNC	OBGF	NFF
No. of firms incorporated prior to 1900	7	2	2	1	0	0
No. of firms incorporated from 1900-1950	185	69	28	34	7	7
No. of firms incorporated from 1950-1990	1030	1393	72	149	13	14
No. of firms incorporated from 1990- 2015	414	1267	14	52	19	30
Total no. of Listed firms	1636	2731	116	236	39	51

Apart from ownership and board of directors' data, other data extracted from Prowess included incorporation year, listing year, state, and financial data of the firms. Data from standalone financial statements were used as data from the consolidated financial statements were available only from the year 2000 onwards (Table 4).

Table 4: Financial Data used for analysis

Variable	Description
Total Assets	Sum of all current and non-current assets held by a company
Gross fixed assets	Historical cost of all of the fixed assets that are in the possession and control of a company. It also takes into account capitalised expenses. On the other hand, if a fixed asset is sold at any point in time, the historical cost thereof is deducted from the value of the gross fixed assets.

⁸ The authors feel that these firms would be typically small and illiquid standalone family firms which have either not been traded for long periods of time or have been suspended by the exchanges for non-compliance with disclosure requirements. Apart from driving up the number of standalone family firms, such firms will not have material impact on the results of our study due to their relatively smaller size.

⁹ Financial year refers to the period April 1 of the previous year to March 31 of the year being referred to.

Net fixed assets	Net value of the fixed assets of a company after adjusting for the cumulative depreciation on gross fixed assets.
Total income	Sum of all kinds of income generated by an enterprise during an accounting period.
Total Tax	Sum of all kinds of taxes paid by the company, whether direct or indirect taxes. It also includes license fees such as those paid by telecom companies and prior period taxes paid by a company during a year.
Direct Tax	Sum of all kinds of direct taxes paid by the company. This also includes 'minimum alternate tax' and 'deferred tax paid'.
Indirect Tax	Taxes levied by the central, state or local governments on the production of goods or on services rendered or on the movement of goods or their trading. Indirect taxes also include statutory contributions made by companies of certain industries such as steel or petroleum.

It may be noted that some firms may have existed even before their incorporation as a division of some other company or as a sole proprietorship or partnership. For example, Tata consultancy services, a FBGF, was founded in 1968 as a division of Tata Sons Limited. However, it was incorporated as a separate legal entity only in 1995. No adjustments were made to accommodate for such cases. There were a few cases where state and incorporation year were missing in Prowess. They were manually filled in using information from the website of the companies.

The earlier of the first trading date on BSE and NSE was taken as the date of listing. The financial year of listing was extracted from the date of listing. Age of the firm was calculated as Financial Year 2016 minus the incorporation year. The oldest company in the sample was incorporated in the year 1863, Bombay Burmah Trdg. Corpn. Ltd. and the youngest company was Pudumjee Paper Products Ltd., incorporated in 2015.

While the Non-family businesses accounted for a mere 9 percent of the number of firms, they accounted for 72 percent of the total assets of all firms in our sample in the year 2015. SOEs alone accounted for 57 percent of the total assets. SOEs in India are characterized by their large asset bases due to large real estate holdings and virtual monopolies in many industries.

Data on total tax collection by the Income Tax Department was available for the period 2001 to 2015 from the Income Tax Department¹⁰. GDP at factor cost (base year 2004-05) and Indirect taxes (less subsidies) figures were obtained from the Handbook of Statistics on Indian Economy, Reserve Bank of India¹¹. The GDP of India at current prices for financial year 2015 was estimated to be Rs 120,974 billion. As per this estimate, our sample contributed to 52 percent of the GDP in terms of Total Income, with family firms in the sample accounting for almost 26

¹⁰ <http://www.incometaxindia.gov.in/Documents/Time-Series-Data-Final.pdf>.

¹¹ <https://www.rbi.org.in/SCRIPTS/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20Indian%20Economy>

percent of the GDP. What is interesting to note is that top 30 family firms account for almost 50 percent of the revenues of all family firms, that is, they account for almost 13 percent of the GDP of India.

In order to study the heterogeneity within large and small family business group affiliated firms, the business group affiliated family firms were divided as Large and Small Family Business Group affiliated Firms (LFBGFs and SFBGFs) based on their size in terms of Total Assets (TA). The median TA of all family businesses was compared with the TA of individual business group affiliated firm. If the TA of the firm was lower than the median TA of all FBs, then the FBGF was classified as a small FBGF. On the other hand, if the TA of the firm was greater than the median TA of all FBs, then the FBGF was classified as a large FBGF¹².

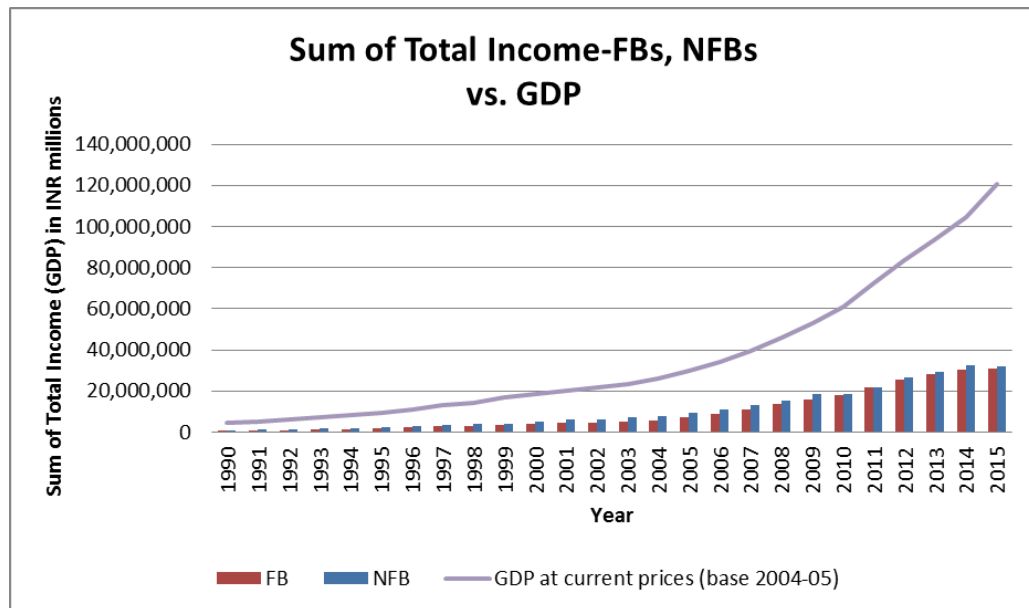
4. Analysis and Findings

The findings of the study and their analysis are discussed below.

4.1 Representation of the GDP and contribution to Exchequer

In 1990, Family firms in our sample represented 15.7 percent of the GDP in terms of their total income, whereas in 2015, they represented 25.5 percent of the GDP. Non-family firms formed 20.5 percent of the GDP in 1990 and 26.6 percent in 2015 (Exhibit 2a). The representation of FBs in the sample has grown at a much faster rate than the non-family businesses.

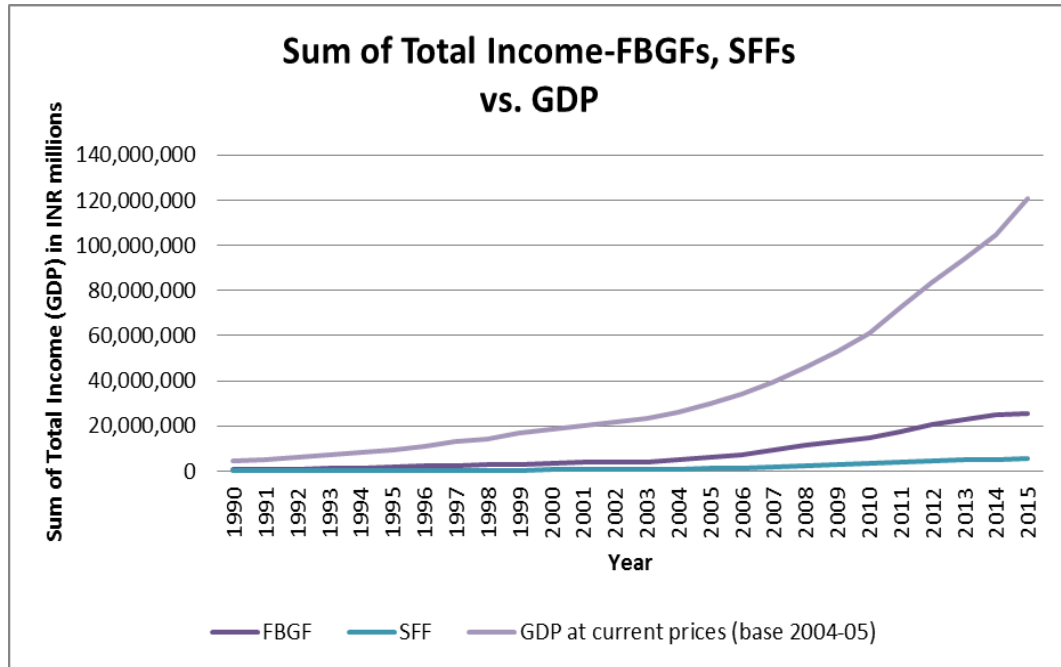
Exhibit 2a



¹² The same exercise was repeated with average TA of SFFs and median of SFFs and the results were similar.

The FBGFs increased their representation from 14 percent in 1990 to 21 percent in 2015, whereas the SFFs represented 1 percent of the GDP in 1990 and 5 percent in 2015 in terms of total income (Exhibit 2b).

Exhibit 2b



Family businesses in our sample accounted for 28 percent of all indirect taxes and 18 percent of all direct corporate taxes collected by the government in financial year 2015, while non-family firms accounted for 26 percent and 25 percent respectively. In terms of the total indirect taxes paid by all firms in our sample, FBGFs contribute the highest to the exchequer. While the pattern has oscillated over the years, overall, their contribution has gone up from 1990 to 2015 (Exhibit 2c).

The contribution of FBGFs in terms of direct taxes was the highest in 1990 at 45 percent of total direct taxes paid by the firms in our sample. In 2003, it went down to as low as 19 percent. Since then, the percent has only increased. It was 36 percent in 2015. SFFs accounted for 3.5 percent of the direct taxes paid in 1990 and 5 percent in 2015. OBGFs and NFFs have emerged as significant contributors of direct taxes to the exchequer, accounting for 11 percent and 4 percent respectively, of the total sample direct taxes in 2015 (Exhibit 2d).

Exhibit 2c

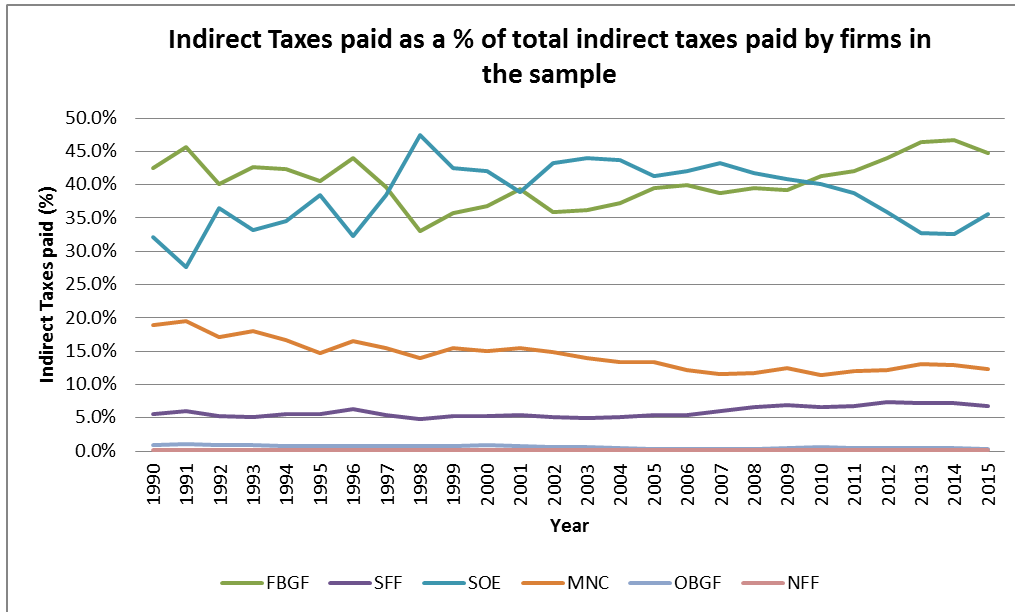
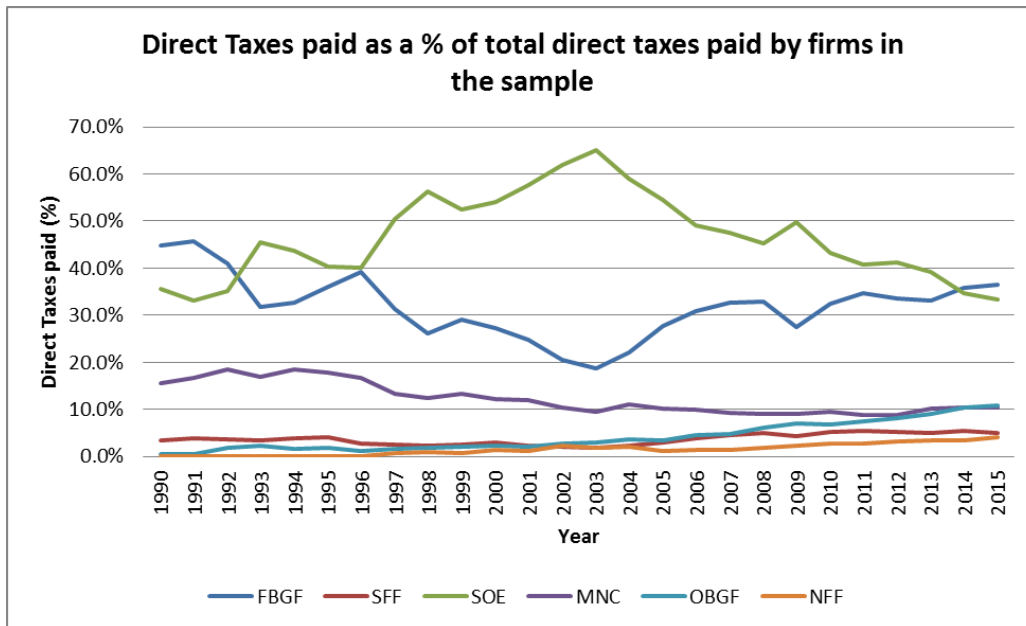


Exhibit 2d

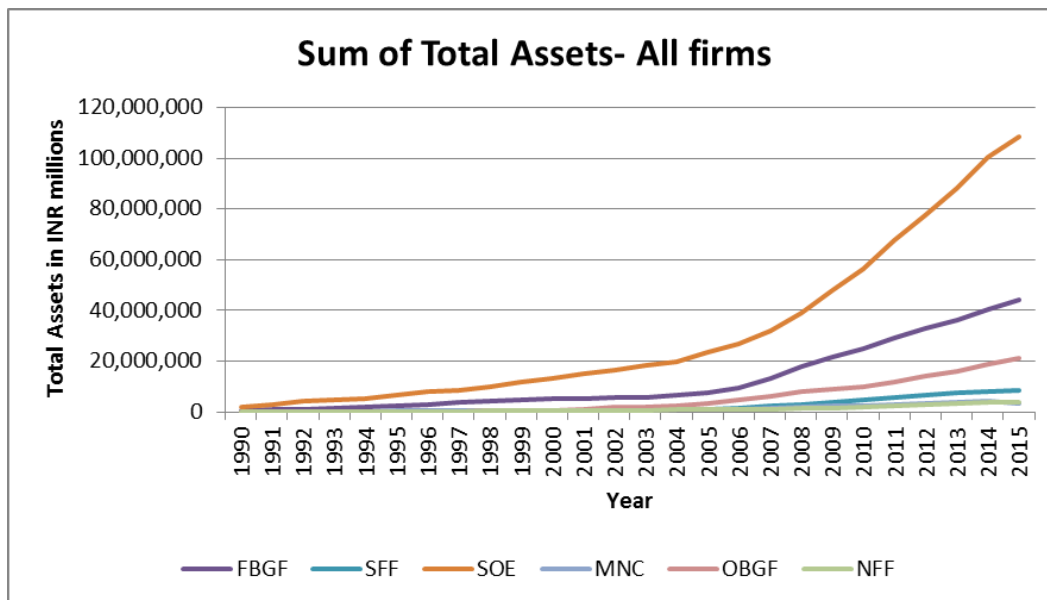


4.2 Asset creation

The average Total Assets is highest for state owned enterprises, followed by business group affiliated family firms and then the other business group affiliated firms. While standalone family firms are large in number [of firms], they are smaller in size as evident from the low total

assets (Exhibit 3a). In 1990, family firms accounted for 24.7 percent of the total assets of all firms in our sample. This grew to 27.7 percent in 2015. While the business group affiliated firms retained their percent share over the years, the standalone family firms increased their percent share in total assets from 1.6 percent to 4.5 percent. The standalone family firms still remain very small as compared to the group affiliated family firms or firms in the non-family categories. Services sector account for more than 90 percent of the total assets of SOEs, OBGFs and NFFs.

Exhibit 3a



The average total assets of SOEs are much higher than that of the other categories of firms, owing to their monopoly and massive investment by the government in them. The OBGFs come second in terms of average assets. The average asset size has grown for all categories of firms over the years. However, the OBGFs have increased their asset base 139 times in the services sector from 1990 to 2015 (Exhibit 3b).

In financial year 1990, services sector accounted for about 45 percent of the GDP of India while in 2015, its contribution was close to 60 percent. Services sector not only attracted more foreign direct investment but also gave higher valuations upon listing. For the family businesses, manufacturing and services contributed almost equally to the total assets. While for the non-family businesses, the services sector accounted for more than 90 percent of the total assets. This reflects the growing number of firms in the services sector and the importance of the services sector in the Indian economy.

Amongst the non-family firms, the SOEs dominate the services sector with large assets in the banking sector. For the multinational companies, services sector accounted for just 18 percent of the total assets. The total assets of other business group affiliated firms and non-family firms had

the high overall CAGR for the period 1990-2015. This was mainly due to the high growth rate in the services sector and the small base with which they started (Table 5)

Exhibit 3b

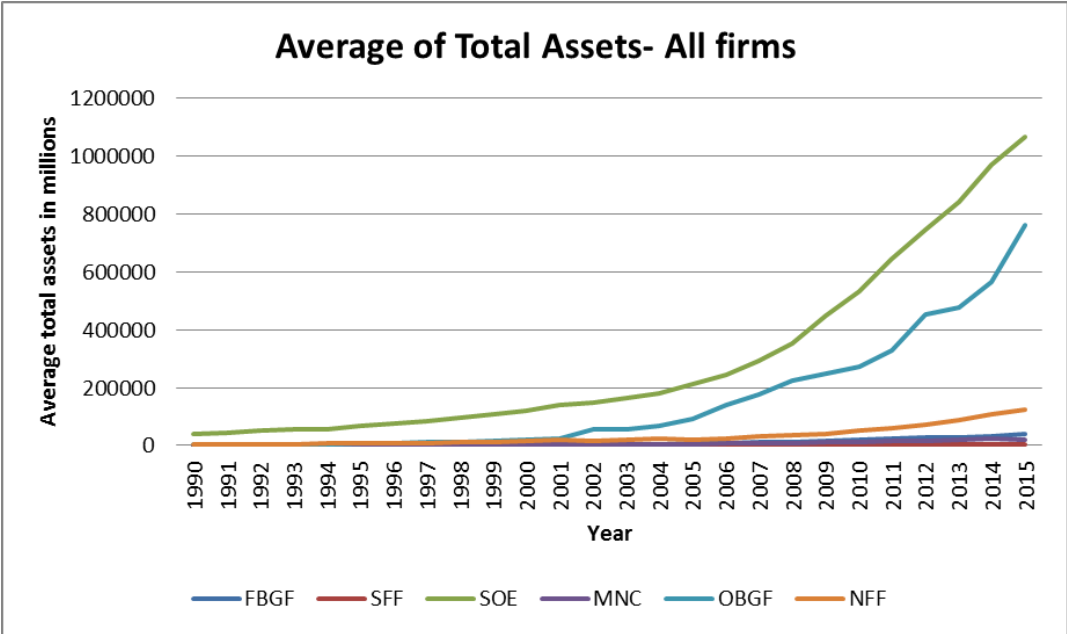


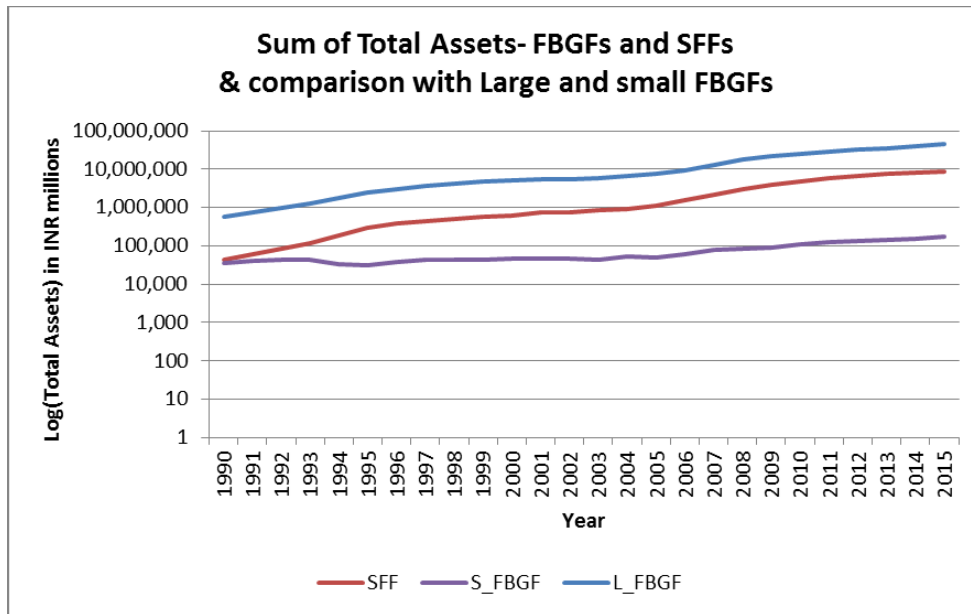
Table 5: CAGR of Total Assets (1990-2015)

	FBGF	SFF	SOE	MNC	OBGF	NFF
Overall	18.6%	23.5%	17.6%	14.2%	30.8%	27.6%
Manufacturing	16.6%	20.5%	12.1%	13.9%	15.7%	13.1%
Services	23.1%	35.2%	18.9%	15.8%	31.5%	28.5%

In manufacturing, Family businesses (both standalone and group affiliated) had the highest growth and the propensity to create total assets. Standalone family firms were the fastest growing category in services.

Smaller business group affiliated family firms have grown at a much slower pace compared to the overall business group affiliated family firms. The smaller business group affiliated family firms have not benefitted from the advantages that are typically associated with group affiliation (Exhibit 3c).

Exhibit 3c

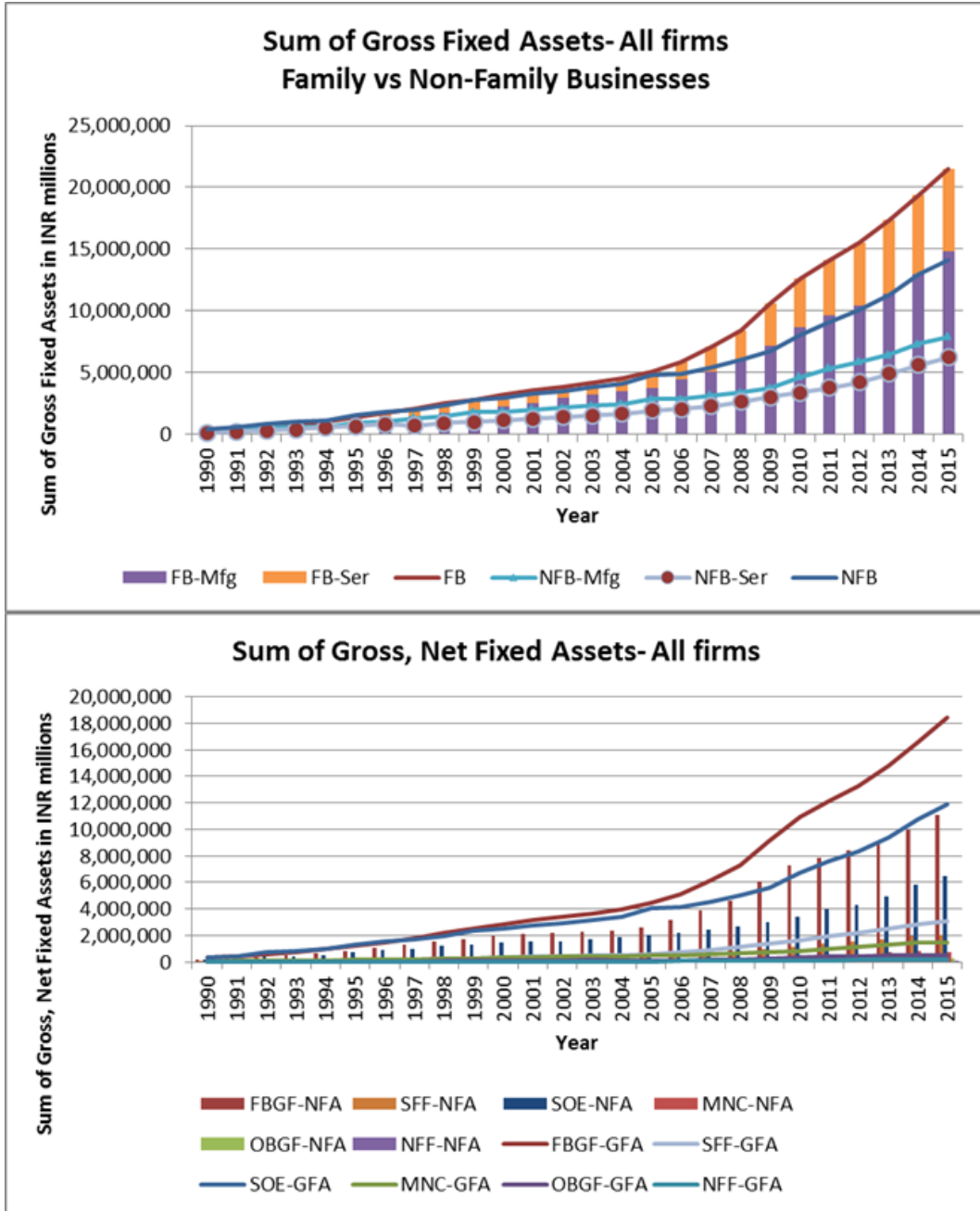


Note: FBGF and Large FBGF lines are overlapping in Exhibit 5c.

The standalone family firms were able to grow in spite of not having the resources available to a group affiliated firm. The gap between total assets of standalone family firms and Small business group affiliated family firms has been increasing over time suggesting that the effect of group affiliation has not been positive for the smaller business group affiliated family firms (Exhibit 3c).

By 1997, FBs had overtaken NFBs in terms of total gross fixed assets (GFAs). In terms of Net Fixed Assets (NFAs), FBs were ahead of NFBs since 1994. Firms in the Manufacturing sector accounted for more than two thirds of the GFAs and NFAs for FBs. FBGFs accounted for 86 percent (85 percent) of the GFAs (NFAs) of all FBs in 2015. While the number of SFFs was large, GFAs and NFAs were small for them. The gap between Gross and NFAs of FBGFs and SOEs have increased over the years, suggesting that FBGFs have undertaken more new assets creation than SOEs (Exhibit 3d).

Exhibit 3d



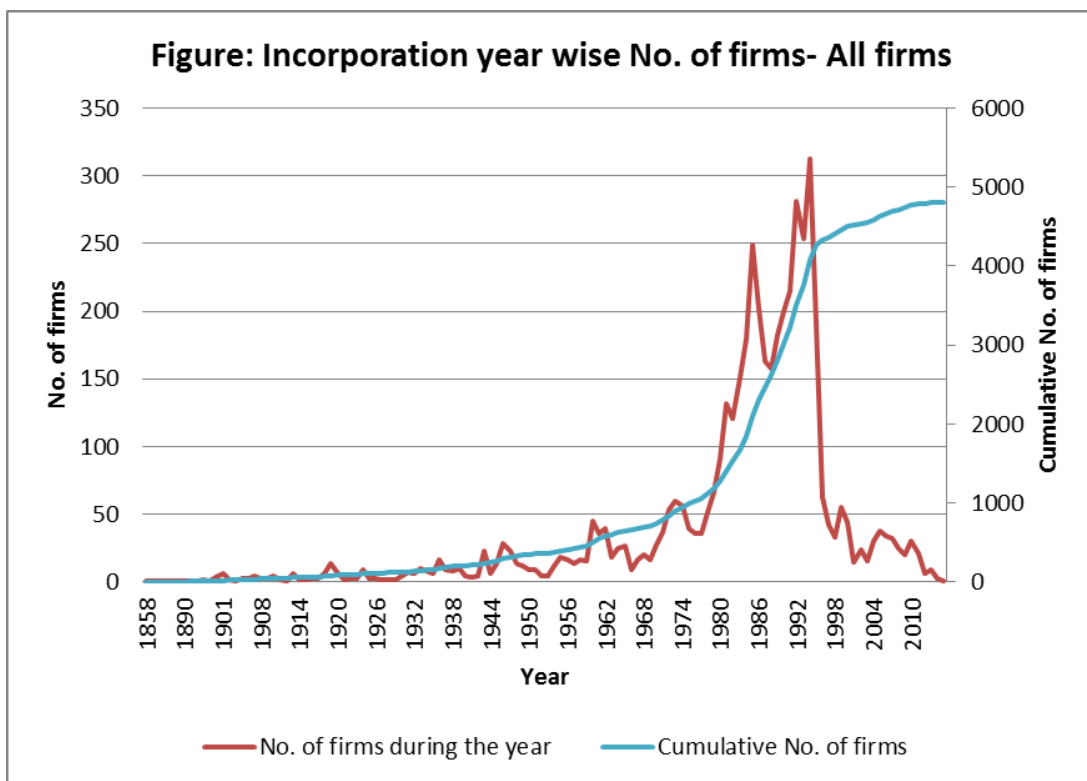
4.3 The rise of standalone family firms

As the process of liberalization began by the late 1970s with significant relaxation of import-export regulations, delicensing of various industries, reduced entry barriers and a more effective real exchange rate management, a large number of firms started to get incorporated to take advantage of the changing mindset. In the decade of 1970s, there were 189 SFFs that got incorporated during this period, yet FBGFs were the clear early movers with 233 business group

affiliated family firms getting incorporated from 1970 to 1979. There were only 42 non-family firms incorporated during this period.

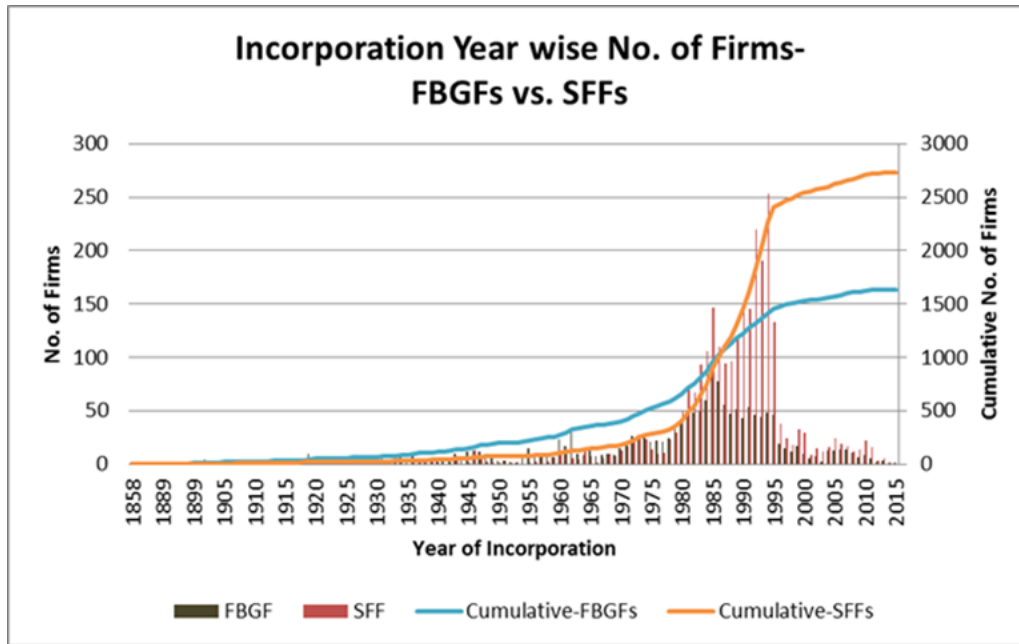
As the pace of reforms picked up, more and more SFFs started to take advantage of the changing business landscape through the 1980s. Similarly, when the next wave of more big bang reforms was introduced in financial year 1991 by Pamulaparti Venkata Narasimha Rao, the then Prime Minister of India, and Dr. Manmohan Singh, the Finance Minister, a further wave of firm incorporations was observed a couple of years after the reforms. The year 1994 saw the maximum number of companies getting incorporated. The period 1991-1995 accounted for more than a quarter of the companies in our sample of listed firms being incorporated (Exhibit 4a).

Exhibit 4a



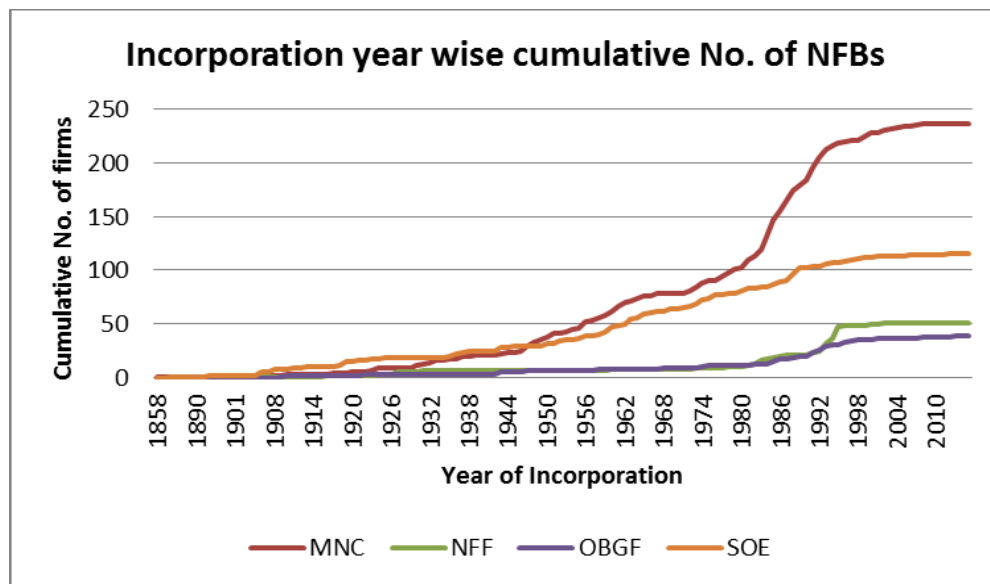
Maximum number of FBGFs was incorporated in 1985. While the FBGFs did take advantage of the reforms in its early stages, it was the standalone family firms that emerged as the single largest ownership category in terms of number of firms (Exhibit 4b). Only 15 percent of the listed standalone family firms were incorporated prior to 1981. In comparison, 40 percent of the listed business group affiliated family firms were incorporated in the 118 year period in between 1863 to 1980. Close to 73 percent of the listed standalone family firms were incorporated in the period 1981 to 1995. In comparison, only 49 percent of the business group affiliated family firms were incorporated in the period 1981 to 1995.

Exhibit 4b



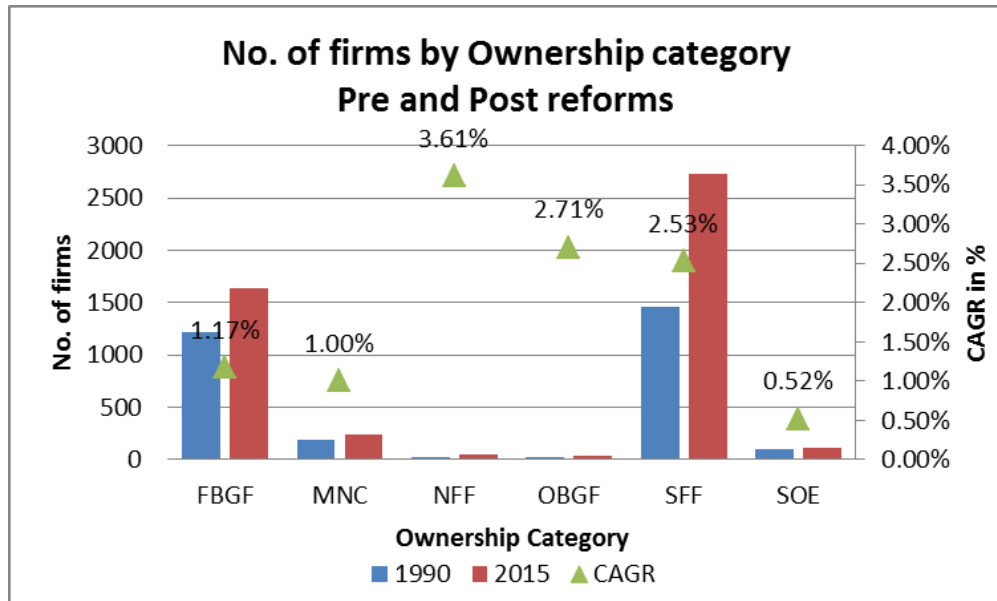
The percent of firms incorporated post 1995 was similar for both types of family firms, at around 11-12 percent. Amongst the non-family firm categories, maximum number of SOEs were incorporated around the 1960s and then in the 1980s. Not many SOEs were incorporated post the reforms of 1991. MNCs took advantage of the reforms in 1980s and early 1990s. OBGFs and NFFs are still very small in number and they came into existence mostly after the reforms process started in the 1980s (Exhibit 4c).

Exhibit 4c



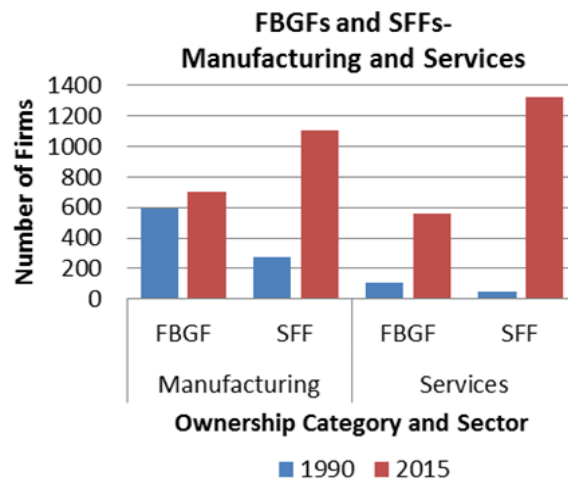
Number of SOEs incorporated had the lowest CAGR of 0.52 percent during the 25 years since reforms. NFF and OBGF categories had the highest CAGR but their numbers are very small. It is the SFFs that actually emerged as the most dominant category in terms of the number of firms, growing at a CAGR of 2.53 percent over the 25 years period (Exhibit 4d).

Exhibit 4d



The growth in the number of standalone family firms was driven primarily by the new firms in the services sector (Exhibit 4e). This could be probably because manufacturing sector is more capital intensive. Wholesale trade, financial services and computer programming were the most favored industries for the listed standalone family firms. This is reminiscent of the rising contribution of the services sector to the GDP.

Exhibit 4e

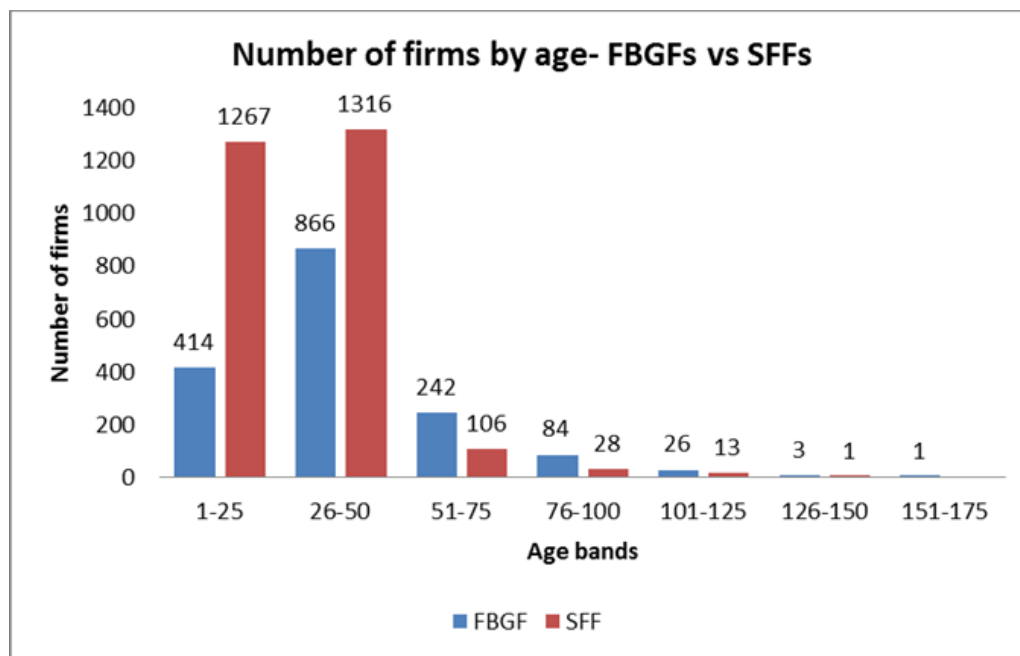


4.4 Staring at the succession challenge

The listed standalone family firms were younger than the business group affiliated firms (Exhibit 5a). Family firms in our sample that were incorporated prior to the 1980s had greater propensity to create business groups by creating affiliated firms. The trend seems to have changed in the last three to four decades. More and more family firms are now standalone firms. This could be because in the pre reforms era, multiple firms were created to bypass the quota system and obtain licenses. That is no longer required.

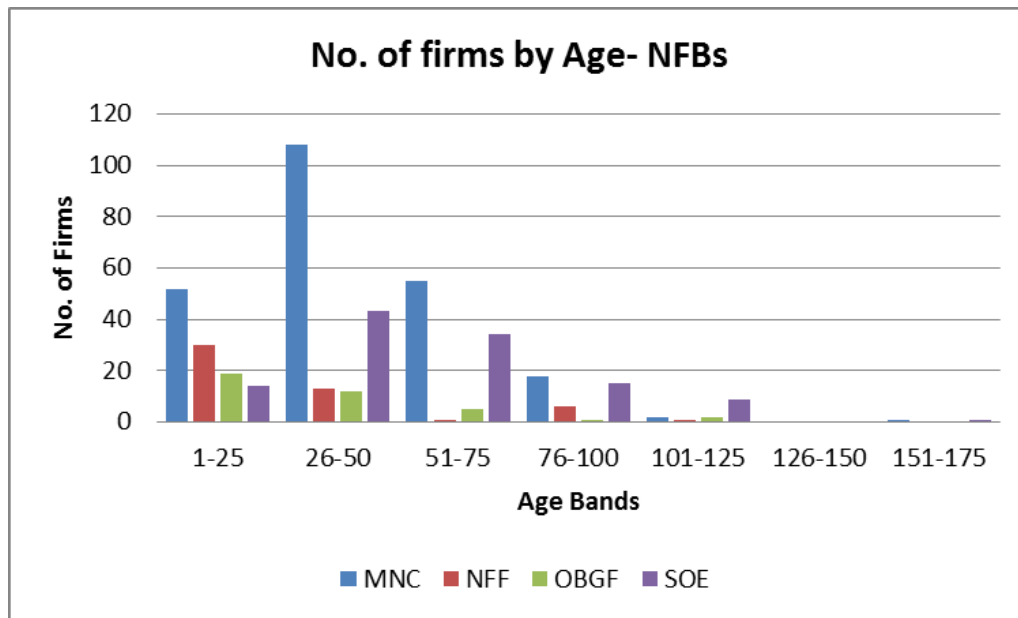
The average age of FBGFs in our sample is 38.44 years while that of SFFs is 28.73 years.

Exhibit 5a



SOEs have the highest average age amongst all ownership categories at 54.04 years. Most of the SOEs were created in the 1950s and 1960s when the implementation of the socialistic principles of the government was at its peak. The MNCs entered into India as and when the opportunity arose, whether it was the reforms of the 1990s or limited entry to certain firms to attract foreign direct investment, technology or capital goods, prior to that (Rodrik & Subramanian, 2005). The average age of MNCs in our sample is 42.09 years; it is 36.9 years for OBGFs and 35.16 years for NFFs (Exhibit 5b).

Exhibit 5b



While the Non-family firms typically have senior management personnel who are nominated by the board members and appointed for fixed tenures, the senior management in a family business comprises of the family members in most cases. More than 50 percent of the standalone family firms are less than 30 years of age. The first generation founder would still be actively involved in most of these companies considering the average age at which entrepreneurs start a firm to be 40 (Wadhwa et. al., 2009) and the average tenure of the founders to be 24 years (Beckhard & Dye, Jr., 1983), but many of them must be staring at a change of guard in the near future.

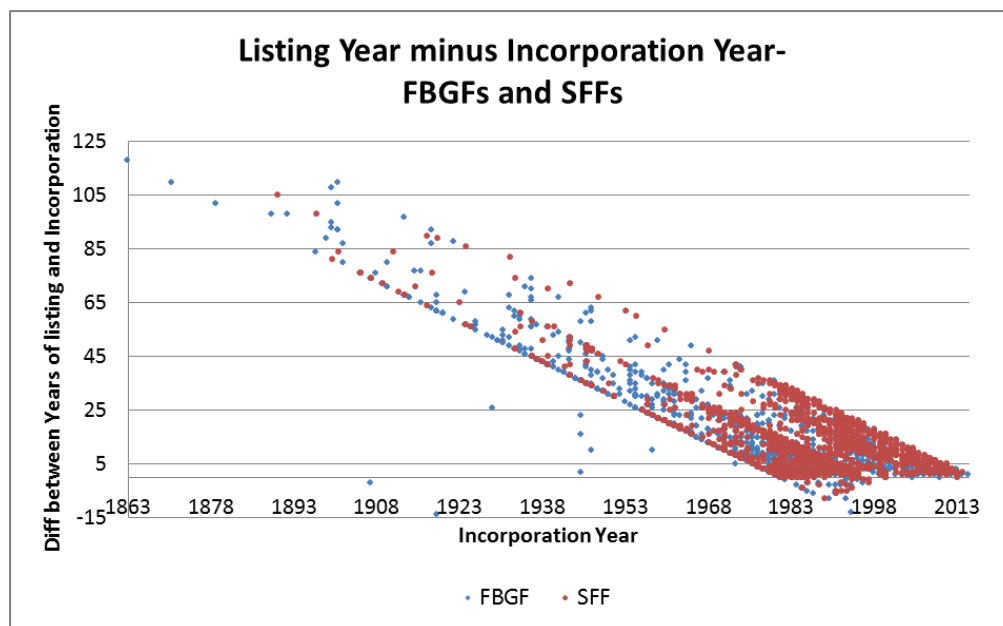
It needs to be seen if the family businesses, especially the ones that are at the crossroad to either transition to the next generation or on the cusp of making non-family professionals their agents, survive the change. Succession remains the number one concern of most family businesses (Chua, Chrisman, & Sharma, 2003) and rightly so, as, in Europe and the United States, succession challenges have contributed to the short life of the majority of family firms.

In India, the social fabric is quite different from that of the Western world. The progeny is initiated into the family business early on and his commitment to the business is inherently assumed (Dutta, 1997). Apart from the direct heirs, the extended family system ensures continuity of the business after the entrepreneur's (first generation) or the business leader's retirement/death, even if the son or the daughter is not interested or not capable of running the business. "Such attitudes undoubtedly contributed to the longevity of Bombay's successful commercial firms" (Smith, 1993). The oft quoted statistic of 30/13/3 (Ward, 1987); that is, 30 percent of firms survive through the second generation, 13 percent survive the third generation, and only 3 percent survive beyond that, is yet to be tested empirically in an Indian context, yet, the fact that succession is a challenge for Indian family firms cannot be undermined.

4.5 Early access to capital markets

The average difference between the listing year and the incorporation year for business group affiliated family firms was 14.76 years, whereas for standalone family firms it was 10.01 years (Exhibit 6a). The standalone family firms were probably forced to list earlier compared to those affiliated with business groups due to the capital constraints and limited sources of financing. In comparison, the business group affiliated family firms allowed the firms in their group to grow to a certain size with capital from their internal markets before exposing them to external capital markets. We also notice that the average number of years taken for the firms to list has been going down over the years. Family firms incorporated prior to 1980 took 28.64 years on an average to list while those incorporated between 1980 to 1990 took 8.28 years to list and those incorporated after 1990 took 5.53 years to list. The changes in listing norms, ease of access to equity markets and increasing participation of the public in the equity markets enabled firms to tap the equity markets earlier to fund the new opportunities for expansion and growth.

Exhibit 6a

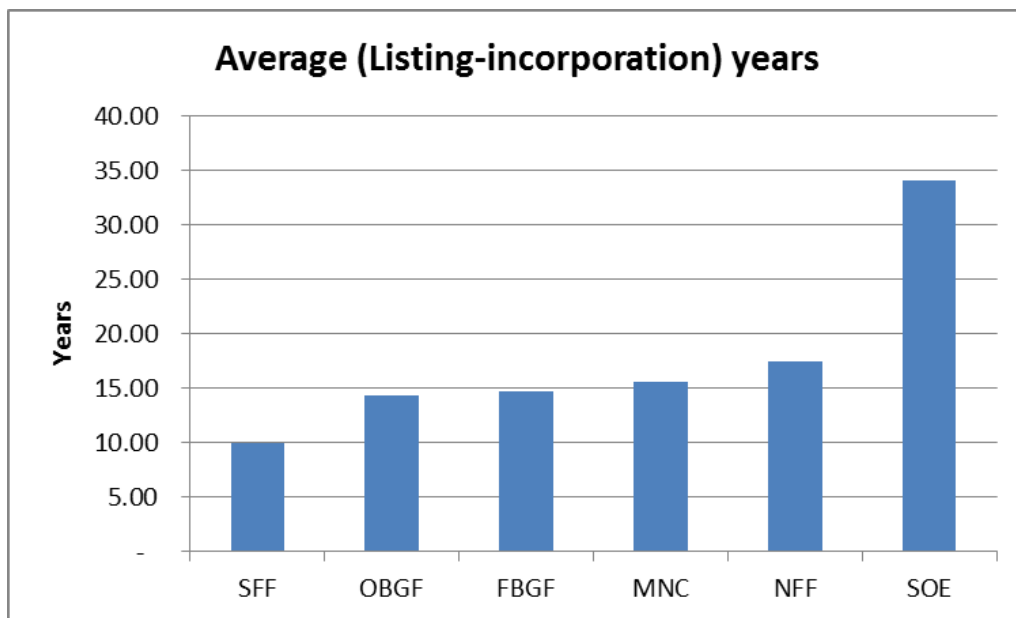


The SOEs were the last to resort to equity markets to raise funds. It is only since 1991 that the Government of India started to divest their stake in some of the SOEs. Even then, the political will was lacking and hence the speed of divestment was slow. In the 1990s, the average profit margin (profit after taxes/net sales) of manufacturing PSUs was at least ten percent below the profit margin in private manufacturing firms, every year (Makhija, 2006). Amongst growing demand for privatization, subsequent governments divested portions of stakes in various SOEs.

The average number of years taken for SOEs to list is 34.07 years, as opposed to 14 to 17 years taken by MNCs, NFFs and OBGFs (Exhibit 6b). The average number of years taken for FBGFs

and OBGFs are similar. But the NFFs and SFFs behave differently as far as raising capital through the equity markets is concerned. NFFs take 17 years to list while SFFs listed in about 10 years. In India, most of the NFFs are promoted by financial institutions or groups of high networth individuals who have deep pockets. On the other hand, the standalone family firms, once they run out of family capital, prefer to raise funds through equity markets that diversifies stake in the hands of many rather than through venture capital or private equity funds that gives concentrated ownership to an external party. There is general antithesis to venture capital as far as family firms are concerned. The reasons being, dilution of control, pressure to change management and meet targets, loss of management freedom and financing costs (Poutziouris, 2001).

Exhibit 6b



5. Implications and conclusions

This paper has attempted to make an overview of the role that family controlled businesses have played in the past quarter century that witnessed significant economic growth across the country. Such rapid changes would not have been possible without the active contribution of this group of businessmen.

Belying anecdotal worries about the potential of family firms to withstand the new rush of competitive forces in the economy, family firms have registered remarkable growth the post liberalization era. In fact, the evidence suggests that removal of restrictions and controls have actually unleashed their entrepreneurial spirit. Family firms have proven to be capable and build industries that were earlier reserved for SOEs. Continuing the trend thus created, many standalone family firms were incorporated and subsequently listed to access funds through the capital markets. There are two major takeaways from this. One, the process of liberalization

followed in India has enabled family firms to take stock, restructure and charge forward in a systematic way. Two, there is a new wave of family entrepreneurship thus generated that will grow and strengthened further in the future too, so long as the environment remains conducive.

However, while the overall picture looks rosy, it remains to be seen if the family businesses, especially the ones that are at the crossroad to either transition to the next generation or on the cusp of making non-family professionals their agents, survive the change. Their ability to manage the organizational and leadership transition depends on a number of variables that interact at the interphase of family ownership and professional management. In a society that is rapidly undergoing changes and moving from joint family ownership and management to nuclear family and non-family management, uncertainties are bound to remain for several years into the future. Added to this is the universal concern about smooth leadership and ownership succession of most family businesses (Chua, Chrisman, & Sharma, 2003). Given the growing interest in improving governance and quality of professionalization among Indian family business leaders, possibilities of any of these affecting negatively the major contribution that family firms are making, look minimal. The Thomas Schmidheiny Centre for Family Enterprise that the authors represent also has been playing a significant role in making the transition smooth.

Family firms, especially business group affiliated family firms led the way in creating more assets, especially in the manufacturing sector. This is significant from a futuristic angle too as their ability to transform the manufacturing sector across industries is very high. Groups are naturally positioned to explore new territories and build leveraging the capabilities existing in the affiliated firms. There is no reason to believe that family business groups will not only lead the growth but also continue to be entrepreneurial.

It was found that there is a lot of heterogeneity within the family firms. Business group affiliated family firms and standalone family firms displayed different characteristics in many aspects. Standalone family firms played an important role in the development of the services sector in the country. The critical role played by the services sector in generating employment and wealth is obvious. It is because of the entrepreneurial acumen demonstrated by the standalone firms, some of which have grown to become truly family firms with the entry of additional family members in the business, that India's services sector has grown so well in recent years. Similarly, large and small business group affiliated family firms displayed different characteristics.

Family businesses have shown resilience and are doing very well. They have increased their footprint in the Indian economy. With better governance and more transparency, they will only get better and better. Our analysis puts to rest the doubts and reinforces that family businesses are not just the past, they are the future and an integral part of the journey of India to becoming an economic powerhouse. Their capacity to transcend time is their greatest strength (Aronoff & Ward, 1995).

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7. Annexure 1: The Designations used to represent management control

Chairperson	Group Executive Officer
Chairperson & Chief Executive Officer	Joint Deputy Managing Director
Chairperson & Chief Mentor	Joint Managing Director
Chairperson & Chief Technology Officer	Joint Managing Director & Chief Executive Officer
Chairperson & Co. Secretary	Joint Managing Director & Chief Financial Officer
Chairperson & Director	Joint Managing Director & Chief Operations Officer
Chairperson & Executive Director	Joint Managing Director. & Co. Secretary
Chairperson & Joint Managing Director	Joint President
Chairperson & Managing Director	Joint Vice Chairperson
Chairperson & Non-Executive Director	Managing Director
Chairperson & President	Managing Director & Chief Executive Officer
Chairperson Emeritus	Managing Director & Chief Operations Officer
Chairperson Emeritus & Director	Managing Director & Co. Secretary
Chairperson, Managing Director & Chief Executive Officer	Managing Director & President
Chief Executive Officer	Non Executive Chairperson & Chief Mentor
Chief Executive Officer & Deputy Managing Director	Non Executive Deputy Chairperson
Chief Executive Officer & Director	Non Executive Vice Chairperson
Chief Executive Officer & Executive Director	Non-Executive Chairperson
Chief Executive Officer & Manager	Part time Chairperson
Chief Executive Officer & President	President
Chief Executive Officer, President & Managing Director	President & Chief Financial Officer
Chief Mentor & Executive Vice Chairperson	President & Chief Operations Officer
Chief Mentor & Manager	President & Co. Secretary
Chief Officer	President & Director
Chief Operations Officer & Deputy Managing Director	President, Chief Operations Officer & Joint Managing Director
Co-Chairperson	Promoter Director
Co-Chairperson & Managing Director	Secretary & Deputy Managing Director
Deputy Chairperson	Senior Managing Director
Deputy Chairperson & Managing Director	Senior President
Deputy Managing Director	Senior Vice Chairperson
Director & Chief Executive Officer	Vice Chairperson
Director, Chief Executive Officer & Compliance Officer	Vice Chairperson & Chief Executive Officer
Executive Chairperson	Vice Chairperson & Executive Director
Executive Deputy Chairperson	Vice Chairperson & Joint Managing Director
Executive Director & Chief Executive Officer	Vice Chairperson & Managing Director
Executive Vice Chairperson	Vice President & Chief Executive Officer
Executive Vice Chairperson & Managing Director	Vice President Chairperson
Group Chairperson	





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The Thomas Schmidheiny Centre for Family Enterprise brings together faculty and practitioners from India and abroad with the broad aim of combining theory and practice to enhance research and innovation in the field.

Family businesses make a major contribution towards wealth creation, job generation, and increasing competitiveness in countries around the world. As such, the unique challenges and opportunities faced by them are rapidly becoming an important subject of management research.

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Registered Office and Hyderabad Campus:

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