Challenges Faced by Family Businesses in India

Kavil Ramachandran
Navneet Bhatnagar

White Paper

April 2012

Thomas Schmidheiny Chair of Family Business and Wealth Management
Indian School of Business

Contents

Challenges Faced by Family Businesses in India

Introduction

Family businesses have always been an integral part of the Indian economy and society. Largely founded on the joint family principle of ownership and management, their contribution has always remained very high. However, family business as a system has inherited an identity associated with features such as, non-professionalism, conservatism and poor governance. The fast-paced changes in business environment in the past two decades have altered this to an extent. Today family owned businesses are perceived as much more respected, entrepreneurial, growth driven and much better governed, contributing immensely to the country's growth story.

Though family businesses account for more than 85% of businesses in India, yet there is paucity of knowledge about their ways of organizing and managing business in these rapidly changing times. The Thomas Schmidheiny Chair of Family Business and Wealth Management at the Indian School of Business conducted a comprehensive research study aimed to capture some of the key practices of Indian family business firms. This paper presents notable managerial and academic insights about Indian family businesses as revealed by the research study.

Enquiring Family Business Owners: A Note on Methodology

The study commenced with a review of existing literature on family business with a view to identify the most important areas and challenges. Broadly, family business literature outlines the unique nature of family owned firms that distinguishes them from non-family businesses. Researchers agree that family firms derive their distinct dynamic from the influence of family; its values and norms have a considerable impact on family businesses *(Astrachan, Klein and Smyrnios, 2002; Dyer, 2003; Fletcher, 2002; Habbershon & Williams, 1999).* Over the past two decades family business researchers have cited some critical concerns that affect family firms. Business decision making in family firms is susceptible to be clouded by family emotions in cases where family and business are closely entwined *(Chrisman, Steier and Chua, 2008).* Optimizing the interests of both the business and the family has been cited in literature as a major concern for family business leadership *(Hollander and Elman, 1988; Whiteside and Brown, 1991).*

Transition of leadership and business ownership from one generation to the next is another major area that has attracted the attention of family business researchers *(Brockhaus 2004; Chrisman, Chua and Sharma, 1998)*. Successful family businesses generate wealth for the owning family but prudent management of this wealth is crucial for sustainability of both the family and its business. Understanding and managing the intricate family relationships is essential for steering a family business *(Lansberg and Astrachan, 1994)*. Professionalisation of family firm and the complexities it involves have also been pursuits of in-depth analyses by family business researchers. *(Dyer, 1989; Hall and Nordqvist, 2008; Klein, 2007).*

Based on the literature review, five key areas were identified where family firms faced unique challenges, namely – ***Leadership, Succession Planning, Family Wealth Management, Managing Family Relationships*** and ***Professionalisation.*** (see Figure 1)

Figure 1.

Each of these challenges had several dimensions. These dimensions were identified through a review of the literature. These were refined based on practical insights developed by the research team. The questionnaire that was thus developed was piloted with a small group of family business owners. Thereafter the instrument was calibrated and finalized. (**see Annexure**).

At the next stage, an online survey was conducted among family business owners who were part of a database created under the Chair. The respondents *(owners of family businesses)* were asked to indicate on a 5-point scale, the extent to which they agreed or disagreed with the statements as practiced in their family businesses. At the data analysis stage, the responses obtained were carefully examined to identify the key management practices of the families. The 202 responses received were compared and contrasted by categorizing the companies in terms of turnover, age of the business, the family generation that headed the business and geographic location of the business. Responses were scored on the five factors given above in order to determine how family businesses coped with the challenges. Another aspect of interest was to extract any significant factors that might give more insight into the responses. While attempting to investigate how family and businesses adapt to one another to survive and grow, several interesting observations were made which are presented in this paper.

Sample Characteristics

- ***Age of the Business***: More than 70% of the Indian family businesses surveyed in the study were found to be less than 40 years old. Only a few of those dated back to more than 100 years. (see Figure 2)

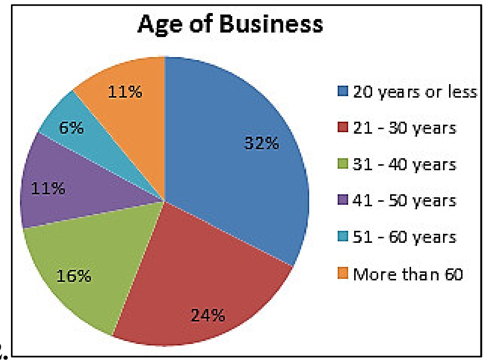

Figure 2.

- ***Business Size*** (by sales revenue)***:*** 44% of the firms studied had annual sales of less than Rs. 50 crores. 30% of the firms had sales of more than Rs. 200 crores. The remaining firms had sales in between. (see Figure 3)

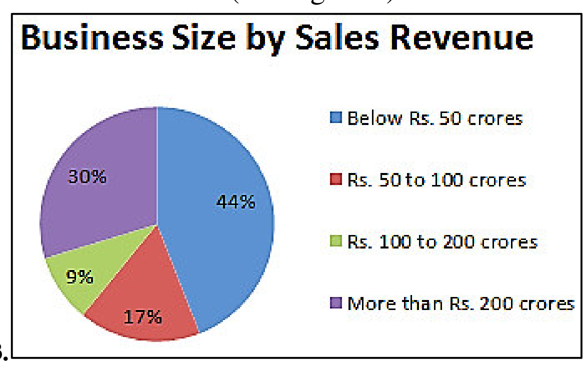

Figure 3.

- ***Industry:*** Prominent industries covered by the respondents were: services (23%), mining and manufacturing (21%), chemicals and fertilizers (11%) and real estate and construction (10%). (see Figure 4)

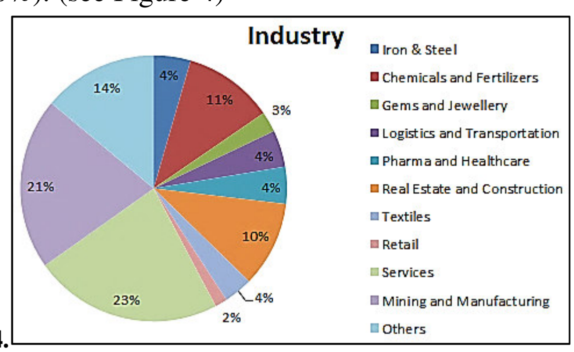

Figure 4.

- ***Generation Heading the Business:*** 51% of the family firms under the study were found to be led by the first generation of the owning family. 31% were headed by the second generation. Only 5% belonged to the fourth or later generation. (see Figure 5)

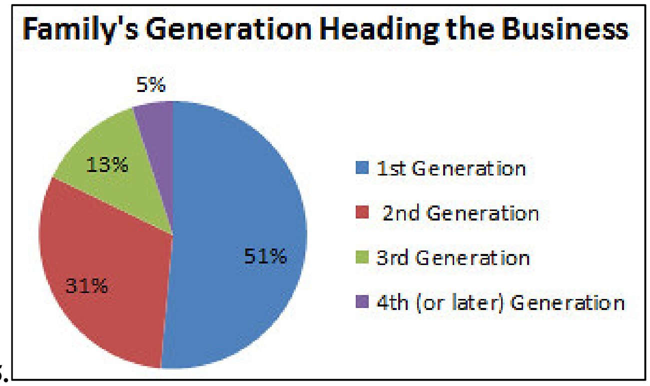

Figure 5.

The data was analysed for any statistically significant differences in findings across industries, geographical regions, firm sizes, age of businesses or the generation leading the business. The results showed that these factors did not have any effect on the findings.

Research Findings

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

Inclusive Leadership

Credibility of the leader, his vision for the company and skill to adapt to change can make or break a business. The study probed on various aspects of family business leadership to gain meaningful insights.

Decision Making Authority:

Among the family businesses surveyed in the study, 52% agreed that the eldest family member(s) had the absolute and final authority on business matters. (see Figure 6)

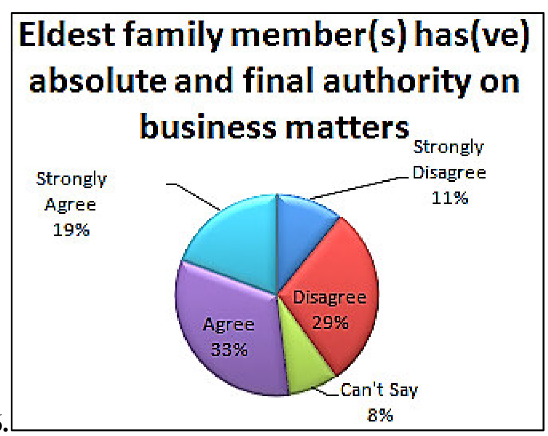

Figure 6.

However, there is significant participation of younger family members in business decision-making process. About 68% of the respondents agreed that younger family members participated in the decision making process in their businesses. (see Figure 7)

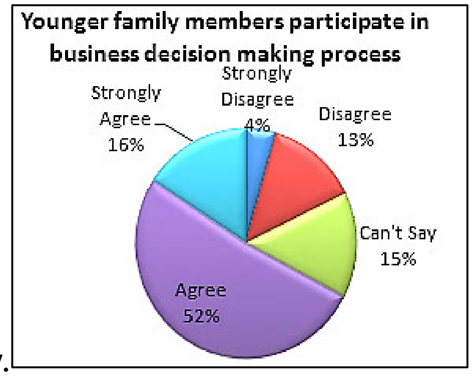

Figure 7.

Another important finding was that 51% respondents disagreed with the statement that the eldest family member's decision cannot be questioned. (see Figure 8)

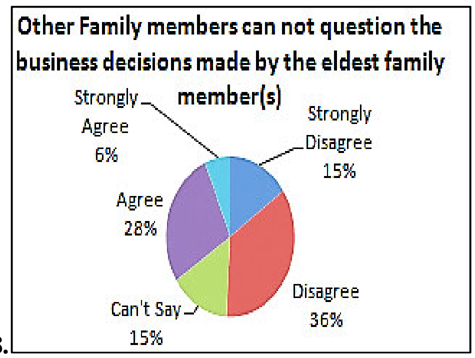

Figure 8.

<u>Business Vision:</u>

55% of the respondents agreed that a clear vision existed about the future of their business. (see Figure 9)

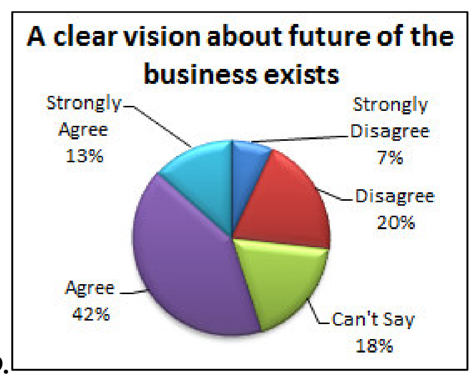

Figure 9.

73% of the respondents also agreed that their leaders welcome external inputs in formulating the future vision for the business.

62% respondents stated that the business vision was commonly shared by all the family members. (see Figure 10)

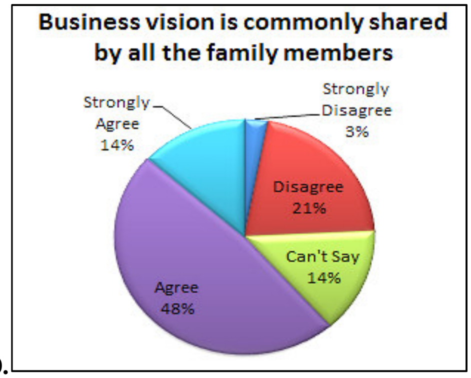

Figure 10.

However, on the question of the vision being limited by personal viewpoints of family members, the opinion was almost equally divided between those who agreed and disagreed.

Strategic Planning:

A contrasting finding of the study was about having a long-term strategy as against a reactionary approach to managing business. 58% of the respondents said that their business had a clear long-term strategy whereas at the same time 51% opined that business decisions were mostly reactive to address day-to-day developments.

Cross tabulation of the responses on these two counts reveals that though majority of family businesses have formulated a long term strategy, many still are predominantly reactive when it comes to business decision-making. (see Table 1) A more positive conclusion is that most of the firms that are not simply reacting to situations have a clear long term strategy. In essence, family businesses have to strengthen and further align the link between their strategy and responses to business situations.

Business Decision Making is Reactive

		Yes	Can't Say	No	Total
Business Has Clear Long Term Strategy	Yes	21%	11%	26%	58%
	Can't Say	11%	3%	5%	19%
	No	19%	2%	2%	23%
	Total	51%	16%	33%	100%

Table 1.

On being asked whether their businesses had a documented plan for the future, the responses were again fairly equally divided. Most family businesses (71.3% of the ones surveyed) encouraged new business or expansion ideas forthcoming from the young family members.

68% of the respondents agreed that top leadership delegated key decisions with competent managers, which is a pointer towards leadership's increasing trust on professional managers. The leadership's commitment to professionalise family business was evident from the overwhelming (68% respondents) agreement with the statement that every effort was made to recruit high quality non-family professionals. This was further cemented by 46% respondents who disagreed that family members were preferred recruits over talented outsiders. (see Figure 11)

Figure 11.

<u>Undercurrent of Change:</u> It emerges from these findings that the role of family business leadership appears to be undergoing a gradual transition on various dimensions of leadership.

It appears to be progressively evolving from authoritarian control to an inclusive leadership. The decision-making authority, once the exclusive domain of the eldest family member is increasingly opening up to scrutiny by other family members. Decision-making is gradually becoming participative. Many family businesses going for a documented future-plan is indicative of the gradual shift of traditional family businesses towards a professional style of managing business affairs. Development of a clear business vision that is commonly shared by all the family members and being open to external inputs in formulating the vision are also visible signs of change. Family firms are increasingly focused on strategic planning and are opening up to new business ideas. Leadership's growing inclinations for – *i)* delegation of key decisions to competent managers, *ii)* recruitment of high quality non-family executives and *iii)* competitive entry for family members along with talented outsiders – are reflective of the family business' transformation towards professionalisation.

Though there is considerable movement in positive direction, the study found that Indian family businesses are still to cover a long distance on many of the above counts. Though the new generation is given some decision-making authority, yet in many family businesses, decisions of the eldest member(s) cannot still be questioned and the younger generation is not active participant in the process. One in every four respondents highlighted the lack of a clear and commonly shared business vision for future and 17% denoted the leaders' aversion to external inputs for developing that vision. Lack of a clear long-term strategy (pointed out by 24% respondents) and a documented plan (pointed out by 39% respondents) were also crucial areas of concern for family businesses. Indian family business leaders were also found lacking (by 25% of respondents) when it came to delegation of work. Thus, the leadership transition seems to be a very gradual process that must pick up speed to keep pace with changing times.

The Way Forward: Family members many a time hold competing business visions. It is the responsibility of the leader to evolve a shared vision for the business. Taking this spirit forward, the top management of family businesses must consider inputs from various stakeholders while making important decisions that may have impact on business or family or both. Sound management practices must be given precedence over archaic paternalistic control. The business leader must facilitate systematic strategic business planning and dawn upon the role of a mentor and facilitator. The leader must empower the next generation in the family and professional managers to make decisions within their work span. The new generation of the business families must be well trained in technical and business matters. They must be equipped with systematic thought processes, focused on strategic planning and be open to experimentation. They must actively demand their say in business affairs and independence in decision-making. They must be bold enough to chart out a new course of action for their businesses, backed with sound rationale. Advice of experts and consultative mentorship would help the family business leaders to bring about these changes. The leader must trust the capabilities of the family and non-family subordinates. He or she must be open to new business ideas and help people achieve their goals. The leader must nurture talent and help others acquire and develop the skills required for their jobs.

Futuristic Approach to Succession Planning

Succession is very important moment in the life of a family business that requires smooth transfer of ownership and/or management leadership from one generation to the next. Succession may involve realignment of family relationships, redistribution of traditional patterns of influence and alterations in management and ownership structures of the business. Managing succession therefore is an issue of strategic importance as it affects the founder, the successor, the family, the managers, the owners and other stakeholders in the business. Family firms must select a successor who has the right mix of education, technological skills, managerial skills, financial management skills, zeal, ambition, emotional intelligence and human relationship skills to successfully execute the strategic business plans.

Effective planning for succession comprises - *i)* conceptualizing and documenting a succession plan for family business and *ii)* grooming the next generation to take up the assigned business role. In the absence of effective succession plan, power struggles may give rise to uncertainty and conflicts due to lack of clarity.

Structured Preparation:

The study showed that Indian families have consciously started making properly documented succession plans, though a lot more needs to be done in this direction. A mixed pattern emerged when respondents were asked about the existence of a clear succession plan for their businesses. While 49% of them replied in the affirmative, 32% disagreed and a significant 19% said they were not sure of complete clarity on succession. (see Figure 12)

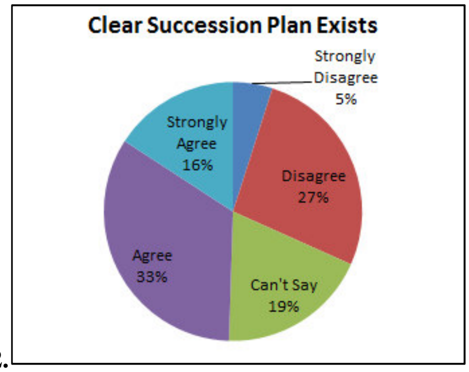

Figure 12.

For instance, an overwhelming 72% of respondents said their business had no formal age for retirement of family members. (see Figure 13)

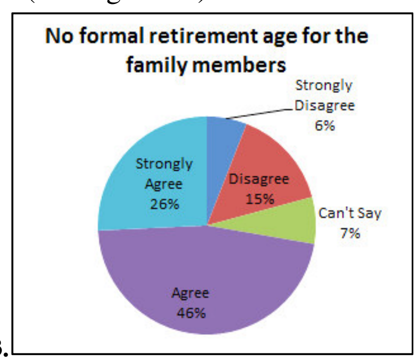

Figure 13.

Grooming:

There was a condition of flux when respondents were asked whether the roles and responsibilities of incoming family members were clearly defined; 52% respondents agreed that there was clarity, while 33% disagreed and 15% expressed their inability to comment on the issue. The positive side of succession in family business came to fore when 58% of the respondents reposed their faith in the capabilities of the next generation when they were asked whether the next generation was well groomed to take up the business responsibility. (see Figure 14)

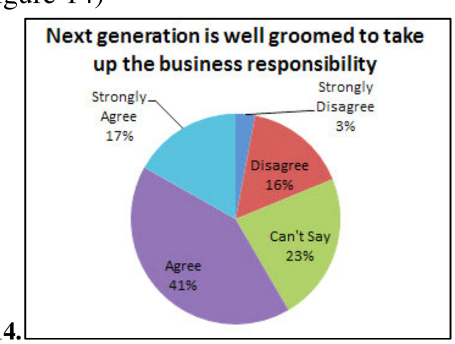

Figure 14.

Undercurrent of Change: The findings suggest that several family businesses have realized the significance of succession planning; however, even now, many family businesses are yet to put a proper succession plan in place. Family businesses in India are witnessing transformation with regard to matters of succession. Business families that have visionary leaders have started to put succession plan in place and have been grooming the prospective successors for their future business roles. While many family firms are struggling in between with either a coarsely documented plan or an unstructured approach towards grooming, there are firms that are yet to make any efforts in this direction.

The Way Forward: Family firms must have a long-term view in managing their business. Poor succession planning leads to uncertainties in future, family conflicts for control and adverse impact on business performance. Therefore, family firms must take all contingencies into account and systematically plan for the development of second line of command that is, the next generation of the owning family. Proper training and timely grooming of the younger generation equip the successors to effectively discharge their duties in future. Systematic integration of family members in the business helps maintain the thread of continuity in business leadership. For the plan to work effectively, it is important that successors must be provided timely inputs related to the goals, expectations and obligations of their positions. Well-documented succession plan must be evolved that clearly outlines the roles and responsibilities of all succeeding family members. The younger generation must be motivated and supported to take up leadership role in future.

The Family Wealth Maxim: Protect, Provide and Grow

Effective management and protection of wealth is of paramount importance to a business family. The family needs to find an acceptable balance between their ability to take risk and protection of the corpus, both in the short and the long terms. It is therefore important for family business owners to pre-empt the forthcoming financial requirements of all the family members and provide for those, well in time. Investments in real estate, bullion, stocks and debt securities if made in accordance with modern portfolio management practices, would diversify financial risk and help achieve a better mix of short and long-term investments.

Asset Management:

Majority of Indian family firms were found to be managing their wealth as a consolidated family portfolio. 66% respondents concurred that their wealth was managed at family level rather than at individual level. 20% respondents manage it at their personal level only and 14% could not commit themselves either way. (see Figure 15)

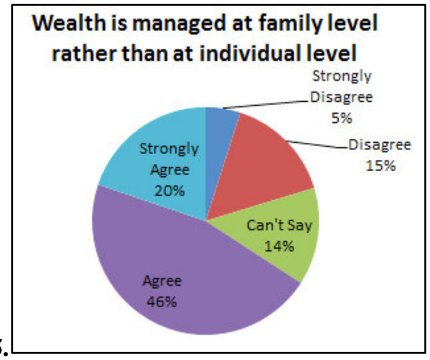

Figure 15.

When probed about whether their family takes help of professional wealth managers in managing family's wealth, half of them disagreed and a further 12% were unsure about it. It is interesting to note that 38% of respondents utilize the services of non-family professionals for managing their wealth.

However, a significant 44% of respondents were not satisfied with the current wealth management practices; additional 22% chose not to comment one way or the other (see Figure 16). These are signs of change in perspectives indicating the need to relook at the current practices.

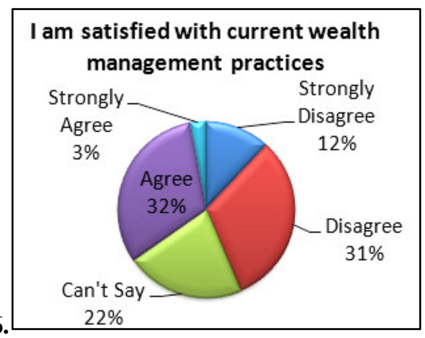

Figure 16.

Further analysis of data on these two counts showed that though dissatisfaction with current wealth management practices loomed large across categories, it did not come out clearly that this was because of the family collectively managing wealth or because individuals were making their own decisions. In essence, the dissatisfaction appears to be due to the current approach and practice of wealth management rather than who does it. 50% of those whose wealth was not managed at family level were dissatisfied from present wealth management (i.e. 10% out of the total of 20%)

Satisfied with Wealth Management

Wealth Managed at Family Level		Yes	Can't Say	No	Total
	Yes	27%	13%	26%	66%
	Can't Say	3%	3%	8%	14%
	No	4%	6%	10%	20%
	Total	34%	22%	44%	100%

Table 2.

whereas, 39% of those whose wealth was managed at family level were dissatisfied with current wealth management (i.e. 26% out of a total of 66%), (see Table 2).

Funding Growth:

60% of respondents were open to external funding to grow their businesses and were open to the increased scrutiny that would come with such a move. (see Figure 17)

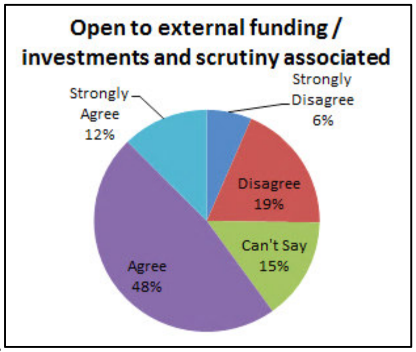

Figure 17.

This becomes even more important in the light of the fact that 54% respondents agreed that re-investments of business earnings were inadequate to fuel the business growth. In a growing economy like India, family firms surely need to look at numerous possibilities for funding; going by the findings, they seem to be cognizant of that reality.

Undercurrent of Change: Though the Indian society is definitively moving towards nuclear families, majority of the business families probed saw merit in managing their wealth as a consolidated family portfolio of assets. This could be primarily because the business ownership is still held together. However, a considerable number of family business leaders are not satisfied with the current wealth management practices. Gradually, business families are beginning to seek help of professional wealth managers in managing family's wealth. Family firms seem to be realizing the limitations to growth if only funded by re-investments /internal accruals. Family businesses becoming open to external funding (and the public scrutiny it accompanies) is another change that bodes well for their future growth. Thus, there is a significant transition happening on this count.

The Way Forward: Proper financial goals of both the business and the family need to be ascertained and a balance between the two sets of objectives has to be achieved. The family wealth has to be managed keeping the multiple criteria, often conflicting, in mind. It is prudent on the part of business families to seek help of professional wealth managers including in-house financial experts or institutions for achieving their financial goals. A family office may serve as a good source of professional help for better monitoring and management of family wealth.

'Harmony' in Family, 'Symphony' in Business

Harmonious relationships in the family are important to make a family business successful. It ensures that communication channels among family members are open and any issues or conflicts that arise are sorted out directly in the best interest of the family and the business. Most commonly, communication gaps arise among family members that are often provoked by role confusion, emotions (envy, fear and anger), political divisions or other relationship problems within the family. These lead to increasing misunderstandings and negative perception about the other member(s), resulting in growing friction among family members and clouding of decision-making. It is important on the part of the family elders to anticipate these matters and resolve them at an early stage to maintain cordial family relations.

Family and Business Interplay:

The influence of business on family relationships was underscored by 60% of the respondents who agreed that irritants in business operations affect personal relations among family members. (see Figure 18)

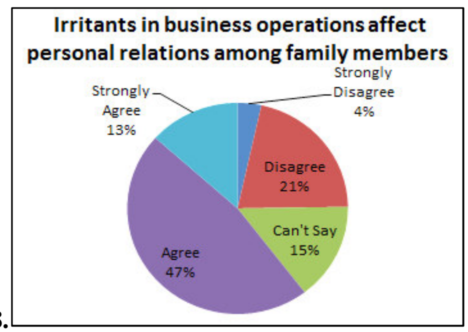

Figure 18.

Proving the converse relationship, 59% respondents affirmed that personal/emotional issues of family members (like separation/conflicts/health problems) affected business decisions and activities. (see Figure 19)

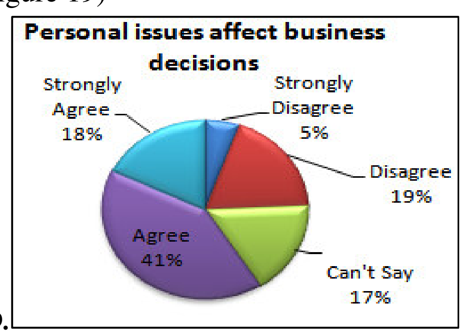

Figure 19.

Communication:

On a healthy note for family firms, 59% respondents agreed upon the existence of a communication forum / platform for family members to share thoughts and voice their concerns. (see Figure 20)

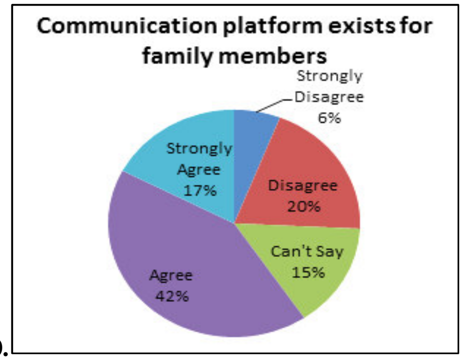

Figure 20.

Adding to the effectiveness of this process was the affirmation by 60% respondents of free and open interpersonal communication being promoted in their respective organisations.

However, inspite of these efforts, 65% respondents agree that communication gaps arise due to age/ personal matters of the family members. (see Figure 21)

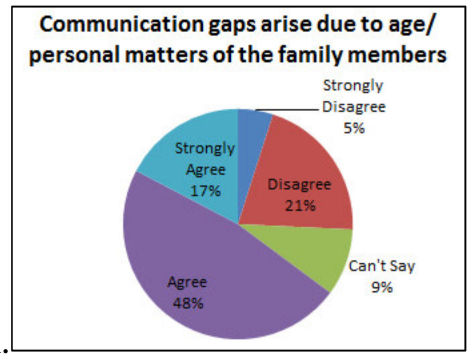

Figure 21.

An interesting insight about the role of a communications platform in managing family relationships emerges on cross tabulating the responses. 16% out of a total of 26% respondents who register the absence of a communication platform in their firms (i.e. 61% of nay sayers) said that business operations affect family relationships. Whereas, 34% out of a total of 59% respondents who said that communication platform existed for family members (i.e. 57% of the ayes) also mentioned that business affected family relationships. This analysis points towards ineffective usage of the communication platform in harnessing cordial relations among family members (see Table 3). It would immensely benefit the family firms if they realise the potential of the communication forums in resolution of differences and forging strong bonds among family members.

Communication Platform Exists

		Yes	Can't Say	No	Total
Business Affects Family Relations	Yes	34%	10%	16%	60%
	Can't Say	10%	1%	4%	15%
	No	15%	4%	6%	25%
	Total	59%	15%	26%	100%

Table 3.

Compensation:

58% respondents disagreed that rewards (including salary) of family members were determined based on their age. However, 47% of the respondents disagreed and said that specific merit based criteria for deciding compensation of family members existed in their business. (see Figure 22)

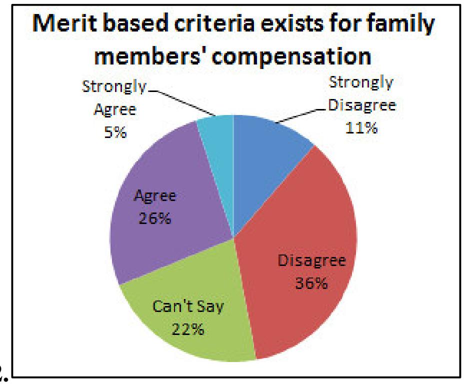

Figure 22.

On the issue of compensation of non-participating family members the responses were again divided. Though 41% respondents said that their businesses had clear guidelines on this issue, 32% disagreed and a considerable 27% pleaded their inability to comment on it. This was another sign of transformation of traditional family business.

Retirement Planning:

When quizzed about the existence of a plan for sustaining the lifestyle of the retiring family members, 48% respondents agreed on the existence of a sustenance plan for retiring members but 35% disagreed and 17% were not sure either way. (see Figure 23)

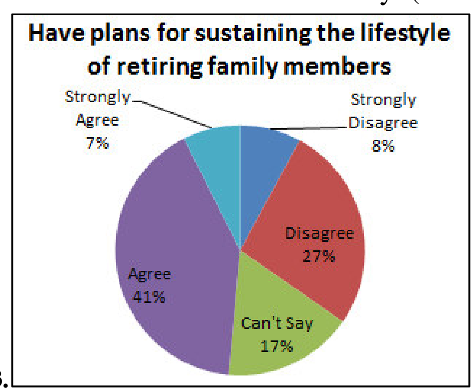

Figure 23.

A positive finding that augurs well for cordial family relationships was that majority of respondents (59%) agreed that family level policies existed within their setups to meet routine and non-routine family expenses. The finding discloses that family firms are moving towards a structured way of managing their finances for family needs which in turn would reduce unexpected financial obligations of the businesses.

Undercurrent of Change: The findings highlighted the intertwined nature of business and family, in tune with the existing family business literature. Apparently, the family firms are realising the importance of interpersonal communication. Family firms are not only developing communication platforms but are also actively promoting open communication across the organisation. The findings also pointed towards continued struggle for clarity regarding the payouts for family members' efforts. A structured reward mechanism for both participating and non-participating family members is an area that requires thoughtful consideration. Clarity in these matters would contribute towards harmony in family relationships. Retirement of family members and welfare planning for retiring members also emerged as an area that family firms continue to grapple with. It is vital for family firms to put in place welfare mechanisms for the retiring family members to reduce uncertainties associated with retirement and save the businesses from avoidable future challenges. Family firms are increasingly coming to terms with these challenges and trying to put structured solutions in place.

The Way Forward: It will be important for Indian business families to focus on harmonizing familial relationships, as strong family bonding is the main source of strength for their businesses. Clarity in family members' business roles and responsibilities along with well-defined reward structure goes a long way in ensuring that no business issues play a spoiler in family ties. It is also important that families devise a mechanism for early resolution of family matters that may potentially have an adverse effect on the business. Instead of pushing them under the carpet, family problems must be identified and addressed proactively. Fair compensation structure for all family members helps in maintaining cordial family ties. Dividends, salaries, benefits and compensation for participating and non-participating family members must be clearly defined and justified. The endeavour must be to minimize dependence of family members on business finances for sustaining lifestyles thereby reducing friction in family. Family businesses also need to have proper retirement and estate planning to address the necessities of older members when they leave the company.

Integrity and Competence through Professionalisation

Professionalisation of a family firm is paramount to sustain the business in the long-term. A family business that lacks professionalisation is often plagued with conflicts due to role confusion, informal organisation structure, lack of systematic work processes and loss of focus. Poor accountability and operations control severely impinge organisational efficiency. The business also fails to attract and retain good external talent.

The process of professionalization of family business includes setting up of management systems and structures in the organisation, bringing objectivity and in several cases decreasing dependence on the entrepreneur or the family members. It is important on the part of the family business owners to institutionalize these structures and mechanisms. Family executives involved in business also need to be equipped with modern management techniques. They must develop a team of management professionals, formalize work procedures, delegate work with proper control mechanisms. The challenge here is to ensure that the core values and spirit of the family are not stifled due to professionalization.

Role Clarity and Organisation Structure:

A promising trend towards professionalisation of family firms came to the fore when 57% respondents agreed that roles of family members in their business are clearly defined and communicated. (see Figure 24)

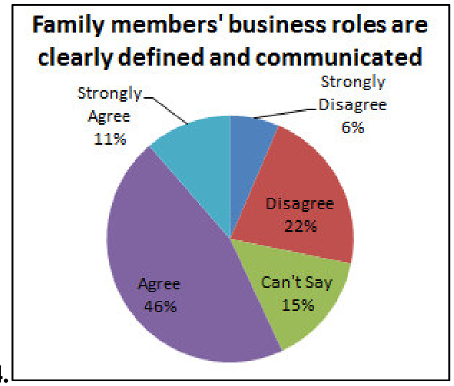

Figure 24.

Respondents were divided about whether family members' accountability was well defined and communicated; while 45% agreed that it was indeed the case, a significant 36% disagreed and 19% were not sure about it. (see Figure 25)

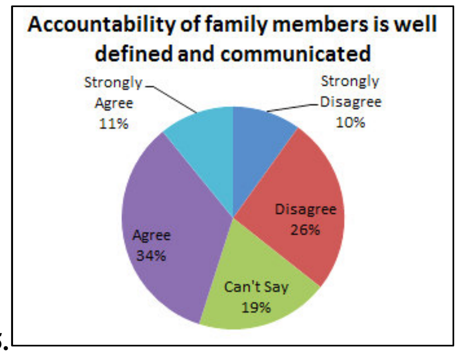

Figure 25.

44% respondents affirmed that family hierarchy was the basis for deciding business responsibilities independent of business capabilities of the individual.

67% of respondents agreed that processes/procedures were more flexible for family members than they were for non-family members. (see Figure 26)

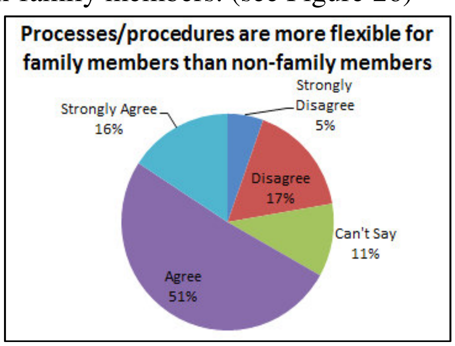

Figure 26.

Control:

When asked whether non-family professionals control more business activities than family members, 60% respondents disagreed. This finding reflected that family members continue to have a strong grip over their businesses. Looked at from another angle, a significant percentage (31%) of respondents agreed that non-family professionals control more business activities than family members.

When probed about whether family members are reducing their operational involvement in business to help focus more on strategy, 40% respondents agreed while 42% disagreed and 18% were not sure to comment (see Figure 27). This again echoed the transition of family firms from being traditional micro-managed organisations to the more professional ones.

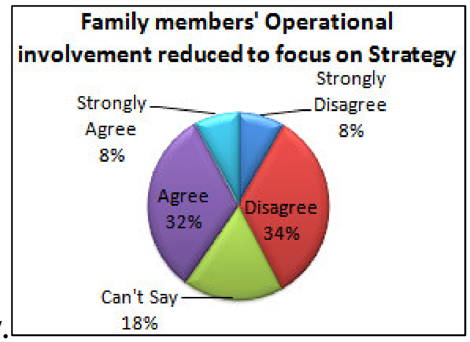

Figure 27.

Managing Talent – Family and Non-Family Executives:

The findings revealed that being born in the family appeared to be the license to enter the family business. 49% respondents disagreed that entry requirements were followed in case of family members as they were for a non-family member, while 26% agreed that both family and non-family members faced same entry requirements. (see Figure 28)

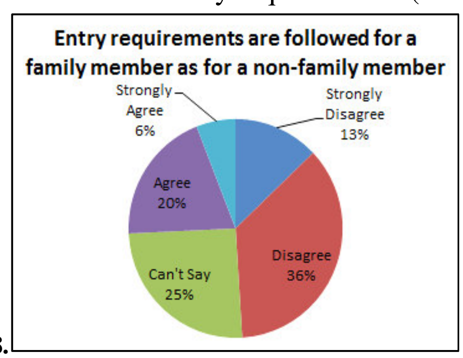

Figure 28.

Family firms fared even worse when it came to performance appraisal of family members. 56% respondents disagreed that performance appraisal was done for family members serving the business as it was done for non-family executives. As a consequence, in many businesses family members were not penalised for non-performance as was reported by 66% respondents. This does not bode well for professionalisation of family firms.

When asked whether family members were preferred in job promotions, 47% respondents agreed that there indeed was a preference, 28% disagreed and the remaining 25% could not comment.

In reply to another statement, 43% of the respondents agreed that non-family members had freedom to make key business decisions while 46% disagreed and remaining 11% did not commit either way. (see Figure 29)

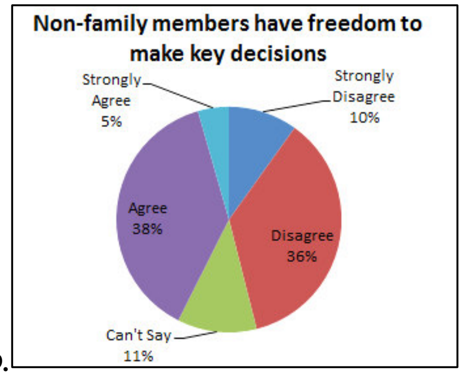

Figure 29.

40% respondents agreed that non-family members left their organisation due to limitations to their career progression but 42% respondents disagreed to this.

<u>Systems and Processes:</u>

Systems and processes are essential for professionalisation of any family business. However, mixed responses were received when respondents were asked about the state of management systems and processes in their family business. On the one hand, 42% respondents agreed that in their businesses, systems and processes were not established or were ill defined; on the other hand 46% disagreed with it while 12% chose not to take a stance either way. (see Figure 30)

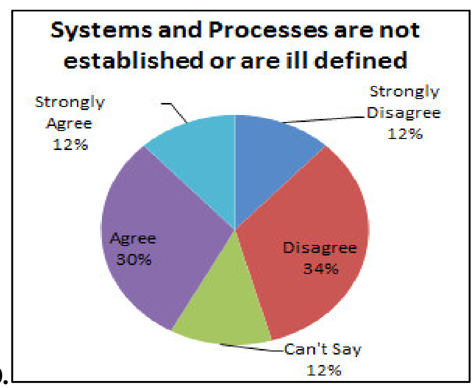

Figure 30.

Another area of improvement was professional execution of procedures wherever they were put in place. 44% respondents agreed that systems and processes were there but were not followed in letter and spirit whereas 36% disagreed with this.

<u>Undercurrent of Change:</u> The findings suggest that there is considerable shift towards role clarity in family firms; however, some firms are yet to evolve. A crucial insight gained

from the research was that though in a significant number of firms family hierarchy still took precedence in allocation of business responsibilities, family firms are gradually moving towards professional way of assigning business tasks and increasingly having more focus on strategic issues. Progressively, family firms are setting family members' accountability for business tasks. Another area of improvement that emerged in the study was standardization of processes and procedures resulting into a level playing field for both family and non-family executives. Though some family firms have established uniform procedures, for many others it remains a distant goal. Many family businesses are establishing well-defined management systems and processes but others are yet to follow. Thus, overall, professionalisation of business emerged as an evolving front where family firms continue to struggle.

The Way Forward: Indian family business organisations need to adopt professionalisation in their businesses that would facilitate strategic planning, systematic business processes, analytical decision-making and formalization. However all of these must be institutionalized in the true spirit and not just for name's sake. Family firms need to adopt merit based task assignment if they are to remain sustainable. It will help the family firms move away from personality based business decision making. They need to make further progress when it comes to accountability of family members. Also, they need to understand that as they grow and professionalize themselves, family members must concentrate more on strategic issues and leave day-to-day operations to professionals. A lot of energy of the family should be devoted to entrepreneurship, including innovations in existing operations. This would increase the overall efficiency and effectiveness of the business. The family business leadership has to ensure that though their businesses are professionalized, they must retain the personal or familial touch that made their business unique in the first place. Maintaining this fine balance is definitely a challenging task that requires visionary leadership qualities. True professionalisation will result in more efficient business practices, sustainable business model and appreciation from all stakeholders.

Conclusion: Indian Family Businesses in Transition Mode

The study comprehensively analysed family firms and found significant trends. The response pattern was found to be similar for family businesses regardless of the firm size, age, geographic location or the family generation that heads them. In other words, across geographic regions, age or size of the business or the generation heading them, findings about family firms were on similar lines. The study covered 50 dimensions on which the family business owners were questioned. On all of the dimensions there is a message of an undercurrent of transition in family businesses.

Conventionally, family firms are viewed as traditional, orthodox and unprofessional businesses that are believed to be at the crude end of sophistication in business. They have been stereotyped as autocratic and personality driven businesses that are lagging way behind the modern, technology oriented and professionally managed large firms. However, this study revealed that Indian family firms have moved ahead of their stereotypical image and are going through a transition mode. A mixed picture emerged on all dimensions studied in this research.

Leadership in family business seems to be undergoing a phenomenal change. While earlier it was autocratic, now it is gradually becoming participative. The younger generation is joining the family businesses and increasingly taking up leadership roles. The senior generation has begun to regard them as capable and well-trained professionals. Albeit slowly but surely, seniors are giving them freedom in decision-making. Family business leaders are beginning to evolve a long-term vision and strategy for their businesses. They are progressively trying to overcome the resistance to change and are opening up to new business ideas. Family business leadership is also gradually learning to 'let go' their control and are effectively delegating operational decision-making to focus more on strategy. Some family firms have adopted radical changes in leadership style whereas at the other extreme of this continuum there still remain some firms that are being lead in traditional ways.

Succession planning was something almost unheard of among family firms just about a decade ago. Following the family hierarchy was the usual norm when it came to leadership succession. There was lack of clarity on roles and responsibilities of family members. This often led to chaos and conflicts that were detrimental to the business. However, family firms seem to have now learnt the importance of succession planning. As this study revealed, many firms have begun to document their succession plans with clear roles and responsibilities defined for family members joining the business. The elder generation has also started to realise the importance of professional training and grooming of the younger generation to take up business responsibilities in future. Even on this count, some family firms that are proactive score higher than others who are yet to move towards systematic planning for leadership succession.

Wealth management in Indian family businesses largely remains the domain of the family. Family businesses were found to predominantly manage their wealth at the family level. Though many families have begun to take help of professional wealth managers, a significant number of family business owners are not satisfied with the existing wealth management practices and see scope for improvement in this area. The traditional business family's intent to keep financial matters of business behind closed doors and have a very tight control over ownership was a big hindrance to the growth of business. An interesting shift in that area is being witnessed with family firms opening to external sources of funding and throwing themselves open to financial scrutiny. This indeed seems to have become a virtue out of the necessity for funds to propel business growth. Some firms are yet to adopt such an open approach while others have moved far ahead.

Family business owners have realised the importance of harmonious relationships among family members for achieving business success. They have begun to establish communications forum to help family members reach out to each other, sort out differences and have cordial relations. Free and open interpersonal communication is increasingly being promoted across the organisation. Compensation of family members is being determined on specific merit based criteria. Family firms are slowly beginning to formulate clear guidelines for compensating non-participating family members. Retirement and estate planning is being done in many of the progressive family businesses. All these point towards tangible efforts that family firms are making to achieve cordial relations among family members.

Family firms are increasingly moving towards a professional approach to managing businesses. They are defining clear roles and responsibilities of all family members. Unlike in the past, family hierarchy is not the only criterion for assigning business responsibilities; personal capabilities and skills are playing an increasingly important role in determining assignments. In a positive move towards good corporate governance, progressive family firms are also ascertaining the accountability of family members and clearly communicating it to them. However, still processes are more flexible for family members than non-family members. Family members have control over a much larger part of business operations than for non-family professionals. Operational involvement of family members is gradually getting reduced as they focus more on strategy. Some family firms have begun to establish entry requirements and performance appraisal mechanism for family members as they are applicable to non-family members. However, family members are often not penalised for non-performance. Non-family members are actively scouted for their talent and are gradually being given freedom to make key decisions. Family firms are moving towards establishing stronger systems and processes. However, in many family firms systems and processes either still remain ill-defined or are not followed in spirit.

The progression of family business towards professionalisation is an emerging trend that this research firmly establishes. This shift is gradual but is clearly visible in family firms regardless of differences in their geographic location, size or age. Another trend that emerged from the study is the separation of ownership and management which is being increasingly realised by family business owners. They are gradually beginning to view business management and family ownership as two distinct phenomena. Consequent to this understanding is the realization that management and ownership may have conflicting goals that need to be balanced.

Though it sure has begun, the transition of family business towards modern management is quite a gradual process. Many family firms are yet to implement progressive changes. However, there is widespread recognition among the family business leaders that their businesses must alter the traditional ways to make space for modernity if they need to sustain. Family firms need to shake themselves out of the status quo, overcome the resistance to change and effectively reform their business. Hopefully, they would be able to do that before their firms lose relevance in today’s extremely dynamic business landscape. Many Indian family firms have taken lead in their march towards professionalisation and modernization. Others are moving towards that goal following the leaders. This transition bodes well for India and is a reflection of a nation that is changing for better. The future of Indian family businesses certainly appears to be promising.

References

Astrachan, J., Klein, S. B., and Smyrnios, K. X. (2002).The F-PEC scale of family influence: A proposal for solving the family business definition problem. Family Business Review, 15(1), 45–58.

Ayres, G. R. (1990). Rough family justice: Equity in family business succession planning. Family Business Review, 3(1), 3–22.

Barnes, L.B., Hershon, S.A. (1976), "Transferring power in the family business", Harvard Business Review, No.July/August, pp.105-14.

Brockhaus, R. H. (2004), Family Business Succession: Suggestions for Future Research, Family Business Review, June, vol. 17, 2: pp. 165-177.

Chrisman, J. J., Chua, J. H., & Sharma, P. (1998). Important attributes of successors in family businesses. Family Business Review, 10(2), 19–34.

Chrisman, J.J.; Steier, L.; Chua, J.H. (2008). Toward a Theoretical Basis for Understanding the Dynamics of Strategic Performance in Family Firms. Entrepreneurship Theory and Practice, Vol. 32 Issue 6, pp. 935-947

Churchill, N. C., & Hatten, K. J. (1987). Non-market based transfers of wealth and power: A research framework for family businesses. American Journal of Small Business, 11(3), 51–64.

Daily, C. M., Dalton, D. R. and Cannella, A. A. (2003). Corporate governance: decades of dialogue and data. Academy of Management Review 28 (3) 371-382.

Dyer, W.G. Jr. (1986). Cultural Change in Family Firms: Anticipating and Managing Business and Family Transitions. San Francisco: Jossey-Bass.

Dyer, W.G. Jr. (1989). Integrating Professional Management into a Family Owned Business. Family Business Review, Vol. 2 Issue 3, pp. 221-235.

Dyer,W. G. Jr. (2003). The family: The missing variable in organizational research. Entrepreneurship Theory and Practice, Summer, 401–416.

Flamholtz, E. G. (1986). How To Make the Transition from Entrepreneurship to a Professionally Managed Firm. San Francisco: Jossey Bass.

Fletcher, D. (2002). A network perspective of cultural organizing and “professional” management in the small, family business. Journal of Small Business and Enterprise Development, 9(4), 400–415.

Habbershon, T. G.,& Williams, M. L. (1999).A resource based framework for assessing the strategic advantage of family firms. Family Business Review, 12(1), 1–26.

Hollander, B. S., & Elman, N. S. (1988). Family-owned businesses: An emerging field of inquiry. Family Business Review, 1(2), 145–164.

Klein, S.B. (2007). Non-Family Executives in Family Businesses - A Literature Review. Electronic Journal of Family Business Studies, Vol. 1 Issue 1, pp. 19-37

Lansberg, I., and Astrachan, J. H. (1994). Influence of family relationships on succession planning and training: The importance of mediating factors. Family Business Review, 7(1), 39–59.

Levinson, H. (1971). Conflicts that plague family businesses. Harvard Business Review, 49, 90–98.

Malone, S.C. (1989). Selected correlates of business continuity planning in the family business. Family Business Review, 2(4), 341–353.

Nordqvist, M. (2005). Understanding the Role of Ownership in Strategizing - A Study of Family Firms. JIBS Dissertation Series No.029

Rutigliano,A. (1986).When worlds collide: Problems in family-owned businesses. Management Review, February, 22–29.

Ward, J. L. (1987). Keeping the family business healthy. San Francisco, CA: Jossey Bass.

Whiteside, M. F., and Brown, F. H. (1991). Drawbacks of a dual systems approach to family firms: Can we expand our thinking? Family Business Review, 4(4), 383-395.

Annexure

Questionnaire Statements (These statements were jumbled in the administered questionnaire)

Challenges for the Family Business

Major Challenges	Concerns	S.No.	Question/Statement (with respect to key Family Business Practices)
A. Leadership	1. Paternalistic Leadership.	1	Eldest family member(s) has(ve) absolute and final authority on business matters
		2	Younger family members participate in business decision making process
		3	Other Family members cannot question the business decisions made by the eldest family member(s)
	2. Limited or Tunnel Vision.	4	A clear vision about future of the business exists
		5	External inputs are invited and considered for developing the business vision for future
		6	Business vision is commonly shared by all the family members
		7	Business' vision is limited by personal viewpoints of the family members
	3. Lack of Systematic thinking.	8	Business decisions are mostly reactive to address day-to-day developments
		9	Business has a clear long term strategy
		10	We have a documented plan for the future
	4. Resistance to Change.	11	Ideas for major expansion/new businesses are encouraged from the family members
	5. Control issues.	12	Top leadership delegates key decisions with competent managers
		13	Family members regularly upgrade their business skills
	6. Skills and talent.	14	Every effort is made to recruit high quality non-family professionals
		15	Family members are preferred recruits over talented 'outsiders'

Major Challenges	Concerns	S.No.	Question/Statement
B. Succession Planning	1. Lack of Succession Planning.	16	There is a clear plan for handing over business leadership to the next generation
		17	There is no formal retirement age for the family members
		18	Succession plan is there but is unclear or not practiced
	2. Uncertainty.	19	Roles & responsibilities of incoming family members are clearly defined - (i.e. who will do what etc.)
	3. Poor Training.	20	Next generation lacks business acumen
		21	Next generation is well groomed to take up the business responsibility
C. Management of Family Wealth	1. Wealth Management.	22	Wealth is managed at family level rather than at individual level
		23	Professional wealth managers help the family in wealth management
		24	I am satisfied with the current wealth management practices
	2. Growth limitations.	25	We are open to external funding / investments and scrutiny that comes with it
		26	Re-investments of business earnings are inadequate to fuel business growth
D. Building Harmonious Family Relationship	1. Non-business issues and Emotions.	27	Irritants in business operations affect personal relations among family members
		28	Personal /emotional issues of family members (like Separation/Conflicts/Health problems) affect business decisions and activities
	2. Communication problems.	29	Communication forum / platform exists for family members to share thoughts and voice their concerns
		30	Free and open interpersonal communication is promoted across the organisation
		31	Communication gaps arise due to age/ personal matters of the family members
	3. Compensation issues.	32	Rewards (including salary) are determined based on the age of family members
		33	Specific merit based criteria exists for deciding compensation of family members
		34	Have clear guidelines for compensating non-participating family members
	4. Retirement and estate planning.	35	Have plans for sustaining the lifestyle of retiring family members
		36	Family level policies exist to meet routine and non-routine family expenses

Major Challenges	Concerns	S.No.	Question/Statement
E. Professionalization of Business	1. Role confusion.	37	Family members' roles in the business are clearly defined and communicated
		38	Accountability of family members is well defined and communicated
	2. Informality and Soft structure.	39	Family hierarchy is the basis for deciding business responsibilities independent of business capabilities
		40	Processes/procedures are more flexible for family members than non-family members
	3. Control of operations.	41	Non-Family Professionals control more business activities than Family members
		42	Operational involvement of family members is reduced to help them focus more on strategy
	4. Lack of talent.	43	Entry requirements are followed in case of a family member as they are, for a non-family member
		44	Performance appraisal is done for the family members serving the business as it is done for others
		45	Family members are penalised for non-performance
	5. High turnover of non-family members.	46	Family members are given preference in promotion
		47	Non-family members have freedom to make key decisions
		48	Non-family members leave due to limitations to their career progression
	6. Systems and Processes.	49	Systems and Processes are not established or are ill defined
		50	Systems and processes are there but are not followed in letter and spirit

Family Business and Wealth Management
Indian School of Business
Gachibowli, Hyderabad - 500 032
www.isb.edu/familybusiness/