

# Knowing Indian Family Businesses through Research Conducted by Thomas Schmidheiny Centre for Family Enterprise (ThS\_CFE)

Professor Sougata Ray

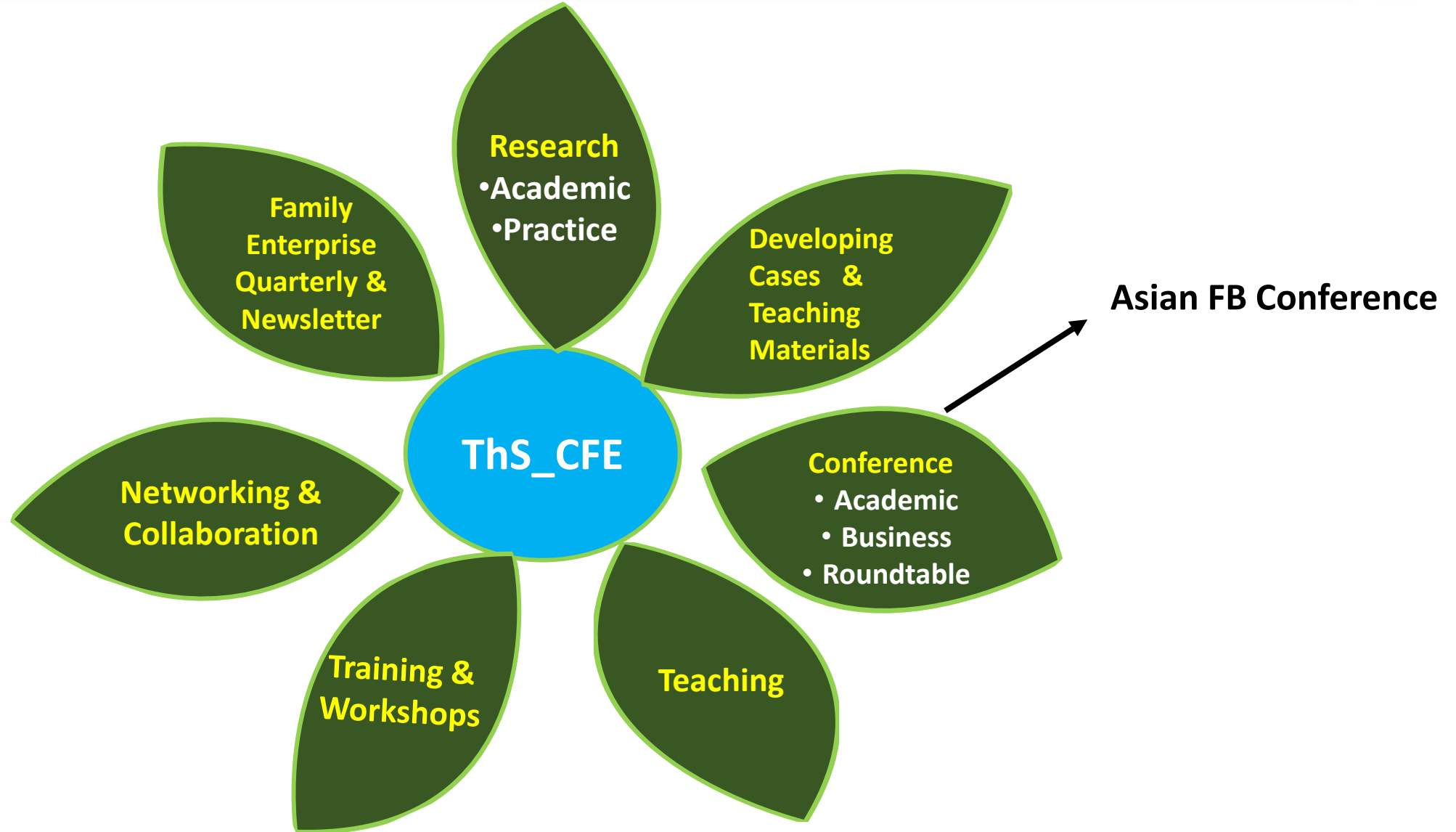
Executive Director

Thomas Schmidheiny Centre for Family Enterprise

Indian School of Business



# ThS\_CFE's Activity Portfolio

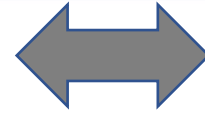




# ThS\_CFE's Current Research Themes



Family Firm as the Unit of Research



Business Family as the Unit of Research

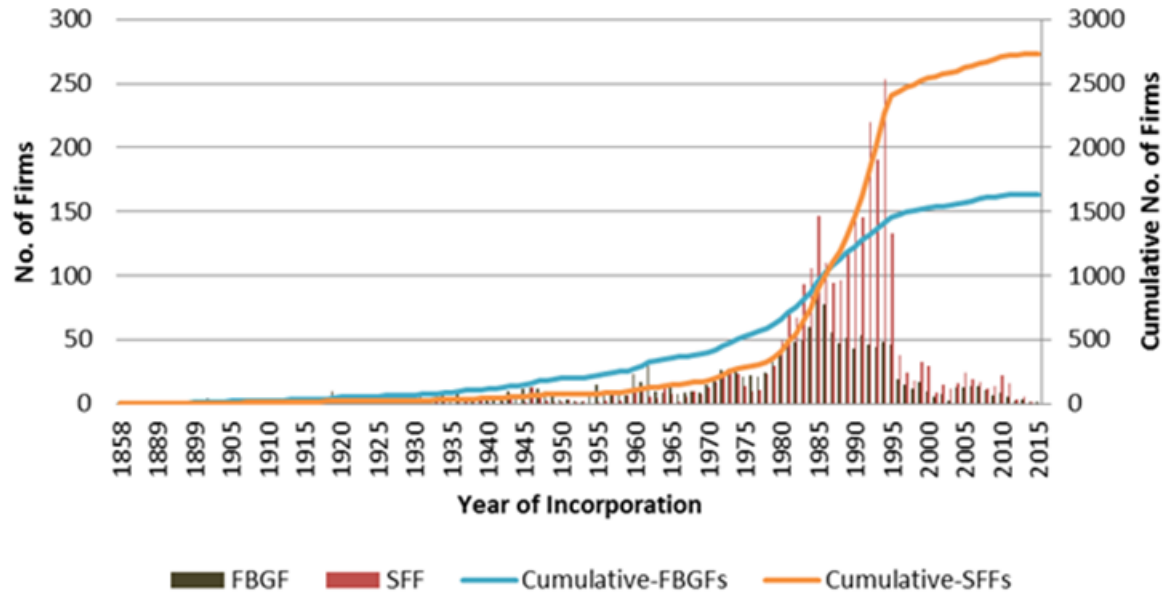
- Family Sociology – Gender, Community, Cast, Religion
- Entrepreneurship
- Governance
- Philanthropy
- Performance
- Professionalization
- Strategy – Growth, Internationalization, Digital Transformation, Sustainability
- Wealth Management

- Data for all listed family firms (6000+) since 1990 for most variables; few 2001 onwards (cleaned up from Prowess)
- Data on Financial Performance, Ownership, Leadership, Directors, Gender, Pledging, CSR, Religion, Caste
- Research using the database - Journals, Conferences, White Papers, Media Articles
- Throughout this presentation:
  - ✓ FB- Family Businesses
  - ✓ NFB- Non-Family Businesses
  - ✓ FBGF- Family Business Group Firms
  - ✓ SFF- Standalone Family Firms
  - ✓ MNC- Multinational Company
  - ✓ SOE- State Owned Enterprise
  - ✓ OBGF- Other Business Group Firm
  - ✓ NFF- Standalone Non-Family Firm

## Knowing Family Businesses in India through ThS\_CFE's research

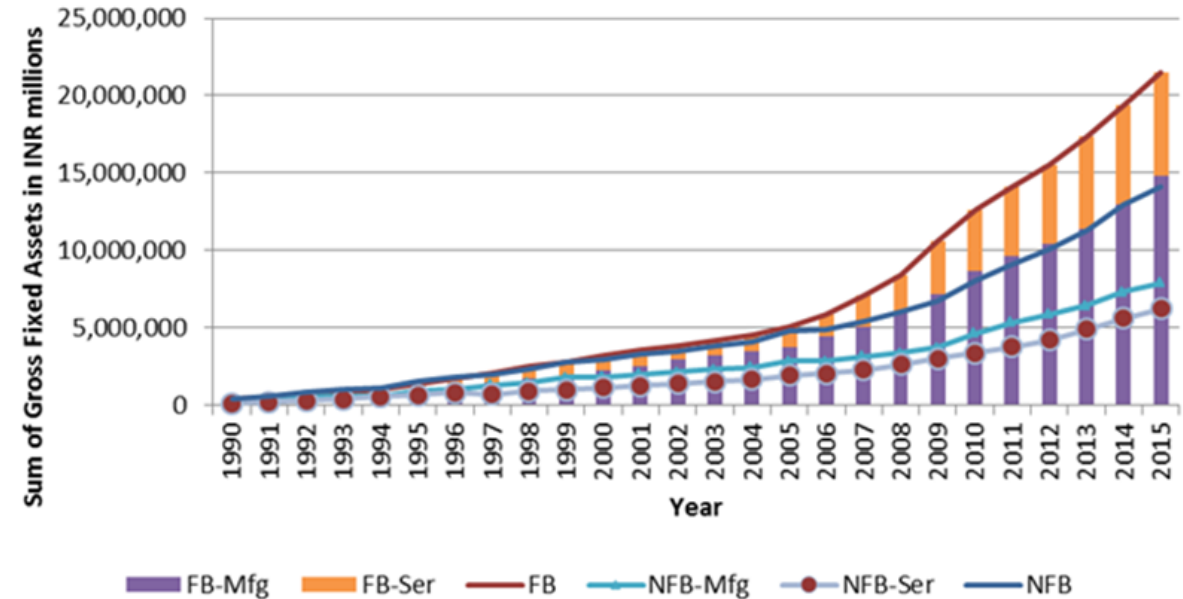
*1. Negating the popular narrative, Indian family businesses in general adapted well, many even flourished, to the changing business environment in the post liberalisation era and contributed significantly to the growth of the economy.*

### Incorporation Year wise No. of Firms- FBGFs vs. SFFs



*Number of family firms have gone up significantly post liberalization. Both, Family Business Group Affiliated Firms and Standalone Family Firms.*

### Sum of Gross Fixed Assets- All firms Family vs Non-Family Businesses



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

*High propensity to create assets.*

## Knowing Family Businesses in India through ThS\_CFE's research

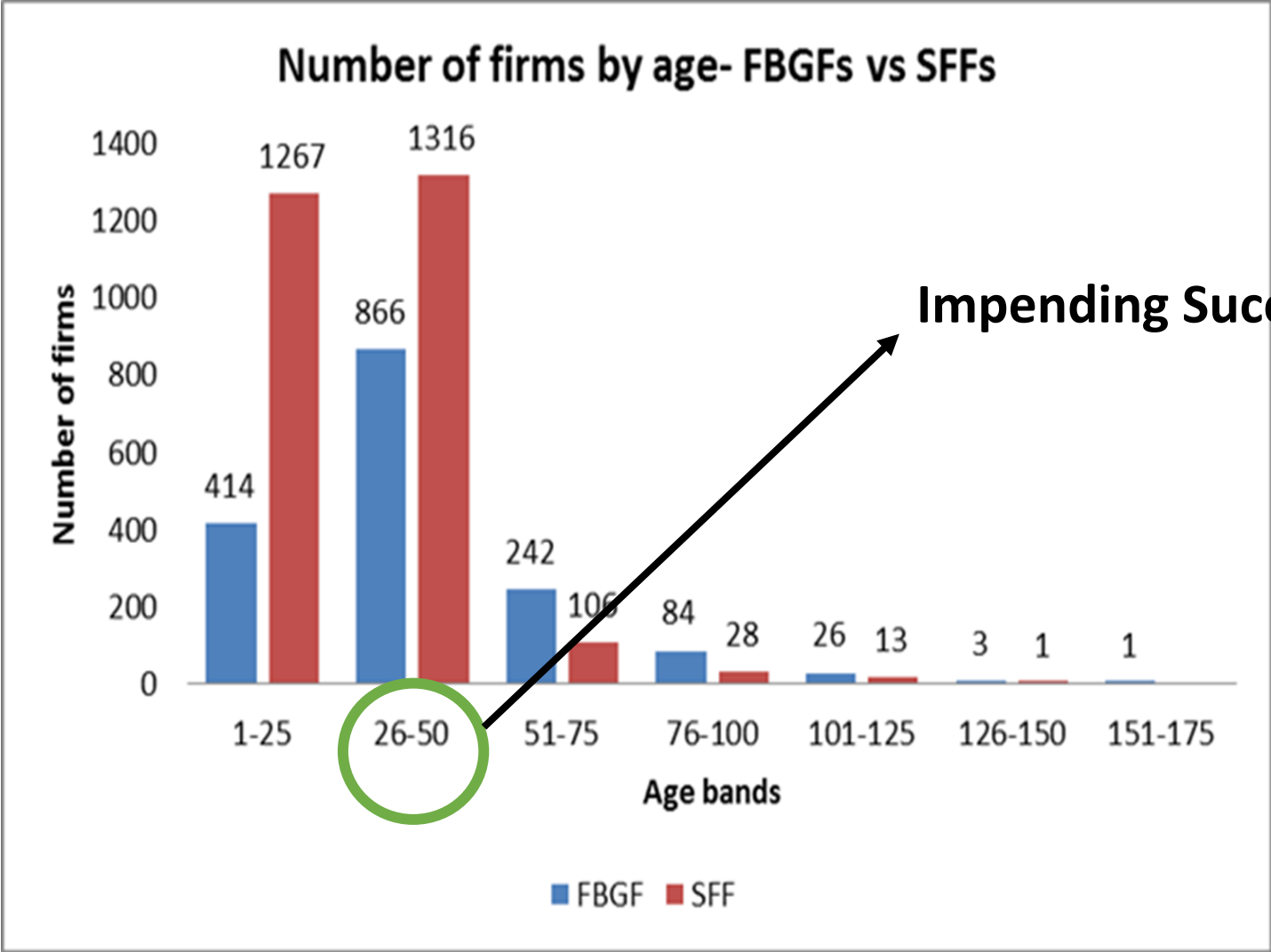


*1a. Negating the popular narrative, Indian family businesses adapted well to the changing business environment, flourished, and contributed significantly to the growth of the economy in the post liberalisation era.*

*1b. However, many high-profile family business groups, particularly those who faced succession challenges, struggled during this period.*

*1c. There are impending succession challenges for many going forward. Many founders who took advantage of opportunities around liberalization, are staring at a baton change to the next-gen leaders in the near future.*





Impending Succession Challenges

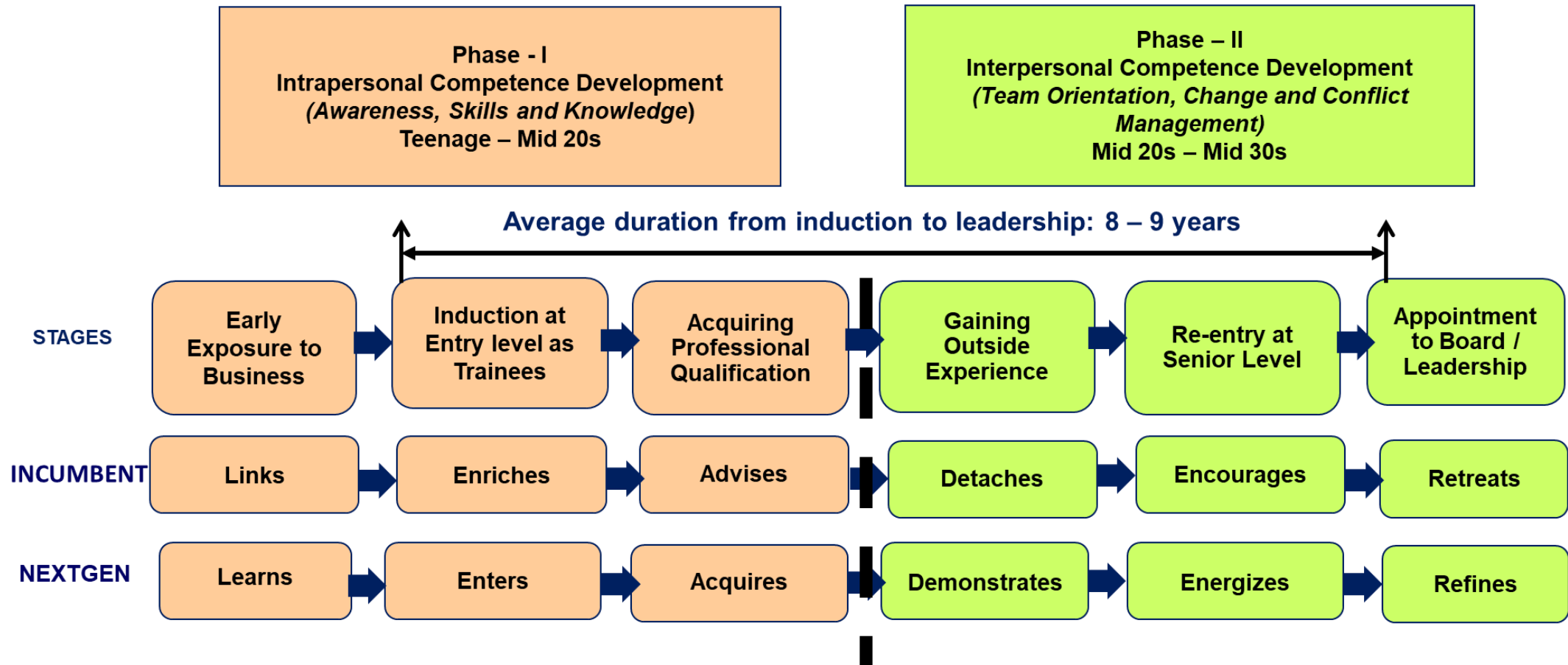
- ✓ FBGF- Family Business Group Firms
- ✓ SFF- Standalone Family Firms

*2a. Succession – important yet can be traumatic – planning process is important.*

*2b. Centre has developed a framework that maps the entire leadership development process and identifies the roles played by the incumbent leaders and younger members during the process.*

## Next Generation Leadership Development Framework

Succession- Next-Gen



**Critical Intermediate Phase of Transition**

*3a. Indian family firms rapidly moved from manufacturing to services post-liberalization and then from traditional to modern and new-age services at the stroke of the new millennium.*

- Family Firms dominate services

Evolution (CAGR) – 1991 to 2018

	Total Assets			Market Capitalization			Net Sales		
	FF	FBGF	SFF	FF	FBGF	SFF	FF	FBGF	SFF
Family Firms									
Manufacturing	<b>16%</b>	15%	19%	<b>20%</b>	19%	26%	<b>15%</b>	14%	17%
Services	<b>20%</b>	19%	23%	<b>27%</b>	27%	32%	<b>17%</b>	17%	21%
Non-Family Firms									
Manufacturing	<b>12%</b>			<b>20%</b>			<b>12%</b>		
Services	<b>14%</b>			<b>27%</b>			<b>16%</b>		

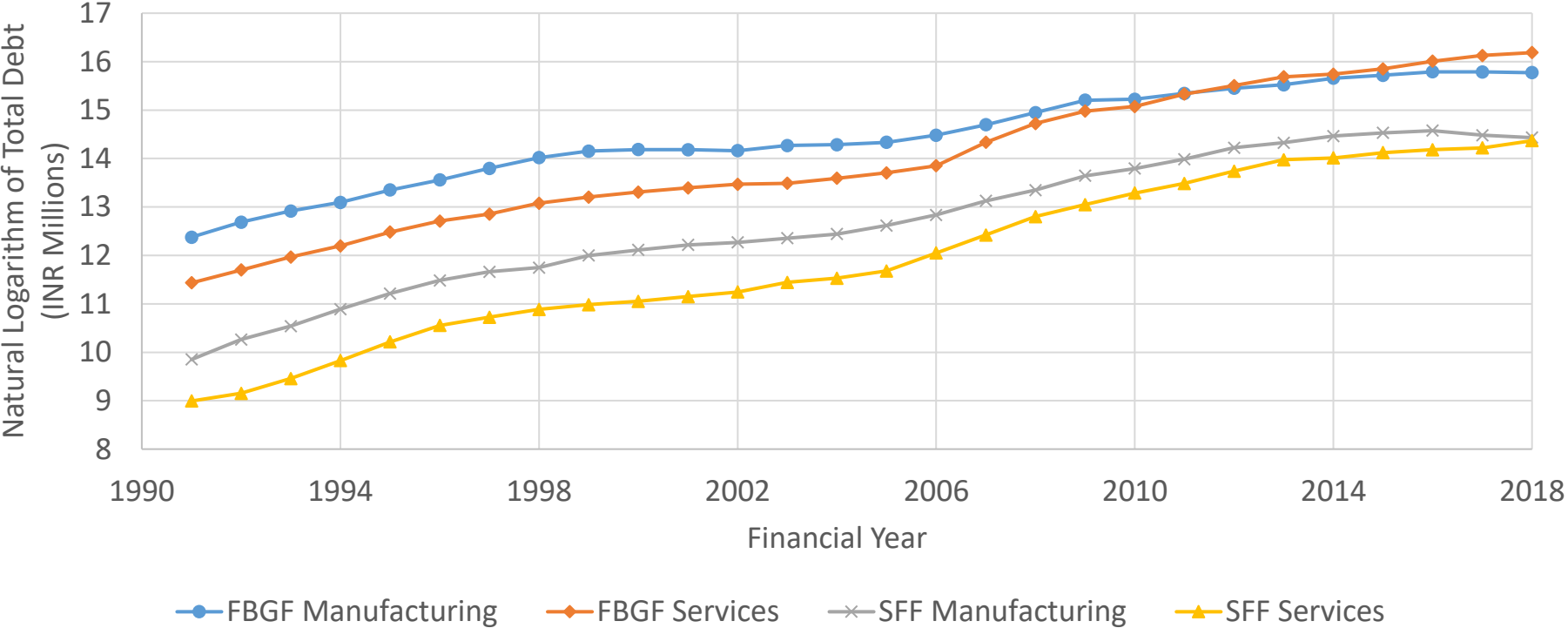


*3a. Indian family firms rapidly moved from manufacturing to services post-liberalization and then from traditional to modern and new-age services at the stroke of the new millennium.*

*3b. Upsurge of Debt in services and sustained non-performance of family firms in many industries are concerning.*

Manufacturing to Services

## Increasing Debt



## Average Return on Assets: Family vs Non-Family Firms (1991 – 2018)

Service Sector	Family Firms		Non-Family Firms	
	Mean	SD	Mean	SD
Financial service activities, except insurance and pension funding	1.3%	1.3%	0.9%	0.4%
Public Utilities (Electricity, gas, steam and air conditioning supply)	<b>3.3%</b>	1.6%	4.8%	1.2%
Telecommunications	<b>-0.1%</b>	2.9%	3.4%	1.2%
Civil Engineering	2.5%	1.6%	3.3%	1.3%
Computer programming, consultancy and related activities	<b>4.2%</b>	3.4%	9.8%	5.0%
Wholesale trade, except of motor vehicles and motorcycles	<b>0.9%</b>	1.2%	3.0%	2.0%
Construction of building	1.6%	1.2%	1.0%	1.1%
Warehousing and support activities for transportation	<b>2.6%</b>	1.5%	9.0%	2.1%
Retail trade, except of motor vehicles and motorcycles	1.8%	1.5%	2.4%	1.6%
Air Transport	<b>-2.4%</b>	4.3%	N/A	N/A





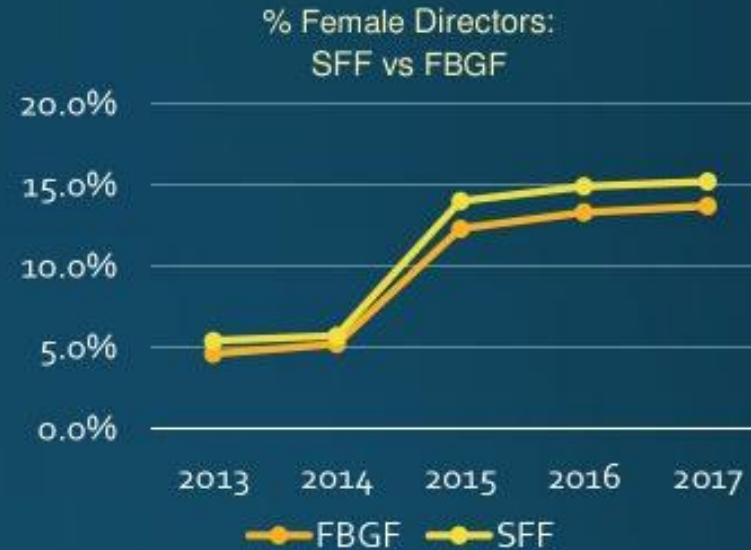
*4a. Participation of women in governance of family firms has increased in compliance with the regulation. But, only in letter. Not in spirit of the law.*

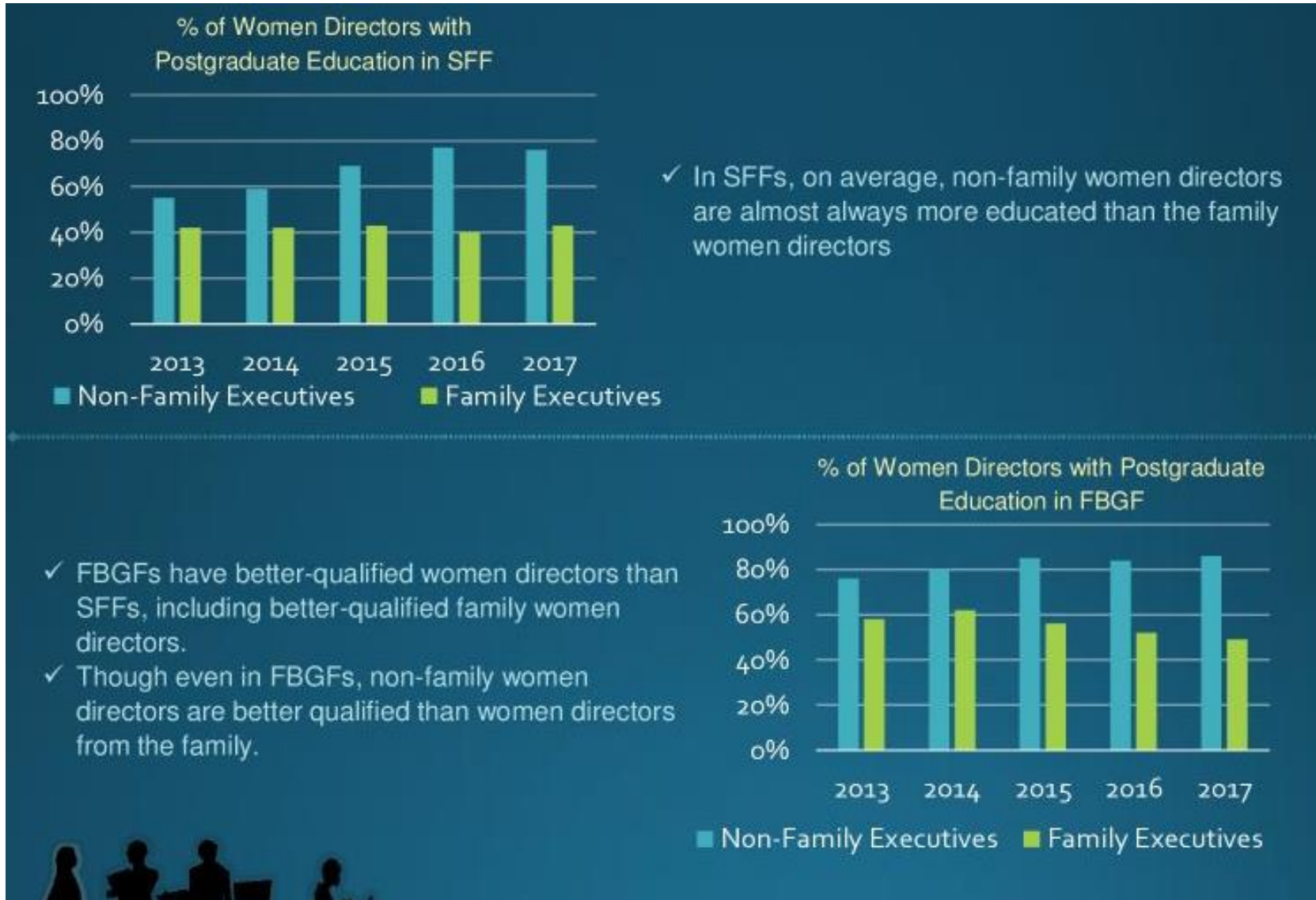
- Training?*
- Experience?*
- Authority?*



- ✓ The percentage of women directors on NSE-listed firms went up from 5.5% in 2014 to 14.3% in 2017
- ✓ Family firms were quick to meet the requirements of the Act when compared with non-family firms

- ✓ Standalone Family Firms (SFF), typically smaller and focused on one industry, had a higher percentage of women directors than Family Business Group affiliated Firms (FBGFs)
- ✓ FBGFs may not be able to appoint their own family members as many of them have well established independent boards.





*4a. Participation of women in governance of family firms has increased in compliance with the regulation.  
But, only in letter. Not in spirit of the law.*

*Training?*

*Experience?*

*Authority?*

*4b. Even though things look better from earlier, interventions needed at many levels*

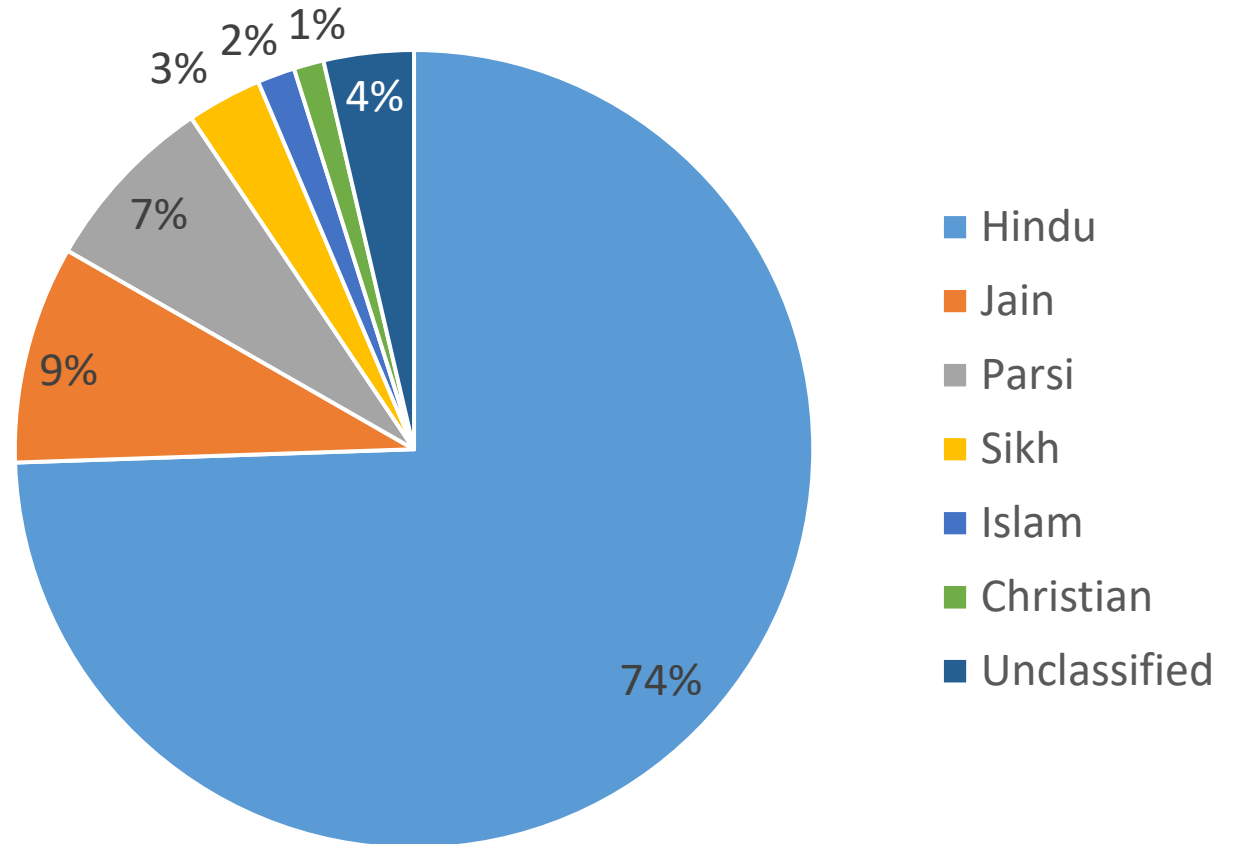
- Cultural*
- Societal*
- Mindset*

*5a. Religion is a big part of most business families in India. Does affiliation to the dominant religion help businesses access better or more resources and benefits?*

*5b. Or do firm level internal networks, strengths, leadership, and resources matter more than religion?*

## Religion

- Hindu promoters are a majority, in line with the population distribution in the country
- Parsi firms are disproportionately large due to presence of a few large Parsi Business Groups
- Sample: Listed Family Firms in BSE 500 from 1989-2021
- Sample= 711 firms



*5a. Religion is a big part of most families in India. Does affiliation to the dominant religion help businesses access better or more resources and benefits?*

*5b. Or do firm level internal networks, strengths, leadership, and resources matter more than religion?*

*5c. Firms affiliated to the dominant religion, Hindu, underperform those affiliated with minority religions viz., Christian, Jain, Muslim, Parsi, and Sikh.*

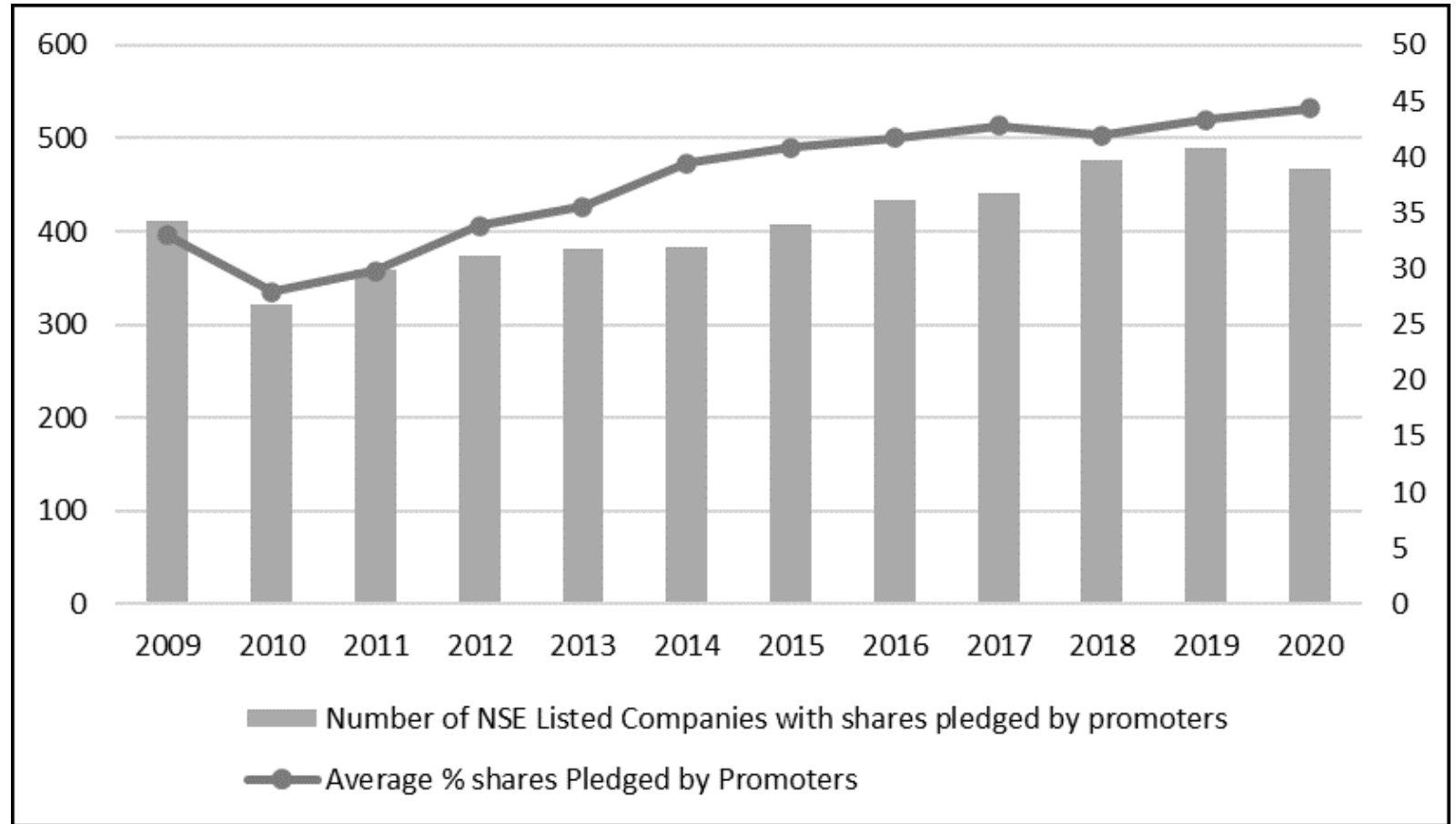
*5d. Findings negate the larger and more accepted narrative - that the religious minorities are perhaps subject to victimization and marginalized in terms of opportunities.*

*6a. Challenges of capital in emerging countries like India. Therefore, pledging is a popular vehicle for raising funds. But, vilified. Why this paradox?*



## Pledging

- Negative narrative
- Popular phenomenon
- Sparse research



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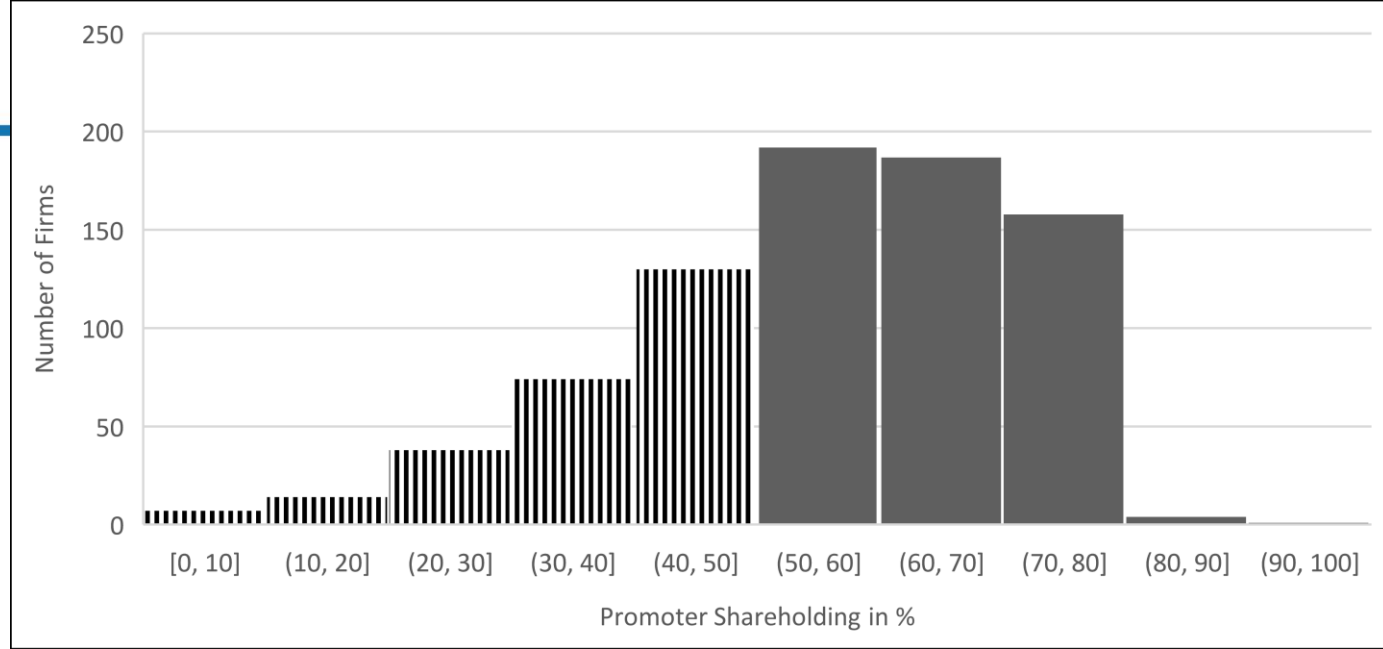
Pledging

## Loss of Control

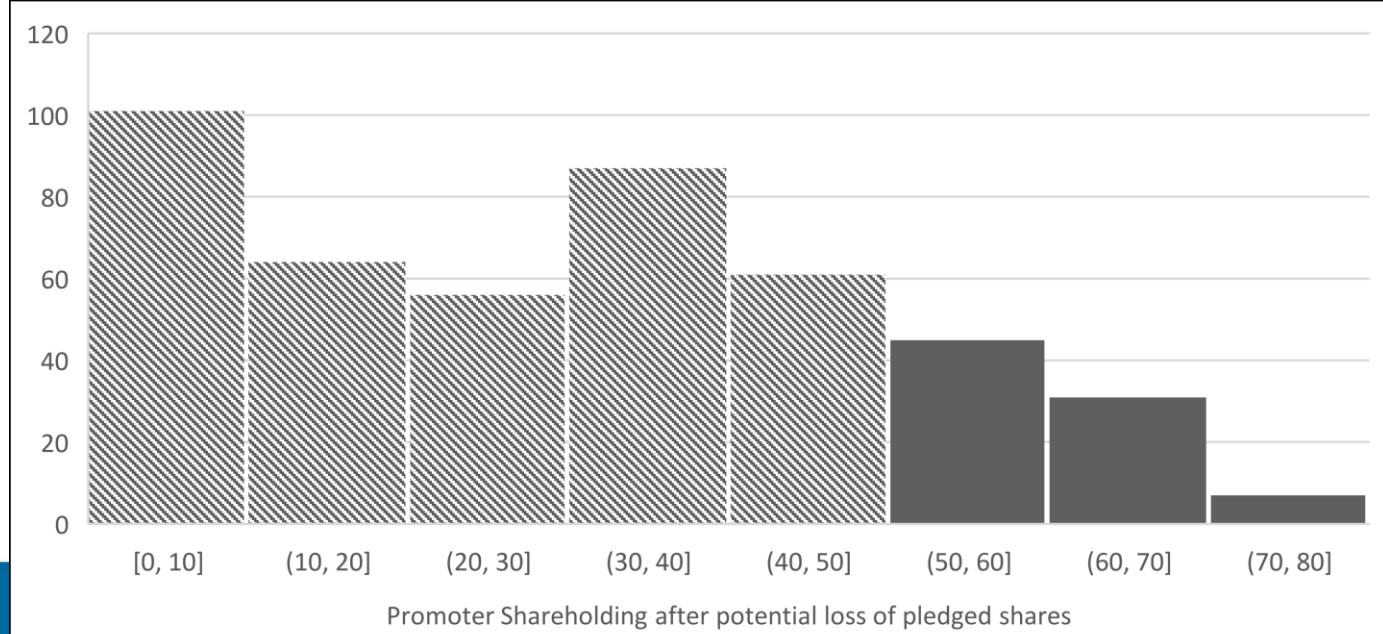
- Shareholding above 50% in majority of firms
- What if the promoters lose the part that is pledged?

*Risk of losing majority shareholding*

Promoter Shareholding in Pledged family firms (2020)



Promoter Shareholding after potential loss of pledged shares (2020)



*6a. Challenges of capital in emerging countries like India. Therefore, pledging is a popular phenomenon of raising funds. But, vilified. Why this paradox?*

*6b. Pledging – important tool for financing. Use with caution and a plan to de-pledge. Communicate the end use transparently.*

*7a. Indian family businesses have a history of giving. CSR Act mandates giving. More than 50% companies don't comply but overall compliance better than non-family firms.*

Hear more on this from Prof. Ramachandran tomorrow!

*8. We want to hear from you. Indigenous knowledge creation. Indian context different.  
To disseminate knowledge on India centric practice, launched the Family Enterprise Quarterly.*

C-Suite  
Opinion  
Case Summary  
Article Summary  
Regional Vintage Icon  
Book Recommendation  
Legacy Builders  
Do You Know  
Next-Gen  
Women  
Alumni

Family  
Enterprise  
Quarterly

# Family Enterprise Quarterly: Legacy Builders- Lest we forget them!



**We@Thomas Schmidheiny Centre for Family Enterprise **share a dream with you!****

***Let us collaborate to develop indigenous knowledge to strengthen and grow  
Indian family businesses together!!!***



**Thank You**