

Present scenario of family-owned business in India

Dr. Dhiraj Kumar

Lalit Narayan Mithila University, Darbhanga, Bihar, India

Abstract

Family-owned businesses (FOBs) are the backbone of India's economy, contributing significantly to GDP (around 70-80%) and employment, blending deep-rooted traditions with modern innovation like tech adoption and professional management, while focusing heavily on legacy, growth, and navigating succession challenges through planned transitions or professionalizing management for future continuity, despite persistent conflicts. In essence, India's family businesses are a dynamic force, evolving from traditional structures to modern, growth-oriented enterprises, strategically balancing family values with corporate ambitions to power India's economic future.

A family business is an enterprise in which two or more members collaborate, managed and controlled the family business. India have glorified and enrich history of family business. Over the year, family organizations have faced many barriers, and the position of administration has shifted from internal leadership to the collaboration of outer family business leaders. Reliance, MDH, Tata Birla, JIO, Infosys Limited etc. family businesses are the best example of successful enterprises over the more than three generations. But still family businesses are facing major problems and challenges like confliction between family members, lack of succession planning, Lack of training, Communication gaps, No written documents, sibling rivalry etc. If new generation respects old generation and considers their experience and at the same time old generation should consider creativity of new generation, then family businesses will have more opportunities in Indian economy.

Keywords: Complexity, family-owned business, governance, related-party transactions, resistance to change

Introduction

Family-run business dominates in most of the developed and the developing economies of the world. In the US, family-run business constitutes 80 to 90 per cent of the total business enterprises and provides 50 per cent of the total employment. In India family-controlled businesses are 85 to 90 per cent of the total enterprises and provide 50 per cent of the employment. The situation in most of the countries is not much different. The globalisation and the fast-changing technology pose a great threat to the survival of such businesses. A well-knit corporate governance mechanism implemented within the family run business will ensure longevity and survival chances of such businesses. The economic and social importance of family-run business is widely accepted among the world community. Internationally these firms are more influential and dominating. The member of family-run business to total enterprises is estimated to range from 75 per cent in the United Kingdom to more than 90 per cent in South Asia, Latin America and the Far and the Middle East. It is widely seen that family-run businesses have a very short lifespan beyond their founder's age and that some 95 per cent of family businesses do not survive beyond the founder life span. This is the great challenge such an organisation is facing throughout the world. Family-owned business is the oldest and the most common model of economic organisation. The world's richest people are from the members of family-owned business. In some es, many of the largest publicly listed firms are family owned. The three-circle model is generally accepted as the standard model for family businesses and includes family business and ownership as the three main components

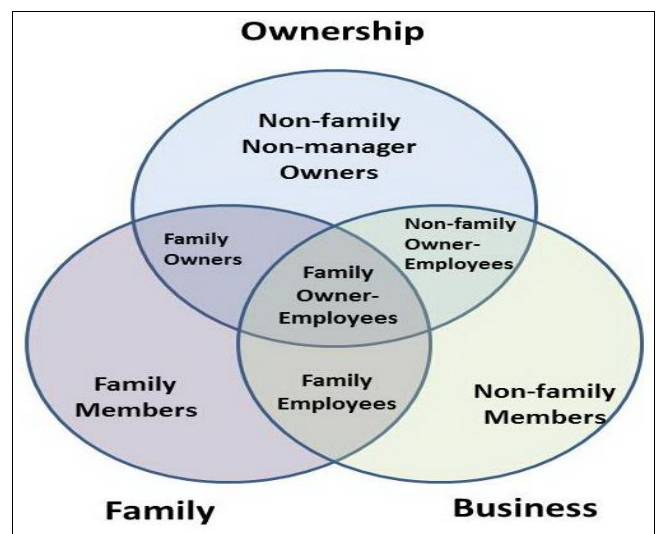


Fig 1: The Three Circle Model of Family-Owned Business

Characteristics of Family-Owned Business

According to IFC, a family business refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intends to pass the business on to their descendants. A family business is a commercial establishment where decision-making is taken by multiple generations of the family related by blood or marriage. Leadership and ownership is difficult to segregate. Multigenerational presence is essential to term an organisation as family business. Owner-manager enterprises are not termed as family businesses because of the fact that they lack the multi-generational dimension and family influence that create unique dynamics and relationships of

family business. Following are the characteristics of family-owned business:

- **Commitment:** The family as the business owner shows the highest dedication in seeing its business grow prosper and get passed on to the next generations. As a result, many family members identify with the company and are usually willing to work harder and reinvest a part of their profits in the business to allow it to grow in the long term
- **Knowledge continuity:** Families in business make it a priority to pass their accumulated knowledge, experience, and skills to the next generations. Many family members get immersed in their family business from a very young age. This increases their level of commitment and provides them with the necessary tools to run their family business
- **Reliability and pride:** Because family businesses have their name and reputation associated with their products and/or services, they strive to increase the quality of their output and to maintain a good relationship with their partners (customers, suppliers, employees, community, etc.).
- **Sustainability:** The most often cited characteristic of family businesses is that many of them fail to be sustainable in the long term. Indeed about two thirds to three-quarters of family businesses either collapse or are sold by the founder(s) during his their own tenure. Only 5 to 15 per cent continue to the third generation of the descendants of the founder(s). This high rate of failure among family businesses is attributed to a multitude of reasons Some of these reasons are the same ones that could make any other business fall such as poor management, insufficient cash to fund growth, inadequate control of costs, industry and other macro conditions.

Strength of Family-Owned Business

The strengths of family owned business include

- **Entrepreneurial:** Family-owned business is found to be highly informal and therefore it is flexible and innovative. Hence, in the family-owned enterprises entrepreneurship is very high.
- **Multiple roles:** A single person the helm of affairs is often played in multiple roles having dual relationship. Therefore, quick decision making is possible.
- **Committed employees:** Employees are very committed, loyal, shared values and belief system. Family spirit, strong sense of mission/vision.
- **Innovative:** Employees are well spirited and loyal engaged in deeper ties with the family. They can foster creativity, rich interplay of roles and goals

The Weaknesses of Family-Owned Business

The weaknesses of family-owned business include

- **Complexity:** Family/businesses are usually more complex in terms of governance than their counterparts due to the addition of a new variable such as the family. Adding the family emotions and issues to the business

increases the complexity of issues that these businesses have to deal with. Unlike in other types of businesses, family members play different roles within their business, which can sometimes lead to a non-alignment of incentives among all family members.

- **Informality:** Because most families run their businesses themselves (at least during the first and the second generations), there is usually very little interest in setting clearly articulated business practices and procedures. As the family and its business grow larger, this situation can lead to many inefficiencies and internal conflicts that could threaten the continuity of the business
- **Lack of discipline:** Many family businesses do not pay sufficient attention to key strategic areas such as the CEO and other key management positions, succession planning, family member employment in the company and attracting and retaining skilled outside managers. Delaying or ignoring such important strategic decisions could lead to business failure in any family business in what is to be done resulting in confusion.
- **Lack of clarity:** Many family-run businesses lack clarity in what is to be done resulting in confusion. In some cases, they are totally indecisive, resistant to change, and they lack management development with no organisational chart defining specifically about the role and responsibility of each member in the family work for the organisation.
- **Autocratic:** Sometimes the leadership is as conservative and rigid as a reflection of autocratic tendency of the family. They resist changing the structure and the system arresting the smooth flow of the organisation.
- **Family problems:** Can't keep family issues out of business. Inability to balance family's and business's need for liquidity, lack of objectivity, inward looking, emotionally charged decision making, can't separate work and family rivalries.
- **Resistance to change:** Family-run business in most of the cases is tradition bound. History of family affects business decisions, trust affected by earlier disappointments.
- **Succession:** In most of the family run business the administration finds it difficult to find a suitable successor
- **Governance:** May sacrifice growth for control, do not have to answer to stockholders. Often no outside board of directors, high premium on privacy

Stages of Growth in a Family Business

Several models have been developed to describe and analyse the different stages that family businesses go through during their existence. Generally the three stage model of business growth is noted as: (i) the Founder(s) Stage; (ii) the Sibling Partnership Stage; and (iii) the Cousin Confederation Stage. Although this model allows for a good

analysis of the three basic steps of evolution of the family business, it does not mandate that all family-owned companies will necessarily go through all the three stages of development. For example, some companies will disappear during the early stages of their life-cycle because of bankruptcy or getting acquired by another firm. The evolution of ownership and management within most family businesses goes through the following stages

Stage 1: The Founder(s) (Controlling Owner(s))

This is the initial step of the family business existence. The business is entirely owned and managed by the founder(s). Most founders might seek advice from a small number of outside advisors and/or business associates but they will make the majority of the key decisions themselves. This stage is usually characterized by a strong commitment of the founder(s) to the success of their company and a relatively simple governance structure. Overall, this stage contains limited corporate governance issues compared to the next two stages since both the control and ownership of the company are still in the hands of the same person(s): the founder(s). Perhaps the most important issue that will need to be addressed during the life of the founder(s) is the succession planning. For the family business to survive onto its next stage, the founder(s) should make the necessary efforts to plan for their succession and start grooming the next leader(s) of the company.

Stage 2: The Sibling Partnership

This is the stage where the management and the ownership have been transferred to the children of the founder(s). As more family members are now involved in the company, governance issues tend to become relatively more complex than those observed during the initial stage of the business existence. Some of the common challenges of the sibling-Partnership stage are maintaining sibling's harmony, formalising business processes and procedures, establishing efficient communication channels between family members and ensuring succession planning for key management positions.

Stage 3: The Cousin Confederation (Cousin Consortium or Family Dynasty)

At this stage, the business governance becomes much more complex as more family members are directly or indirectly involved in the business, including children of the siblings, cousins and in-laws. Since many of these members belong to the different generations and the different branches of the family, they might have diverse ideas on how the company should be run and how the overall strategy should be set. In addition, any conflicts that existed among the siblings in the previous stage would most likely be carried to the cousin generation as well. As a consequence, this stage involves most family governance issues. Some of the most common issues that family businesses face at this stage are family member employment, family shareholding rights; shareholding liquidity, dividend policy, family member role in the business, family conflict resolution and family vision and mission.

Family-owned Business and Governance

In family-owned business the managers may act solely for the family, and not for the shareholders. It is, therefore, a problem of agency where the interest of the managers is to

protect the interest of the family members and therefore, the separation of ownership and control in its letter and spirit is not implemented properly. The directors are appointed, in some cases, act as rubberstamps and no discourse takes place in its meetings. Ultimately, the terms dictated by the family members run the business. The generational changes in the family business have little or no impact on the business because the families are interlocked with marriages. The problems of legal heir in certain cases are not addressed properly. The cultural bondage of the family unites them often. When a business reaches a stage where the family relationship worsens due to sharing of huge properties at their disposal, consequently the performance of the company worsens day after day the top administration realises the need and necessity of bringing professional leadership to the company.

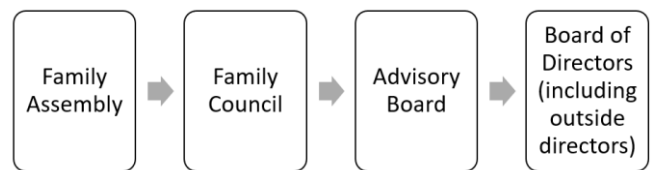


Fig 2: Possible stages in a family firm's governance

Family-Owned Business in India

Prior to the industrial revolution and emergence of multinational corporations the industrial scenario of the world was that of family-owned business. In the Indian context, there were a lot of issues regarding succession of family businesses. Family business in India had been in practice since long, of course, with its changing nature and structure over the period. India enjoys a rich and glorious history of family-owned business. The origin of family business in India could be traced back to the bazaar system in the ancient times. Initially family business in India started in the form of trading and money-lending, involving the hustle and bustle of the bazaar. It was also confined to certain communities, notably the Jains and Marwaris especially in the northern India. Its industry form is relatively of recent origin, going back largely to the British rule and the First World War. Cowasji Davar set up the first cotton mill or say the first manufacturing enterprise in Bombay in 1854. Subsequently some trading communities started textile mills in Mumbai and Ahmedabad during the last half of the 19th Century. The trading communities emerged as Agarwals and Guptas in the North, the Chettiars in the South, the Parsees and Gujarati Jains and Banias, Muslim Khojas and Memons in the West, and Marwaris all over India. Nowadays, Agarwals are mostly referred to as Marwaris.

Initially, family businessmen were engaged in small-size business requiring small investments managed by them only. But, once they entered the manufacturing sector, they felt the need for more and heavy investments, not manageable by themselves. At the same time, they also knew that once they allowed someone to join business, their control over management of the business would weaken which they, however, did not want. In such a case, family businesses inducted their family members or relatives or friends in the business by allotting them blocks of shares while making sure that the majority control and, in turn, the management of the business remained with the promoting family itself. It was how corporate management was born

embedded by a combination of joint stock principle and family control over business, Because stock markets were yet to gain sufficient momentum, on the one hand, and the joint family system was also intact, on the other, business families were holding control over their business empires built up through ingenious device, popularly known as the managing agency system.

The managing agency system continued till 1970 as an instrument of maintaining family control over the business enterprise. As such, all critical decisions about the business were taken by the promoting families, euphemistically termed managing agents. This system of corporate management got so rooted in due course of time that hardly any industrial firm remained out of its orbit. In other words, this indicates that all businesses were controlled and managed by a few families in the country.

Some of the leading family run businesses in India are detailed below

1. **The Tata Group:** Established in 1868 by Jamshedji Tata as trading company, the Tata Group has become the global face of Indian business. It has 32 listed companies with market capitalisation of more than ₹ 6 trillion. The number of people employed in various Tata companies is nearly ₹ 5 lakh. Its major companies include the Tata Motors, the TCS, the Tata Power, the Titan Industries and the Taj Hotels. The group has a strong tradition of philanthropy.
2. **The Murugappa Group:** The foundation of Murugappa group was laid by Dewan Bahadur A. M. M. Murugappa Chettiar in 1900. It started as a money lending and banking service in Burma. Currently the fourth generation of the family is managing the business which has 28 companies and is headquartered in Chennai. They employ 32000 people and the total business is worth ₹ 225 billion. They are into the sectors as diverse as general insurance, fertilisers, manufacturing bicycles, steel tubes and abrasives.
3. **The Dabur Group:** Dabur has come a long way since its foundation by Dr.S. K. Burman in 1884. It is currently the largest manufacturer of Ayurvedic medicines in India. Dabur offers 260 medicines for the treatment of a range of ailments. It employs around 3000 people. They have several non-family members serving. On the board of the company and also in the CEO position.
4. **The Birla Group:** The Birla business group was founded by Seth Shiv Narayan Birla in 1857. Currently, they have presence in 33 countries and provide employment to 1,36,000 people. They are the third largest Indian company in private sector with a net revenue of US\$ 40 billion. They have a very wide range of business interest in such as mining, cements, textiles, telecommunications, financial services, chemicals, power generation, IT and BPO services.
5. **The Wadia Group:** Wadia group was established when Sir Lovji Wadia got a contract to manufacture ships and docks for the East India Company in 1736. Currently they have 5 listed companies viz. Bombay Dyeing, Britannia Industries, Bombay Realty, Go Air and National Peroxide. The current chairman is Nusli Wadia. They have presence in aviation, healthcare, real estate, auto components, chemicals, engineering, plantations and retail.
6. **The Godrej Group:** Ardeshir Godrej founded the Godrej Group in 1897 to manufacture locks. They are present in industries such as furniture, industrial engineering, real estate, agribusiness, construction, information technology and FMCG. It is currently managed by the 4th generation of the family. The group generates a revenue of US\$ 3.5 billion. They employ 26,000 people the present chairman of the group is Adi Godrej.
7. **The Kirloskar Group:** The Kirloskar Group was set up in 1888 as Kirloskar Brothers Limited. The group came to prominence and achieved high success under the leadership of Laxmanrao Kirloskar. They are into engineering and manufacturing of pumps, engines, valves and compressors. They are also into the construction business. They have more than 18,000 employees and US\$ 2.5 billion revenue. The current chairman of the group is Sanjay Kirloskar.
8. **The Modi Group:** Rai Bahadur Gujarmál Modi established in 1933. They have a diversified business portfolio such as tea and beverages, restaurants, education, entertainment, consumer products, healthcare, food and hospitality They have US\$ 2.8 billion revenue and offer employment to 28,000 people They are headquartered in New Delhi. The current chairman is Krishan Kumar.
9. **The Mahindra Group:** Brother's J. C Mahindra and K. C Mahindra along with Malik Ghulam Muhammad started a business in 1945 to trade steel. Later the company was known as Mahindra and Mahindra. Currently they have US\$ 15.9 billion revenue employing 1,55,000 people. They are into automobiles, aerospace, agribusiness and information technology. The major subsidiaries of the group are Mahindra & Mahindra, Mahindra Satyam, Tech Mahindra and Mahindra Aerospace.
10. **The Raymond Group:** In 1925 the Raymond mill was set up in Thane to produce woollen blankets. Raymond is currently one of the leading fashion retailers and fabric manufacturers of India with a revenue of US\$ 210 million. They produce fabrics, designer-wear, denim, toiletries and engineering files and tools they are also into air charter services. The major brands of the Raymond group are Raymond, Park Avenue, Parx and Raymond Apparel.
11. **The Reliance Industries:** Founded by Dhirubhai Ambani in 1966 as Reliance Commercial Corporation, Reliance industries is the largest private sector conglomerate company in India. The company was divided between the founder's two sons, Mukesh Ambani and Anil Ambaru in 2006. In September 2008, Reliance Industries was the only Indian firm that featured in the Forbes's list of "World's 100 most respected companies". In 2010, the company occupied the 13th position in the Platts Top 250 Global Energy

Company Rankings. The company's petrochemicals, refining, oil and gas related operations are the core of its business. Other segments of the company include textiles, retail business, telecommunications and special economic zones development Reliance retail has moved into the fresh food market as Reliance Fresh.

12. Bharti Airtel: Bharti Airtel popularly known as Airtel was founded by Sunil Mittal in 1995. It is an Indian telecommunications company that operates in 20 countries across the South Asia, Africa and the Channel Islands. It operates a GSM network in many countries, providing 2G or 3G services depending upon the company of operation. Airtel is the fifth largest telecom operator in the world. The company has its headquarters in New Delhi. Its main products are fixed-line and mobile telephony, broadband and fixed-line internet services, digital television, IPTV and network services.

13. Wipro: Headquartered in Bangalore, Wipro technologies is a global information technology company which was founded by M. H. Hasham Premji in 1945. After M. H. Hasham Premi's death, his son Azim Premji had to leave Stanford University to take care of the company which he struggled to convert it into Wipro technologies. Recently Rishad Premji son of Azim Premji is promoted as Vice President of Wipro. Wipro provides outsourced research and development, infrastructure outsourcing, business process outsourcing and business consulting services.

14. Jindal Group: Jindal Group was founded in 1952 by O. P. Jindal. After O. P. Jindal's death in 2005 in a helicopter crash much of his assets were transferred to Savitri Jindal, the wife of Late O. P. Jindal. She was ranked among the 19th richest Indian person by Forbes. Naveen Jindal is the Managing Director of Jindal Steel and Power limited. The company manufactures and sells sponge iron, mild steel slabs, ferro chrome, iron ore, mild steel, structural, hot rolled plates and coils and coal based sponge iron plant. Jindal steel and power limited is also engaged in power generation. Jindal group has manufacturing outfits across India, the US and Indonesia.

Conclusion

The major concern of corporate governance of family-run business in India is the concentration of ownership in multiple organisations under the same management. Therefore, the related-party transactions between these organisations are a matter of concern for the other prime stakeholders of the company, High profile related party transactions have damaged the long-term interest of the shareholders resulting in tarnished image of the company. The new Companies Act enacted in the year 2013 has provisions regarding the related-party transactions that still require further provisions to bring transparency, disclosure and accountability in controlling shareholders. Therefore, OECD has brought out suggestions to strengthen governance in family-owned business.

According to the OECD Principles of Corporate Governance (2004), the related parties can include entities that control or being under the common control with the company, there are significant shareholders including members of their families and key management personnel. Transactions involving the major shareholders (or their close family, relations, etc.), either directly or indirectly are potentially the most difficult type of transactions to identify. The various types of RPTs that are commonly observed are:

- Financial assistance through provisions of loans, guarantees and collateral,
- Asset sales and purchases between related parties,
- The sale, purchase or supply of any goods, materials or services in the ordinary course of business,
- Bailouts etc.

Existing law does not prohibit RPT's in India. Instead, the law puts into place a system of checks and balances, such as requirements for approval from the board of directors/shareholders, timely disclosures and prior statutory approvals, to ensure that the transactions are conducted within appropriate boundaries. RPTs are required to be managed transparently, so as not to impose a heavy burden on a company's resources, affect the optimum allocation of resources, distort competition or siphon off public resources. Finally, we may conclude that Indian corporate sector is still dominated by family-owned business. Majority of them are not listed. Therefore, a difference lies in perfect corporate governance and good corporate governance. This is because in some closely held unlisted companies in India the stakeholders are better protected than in the listed companies. But their size is relatively small. In this context, Indian corporate governance practices need to be refined further to bring transparency, accountability and safety of stakeholders.

References

1. Agarwal, Rajiv. *Managing Family Business: Dynamics, Challenges and Opportunities*, Routledge India, New Delhi, 2023.
2. Dutta, Sudipta. *Family Business in India*, Response Books, New Delhi, 1997.
3. Jha, Sanjay Kumar, Prabhat. *Addressing Challenges of Family Business in India*, International Journal of Commerce and Management, 2022:4(1):76-80.
4. Kavediya, Sharmila. *Challenges and Problems Faced by Family Businesses in India*, International Journal of Science, Technology and Management, 2017:6(4):30-34.
5. Parihar DS. *Business Runs in the Family*, Notion Press, Chennai, 2025.
6. Prena. *Role of Family Business in India: Challenges and Suggestive Approaches*, Journal of Advances and Scholarly Research in Allied Education, 2021:18(7):155-159.
7. Raman, Mohana Krishnan *Family Business*, Notion Press, Chennai, 2022.
8. Swamy, Raju *Family Business in India*, Notion Press, Chennai, 2021.
9. www.oecd.org