UNIT 14 FAMILY BUSINESSES IN INDIA

Structure

14.0 OBJECTIVES

After studying this unit, you should be able to:

- describe the meaning and various definitions of family business;
- explain the role and importance of family business;
- discuss the types of family business;
- describe various theories/ models of family business;
- analyse the causes for pitfalls in family business;
- identify the challenges in family business;
- describe the importance of succession in family business; and
- explain the ways to manage conflicts in family business.

14.1 INTRODUCTION

In the previous units, you have learnt about the concept of entrepreneurship and its role in Indian economy. You have also learnt as to how can aspiring entrepreneur sets- up his or her enterprise. But it is important to know that there are second or next generation entrepreneurs who have also started playing a very important role in the running and development of small business. The next generation entrepreneurs also need to be equipped with certain hard and soft skills to make significant contribution in the family business. In this unit, you will be acquainted with the next generation entrepreneurs, their family businesses/ business houses in which they are contributing and taking it to a next level. You will also learn about the role of family businesses in India, contemporary role models in Indian businesses, their values, business philosophy and behavioural orientation. Besides, there will be a discussion on various challenges faced by the family business in India and measures taken to overcome them.

Family business in India ranges from small firms (such as kirana stores) to large business houses. Many big business houses have started their operations in foreign markets and are recognised as Multinational Corporations (MNCs).

Business houses play a very important role in the economy of a nation as they contribute majorly in the GDP of the country. Big business houses in fact, may depict the industrial scenario of the country. The Confederation of Indian Industry (CII) states that family business contributes 60-70 percent of GDP of most developed & developing countries. India is no exception to it.They play a very important role in socio-economic development of our country. In time of pandemic like covid-19, we have been witnessing their importance in providing food and services to the customers. Let us now learn the concept of family business.

14.2 CONCEPTOF FAMILY BUSINESS

Family business is not a new term. It is very common all across the globe. First of all, at this point, let me tell you that various terms are used interchangeably for family business. They are **family-owned business, family-controlled business, family-managed business, business houses, business groups and industrial houses.** Any of the said terms used in this unit may be considered as family business.

Different people view family business in different ways. For some, family business may mean traditional business while others may view it as home-based business or community business.

Family business is a business (commercial organisation) in which two or more family members are involved and major ownership and control is vested within the family. Decision making in this kind of organisation is influenced by many generations of a family, by family members we mean a member (sane) related by blood, marriage or adoption. These members should have the ability to influence the vision of the business and the willingness to use this ability to achieve a higher goal. It is important to understand here that family business does not mean owner-manager entrepreneurial business organisation. To be a family business, the element of multi- generational dimension is a must. Because of this multi- generational dimension, there is a unique dynamismin the organisation.

Family businesses are the form of organisation which is quite dominant in India. They are in all sizes from small business enterprises to large multinational business organisations and in all sectors from agriculture to industries to services.

14.2.1 Definition of Family Business

There is no consensus of opinion regarding what exactly constitutes a family business. Experts emphasize different aspects of family businesses in their definitions, particularly the type and depth of family involvement or ownership control, the anticipation or occurrence of an intergenerational transfer of ownership or management control.

Renowned researchers, Sharma, Chrisman and Chua in 1996reviewed the prominent literature on family business and classified the various definitions of family- run business into three groups which are discussed below:

1) Ownership- Management focused definition

Barry (1975) *"an enterprise which, in practice, is controlled by the members of a single family is termed as family business."*

Davis & Tagiuri (1985) *"business in which two or more extended family members influence the direction of the business."*

Leach, et. al (1990) "*a company in which more than 50 percent of the voting shares are controlled by one family, and/or a single family group effectively controls the firm, and/or a significant proportion of the firm's senior management is members from the same family."*

Gallo & Seveen (1991) *"a business where a single family owns the majority of stock and has total control."*

Covin (1994) *"a business owned and operated by a family that employs several family members."*

2) Generational Transfer focused definition

Churchill & Hatten (1987) "*what is usually meant by family business ....is either the occurrence or the anticipation that a younger family member has or will assume control of the business from the elder"*

Ward (1987) *"a business that will be passed on for the family's next generation to manage and control."*

3) Multiple Conditions definition

R.G. Donnelley (1964) *"A company is considered a family business when it has been closely identified with at least two generations of a family and when* *this link has had a mutual influence on company policy and on the interests and objectives of the family."*

Astrachan & Kolenko (1994) *"family ownership of more than 50% of the business in private firms or more than 10% of the stock in public companies; more than one family member works in the business or the owner anticipates passing the business to the next generation of family members or the owner identifies the firm as a family business."*

Source: Sharma P., Chrisman J.J., Chua J.H. (1996) A Review of the Family Business Literature. *A Review and Annotated Bibliography of Family Business Studies.* Springer, Boston, MA, 2-50

The variety of definitions of what constitutes a family business makes comparisons and generalizations difficult. Several factors are needed for a universally accepted definition of the family business that Astrachan and Shanker (1996) demonstrate in their study. They point out that the criteria used to define a family business can include: Percentage of ownership; Voting control; Power over strategic decisions; Involvement of multiple generations; and Active management of family members.

Ernesto J. Poza in his widely popular book "Family Business" defined family business as a synthesis of the following characteristics:

1) Ownership control (15% or higher) by two or more members of a family or a partnership of families;
2) Strategic influence by family members on the management of the firm, whether by being active in management, continuing to shape culture, serving as advisors or board members, or being active shareholders;
3) Concern for family relationships;
4) The dream (or possibility) of continuity across generations.

By analysing the above definitions carefully, we can summarize that **a family business is an enterprise owned and/or operated by two or more members of extended families who have kinship ties, management roles, ownership rights, and financial control over an enterprise. Eventually, the owner(s) of the family business transfer it to an heir.**

14.2.2 Major Characteristics of Family Business in India

By going through the definitions given above we can say that following are the characteristics of family business:

1) **Ownership:** Family business enterprise is actively owned and run (managed) by two or more members of the single extended family.
2) **Membership:** Family business enterprise ensures effective utilisation of in-house talent in the family. Family members are employed on key positions in the business enterprise. Relationship amongst the family members influences their respective positions in the enterprise.

3) **Succession Planning:** Succession planning is an important decision in the business. The succession of the family business goes to the next generation thus, it is important to determine who will take over leadership and/or ownership of the company when the current generation retires or dies.

4) **Management and Operations:** Generally, in these business enterprises the senior most member of the family is the head of the business and takes all the crucial decision. All the members have faith in the founder. This results into uniform mindset of the members which ensures uniformity in operation.

5) **Long-term Orientation:** The family business is not dissolved by the death of the founder or the owner as the authority or ownership passes to the next generation. Also, owners of family businesses are not only concerned with the financial results of the business. They value the past and plan for the future with the perspective of their next generation. Thus, family businesses generally survive through the tough and rough times and perform well in long term.

6) **Mutual Influence:** Policies of the family business enterprise are influenced by the family members in the mutual interest of family and business.

7) **Embedded in Cultural Values:** In India, family businesses are predominantly caste-based, and their roots run deep and are embedded in family values and traditions. As a result, their respective cultures can be seen in the management, operations, and decision-making process of the business.

8) **Concentrated Structure:** Ownership and management of family businesses are handled by family members. Additionally, family members serve on the boards of directors of the business. Due to their family-controlled nature, these businesses are often fast-moving, with quick decision-making processes because of the lack of external influences.

14.2.3 Types of Family Business

Family businesses can be of three types. These are discussed below:

1) **Family Owned Business:** Family-Owned businesses are for-profit organisations whose majority voting shares (or other form of ownership) are typically but not necessarily controlled and owned by members of a single extended family, or by one family member but significantly influenced by other members.

2) **Family Owned and Managed Business:** Family-Owned and Managed businesses are for-profit organisations whose majority voting shares (or other form of ownership) are typically but not necessarily are controlled and owned by members of a single extended family, or by one family member but significantly influenced by other members. This controlling authority enables the family to determine the company's objectives,

methods, and strategies for reaching them, as well as policies for implementing those strategies. In addition, at least one family member has active participation in the top management of the company, which means one or more members of the family have ultimate control of the company.

3) **Family Owned and Led Business:** Family-Owned and Led businesses are for-profit organisations whose majority voting shares (or other form of ownership), typically but not necessarily are controlled and owned by members of a single extended family, or by one family member but significantly influenced by other members. This controlling authority enables the family to determine the company's objectives, methods, and strategies for reaching them, as well as policies for implementing those strategies. In addition, at least one family member is an active member of the company's Board of Directors, so one or more family members have at least a high level of influence over the company's direction, culture, and strategies.

Check Your Progress A

1) Fill in the blanks:

   i) Family business in India may also be in the form of small firms such as ………………….. stores.

   ii) To be a family business, the element of ………………………. dimension is a must.

   iii) …………………….. amongst the family members influences their respective positions in the enterprise

   iv) The …………………… of the family business goes to the next generation

   v) In a …………………….. anyone member has major influence on business activities who is in charge of regulating activities of business.

2) Sate whether the following statements are **True** or **False**:

   i) Decision making family business is influenced by many generations of a family.

   ii) Owner(s) of the family business transfer it to a family heir.

   iii) Succession planning is an important decision in the family business.

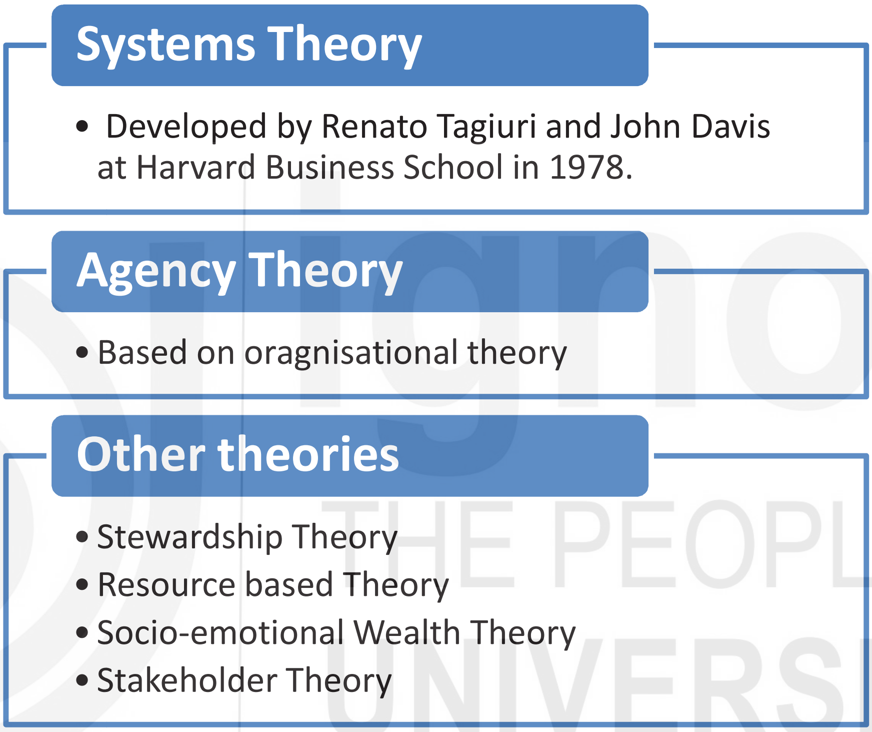
   iv) In a family owned and managed business any one family member is in top management.

   v) In family business members do not have kinship ties.

14.3 THEORIES OF FAMILY BUSINESS

Although existence of Family Businesses is there in the society ever since the term business was recognised, there has been very less clarity on its definition. There is no doubt that family businesses are the oldest and most prevalent form of business ownership. Time and again various experts have tried to study the characteristics and operations of family businesses and in the process various theories have been evolved. Lets us now discuss few predominant theoretical perspectives and approaches of family business.

Figure 1: Theories of Family Business



14.3.1 System Theory

In the year **1978, Professor Renato Tagiuri and John Davis** at Harvard Business School, developed the **Three Circle Model of Family Business** which was first published in **1982**. The Three Circle Model of Family Business describes various situations that arise in the family businesses all across**.** This theory is considered to be central organizing framework for understanding family business systems. In this model, the three systems (groups) are represented in a circle where each circle represents a group of people with specific features in their relationship with the family business.

This system theory explains that there are three interdependent and overlapping systems (they can also be termed as groups) that comprise the family business system, they are:

1) **The Family System,**

2) **The Business System, and;**

3) **The Ownership System**

Each of these systems in this 3-circle model has a developmental framework. In the portions where the circles are intersecting, represents people who own both or all features. Because of overlap, there exist seven interest groups (they are also termed as sub-system, these systems are overlapping). Each group has its own legitimate perspectives, goals and dynamics. They argue that the long term success of the family business system depends on the functioning and mutual support of each of these groups. This theory basically explains family business as a set of interaction among different elements known as subsystem. Look at Figure 2 which shows the three circle model.

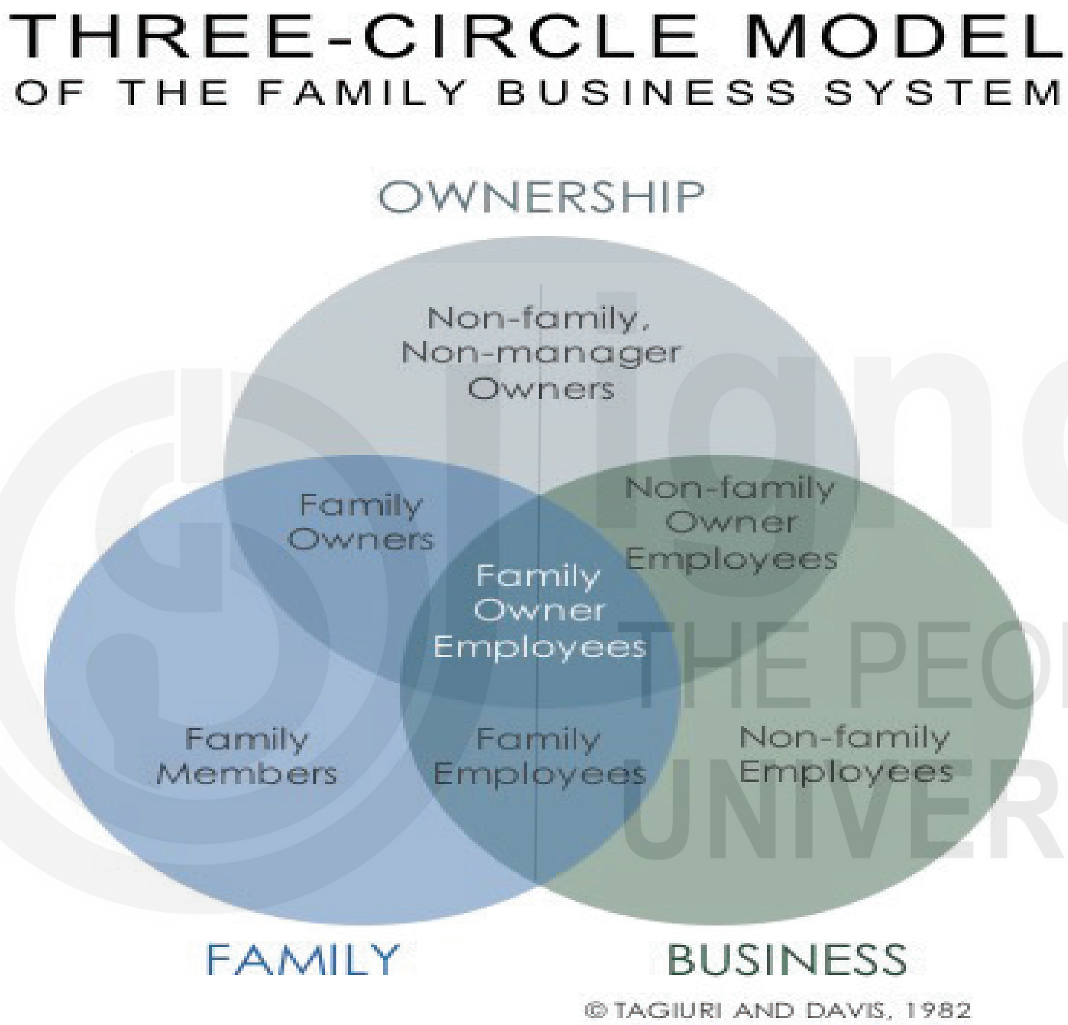


Figure 2: Three Circle Model of Family Business

Source: Tagiuri and Davis (1982)

In the figure 2, **group 1, 2 and 3 are the people having association with family, property and business.** The portion where the circle are intersecting **(group 4,5,6) have family employees, family owners, non family owner employees**, they represent association with the family and business, family and ownership and Business and ownership. The portion where (Family owner employees) indicates the association of people in the group with all the three Family, Business and Ownership**. These are normally the founders of the family business (group 7).** These people of group 7 have their share of ownership, they have some position in the company as they work in the company and they also have family ties.

This three circle model theory explains that there are three important subsystems (groups) in family business which is overlapping, interlinked and interconnected. Functioning of each group will affect the functioning of the other. Hence, the overall performance of the family depends upon the effective functioning of all the three groups. The other important thing that it describes is that the interactions amongst all the three groups have connection to the seven interest groups. Those seven interest groups are:

1) **Non-family and Non-manager Owners:** They are not the family members but they enjoy some degree of ownership in the company. For example the external investors of the business having share in ownership.

2) **Family Owners:** These are the family members having share in ownership although they do not work in the business.

3) **Non-Family Owner Employees:** These people are not the family members but they have their share of ownership in the business and they also work actively in the business.

4) **Family Members:** These people are family members but they neither have ownership share nor do they work in/for the business.

5) **Family Employees:** These are the family members who work in the family business but they do not have their share of ownership in the business.

6) **Non-family Employees:** People working with the company/ business as employees and they do not have ownership in the business.

7) **Family Owner Employees:** This represents the family members who work actively in the affairs of the business and they have their share of ownership also.

Each of these interest groups has its own approach, objective, goal and dynamics. Thus their functioning styles are also different. Needless to mention that besides different goals and dynamics, unless all the groups work in harmony, the goals and objective of family business cannot be accomplished.

All these three systems and seven subsystems need governance. This governance gives direction to the company to work, grow and succeed. The values are also given by the governance by which the company lives and work. Governance also facilitates the family business to formulate, understand and accept policies that leads to the survival and growth of business by guiding the business to work and behave in certain circumstances. This governance also attracts and inducts the right people together to get associated to the business and work at right time and take up the right things.

14.3.2 Agency Theory

The conceptual framework of the agency theory of family business is based on the dominant organisational theory. This theory explains the relationship between Principal and Agent. It believes that it is very unlikely that interest of owner and agents are aligned. Both of them have usually different interest and preferences. Agents are more inclined towards their own monetary incentives and give less attention the goal and welfare of the firm. On the other hand owners of the firms are more concerned about the growth and development of the firm.

Various experts have tried to explain and relate this theory to understand the equations in a family business firm. Whenever a decision is made on the basis of rational thinking and preference of the decision makers, a cost arises which is called as "Agency Cost". To elaborate it more, agency cost (in the context of family business) can be described as all those expenses of the business which is incurred internally due to core inefficiencies, dissatisfactions and disruptions because of the conflict of interest between owners (shareholders) and managers. More and more people involved in decision making (as in decision making, along with owners, managers are also involved) lead to rise in agency cost because of their differences of opinion, interests, their individual preferences etc. For example, decision of managers may be more focussed on short term financial gains whereas owner's orientation would be more towards long term financial gain and/or sustainable development of the firm.

In family business, unlike other non -family businesses, generally both owners and managers are from the same family. It is assumed that this alignment will result into less difference of opinion, less individual interest and preferences thus lesser conflicts will be there. Lesser cost in turn will lead to lesser agency cost or may be avoidance of agency costs. This theory emphasises that the owners of family business should structure their business organisation in a manner that there can be a check on the dexterous conduct of the management. This will reduce the conflict and will improve firms' performances. Nevertheless, we should remember that there are always two sides of a coin. We can see both good and bad sides of agency costs on family business firms. The kinship culture which is prevalent in family business firms is good in terms of lowering the agency cost. On the other hand, there may be greater challenges in the firms because of family conflicts and unprofessional management which eventually can lower the performance of a firm.

14.3.3 Other Theories

with the help of systems and agency perspectives other theories have also been given by various experts. Let us quickly discuss few of the theories:

Resource Based Theory

Resource based theory believes that since the ownership of key assets of the firm is vested with the owners, there can be optimum utilisation of the assets and performance. A family business firm can thus enjoy advantage over its competitors who are non family business firms. This theory explains that family business firms have certain inbuilt and intrinsic characteristics which are passed on through generations after generations. This equips the family firm's owners- managers with unique resources and capabilities which other non family firms may not have.

Stewardship Theory

This theory says that the Principal (owners) and managers (agent) of family firms have collaborative relationship and their goals are also converging. Principal or leaders/owners focus on the long term success and growth of the company and so do their agents as their success also lies with the success of the company. Employees/ managers being from the same family with different generations are highly committed towards the growth and development of the firm. They have high stewardship (a sense of care takers) as they want to maintain the legacy of their past generations and provide better to their coming generations more effectively and gracefully. Employees being from the same family have emotional attachment to the firm and they give their best for the firm's betterment. Therefore family firms show high stewardship conduct.

Socio-emotional Wealth Theory

The concept of socio-emotional wealth (SEW) was developed by **Gomez-Mejia** and colleagues (2007). The term socio-emotional wealth refers to "non financial aspects of the firm such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty". This theory suggests that family firms, unlike non family firms, are motivated by other aspects such as family legacy, values, and beliefs rather than merely by financial returns. Because of this emotion, their strategic decision making is also different vis-s-vis their non-family firms competitors. For want of preserving the legacy of their families they may not accept the most lucrative offer (in terms of financial gain) which otherwise firms would take.

Stakeholder Theory

People having interest in the firm in some way or the other are called its stakeholders. Hence all the shareholders, employees, society/community, family members, suppliers and customers are the shareholders of the company. In case of family business firms, the stakeholders are by and large from within the family who are the investors (as they have invested their funds), owners (as they are the major shareholders) and also the employees of the firm. The stakeholders outside the family relations largely are suppliers and customers. In all the business firms all across, irrespective of family or non family firms, interest of stakeholders should be balanced. Since many stakeholders are from the family, they should focus on serving interest of other stakeholders who are non family members.

14.4 IMPORTANCE OF FAMILY BUISNESS IN INDIA

Family businesses make significant contribution in an economy, be it underdeveloped, developing or developed. Family businesses contribute to over 60-70 percent of the GDP (size of economy) of most developing and developed countries. Deloitte research (2013) reports that family firms constitute 85 per cent of total companies in India and also contribute an ample share of employment and domestic output. According to a report titled 'Family Businesses in India' by Alvarez & Marshal (2018) family businesses contribute around 79 percent of national GDP annually in India. The report also states that India has 108 publicly-listed, family-owned businesses, making it the third-highest in the world behind China at 167 and the United States at 121 (as of 2015). Now, let us discuss the role of family business in India:

1) **Role in Economic Development:** Across the globe, family businesses play a vital role in economic development of the countries. Family businesses are present in many sectors, including the retail sector, small industry and service sector. They also contribute substantially to the national GDP. A study focusing on Indian family firms was conducted by Bang, Ray and Ramachandran (2017). The study looked at listed firms in the period 1990-2015. Ninety-one percent of the listed firms are family firms, which contribute greatly to the growth of the Indian economy. It was found out that the listed family firms contributed 26 percent of the GDP (total income).

2) **Role in Industrialisation:** Family business groups have dominated the Indian industrial sector since its independence. Today, large scale manufacturing companies in the organized sector are controlled by Indian families, such as the Tata, Birla, and Ambani families, who have promoted various industries. The Tata Group, for instance, is involved in steel, commercial vehicles, passenger cars, light-duty vehicles, power, chemicals, hotels, tea, coffee, software, and other industries. Birla Group has established companies in multiple industries like textiles, fibre, aluminium, cement, carbon black, apparel, petroleum, telecom, IT and software. The Reliance Group operates across multiple industries, like Petrochemicals, oil refining and exploration, textiles, telecom, and finance.

3) **Role in Development of Entrepreneurship:** Family business inculcates the spirit of entrepreneurship and contributes toward its development. In a country like India it paves way to various families to initiate and bring up new ventures in country.

4) **Role in Social Development:** Family businesses also contribute significantly in the social development of a country. Many big hospitals, educational Institutes, basic infrastructure such as road etc are developed by big family businesses. For instance, Tatas are also respected for the contribution in the social development of the society. They have set the ground for Corporate Social Responsibility in India.

5) **Role in Business Development:** Small family businesses focus their effort and resources to develop and manage a small range of segments with specific products and services. They typically dedicate a high degree of attention to managing relationships with partners, suppliers, employees, channel partners, and customers. Consequently, interactions

with stakeholders are more effective, issues are resolved quicker, and clients are better served, all of which increase stickiness. For smaller businesses, this can be a competitive advantage. They have flexible working hours and as the decision making power is restricted to one or two key members it results in speedy decisions.

14.5 CHALLENGES OF FAMILY BUSINESSES IN INDIA

In **India**, many **businesses** that are now public companies were once **family businesses**. These family businesses have grown tremendously with the passage of time. However, things are always not rosy. While family business gets many advantages, they face certain challenges also. Let us discuss these challenges below:

1) **Innovation for a competitive advantage:** The business environment today is very competitive. To survive and grow in this competitive environment it becomes very important to innovate and give unique value proposition to the customers. To innovate, the business goals have to be broadened and new strategies are to be formulated. This may mean that businesses may have to leave the age-old style of functioning. But family businesses may remain confined to their age-old practices and not invest in research and development.

2) **Limited Talent:** In family business owners and managers are by and large the family members. Members of the family may not necessarily be talented and capable of taking the company's legacy forward. Attracting right talent from outside the family is crucial and retaining them is even more important.

3) **Lack of Succession Planning:** There is lack of efficient succession planning, mentoring and developing the next generation of successors and leaders. Family businesses have to give proper attention to this issue.

4) **Technology Needs:** With the changing environment and rapid technological developments, the business need to adapt to the new technological advancements or bring in new, if need be. This may mean that they may have to part with the older business models which have been passed on to the present generation.

5) **Sibling Rivalry:** Sibling Rivalry is something that needs no explanations. All the heirs of the family get share in the business. Some may do well and flourish further, some may not. This often creates rivalry and pulling down each other is started even at the cost of organisational resources. This rivalry, if remains unsolved, may lead to split in the family business.

6) **Internal Conflict:** Interest of the family members of family business is varied. This may disturb business harmony. Handling this internal conflict is very difficult. If it is not handled properly, this may lead to failure of the business.

7) **Biased Decision-Making:** There is always a possibility that decisions in the family business may be biased for non-family members and employees of the business. The family members may try to impress upon their own ideas on the other members.

8) **Too Much Emotional Attachment with Business:** It is always said that one should always be passionate about the business but not be emotional as it may interfere with the tough decisions which might have to be taken for the growth of business

9) **Unclear Roles and Responsibilities:** There is often a lack of proper documentation which defines the roles and responsibilities of the members of the family in family business organisation. This may lead to chaos and mismanagement.

10) **Lack of Professionalism:** Professional business cultures are the result of formal processes, which include setting clear goals and enforcing rules, as well as hiring and promoting employees based on their potential to contribute. However, in many family businesses, the informal structure and culture may cause confusion among roles, lead to lack of talent, and make it impossible for values, ethics, and philosophies to be defined.

11) **Limited Finance:** Family businesses have limited financing options since they cannot raise large amounts of capital on their own, and external financing options may not be attractive to them as outside debt may lead to significant influence over the company. For family businesses, determining where and how to get the capital and resources needed to grow can be a challenge.

14.6 CONTEMPORARY ROLE MODELS IN INDIAN FAMILY BUSINESS

There are many family businesses in India that are doing extremely well not only in India but also cross borders. These businesses are contributing hugely in socio-economic development of a nation. Few of the family businesses are cited below as examples:

1) Tata Group

The Tata group was founded by Jamsetji Nusserwanji in the year 1868. Jamsetji Nusserwanji Tata, an entrepereneur and philanthropist belonged to a Parsi Zoroastrian priest's family. Gujarat born and Mumbai educated J.N Tata joined his father's trading firm in the year 1858 when he was 19 years of age. Ten years later, in the year 1868, he started trading company TATA Sons. Tata sons Limited is the holding company of Tata Group. Tata group has many businesses running together. In the year 1903, he inaugurated the Taj Mahal hotel at Colaba in Mumbai. At that time, that was the only hotel to have electricity. He had two sons Dorabji and Ratanji Tata. In the year 1907, Dorabji Tata established Tata Steel which was founded by his father Jamsetji Tata. In 1909, Indian Institute of Science was established in Bangalore.

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Ratan ji Tata, popularly known as RJD Tata is also taking the legacy forward. There is no such area where Tata business is not running.With the passage of time, Tata group established many companies in various sectors such as Tata Power, Tata Chemicals, Tata Finance, Tata insurance, Tata Croma, Tata motors, Tanishq, Titan, tata Tata Global Beverages, Tata Teleservices, Tanishq, Fasttrack, Croma, Tata Salt, Tata Starbucks, Voltas, Tata Sky, Tata Docomo, Tata Steel etc. It has its enterprises in defense, electric utility, finance, healthcare, IT Service, Real estate.

In the arena of online business also tata is not behind. Other than investing in companies doing e-commerce such as Snapdeal, Ola, Paytm, the group is also catering to the customers online named as tatacliq.com owned by tata unistore limited.

Other than their businesses, Tatas are also respected for the contribution in the social development of the society. They have set the ground for Corporate Social Responsibility in India. In this regard also, Tata clan is taking the legacy of jamshetjiTata forward.

2) TVS Groups

The founder of the TVS group Late Thiruvengudi Sundaram Iyenger, was a man of principles, a true visionary, belonged to a Tamil Brahmin family. T.V Sundaram Iyengar was born in 1877 in Thirukkurungudi in Thirunelveli district in present day Tamil Nadu (then a part of Madras Presidency). In his initial years, he tried his hands with many jobs. He worked as lawyer, in Indian railways and in a bank. But he had a passion for business. He left his job and ventured into motor transport industry. In the year 1912, he started the first bus service in the city of Madurai. In 1923, he established the T.V Sundaram Iyengar and Sons Group of Companies, which paved way for the origin of the 'TVS Group'. A business, which started as a passion of a single man, evolved into a flourishing family business.

T.V Sundaram has four sons and three daughters. His business was passed on to his sons. Thus there are four main branches of the company. They have started companies in fields like textile, electronics, automotive and in places like Chennai, Mumbai, Coimbatore, Spain, UK, and Iran.

T. S. Santhanam, the youngest son, who is regarded as the 'Father of Truck Finance Industry' in India, is the founder of Sundaram Finance.

Some of the companies that come under TVS group are:

- Wheels India
- Brakes India
- Sundaram Fasteners
- TVS InfoTech
- TVS Motor Company
- ZF Electronics TVS (India) Private Limited
- Sundaram Finance

- Turbo Energy Limited
- Axles India
- Sundaram Clayton
- Lucas TVS
- Sundaram Motors
- Sundaram Brake Linings
- TVS Logistics
- TVS Southern Roadways LTD
- Sundaram Hydraulics Limited

3) Aditya Birla Group

Seth Shiv Narayan Birla was the founder of one of the most successful and affluent Family business group in India. He founded this group in the year 1857. Initially he traded cotton in Ahmedabad and then moved to China with his son Baldeo Das Birla. They started Chartering ships for which they moved to Mumbai. Baldeo Das Birla started 2 firms one in Bombay and another in Calcutta. These firms did business in grain, silver, cotton and other commodities. He had 4 sons, Jugal Kishore, Rameshwar Das, Ghanshyam Das, and Braj Mohan. The first 3 had actively contributed to the growth of business related to their father but **Ghanshyam Das was most successful one**.Ghanshyam Das expanded and diversified the business and had started Birla Jute, Hindustan Motors, BITS Pilani, Technological Institute of Textile & Sciences. He invested and bought Hindustan Times. He also invested in steel tubes, rayons, chemical, and cement. **He is regarded as the Founding Father of Aditya Brla Group.**Ghanshyam Das had 3 children, Lakshmi Niwas, Krishna Kumar and, Basant Kumar Birla. Both his sons worked for the growth of Birla Group. **Ghanshyam Das Birla left most of his business to his grandson Aditya Vikram Birla which is why it is now known as Aditya Birla Group. Aditya Vikram Birla was the man who established first India based multinational, putting India on World map.** Under his guidance, the company grew bigger and better with passing years. His son Kumar Mangalam Birla is the current chairman of the company. It has its ventures in agribusiness, financial services, banking, mining, retail, telecommunication, wind power, e-commerce among many.

Mr. Ghanshyam Das Birla found no contradiction in pursuing business goals with the dedication of a saint, emerging as one of the foremost industrialists of pre-independence India. The principles by which he lived were soaked up by his grandson, Mr. Aditya Vikram Birla, the Group's legendary leader.

4) Kirloskar Group

Founder of this group is Laxmanrao Kirloskar. This group was established in the year 1911. Its headquarter is in Pune. Along with his son Shantanurao Laxmanrao Kirloskar he started working hard in the business. The company is the biggest producers of pumps and valves. It is known for exporting them to about 70 countries. Further, ventures were started in the production of oil engines, motors, electrical equipment etc. Kirloskar as a minority owner producing cars has Toyota for the Indian market. The various businesses are handled by the extended family successfully in India and outside too.

5) Godrej

Godrej Family owns and runs the Godrej Group. It is an Indian conglomerate company with its headquarter in Mumbai.This group was founded in the year 1897 by the brothers Ardeshir Godrej and Pirojsha Godrej. This group started with lock making business. Adreshir Godrej was a law graduate. Law as profession did not fascinate him much. He started to think of doing something on his own. He started manufacturing surgical instruments, but it did not do well. Then he ventured into lock making business which is a big hit till date. Now this group operates in diverse sectors such as real estate, consumer products, industrial engineering, appliances, furniture, security and agricultural products. Its subsidiaries and affiliated companies include Godrej Industries and its subsidiaries Godrej Consumer Products, Godrej Agrovet, and Godrej Properties, as well as the private holding company Godrej & Boyce Mfg. Co. Ltd.

6) Reliance

Reliance Industries Limited (RIL) is a renowned family business headquartered in Mumbai, India. In the year 1966 the RIL was founded by Shri Dhirubhai H. Ambani. It was started as a small textile manufacturer unit. In May 8, 1973 RIL was incorporated and the company name is conformed as RIL in the year 1985. It is one of the largest family-owned enterprises in India. After Dhirubhai's death in 2002, his sons, Mukesh Ambani (Mukesh) and Anil Ambani (Anil), took over the business. However, as their father had died without leaving a will, they began to have disagreements over ownership issues and business governance. In order to settle the conflict, Kokilaben Ambani divided Reliance's firm between her two sons in 2005. Despite this, the feud between the two brothers continued. After a series of feuds, the two brothers made up in 2010. As a result, they did business with each other's companies and had a very friendly connection, which was also visible in public. Finally, in 2014, the third generation of the Ambani family joined Reliance to establish their presence in the family-owned enterprise. Mukesh's son and daughter, Akash and Isha Amabni, were the first members of the Dhirubhai family's third generation to be appointed as directors of Reliance Jio Infocomm (Jio) and Reliance Retail Ventures, respectively. Anil's son, Jai Anmol, joined Reliance Capital the same year.

Over the years the company has transformed their business and has entered many sectors. Relaince has entities across sectors like vitality, petrochemicals, materials, common assets, retail, and broadcast communications. Reliance is one of the most prominent businesses in India. In 2004 Reliance Industries (RIL) became the first Indian private sector organisation to be listed in the Fortune Global 500 list.

14.7 FAMILY BUSINESS CONFLICT

Conflict is a very natural part of a business. Business Conflict is a disagreement between individuals or groups in an organisation. It may be defined as **a clash between individuals or groups that arises because of difference in thought process, opinion, understanding, attitude, interest and approaches.** It arises in business organisation at some point of time and needs attention and management by the leaders. The conflict may be managed through the effective leadership in the organisation. In case, it is not managed, it may be detrimental for the business organisation.

Keeping family and business together is a challenge in itself. Like in any business organisation, there may arise conflict in the family business which can be detrimental for the health of a business. All members of the family work together in the business as owners. Family overlaps on business system and business system overlaps on family. This overlaps result into disagreement, stress and conflict. As family grows, complexity also increases. As discussed above there may be certain issues and challenges in the family business which the business has to face. Personal relationship among the family members may also have adverse impact on the business. Besides, there may be conflict between family and non-family members/ employees of the business. It is very important to identify and analyse those conflict and manage them effectively so that the business can prosper and grow. Let us discuss various kinds of conflict that may arise in the business and how they can be managed.

14.7.1 Reasons of Family Business Conflict

Family business conflict may arise over several issues; it may be over genuine and significant differences. Sometimes it may be because of emotional insecurity, differences in perception, miscommunication and sometimes manipulation by individual or group wanting to gain something from the conflict. Sometimes there can be conflict over trivial issues but may become big, if left unattended. Some of the reasons can be listed as below:

- Different priority of different members in the family
- Emotional issues in the family
- Identity crises/ ego of members
- Communication Gap between individuals or groups in the family
- Lack of proper succession planning
- Unequal access of resources
- Dominant attitude of family member
- Personal biasness of family member
- Importance of few members

14.7.2 Types of Family Business Conflicts

The conflicts of family business may be categorised into five broad categories. They are:

Type of Conflicts	Description
Conflict of Interest	Conflict of interest results from people making decisions which are driven by self-interest. These conflicts can arise between an owner/founder and the company's managers since principals and agents have different interests. Majority and minority family shareholders may also have conflicts of interests when they place different emphasis on growth and dividends.
Work Family Conflict	When family members are involved in the family business they have overlapping roles in work and in family life. These overlaps increase the risk of incongruent role expectations and incongruent work-family conflicts. For example, A parent interact with a next generation member not only as a parent but also as a boss and business partner, which can makes it challenging to know how to treat one's relative in any circumstance.
Relationship conflict	A relationship conflict occurs when personal animosities and incompatibilities cause negative emotions like annoyance and frustration. Relationship conflict can take place between people at many different levels, but it is more likely to appear among family members due to their emotional bonds.
Task Conflict	In general, Task conflicts arise from disagreements about the content and purpose of the tasks being undertaken. For example, disagreements about a task (e.g. "that's not my job").
Process Conflict	Process conflicts exist when there is disagreement over a method of completing a task. For example, members might disagree whether a decision should be made by group consensus or a single individual.

Source: Qui, H. & Freel, M. (2019). Managing Family-Related Conflicts in Family Businesses: A Review and Research Agenda, *Family Business Review,* 33 (1),90-113.

14.7.3 Managing Family Business Conflict

An important goal of a family business is to learn how to manage conflicts so that good family decisions emerge, individuals grow in healthy ways, and relationships flourish. There are some ways to avoid or manage family business conflicts which are listed below:

1) **Hire Wisely:** The best idea would be to avoid hiring someone from the family if they have little or no knowledge about how your business operates. An organization should hire members who work wisely. Relationships that are sensitive should be kept aside.

2) **Development of Good Communication System:** Communication is the key to conflict resolution. Never shove conflicts under carpet. It is imperative for the success of the organization to accept and handle them. Make sure the organization has a proper communication system. In this regard, family meetings can be beneficial.

3) **Have Family Meetings:** Holding family meetings frequently is a good way to diagnose the conflict or to prevent conflicts from escalating. Family meetings provide an opportunity for everyone to express their opinions on company issues, share relevant information or updates; and plan for the future.

4) **Create a Shared Vision:** It is important that the family understands what the business aims to achieve and how achieving that goal will benefit each family member and the business enterprise as a whole. In addition, it's crucial that all participants adhere to the same family values and that there's no misconduct that undermines the business goals.

5) **Structured Approach to Problem-solving:** Conflict is inevitable in any business. Many companies have adopted conflict resolution processes that may include the formation of a grievance committee. Using a forum such as this can facilitate a safe, organized method of resolving issues through dialogue.

6) **Seek the Help of Mediators:** Sometimes a family conflict may not be resolved among members of family easily, so expert mediators may be a better option to help resolve it through a formal mediation process. Expert mediators may provide an objective view of the issue and lead the family members through initial discussions until they reach an agreement.

7) **Deciding Upon Probable Disputable Issues in Advance:** To avoid issues and disagreements, it is preferable to identify problems ahead of time and devise solutions that will lead to the members adopting a unified course of action. Some of the difficult concerns that family members should decide ahead of time include:

- What should be done if more than two family members wish to run the company?
- How should the business's heir be chosen?
- What if the younger generation refuses to participate in the family business?
- How should members' duties and responsibilities be distributed?

Check Your Progress B

1) Fill in the blanks:

   i) The …………… theory is considered to be central organizing framework for understanding family business systems.

   ii) …………………. are the family members who work in the family business but they do not have their share of ownership in the business.

   iii) Whenever a decision is made on the basis of rational thinking and preference of the decision makers, a cost arises which is called as ………………….. .

   iv) ……………….. theory says that the Principal (owners) and managers (agent) of family firms have collaborative relationship and their goals are also converging.

   v) ……………………. is a disagreement between individuals or groups in an organisation.

2) State whether the following statements are **True** or **False**:

   i) The system theory explains that there are three interdependent and overlapping systems.

   ii) Socio-emotional wealth refers to financial aspects of the firm.

   iii) Multi-generational decision making may lead to task conflict.

   iv) Family businesses should not hire people from outside the family.

   v) Family businesses contribute significantly in the social development of a country.

14.8 LET US SUM UP

Business houses play a very important role in the economy of a nation as it contributes majorly in the GDP of any country. Big business houses in fact, represent the industrial scenario of the country. Family Business contributes 60-70 percent of GDP of most developed & developing countries. India is no exception to it.They play a very important role in socio-economic development of our country. In time of pandemic like covid-19, we can witness their importance all the more.

A family business is an enterprise owned and/or operated by two or more members of extended families who have kinship ties, management roles, ownership rights, and financial control over an enterprise. Eventually, the owner(s) of the family business transfer it to an heir. The characteristics of family business are: managed by family members, utilise in-house talents, succession planning, management and operations by senior most member, long-term orientation, mutual influence, embedded in cultural values, and concentrated structure. Family businesses can be of three types viz., A Family Owned business, A Family Owned and Managed Business, and A Family Owned and Led business.

Time and again various experts have tried to study the characteristics of family businesses and in the process various theories have been evolved. These theories can be categorised in three broad theories; The Systems theory, The Agency theory and other theories like: resource based theory, socio-economic theory, stakeholder theory, and stewardship theory.

Family businesses contribute to over 70-60 percent of the GDP (size of economy) of most developing and developed countries. In India this contribution is even more. It plays an important role in the economic, social, entrepreneurship and industrial development of the country. This form of organisation also offers many benefits in the form of competitive advantage, flexible working hours, and speedy decisions and contributes in the development of business.

While family business gets many advantages, they face certain challenges also. These challenges are: Innovation for a competitive advantage, Limited Talent, Lack of Succession Planning, Technology needs, Sibling Rivalry, Internal conflict, Biased decision making, Too much emotional attachment with business, Unclear roles and responsibilities of family members, Lack of professionalism and Limited financing.

Like in any business organisation, there may arise conflict in the family business which can be detrimental for the health of a business. Conflict can happen over several issues, it may be over genuine and significant differences. Sometimes it may be because of emotional insecurity, differences in perception, miscommunication and sometimes manipulation by individual or group wanting to gain something from the conflict. The conflicts of family business may be categorised into five broad categories. They are: Work Family Conflict, Conflict of Interest, Relationship conflict, Task Conflict and Process Conflict. Conflicts in the family business can be managed by Hire wisely, proper communication, have family meetings, create a shared vision, taking a structured approach to find a solution, and seek the help of mediators.

14.9 KEYWORDS

Family Business: A business in which the majority of the stake is held by the person who has established or acquired the company (or by his or her parents, spouse, child or child's direct heir) and at least one representative of the family is involved in the management or administration of the business.

Family Business Conflict: A clash between individuals or groups in family business that arises because of difference in thought process, opinion, understanding, attitude, interest and approaches.

Family Owned Business: Family-Owned businesses are for-profit organisations whose majority voting shares (or other form of ownership) are typically but not necessarily controlled and owned by members of a single extended family, or by one family member but significantly influenced by other members.

Family Owned and Managed Business: In addition with family owned business characteristics, at least one family member has active participation in the top management of the company, which means one or more members of the family have ultimate control of the company.

Family Owned and Led Business: In addition with family owned business characteristics, at least one family member is an active member of the company's Board of Directors, so one or more family members have at least a high level of influence over the company's direction, culture, and strategies.

14.10 ANSWERS TO CHECK YOUR PROGRESS

A. 1.i. kirana ii. Multi-generational iii. Relationship iv. Sucession v.family owned and led business

2. i. True ii. True iii. True iv. True v. False

B. 1. i. system ii. Family Employees ii. Agency cost iv. stewardship theory v. Business Conflict

2. i. True ii. False iii. True iv. False v. True

14.11 TERMINAL QUESTIONS

1) What do you mean by Family Business? Describe their characteristics.
2) Discuss the various types of family business.
3) Describe the role played by family business in national economy.
4) Briefly discuss the various predominant theories of family business.
5) Describe the three circle model of family business.
6) Explain the major challenges faced by family businesses.
7) Discuss any two successful and affluent family business groups in India.

8) "Like in any business organisation, there may arise conflict in the family business which can be detrimental for the health of a business." Elaborate.

Note : These questions

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