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SWOT Analysis of Indian Family Business

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"Sometimes Film Is Just The Family Business. Some Families Are Generations Of Carpenters Or Farmers, Or They Make Clothes, Or They Are Lawyers. I'm In The Family Business"

-Danny Huston

I. INTRODUCTION

We can find family businesses all over the world with different industries and various operating systems. Observing the list of Family Business Magazine (listing the world's oldest and biggest family businesses) one could be surprised which famous and successful companies operate as family businesses1, although this list is just a little teaser from the world of family businesses Family firms are the most common form of business structure; they employ many millions of people and generate a considerable amount of the world"s wealth. A family business is a company owned, controlled, and operated by members of one or several families. Many companies that are now publicly held were founded as family businesses. Many family businesses have non-family members as employees, but, particularly in smaller companies, the top positions may be allocated to family members. The story of every successful family business starts with someone who has the passion, confidence and courage to put his money where his mouth is. Entrepreneurs are typically creative over-achievers; they can see opportunities where others might not. They are incredibly hard, make things happen, are positive without being unrealistic and possess the resourcefulness to overcome all sorts of hurdles. They are socially adept, capable of communicating effectively and good at inspiring others. The family-owned and family operated businesses play an important role in employment and GDP production in most of the capitalist countries. They give 75-95% of enterprises and they produce 65% of the world GDP.

OBJECTIVES

- To study the importance of Family Business in India.
- To study the strengths and Opportunities of Indian Family Business.
- To anticipate the problems and challenges faced by Indian Family Business.

II. RESEARCH METHODOLOGY

Papers study is descriptive in nature. The data used is secondary in nature and has been collected from various websites and journals.

UNIQUENESS OF FAMILY BUSINESSES

We have to understand the uniqueness of a family business to answer the above question. Family and Business, two interactive dimensions create a family business, usually owned and managed by two or more family members. It means owners' values, attitude, and biases influence organization's strategies, planning, and performance. The family's beliefs impact business objectives. For example, a religiously inclined vegetarian family may not venture into a non-vegetarian food business however good the business opportunity seems.

In other forms of businesses like public sector enterprises, multinationals, and public limited corporations, ownership is treated as a separate issue from managing the business. Professional executives are responsible to operate the enterprise and take decisions in line with the business objectives and profit goals. Performance and meritocracy for employment are of prime importance. Whereas, in case of family businesses respect, trust, and sacrifice among family members take priority over achieving business targets. Bonding and sharing among family members allow them to take business risks, encash growth opportunities, and keep entrepreneurial spirit alive. "A united family is the best social insurance one can have. Family members can understand and support each other in the moments of crisis which may be expected from outsiders", opines Jayantibhai, 85 years old patriarchand chairman of S K Pharma Group.

STRENGTHS

A family business offers the following advantages:

- One of the popular misconceptions about family businesses is that they are unable to adapt easily to increasing competitiveness and technological progress. The reality is that family businesses frequently have the advantage of entrepreneurial spirit, flexibility, and opportunism.
- It is believed by some that family firms are "too soft" and rarely reach their potential. The reality is that family businesses actually outperform public companies. Oftentimes, the marketplace forces public companies to make short-term decisions, whereas a family business has the advantage of having more freedom to make its decisions. Family businesses can adapt to market fluctuations more easily because they can afford to be patient. They have common goals, shared values, and a commitment to brand building.
- Family-owned businesses are often seen as ideal because family members form a "grounded and loyal foundation" for the company, and family members tend to exhibit more dedication to their common goals. "Having a certain level of intimacy among the owners of a business can help bring about familiarity with the company and having family members around provides a built-in support system that should ensure teamwork and solidarity."
- The culture of a family business is very different from that of a company you will find on Wall Street. "Family businesses frequently take a very long-term point of view. They'll make investments that they don't expect to pay off for 5 or 15 or 25 years…Culture in a family business is more frequently based on very personal and emotional values. It's stronger because there are deeper roots and closer connections to the history of the company."
- Family businesses are becoming more and more attractive to undergraduate business students who face a bleak job and salary outlook for new grads. These undergrads are choosing to return to their family businesses directly after graduation instead of trying to find a job in corporate America or on Wall Street.
- There is a common misperception that family businesses are less professional and rigorous in their behavior because of the relational nature of the businesses. However, like all other businesses, family businesses face global competition and rapidly changing markets. This creates more pressure on those who join to make sure that they produce. "This emphasis on professionalism has made family businesses both more daunting and more attractive—and has created new interest in them, from family members, outsiders, and business school students."
- Many family-owned businesses tend to be stable and optimistic, even when economic times are uncertain. They seem to be better able to weather economic difficulties and stabilize the economy than their nonfamily counterparts. However, this is a function of the industry and the size of the business.
- In general, family businesses feel that they are stronger because family members are involved in their activities. Family owners believe that their family members can be trusted, will work harder, and care more. This can help create competitive advantage in the marketplace.
- Family businesses may be more open to flexible or part-time schedules or choosing your hours. This presents a very attractive work environment for people who need to tend to children, parents, or other family members in need.
- Family businesses tend to operate more ethically. In fact, many family businesses believe that their ethical standards are more stringent than those of their competitors. In addition, family businesses are often deeply embedded in their communities, and this proximity is seen as an important factor that increases the likelihood of ethical decision making and moral behavior. As members of the local community, any ethical problems with a family business will be quickly visible.
- Family businesses also exhibit more social responsibility than their competitors. This has been attributed to their concern about image and local reputation as well as their closeness to the community.
- Family businesses may incur lower costs because of the greater willingness of family members to make financial sacrifices for the sake of the business. Accepting lower pay than they would get elsewhere to help the business in the longer term or deferring wages in a cash-flow crisis are examples of family altruistic behavior.
- Family businesses, in general, have greater independence of action because they have less (or no) pressure from the stock market and less (or no) takeover risk.

WEAKNESS

As attractive as family businesses are on many fronts, they have the following disadvantages:

- Family businesses tend to be stable organizations. Although this is a good thing in many instances, stability can also make it difficult to change. A new, younger family member coming into the business will find tradition and structure. Changing that is not simple. The key to changing a family business lies in defining tradition in terms of the company's core values, not in specific ways of doing things.
- Family closeness can lead to sibling rivalry or problems when both the parent and the child want control. By the third or fourth generation, with many cousins possibly sharing ownership, governance can become very complicated.
- There may be times when the interests of a family member conflict with the interests of the business. One family member may want to expand the business, but other family members may not share this person's desire. The needs of the business are not in sync with the needs of the family.
- Family ties have a downside. Family members will frequently be expected to work harder, make more of a commitment, and get paid less than other employees in the business.
- Family business owners may automatically promote someone from the family or give family members a job even if they do not have adequate skills for the job. A nonfamily employee may be better qualified. This can cause dissension and resentment among other employees.
- Relationships between parents and children or among siblings have a tendency to deteriorate due to communication problems. "This dysfunctional behavior can result in judgments, criticism and lack of support."
- The family business may be a breeding ground for jealousies, resentment, anger, and sabotage. Family problems may spill over into the workplace.
- The business may be plagued with managerial incompetence, the lack of exposure to other businesses, and the inability to separate family and work.
- Some family businesses may have difficulty attracting and keeping highly qualified managers. "Qualified managers may avoid family firms due to the exclusive succession, limited potential for professional growth, lack of perceived professionalism, and limitations on wealth transfer." Succession refers to passing the business to the next generation.
- Family businesses have limited sources of external capital because they tend to avoid sharing equity with nonfamily members. Having less access to capital markets may curtail growth.
- Not all children of owner-managers may want to join the business. According to one study, 80 percent of those who did not work in the family business did not intend to go into the business.

THREATS

Indian family businesses enjoy various advantages due to their inherent characteristics and a social culture that supports their structures. However, these advantages can be destroyed if the family is not united; as the family grows, the challenge is to keep a sense of unity. These are a set of typical challenges that Indian family businesses face today:

1. The Next Generation

The greatest challenge concerns the gap between family generations: A business founder is used to doing everything himself. Thus developed the unique culture of the present Indian family business: Inward-looking, owner centric, smaller scale, with a restricted perspective, and conservative mindset. This culture eventually becomes a hurdle in absorbing 'outsiders'. The same culture also poses a serious challenge in absorbing the next generation family members: Different generations, seeing the world differently are supposed to work together. It can be a difficult thing as the young generation is often in a hurry and has big ambitions, while their elders are more conservative and skeptical. The gap keeps on getting wider and wider. When conflict escalates between fathers and sons it is often the mother, who takes the role of CEO (Chief Emotional Officer). This is a common story in many Indian family businesses.

2. Attracting and Retaining Non-family Employees

Another possible challenge is non-family employees joining the family firm: The culture, which has solidified over time, becomes a barrier for accepting 'outsiders'. Business owners are often at a loss as to how much authority a non-family employee should be able to attain. In most Indian family businesses stakes are high: It is not easy to put their own destiny in the hands of non-family employees. Having founded the business, the owner is used to having insight into all aspects of his business. Allowing the same insight to an outsider can be hard. On the other hand non-family employees may also have difficulties in adjusting to the family business culture. They are used to structured corporate environments. In family businesses that structure may be missing. It is important that time is bestowed on new professionals so they can settle. Many Indian family business owners end up selecting non-family employees based on their performance in the corporate world without paying much attention to their 'fit' with their own firm's culture. They forget to spend time in facilitating the settling down process.

3. Women of the Family Joining the Family Business

Indian family businesses are still largely male dominated. The role of women in business and employing women is largely accepted and encouraged in India. However, when it comes to hiring women in the family business, there are reservations. Within the Indian social context of business families, bringing up the children is considered primarily a responsibility of the mother. Thus, whenever the issue of women in the family business is raised, it is subject to her ability to balance between her duties at home and her duties at work. However, as more and more women are highly educated, they are demanding a say in the family business. The traditional family model is still disapproving of it, yet increasingly it will have to respond to these demands. It is only reasonable for family businesses to tap into this huge source of talent.

OPPURTUNITY

In the race of survival, the families with a vision and a desire to continue their businesses across generations have to take measures to manage their businesses professionally while keeping their family ties stronger. When the family members have a common vision, well defined roles, open communication, and transparent systems of operations then the business can survive any test of time.

Easier said than done, it is difficult for the families to align goals and have an open dialogue among themselves. As a family business advisor, I work with the families to develop family governance and guide them through the process of professionalization with an unbiased, rational approach. By inculcating family governance, the roles and goals of the owner-managers are defined, their performances are evaluated, family’s welfare and wealth management issues are addressed, and the younger generation members are trained for leadership.Indian family businesses are going through a challenging yet exiting time. The ‘change’ factors are making family businesses reevaluate their vision and refix the priorities. Family and business, two sides of a coin, are being redefined in the new millennium. The threats and challenges of family businesses are still outweighed by the entrepreneurial zest, family values and culture. There is no doubt that the family businesses are taking up the challenges and will thrive for a long time as ever.

INDIA'S TOP FAMILY RUN BUSINESSES

1.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 Ambani in 2006. In September 2008, Reliance Industries was the only Indian firm featured in the Forbes's list of "world's 100 most respected companies". In 2010, the company occupied the13th position in the Platts Top 250 Global Energy Company Rankings. However the company's petrochemicals, refining, oil and gas-related operations form the core of its business, other segments of the company include textiles, retail business, telecommunications, and special economic zone (SEZ) development. Reliance Retail has moved into the fresh food market as Reliance Fresh. Almost 23,365 employees work in the Reliance industries.

2.Tata Consultancy services

Top IT exporter Tata Consultancy Services (TCS) comes second in the list and the company belongs to the most powerful and well-known family in India- the Tatas. Originally a priestly family in Navsari, they have been active in industry and philanthropy since nineteenth century. The Tata Group, founded by Jamsetji Tata, is one of the largest private employers in India. It began as the "Tata Computer Centre", for the company Tata Group whose main business was to provide computer services to other group companies. One of the company's' first assignments was to provide punch card services to its sister concern, Tata Steel (then TISCO). It later bagged the country's first software project, the Inter-Branch Reconciliation System (IBRS) for the Central Bank of India. In 1981, Jamsedji Tata stepped down as Tata Industries chairman, naming Ratan Tata as his successor. The company also provided bureau services to Unit Trust of India, thus becoming one of the first companies to offer BPO services. The Tata Family was one of the first to embrace changes in the 20th century entering the service industry with Tata Consultancy Services in 1968.

3.Bharati Airtel

Bharti Airtel popularly known as Airtel was founded by Sunil Bharti Mittal in 1995. It is an Indian telecommunications company that operates in 20 countries across South Asia, Africa and the Channel Islands. It operates a GSM network in many countries, providing 2G or 3G services depending upon the country of operation. Airtel is the fifth largest telecom operator in the world with about 230.8 million subscribers across 19 countries at the end of June 2011. The company is the largest cellular service provider in India, with over 171.85 million subscribers as of August 2011. Airtel is the 3rd largest in-country mobile operator by subscriber base, behind China Mobile and China Unicom. 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. The company recently announced that Shravin Bharti Mittal, 23, one of twin sons of Sunil Bharti Mittal, is the manager of Bharti's international operations in Africa. Sunil and his brothers own 32 per cent of the company and are therefore worth something like Rs 20,000 crore.

4.Wipro

Headquartered in Bangalore, Wipro technologies is a global information technology services company which was founded by M.H. Hasham Premji in 1945. After M.H Hasan Premji's sudden 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 the Vice President of Wipro. Wipro provides outsourced research and development, infrastructure outsourcing, business process outsourcing (BPO) and business consulting services. The company operates in three divisions: IT Services, IT Products, Consumer Care and Lighting. According to an annual survey conducted by Brand Finance and The Economic Times in 2010, Wipro is 9th most valuable brand in India. Azim Premji is the chairman of the company.

5.Jindal Group

Jindal Group was founded in 1952 by OP Jindal. After OP jindal's death in 2005 in a helicopter crash much of his assets were transferred to his wife, Savitri Jindal, the widow of OP jindal. She was ranked as the 19th richest Indian person by Forbes. Naveen Jindal is the Managing Director of Jindal Steel and Power limited. Naveen's elder brother Sajjan Jindal is currently the head of ASSOCHAM, an influential body of the chambers of commerce, and the head of JSW Group, part of O.P. Jindal Group. 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, US and Indonesia offices across the globe.

III. CONCLUSION

The Indian business landscape has started expanding fast. With the involvement of the older generation alone, such growth is unthinkable. While the parent generation needs to accept this, the next generation has to learn to appreciate their parents' wisdom and understand that there is no substitute for hard work. The solution to these challenges requires an understanding of the family business dynamics and a separation of people from problems. Family business members should learn that no one is wrong but that each generation has a different culture. Once families learn about these cultures and understand the need to appreciate different perspectives, whether young or old, they will be able to harmoniously work with professionals as well as across generations. Thus, if family businesses can manage these dynamics, they will be better placed to reap the benefits of the great range of opportunities in the Indian economy and beyond.

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