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Performance & Challenges for Family Businesses


Abstract
There are several issues related to management of modern large corporate bodies: Their shareholding pattern, the value system and culture, the Mission and Vision plans (which hardly anyone understands and reads inside or outside the organisation-being considered as vague and decorative show pieces) the short term and long term objectives of the promoters (Owners) and effective management of these organisations. There is clear shift in previous Lalaji (Indian nick name for main promoter or his heirs) cum Manager of the firm model to separating the executive function from the ownership. There has been an amendment in Indian Companies Act that now requires listed companies to have certain percentage or number of full time Directors who are executives or professionals. But is separating the two- the ownership and management strictly possible? There is then ESOP or profit sharing arrangement in most of top corporate bodies. Can you then call an executive or professional director purely a professional?

My personal experience in Indian Corporate sector over last 30 years shows that while top corporate have been able to mange the issue satisfactorily, the smaller organisations do have undesirable outcomes from Lala-cum-Manager arrangement. It has been seen that these guys are not able to reconcile to a professional running the enterprise independently or taking decisions without consulting them (It is difficult to delegate for most of them and let go of day to day controls). It is also difficult for them to let go of their old bad habits and mindset in deciding on various issues. Even some go to the extent to envy their own CEO who becomes popular and successful and feel insecure.

However, both the professionals and academicians agree on need to separate executive functions from Overall Policy making regarding: New Investments, finance, growth and HRM. What one may call Strategic Decisions vis-à-vis environmental challenges; and to promote or alter value system in the organisation. There is thin line between the two. As both tasks depend on each other and overlap.

However, it is clearly seen that the two types of commercial organisations have different problems: Publicly or Privately held large organisations (Say above Rs 500 crores/$100 Mil. annual Turnover) and SMEs that may have turnovers from Rs 50 crores to 500 crores/$10 to 100 Mil. It is also
seen that a large number of prominent organisations are family controlled as well as owned with significant contribution to Top 100 lists and share in GDP of countries like USA and Europe and even in India. Many are routinely managed by heirs of the original promoters.

It is very difficult therefore to clearly define, as to what is a family Business?

It is difficult to define family business. But all share a few common characteristics:
* A single family controls the company's ownership.
* The controlling family's members are currently active in top management.
* The family has been involved in the company for at least two generations—or seems likely to be.

Probably the best yardstick could be the degree and nature of control and direct involvement of owners/families on Board room decision making processes, whatever these may be. Even this definition defies clarity. But we shall accept this for sake of analysis.

**Survey of Family Businesses:**

According to Rottenberg, 80 percent to 90 percent of all U.S. companies are "family businesses," defined by his magazine as those in which several generations of a single family have been and remain actively involved.

Such companies, he noted, account for an estimated 49 percent of the U.S. gross domestic product, 59 percent of the work force and 78 percent of new jobs.

"Family companies tend to be intuitive and instinctive," Rottenberg said. "The business and the culture is in their blood, which means they don't have to spend a lot of time with analysis, poring through reports or making decisions."

As far Indian scenario is concerned, since 1947 several changes have taken places in Economy. First business Maharajas grew under protective economy of Government and now several new have come up. A few are first generation entrepreneurs like Narayan Murthy and team of Infosys.

Names like Tata, Birla, and Bajaj became household words. Such companies grew to account for 15% of the Indian economy, and their products penetrated the lives of consumers in everything from cars to clothing. When the grand patriarchs died, they handed down their empires to their sons. And when the sons died, they handed down their empires to their sons. Yet now, with the second and third generations at the helm, it's a whole new India and a whole new ball game.