

Challenges for the Indian Family Managed Businesses(FMBs)

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Abstract

The family businesses are vital for the Nation's growth and development. So, it is interesting to know what are the challenges faced by these Indian family businesses for their survival.

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1. Introduction

Family business is; one of the oldest from of the business in the world. Their continued existence is critical to the sustainability of the Nation's Growth and Development. In spite of facing numerous day-to-day management concerns and challenges, they are managing many issues that are specific to their status in order to grow since global economy is constructed around family businesses (Girish Bagale et. al., 2018). In the views of Pearl Initiative & PWC (2012), many of the largest MNCs began as family businesses, and around 90% of the world's businesses can be defined as family managed businesses, both in developed, developing and emerging markets with the majority are small and medium-sized enterprises (SMEs), but some are very large companies (Sarbah, A. and Xiao, W.,2015).

2. Family Owned/Managed Business(FOBs/FMBs)

A family business can be described as a system that encompasses of three independent but coinciding subsystems which can impact each other. These subsystems are business, ownership and family and are depicted in the Three-Circle model (Figure 1) of Gersick et al. (1997). The three circles divide the entire figure in seven segments. Any individual in a FMB has one location in this model, depending on the connection that person has with the organization. Number 1 refers to the family members who are not involved in the business. Number 2 are non-family owners of the business. Then number 3 are non-family members working for the company. Next, number 4 are family members not working in the enterprise but are owner of the firm. Number 5 are non-family owners who work in the business. Number 6 are family members who work in the business but are not owners and finally number 7 who are family members working in the business and are owners of the business (Girish Bagale et. al., 2018, Jeroen Verbruggen, 2012).

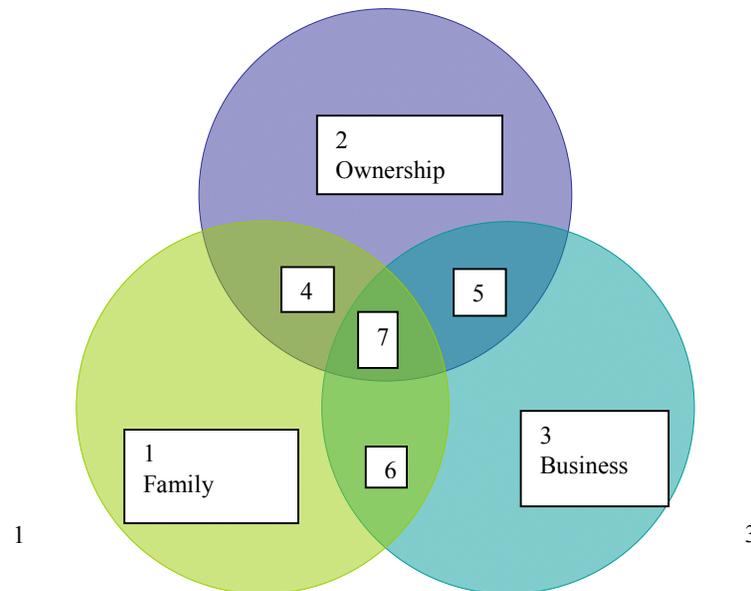


Fig.1. Three-Circle Model (Gersick et al., 1997)

2.2 Challenges faced by Indian Family Businesses

2.2.1 Managing Family relationship

Most of the business families face unique management challenges because of the difference in the attitude and aspiration of family members. As new generations join the business, it is an enormous challenge to keep the family and business together. Family dynamics is the lever which determines how a family business is run. In the recent past we have seen how families are unprepared to handle conflict.

Many times family businesses are facing internal conflicts due to varied interest of each family member, personal egos, personal rivalries that disturbs business harmony. The interest of a family member may not be aligned with the interest of the business or the interest of the entire family may not be balanced with the interest of their business. No separations of Emotions and business – It is very difficult task to separate emotions from family business. If there is interference of emotions in business, sound business decisions won't be made and will disturb employees and customers as well. There should be right balance of emotions based on the dynamics of family business (Sharmila Kavediya ,2017).

2.2.2 Succession planning

The PwC's 2016 Family Business Survey reveals that only 15 % of the Indian family businesses had a robust, documented and communicated plan in place. This is an alarming number; and unless family businesses are able to administer processes to ensure business continuity and create succession plans around senior roles, key functions and important locations, the threat of disintegration will continue to mar its reputation believe that entrepreneurship can be a powerful force within organizations of all types and sizes, in established businesses as well as in new ventures. In any industry, in any position, it takes entrepreneurial thinking and relative action to solve problems and make an impact for sustainability and scalability of their respective family run businesses.



Figure 1.

(Kavil Ramchandran, Navneet Bhatnagar, 2012)

2.2.3 Professionalization

Professionalizing family business management traditional to contemporary management practices in Family- Managed SME's. Transformation from a traditionally run business to a professionally run company (Kavil Ramchandran, Navneet Bhatnagar, 2012). Most of the FBMs lacks professionalization in their operation, structures, processes and systems and unaware about new theological development and latest the best management practices in the industry or sector.

2.2.4 Leadership

It means change of leadership. It also involves set of emotional issues, accepting new responsibilities, change of leadership issues. It is a revolution in which the culture of the organization is restructured by the next generation, who brings with them new ideas about how business should be run, how to develop new working practices, new staff, new loyalties etc. So succession represents a major transition with the fortunes of the firm resting on how successfully it is to be negotiated. Many times due to lack of succession

planning it breaks family business causing to uncertainty among staff, suppliers, customers and family. According to Ravichandran (2009) family businesses are found to split up like amoeba as they grow and very few of them survive beyond three generations. Attracting and Retaining Non Family Employees – Non family employees may also have difficulties in adjusting to the family business culture. They are used to work in structured corporate environment. In family businesses there are limited opportunities for growth and advancement because family employees occupy all leadership position within the business (Sharmila Kavediya ,2017). Right leadership at right time has profound impact on the family businesses.

2.2.4 Wealth Management

Most of the FBMs lacks not only financial literacy knowledge but also wealth management best practices knowledge especially new, young family member joining the business. So, wealth compounding effects will not work out in such situations and family business wealth starts eroding. A family office may assist as a worthy source of expert help for better observing and managing of family wealth (Kavil Ramchandran, Navneet Bhatnagar, 2012).

3. Conclusion

With the increasing number of family members which are involved in the business, the more complex issues within the family can arise, which can harm the business. In this case corporate governance can bring structure within the business and the family which makes it easier to deal with these issues. As educator of this sector we need to assist family-owned businesses in understanding the changing dynamics of competition as well as organization, brought about by liberalization, privatization and globalization to develop family business successors as enterprising and knowledgeable owners of the businesses of their forefathers.

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