Indian Family Businesses:
Their Survival Beyond Three Generations

Working Paper Series
Indian School of Business
www.isb.edu
Indian Family Businesses: Their Survival Beyond Three Generations

K. Ramachandran
Indian School of Business
Hyderabad -500 032
India
Mail: k_ramachandran@isb.edu
Tel: 91-40-2300 7001
Fax: 91-40-2300 7046
Indian Family Businesses: Their survival beyond three generations

K. Ramachandran

Abstract

Interest in family businesses is recent, and most often knowledge creation in this field is limited to Western academics. Although stray outputs have started appearing on developing countries or Asia in general, no comprehensive picture is still clear on most aspects of family business. It is in this context that this exploratory research is undertaken.

Family businesses constitute most businesses in India, as anywhere else. Economic liberalisation and rapid expansion in the industrial base in recent years have not only created growth opportunities for many but also have tested their resource capabilities to respond to them; some have chosen to follow the role of a custodian of their existing wealth and followed the preservation route, while some others have followed more of an entrepreneurial route of exploiting opportunities with or without relevant resources, with mixed results. One of the key resources for all of them is their family, and their prime concern is wealth and welfare of their family. A major dilemma many of them have faced particularly in the last decade since economic liberalization began is to choose between combinations of risks and returns of business growth and conservation of wealth of the family. This, of course, is intertwined with the missions of their businesses and families.

Family businesses are fascinating because of the mutual dependence of two ecosystems (family and business) that have inherently conflicting characteristics. Some of the key dimensions that determine the cohesiveness of both the family and business are: succession planning, remuneration and rewards planning, recruitment and rewards for non-family professionals, retirement and estate planning, induction and grooming, ownership structure, preserving wealth, resolving conflicts, business vision, strategy and governance, family vision, strategy and governance. Research evidence suggests that these come under strain especially when their operating environment comes under pressure. Growing interest in corporate governance has its positive effects on family governance too especially in introducing greater level of professionalisation in business.

The six Indian case studies analysed in this paper have been carefully selected: all fourth generation family businesses with diversified portfolios, and managed jointly by family members and outside professionals. However, they are different in terms of leadership quality across generations, response to environmental forces, family unity and business performance. Families with a unified command and harmonious relationship have responded well to the economic liberalisation process that started in early 1990s. We conclude that the quality of family leadership reflected in the level of Compassion Orientation nurtured in the families is found to be critical for building Competitive Orientation in the group’s business. Also, the nature and characteristics of Competitive Orientation required in business and Compassion Orientation required in families are
influenced partly by the stage in their life to which they belong and the impact of environmental forces existing. Families with high quality leadership have been able to transcend from early to later stages in their life cycles smoothly.
Indian Family Businesses: Their survival beyond three generations

Introduction

Family as a social institution is one of the oldest surviving (Goode, 1982), but only in recent years family business, an important arm of it started receiving academic attention. After a detailed review of the existing literature, Zahra and Sharma (2004) concluded that family business research has a long way to go from the present fragmented and descriptive state. There are conceptual differences between family and business (Ward 1987, 2004), though opinions on treating them as conflicting systems vary. Family businesses are found to split up like amoeba as they grow, and very few of them survive beyond three generations, supporting the age old saying, “shirt sleeve to shirt sleeve in three generations” (Carlock and Ward 2001, McCulloch 2004).

Most discussions in this area are based on research in advanced countries. In most developing countries, including India, it still remains a black box; academics and industry observers were puzzled to witness the recent break up in the second generation of the Ambani family, the largest private sector group worth over US $ 20 billion. Even anecdotal evidence is limited to a few biographical sketches (Tripathi, 2004; Piramal, 1998) and consultant impressions (Dutta 1997; Sampath 2001). Sharma and Manikutty’s (2005) study of diversified family groups is one of the few notable research pieces from India in this area. In essence, not much is known either about the survival rate or the factors contributing to the successful survival of family businesses in India. Taking the survival bar as three generations, it will be interesting and instructive to know how family businesses perform in the fourth generation. Since the implicit assumption here is that the family has survived as a single entity, it is important to know how the family’s involvement in business is and also how the family and outside professionals manage the business.

Relevance of success of family business

For historical, evolutionary reasons, most countries have family businesses constituting the largest category in terms of ownership; estimates do vary, but is above 75 percent in all cases (Duman 1992, Paisner 1999; Watts and Tucker 2004). About a third of the companies listed in Fortune 500 are family businesses (Lee 2004). Since they normally do not have short term orientation but are interested in growing the family wealth with necessary precautions and have a different set of strategic goals compared to non-family owned private companies (Ward, 1987; Sharma, Chrisman and Chua, 1997), their long term contribution to economy is significant. This is true with the Indian economy too.

However, long term sustenance of family business depends on its smooth survival across generations as shown in Figure 1. Families that successfully survive three or four generations have a complex web of structures, agreements, councils and forms of
accountability to manage their wealth (Jaffe and Lane 2004). This seems to be much more evident in the west compared to emerging economies such as India. Reflecting the complexity of the process involved, succession planning has been an area of keen interest for researchers. This could be for a variety of reasons. One, organizational transition from an entrepreneurial stage to a system driven, professionally managed firm is not easy (Churchill, 1983), and involves evolutions, revolutions and crises (Greiner, 1998). Two, there is often a simultaneous process of transformation taking place in the family and business with the size of activities of both growing (Kepner 1991; Morris et al 1997; Sharma, Chrisman and Chua 2003).

There are also challenges of multiple stakeholders for the leadership position (Lansberg, 1999). Very often, there is lack of communication between the incumbent and incoming generations. The incumbents do not know how to handle the succession challenge, while the incoming generation does not know how to raise it. Studies in the American context showed that families choose their most competent member(s) to manage the business, disregarding age, gender or bloodline (Chrisman, Chua and Sharma, 1998). This is a reflection of the family’s willingness to separate family hierarchy from organizational hierarchy. Given the level of socio-economic and cultural contexts prevailing, it is difficult to be true in the Orient including India. However, post-succession role of the incumbent is not often planned leading to complications. This could lead to what is often described as “return of the father in 18 months” into the business reflecting the retiring
persons return to take charge of the business again. Hence, there is a need for determining the possible role of the incumbent as a mentor or non-executive chairperson. It is also possible for the person to pursue a totally different profession such as teaching! Retirement related planning is increasingly becoming important with growing longevity of people.

Although ownership and management succession are the key concerns of a large number of business families, they do not devote enough attention to the process involved. Studies (Watts and Yucker, 2004) have reported that families hesitate to address this issue. Succession dilemma is also closely related to the family policy on entry of new generation, retirement of incumbents and mechanisms for resolving conflicts. A number of case studies on family business taught in leading business schools have brought out the critical role of open communication within the family in developing and sustaining harmony and growth. Entry of new members from the family depends also on the ‘space’ available in the organization, which in turn depends on the success of the business. While management literature on strategy is rich on vision, not much has been known about the need for synergizing values and vision of family and business on an ongoing basis. This is particularly so in a dynamic environment. Family business authors (eg. Carlock and Ward, 2001) have developed approaches to strategy making in business and family. As discussed by Paisner (1999), developing a sustainable mechanism for business ownership that does not lead to inequitable wealth distribution and avoid amoebic type break up, is also an important area of concern. Paisner’s idea of a trust route seems to be good, but needs to be empirically validated.

Families are united over generations by their vision, values and emotional bondage. There is growing realization that families have a social role to fulfill and be responsible for specific activities including community development through charity (Gallo, 2004 and Grant Thornton, 2001). All the five family businesses studied here, like most other big groups, have their independent entities for charity in the form of trusts, often run by lady members of the family. This is one way of giving recognition and occupation for ladies, who are not generally involved in business. There exist an unwritten rule in all the families studied here that daughters-in-law do not get involved in business while daughters anyway, go to their in-law’s house. The current generation shows signs of this rule changing, slowly.

Another source of challenge is in the nature of competitiveness. For instance, when the Indian economy was opened up in 1991, most Indian Companies, of which a huge majority were family owned, were put under competitive pressures for the first time. Many firms, particularly those that grew under government protection (Khanna and Palepu 1997) did not have a strategy to respond and take it as an opportunity rather than threat for a variety of reasons (Ray…..). This created huge tensions in business families, sometimes leading to division of assets. It is also true that most businesses face such competitive pressures at different stages in their life, under the influence of economic cycles, product life cycles and firm life cycle.
Competitiveness to survive and grow depends on the organizational capabilities, which flow from the family directly and from the resources hired from outside. The need to hire non-family resources to build organizations is well recognized. However, an area of conflict is the decision on the roles and responsibilities of outside professionals. Following the arguments of Agency theory (Williamson 1975, Eisenhardt 1989) and the sensitivities of separating ownership and management in family business, conflicts do arise between owner families (principals) and non-family professionals (agents). However, whether they do act as self-centred managers or forms partnership with principals through emotional and non-monetary relationships (Ghoshal, 2004), depends on the situation. Studies of business histories of a number of groups (Tripathi, 2004, Karanjia, 1997) confirm that these relationships are not purely of the classical principal-agent type. There is strong personal and family level bondages out of love and respect, generated over a period of time between the principals and agents. The extent to which such relationship determines the survival and growth of family businesses needs separate research, particularly in the days when professionals’ loyalty is suspected to be towards their profession and not individual organizations.

In essence, the most important areas of concern for the success of family businesses appear to be the ten dimensions as listed in Figure 2. These are all interrelated, such as between succession planning and conflict resolution and ownership structure. It is the synergy created by the interactions and reinforcements of these dimensions that help family businesses to perpetuate. While this needs empirical validation as the most important of many dimensions there does not seem to be any dispute on their relevance. We could call them the Ten Commandments of Family Business.

![Figure 2: Ten Commandments of Family Business](image-url)
It is clear from the above discussion that survival and growth of family businesses beyond two or three generations is not always easy. Still, many make it. How do they do it? While perpetuating family business is accepted as possible and worthwhile in the interest of all the stakeholders, and planning tools are available (Carlock and Ward 2001; Lansberg 1999), enough is not known about the dynamics of it happening under different socio-cultural and developmental contexts. Given that the family and business systems remain two different phenomena, it is important and interesting to understand the functioning and performance of family and business systems that have successfully reached fourth generation.

**Objectives of this study**

In this exploratory research, we study how families grow their business beyond three generations, in highly competitive environments. Hence, the focus is on the way family and business dynamics function in the fourth generation and not how the families built the businesses over the generations. We study the generic growth strategies followed and the influence of the family and professionals in it. Building on the agency theory, we explain the nature of relationship existing between family and non-family professionals active in business. We also examine the process of entry and succession planned in these families, and the possible explanations for the emerging pattern.

India has a few very large business groups, which started four or five generations ago as small entrepreneurial ventures. While the Tatas and the Birlas are often identified as the symbol of Indian Entrepreneurship, there are several others who have not attained such visibility. This paper looks at five such families that have not had any split, except in one. They are all diversified groups with a variety of businesses, with different strategies and levels of performance.

**Case Studies**

**The Murugappa Group**

This is the case of a family that has built a successful business empire over four generations. Started in the early 1900s by Dewan Bahadur Murugappa Chettiar as money lender and trader, the family-governed Murugappa Group is the one of the largest business groups in India, with over Rs 35 billion in sales and over 23,000 employees as of 2004. The third and fourth generations of the family are successfully managing the loose confederation of several companies and a number of SBUs that form the Group. The family believes that business is a means to serve the society and have contributed immensely to the society.

Headquartered in Chennai (Madras), the Group has a diversified portfolio with strong presence in Sanitaryware, Fertilizer (Phosphatic), Abrasives, Automotive Chains, Cycles, Steel Tubes, Car Door Frames and Neemazal (Bio-products). Apart from this,
portfolio consists of IT enabled services, Financial Services including Insurance and Plantations. It has 38 manufacturing locations spread over 12 Indian States. Family ownership of the companies ranges from 34% to 100%. It has several overseas technology collaborations.

Each of the seven flag-ship companies of the group was headed by a family member as CEO, with no formal interaction among the companies as a Group, but only informal consultations among family members. Male family members (women do not join business) start their career as junior executives, and depending on their performance, move up in the organisation. They are mentored by senior family members, both on business and family values.

In 1991, with the opening up of the Indian economy, the family felt it advantageous to be a Group in a more formal way and officially constituted a Murugappa Corporate Board (MCB), composed of family members. The new competitive environment required speedier and more flexible Group business portfolio decisions than could be made when individual family members were emotionally involved in separate business units and focused on their individual company’s day to day management. It was hard for the Group to make a business decision to restructure, downsize or sell a division or unit, if that entity was a favourite of a brother or cousin running it. Even when all family members wanted to make positive business decisions for the Group as a whole, they could not make decisions as nimbly as required in the new faster-paced global economy.

In September 1999, ownership and operational management of the companies were separated for the first time. The process of restructuring was not easy, the cousins came together and successfully transformed the Group. CEO leadership of the seven individual companies switched from family members to professional non-family managers, all promoted from within. The five family members who had headed the seven different companies moved into a shared office suite at headquarters and became full-time directors of the newly reorganized nine-member MCB. They were joined on the MCB by three appointed independent outside board members and the Group’s non-family CFO.

The Chairman of the restructured MCB was M V Subbiah. However, after leading the process of transformation and stabilisation of the new governing structure, Subbiah stepped down to bring in the first non-family Group Chairman. While the reorganization of the business was complete, cousins of the fourth generation are grappling with the challenges of creating a family constitution and process for deciding future leadership of the Group.

**Dabur Group**

One of the oldest business groups in India, Dabur was started in 1884 by Dr Burman to manufacture and sell traditional; Indian medicine called ayurveda. However, it was only in 1986, almost a century later, that it became a public limited company. Retaining its core values and traditions around healthcare products, the group has grown in the past two decades. The turnover in 2004 stood at Rs.16 billion compared to Rs.11 billion in
Dabur owns several well known brands in ayurvedic medicine and healthcare space.

The group, in its efforts to shed its image as a family business in the traditional medical system, went for a rash professionalisation process in the late 1990s, and got into trouble. The experiment was not successful with the owners moving out of operations completely, and the professionals pushing for change at great speed. Although, the entire team that joined in this batch went out in a year’s time, the experiment had several long term benefits to the group. The family realized that introduction of business restructuring and introduction of new systems definitely improved turnover and profits. They also realized the scope and limits to managerial involvement of the family. The group CEO is a non-family member, and five out of nine members on the Board are non-family professionals. As a part of the reflective exercise, they created a Family Business Council and provided for venture capital funding for new business ideas.

Corporate governance and transparency in action is high priority for Dabur. It has not only followed all the legal and regulatory requirements, but also developed corporate governance guidelines for itself. For instance, it constantly looks for efforts to introduce professional approaches to management.

Dabur believes that the family has a trusteeship role to follow both in terms of perpetuating the family business and in preserving and growing the business. For Dabur, the family and the business are institutions to preserve.

Wadia Group

Compared to the other four business families studied here, the Wadias have all along been a small family. Started in 1879 is a textile company by Nowrosjee Wadia, this diversified group has registered a turnover of Rs.26.31 billion in 2004.

The Wadias have been a Mumbai (Bombay) based business group since inception. They belong to the elite Parsi community that is mainly known for great industrialists and intellectually oriented professionals. The group continued as a textiles and textiles machinery manufacturing company for over 70 years. It was in 1954 that they entered inorganic chemicals business and in the mid-80s further diversified into engineering products. The business activities of the group cover plantations, trading, foods, laminates, healthcare and real estate too. However, Bombay Dyeing, in the textiles business, continued to be the major brand and revenue source. The group’s acquisition of Britannia Industries, one of the market leaders in biscuits manufacturing and marketing, in 1993 marked a major growth push for the group. It was able to move into a higher growth orbit clocking a turnover of over Rs. 20 billion in 1994-95, up from Rs.12 billion in 1992-93. They have announced the launch of a family funded low cost new airline (Go Air) in 2005.

The Wadias have all along been a small family with one son in each of the generations except the current generation of Nusli Wadia. His two sons have recently joined the
business. Nusli Wadia continues to be the Chairman of the two flagship companies, Bombay Dyeing and Britannia Industries, among others.

The small size of the family meant absence of succession issues in the family, but it also meant lack of stakeholders to provide checks and balances in decision making. This is reflected in the decision to enter airline business in 2005 by Nusli Wadia’s younger son Jeh Wadia. The two sons belonging to the young generation have been apprenticed in Bombay dyeing, the family’s flagship company. However, the process of grooming is not as systematic or rigorous as some of the other families, such as the Murugappas.

The growth of the group in recent years can be attributed largely to Britannia Industries. Around 50 percent of the group turnover, PAT and network came from it in 2004. To Wadia’s credit, the family has remained a major investor in the company, and has interfered in its management only once, to expel its highly successful CEO in 2002. After a drop in performance in the next two years, the Company has a totally new team of non-family professionals at the helm of affairs. The fact that the family did not install the young Wadias to fill any of the positions in a clear indication of the role it has defined for itself. At the same time, Jeh Wadia’s entry into airlines business is a reflection of the entrepreneurial bug biting the young generation. Indeed, the risks are high in this business, and the family needs counseling to channelise the entrepreneurial resources to attractive ventures. This is reflected in the trend negative networth growth recorded by the family in the past five years (Table 2), while the group turnover has grown by 30 percent during 1999-2004, and Profit After Tax (PAT) has gone up four fold.

Godrej Group

Into the fourth generation, the Godrej group is over a century old, having started by Ardeshir Godrej to make locks. The three generations that built the group added several products to the portfolio. From locks in 1887, to soaps in 1918 and refrigerators in 1958, the group has steadily grown over the years.

It is highly diversified group, present in industries ranging from food, soaps and detergents, consumer durables, electronics, insecticide, veterinary products and engineering. The group has acquired brands such as Fiskars, Jet and Banish and has forged alliances with several transnationals such as GE, P&G, Pillsbury, and Sara Lee. The group turnover grew from Rs 28 billion in 1999 to Rs.33 billion in 2004. The group holds a majority shareholding in most of its companies ranging from 50% to 100%.

The Godrej was awarded the Citizen of the Year in 2003 by the Economic Times for its contribution to social development. The family strongly believes in the trusteeship role of each member in perpetuating the family and the business. In its 100-year old history, the group has never experienced a single split. Although the group’s titular head is still the patriarch, S P Godrej, all the group’s businesses are managed by the third generation. The fourth generation has just commenced entry into the business.
The young generation has to join at the lowest executive rings and be trained and found good before climbing up the hierarchy. There exists a strong and systematic grooming process for them under the guidance of the family members and outside professionals.

Group companies are chaired by family members, but as Adi Godrej, the group Chairman put it, it is mainly on paper, and each company CEO has maximum freedom to decide the strategy of the company. Obviously, there is consultation, both at the family and business levels. It is to note that the group has recorded steady growth in the past five years on sales, PAT and networth front.

**Kirloskar Group**

It was in the mid-1920s that Laxmanrao Kirloskar started manufacturing world class diesel engines for the first time in India. Sticking largely to engineering related products, it has grown over the next three generations. A majority of its revenue comes from its core businesses of castings and forgings, pumps, engines, electric motors, power equipment, and compressors. During 1956-80, the group was led by SL Kirloskar. The group has been conservative in growth and has closely held ownership within the family. In fact, the group turnover has come down from Rs.9.50 billion in 1999 to Rs.7.45 billion in 2004, with the networth also depleting simultaneously.

While the family is unified, and the six members of the fourth generation in the age group of 41-49 are actively involved in business, they have not embarked on any aggressive growth options. The group is led by the last member of the third generation, who is now 54 years old. He has worked towards synergizing relationships among family members and making them think as a group.

Although all the male members of the fourth generation are actively involved in managing group companies, they have developed mechanisms for mutual consultation regularly. Their exposure and experience with TQM methods from collaboration with Toyota, Japan provided all of them with a common platform to compare and exchange notes. Their long association with the companies and their non-family manages have helped the group work as a single entity. While this has helped build smooth internal synergies, it is found to be inadequate to build long term business competitiveness.

**Discussion**

The case studies provide several interesting dimensions of family businesses in India, but here the focus of this study is on the status of family business beyond three generations. Some of the more interesting points are discussed here.

**Growth Strategies**

As can be noticed in Table 1, the performance track record of the five groups vary considerably. Dabur and Murugappa groups stand out with their steady, but impressive
record on all dimensions, sales, profit after tax (PAT) and networth. Incidentally, these are the groups among the five that have developed professional approaches on the family side including creation of family councils. Also, these are the groups that have made great strides to practice corporate governance principles. The performance of Godrej group is also good, though its size and networth is not comparable to that of the Murugappa group. The overall decline in the Kirloskar group underlines the need for balancing the competitive and compassion orientation in family businesses, as shown in Figure 1. Interestingly, the Wadia group’s growth in turnover is not reflected in its networth, suggesting that it has not done enough to professionally address issues of business competitiveness.

<table>
<thead>
<tr>
<th>Group</th>
<th>Turnover (Rs billion)</th>
<th>PAT (Rs billion)</th>
<th>Net Worth (Rs Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dabur</td>
<td>10.69</td>
<td>13.22</td>
<td>16.28</td>
</tr>
<tr>
<td>Wadia</td>
<td>20.36</td>
<td>22.74</td>
<td>26.31</td>
</tr>
<tr>
<td>Godrej</td>
<td>27.93</td>
<td>28.47</td>
<td>33.22</td>
</tr>
<tr>
<td>Murugappa</td>
<td>24.80</td>
<td>33.59</td>
<td>35.03</td>
</tr>
<tr>
<td>Kirloskar</td>
<td>9.50</td>
<td>8.62</td>
<td>7.45</td>
</tr>
</tbody>
</table>

Table 1: Comparative Performance of the Groups

All the five family businesses studied here have diversified into unrelated areas over the generations. On lines of evidences reported in Kim, Kandemir and Cavusgil (2004) the business groups studied here have diversified more in the second and the third generations, primarily because of the restrictions that existed in the Indian context for starting new ventures. Family businesses tend to go for unrelated diversification to cope with poor communication structure, regulatory constraints and inefficient judiciary (Khanna and Palepu 1997). Family businesses that have grown over three generations have benefited from government protection, particularly in the first and second generation (Kim, Kandemir and Cavusgil 2004). As noted by Khanna and Palepu (1997), as a group grows, they maintain a tight relationship with the government. Pre 1991 every medium and large enterprise had to get central government permission to set up a business; restrictions also came through public sector financial institutions which provided substantial debt capital. Most financial institutions used to maintain a list of industries to be funded based on capacities already existed. As a result, competition was artificially restricted, and groups had enough time to learn the tricks and build up any
While the Murugappa family had unrelated diversification into industries covering confectioneries, ceramics, agri-chemicals and bicycles, the portfolio of Godrej had soaps and oils, steel products and locks. It is interesting to note that the same kind of greenfield unrelated diversification is not noticed in their growth plans in these families in the past decade when the fourth generation has become active. While the Murugappa, Kirloskar and Dabur families have gone through a phase of consolidation in recent years, the Godrej and Wadia families have gone through acquisition of unrelated businesses. The five cases thus fall into two distinct categories. The families that went through consolidation have several family members actively involved in business whose view points may not always be converging. Consequently, the family naturally tends to go for a consensus approach. If that is not possible, they would either postpone a decision or allow low risk experimentation of new ideas. They repeatedly remind themselves of the need to preserve the wealth for the future generations, as is basically the Indian family tradition, disregarding religious affinity. In this process, they try to reduce risk in two ways. One, they encourage if not compel the new generation to join the existing business and help build further competitiveness in them. Two, in the process, they curtail possible tendencies of the youngsters to start something entirely new. They tend to minimize risk. All these three families that consolidated their businesses have had substantial re-engineering of their business processes.

Both Godrej and Wadia, though have gone for unrelated diversification, have been careful in choosing industries to enter. Godrej teamed up with highly successful firms like P&G and GE and also acquired successful firms like Transelaktra. The P&G alliance was to boost their presence in soaps and detergents and the GE alliance for supplementing their products range in consumer durables. Transelktra is takeover of a fairy tale entrepreneurial success in mosquito repeller business. Wadia took over Britannia Industries to have a ‘star’ product in its portfolio which was otherwise dependent on a single product, rapidly becoming a ‘cash cow’.

However, the difference between these two sets of family businesses is that post-1991, the Murugappa-Kirloskar-Dabur set has concentrated more on internal restructuring and reengineering than on scouting for acquiring businesses, that too in unrelated areas. This could be because of their attempt to grow within the ambit of a consensus approach to decision making in the family on business matters that affect all. The other set of Godrej and Wadia have also minimized their risk in their diversification process. This emerges from the trusteeship role they play in preserving their family wealth (Paisner, 1999).

Interestingly, the Murugappa and Dabur families have “professionalized” their business significantly, with a strong independent Board in place. In Murugappa, the chairman is an outsider while Dabur has an outsider as CEO. Both have formal Family Councils, and are in the process of refining their thoughts on a written family constitution. The Kirloskar family also has developed formal mechanisms for monthly meeting, besides informal consultation more often. The Godrej family lives together and constantly
consults each other, as in the small Wadia family of father and two sons involved in business.

All the five families have undergone some form of restructuring in the post-1991 period. Except for one instance each in the Dabur and Wadia families, they have been able to retain high quality management professionals. This is because at the top they find it easier to work with professionally qualified family members who have been groomed over a period of time. This creates a shareable common platform. Interestingly, the involvement of family members in these firms has not become interference, or at least not so felt by the professionals. One of the reasons for this is the process of induction they have for their younger generation, discussed later. Besides, there is a clear demarcation of roles at the top. Trouble triggers when this blurs. The two isolated instances mentioned above also provide for useful learning. The Dabur group bought the professionalisation idea literally and replaced the existing top team that included family members by a high profile team recruited from well known MNCs. There was huge uproar from family members as well as long standing employees against their approach to sweeping changes. This experiment was rolled back after a year, but the family inducted a non-family CEO and continued the reform process gradually. In Britannia Industries, controlled by the Wadias, the non-family CEO’s performance over the years was so good that he became the glamour boy of the media. This led to ego clashes and final exit of the CEO and major exodus of top level managers. There was lack of clarity on the finer points of role definition. Research has shown that the financial logic that drives family businesses is found to be different from non-family businesses. The driving forces for family businesses are related to growth, risk and ownership control (Gallo, Tapies and Cappuyns 2004). In essence, achieving full scale professionalisation is not always easy. There are challenges of defining roles at the very top, and any attempt to cross over territories of power could lead to trouble for the business. This is true whether the individuals are from the family or outside. Family business gets split over ego clashes. If one is an outsider, the option is very clear! Also, the process is very important. All revolutions have led to massive blood shed, and so it is better to avoid it and go for a systematic approach.

The success of inorganic growth of the Godrej Group after the acquisition of Transelektra Products and that of Wadia Group in the case of Britannia Industries owe a great deal to the retention of their individualities including key personnel and culture by the acquirers. Mickelson and Worley (2003) had identified these as some of the most important variables determining M&A success in family businesses.

The presence of a large team consisting of older generation with tempered (balanced) views and reduced risk taking propensity because of age, and adventurous younger generation leads to the creation of an interesting balance that facilitates family business to perpetuate over generations. In some sense this is a constant process of thesis, antithesis and synthesis of speed, ambition and emotion, leading to a constant refinement and the creation of a synergistic process of working in the business. Business moves ahead, but with the long term sustainability objectives in mind.
Yet another advantage of such an approach is the creation of a balanced portfolio of business. It is noticed in these case studies that family values and cultures, including the trusteeship role provide a strong building block for the future generations to perpetuate and grow the business. There are systems, processes, practices and rituals to instill them. Of course, there are conservative families such as the Murugappa, Kirloskar and Dabur and the relatively aggressive families such as the Godrej and Wadia, all trying to perpetuate their families and businesses.

The young generations in all these groups show clear indications of their wish to set up green field businesses in rapidly growing industries such as IT (Murugappa), financial services (Godrej and Kirloskar) and food processing (Dabur) at different points in time. They seem to be looking for greater degree of freedom to express themselves as entrepreneurs. This, in fact rejects the prevailing notion that family businesses do not survive beyond the third generation for want of entrepreneurial qualities. They think they get greater attention and recognition in their social circles by proving their potential independently. Most of them show entrepreneurial tendencies under the influence of the social environment they grow up. However, the strong controls and traditions in families such as Murugappa, Kirloskar and Dabur do not allow them to experiment too much and possibly risk the family wealth. They are permitted to start small, more at a pilot level to test the idea, if it is a green field project. Existing businesses give them opportunities to bring down changes, and get socially recognized in the process.

Families such as Dabur which have employed outside professionals in large percentages have created mechanisms to promote new ventures from within. It is high time that “the shirt sleeve to shirt sleeve” argument is re-visited. Some of the common features of all the youngsters across the five case studies are interesting. They are ambitious, think big, want to take their family business to the next higher orbit in terms of size and visibility, want to enter growth industries, want to look ‘modern’ and all within the shortest possible time. In other words, the young generation in a growing economy provides a booster dose to entrepreneurial quality that requires to take the family business into the next growth orbit. This process includes a reexamination of the competitiveness of the existing business.

Based on the above discussion, the following hypotheses are suggested.

**H1.** Family businesses with greater level of professionalisation practiced both in business and family are likely to perform and perpetuate better over a long period of time.

**H2.** Large business families are likely to approve new investments in diversified areas in small amounts to test the idea first before considering significant investments.

**H3.** ‘Shirt sleeve to shirt sleeve in three generations’ is a myth in growing economies.

**Professionals from family and outside**

Structured and systematic programmes exist in all the families studied for young generation to join business. In all these families, the young generation is to fulfill certain qualities and qualifications before they are allowed to join business. Invariably all of them start at the junior executive level. In most cases, they work outside for a brief while
before entering the family business. The Murugappa grooming process is unique as it
involves a structured grooming process for children completing studies. Each has two
mentors. One, the head of division that the person joins to work, and the other, an uncle
or elder cousin from the family who is actively involved in business. In all cases the
family members go through a process of appraisal in the organization like any other
employee except that their career path is fast and they set higher levels of responsibilities
sooner than outside professionals. As a result, there is shortage of new entrepreneurship
initiatives in such families (like Murugappa, Kirloskar, Godrej) since the families’
attention is more on maintenance and less on new creations. In the process, the younger
generation may not get many opportunities to cultivate fresh business ideas.

The relationship between non-family professionals and family members involved in
business is found to be smooth when the family members earn professional respect from
outsiders. In all the cases studied, there has been no conflict in relationship between the
families and non-family professionals in top management except in two instances
discussed earlier. In the two isolated instances, personal egos of the family head and the
non-family top management clashed.

Such drastic changes are not noticed in the case of the other groups. This could be
because the family level decision making processes involve more number of active
members and provide the tempering required in decisions and also the safety valves
where required. In the Britannia case, size of the Wadia family is small and its Chairman
is the sole representative from his generation in the business. In the Dabur case the
professional members were introduced in a hurry by the head of the family and business
without adequate consultation and involvement of the family members. In other words,
mutual respect between professionals and owners lead to better business performance,
and the process to achieve this involves moves from both sides. The greater the number
of minds on either side the greater is the likelihood of better decisions.

In family businesses where management delegation to outside professionals is very high,
leaving limited space for the new generation to enter, there is greater possibility for
entrepreneurship to flourish among young generation. In such contexts, families do not
have many options to accommodate them in the business. The Wadias are setting up a
low cost airline business where as the Dabur family has allowed one of their youngsters
to set up a food business company with a relatively very small amount. Interestingly, the
Dabur has carved their vision around health, food and medicine. The Wadias do not have
such a restricting vision. Hence, the following hypotheses are suggested.

As discussed in the agency theory, the performance of top management depends on its
relationship with its principals, the shareholders. In family business, compared to others,
most often the promoter family would be the largest shareholder. Families with the clear
vision would always have their mind shared with the professionals’ management about
their expectations. This is true whether the family members are involved in business or
not. This could be one reason why the performance of family run business is found to be
higher than non family business.
**H₄.** Entrepreneurship reflected in terms of starting green field ventures is likely to be low in families where family members get groomed into managerial roles in existing firms soon after their studies.

**H₅.** New ventures are likely to be encouraged in business families when existing businesses are managed by outside professionals, leaving limited openings at senior levels for the family members.

**H₆.** In family businesses where family members are competent managers, professionals find the environment very conducive to work, and draw synergies.

**H₇.** Higher the level of mutual respect between family members and outside professionals, greater is likely to be the performance.
References


- Karanjia, B.K. (1997) godrej – a hundred years, 2 volumes, New Delhi, Viking.


• Sharma, P. and Manikutty, S. Strategic Divestments in Family Firms – role of family structure and community culture. Entrepreneurship They Practice 29(3): 293-312.


