Analyzing The Conditions Of Family Business Enterprises

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Abstact: This study aims at identifying the secrets of the success of those family businesses which are successful and also the reasons for the failure of a few of the family firms. It also aims at identifying and figuring out the future prospects for the family business houses in the changing international scenario. The study has used a "Empirical Research design" of a conclusive nature. In order to establish the probability simple random sampling, a lottery method of lucky draw was used. Thus, 150 samples were collected from each district on random basis. The representative sample respondents were contacted by the field investigator under the supervision of the agent as well as the researcher. For the purpose of the study, a sample size of 450 was decided on. Major finding of this study focussing on, 348 enterprises forming 77.3% of the total enterprises were small ones, 57 enterprises forming 12.7% of the total enterprises were micro enterprises, and 45 enterprises forming 10% of the total enterprises were medium enterprises. Nearly three fourths of the enterprises chosen for the study were small enterprises. Major suggestion of this study are, Family tours and get together can be arranged once in six months where various family games can be conducted and This will enhance the unity of the family and that in turn will help the growth of the family business.

Keywords: Family Owned Business, Succession planning, Empowerment

1. INTRODUCTION TO FAMILY OWNED BUSINESS

Indian family business dates back to the latter half of the 19th century, which also marks the beginning of business in India. It is not surprising then that family-run businesses currently account for a whopping 95 per cent of all Indian companies. Considering that one-third of the companies listed in Fortune 500 fall under this category, including the currently second Wal-Mart, family businesses have indubitably cemented their place in the world economy. Indian economy, currently in a state of rapid development, is burgeoning with innumerable small and medium-sized family-run enterprises. Family businesses in India initially started in the 1890s as a means to promote import substitution and attain economic freedom from the British. These enterprises were an integral part of India's freedom struggle, and as part of the Swadeshi movement, latter got special treatment and subsidies from the government. In the post independence era, the businesses consolidated their positions as near monopolies under the protective environment of the licence raj and their inefficiencies did not get exposed to the indefatigable market realities. Some of the prominent business families during the 1960s were the Modis, the Thapars, the Shrirams, the Singhanias, the Birlas, the Wadias and the Godrej. Most of the business families face unique management challenges because of the differences in the attitudes & aspirations of family members. As new generations join the family business, it is an enormous challenge to keep the family and business together. Some sacrifice the business to keep the families together, while others sacrifice the family to keep the business. It has been observed that

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2. STATEMENT OF THE PROBLEM

As always we have two sides; many of the family businesses have proved successful whereas a few of them have failed too. This study aims at identifying the secrets of the success of those family businesses which are successful and also the reasons for the failure of a few of the family firms. It also aims at identifying and figuring out the future prospects for the family business houses in the changing international scenario.

3. OBJECTIVES OF THE STUDY

- To identify the root causes of the failures and the sources of the problems of family-owned businesses.
- To study the implications of the methods used for sharing the profit among the family members.
- To offer valuable suggestion to solve the problem

4. RESEARCH METHODOLOGY

The research methodology of the study is as follows:
Research Design: The study has used a "Empirical Research design" of a conclusive nature.
Sampling Design: In order to establish the probability simple random sampling, a lottery method of lucky draw was used. Thus, 150 samples were collected from each district on random basis. The representative sample respondents were contacted by the field investigator under the supervision of the agent as well as the researcher.
Sample size: For the purpose of the study, a sample size of 450 was decided on.

5. REVIEW OF LITERATURE

Aldrich et al., 2003, state, "'very little attention has been paid to how family dynamics affect entrepreneurial processes". Firstly, most family firms are SMEs. Secondly, founders of family firms are obviously entrepreneurs, having perceived an opportunity through the creation of a new firm (p.574)[1].

It seems surprising that there is need to signal the theoretical link between entrepreneurship and family business research, since there are various relationships between these two areas. The entrepreneurial impetus becomes diluted over time, and entrepreneurial practices become subsumed by other concerns (Fletcher, 2005)[2]. Here, corporate entrepreneurship, e.g. through the hiring of external managers who assist or even replace family managers, sets in, though, the extent of entrepreneurial behavior within the organization tends to change over time (Kellermanns et al., 2006)[3]. The founders often become more conservative and risk-averse decision-makers because they fear losing family wealth (Sharma et al., 1997)[4].

6. SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

(1) 311 respondents forming 69.1% of the respondents were partnership firms, 73 forming 16.2% of the respondents were sole proprietorship firms, and 66 forming 14.7% were Limited companies.

(2) All the firms have more than 15 years of life, so all the organizations are classic old organizations.

(3) 169 respondents forming 37.6% belonged to the third generation, 163 forming 36.2% belonged to the second generation, the rest of the 118 respondents forming 26.2% belonged to beyond the third generation.

(4) The mean age of the principal functionary was 60.93 years, the median age of the principal functionary was 60 years, and the mode age of the principal functionary was 55 years. The minimum age of the principal functionary was 38 years, and the maximum age of the principal functionary was 86 years with a range of 48 years. The standard deviation of the age was 11.23 years.

(5) The mean experience of the principal functionary was 39.75 years, the median experience of the principal functionary was 37 years, and the mode experience of the principal functionary was 35 years. The minimum experience of the principal functionary was 8 years, and the maximum experience of the principal functionary was 62 years with a range of 54 years. The standard deviation of the experience was 12.77 years.

(6) 218 respondents forming 48.4% of the respondents were involved in both trading and manufacturing operations, 103 respondents forming 22.9% of the respondents were involved manufacturing operations, 88 respondents forming 19.6% of the respondents were involved in trading operations, and the rest of the 41 respondents forming 9.1% of the respondents were involved in service operations. Nearly half the respondents were carrying out both trading and manufacturing operations.

(7) 348 enterprises forming 77.3% of the total enterprises were small ones, 57 enterprises forming 12.7% of the total enterprises were micro enterprises, and 45 enterprises forming 10% of the total enterprises were medium enterprises. Nearly three fourths of the enterprises chosen for the study were small enterprises.

(8) 329 enterprises forming 73.1% of the total enterprises had a return on investment of 0 % - 15 %, 105 enterprises forming 23.3% of the total enterprises had 16 %- 30 %, and 16 enterprises forming 3.6% of the total enterprises had 31 % - 45 %. Most of the enterprises had a return on investment of 0 % - 15 %.

(9) 193 enterprises forming 42.9% of the study enterprises had a sales turnover of less than Rs.5 crores p.a., 106 enterprises forming 23.6% of the study enterprises between Rs11crores and Rs.20crores, 85 enterprises forming 18.9% of the study enterprises between Rs.5 crores and Rs.10 crores, and 66 enterprises forming 14.7% of the study enterprises had a sales turnover of more than Rs.20 crores. 60 % of the enterprises had a sales turnover up to Rs.10 crores p.a..
In total 396 respondents forming 88% of the study enterprises felt that there was an increase in sales over the past 4 years.

(10) 188 enterprises forming 47.5% of the enterprises stated that their sales turnover had increased to the extent of 21% - 50%, 93 enterprises forming 23.5% stated that their sales turnover had increased to the extent of 1% - 20%, 58 enterprises forming 14.7% stated that their sales turnover had increased to the extent of 101% - 200%, 38 forming 9.6% so found it had increased to the extent of 51% - 100%, and 19 enterprises forming 4.8% stated that their sales turnover had increased more than 200%.

(11) 149 enterprises representing 33.1% stated that the sons maintain close contact with the customers, 100 enterprises representing 22.2% stated that both fathers and sons maintain close contact with the customers, 88 enterprises representing 19.6% stated that grandsons maintain close contact with the customers, 62 enterprises representing 13.8% stated that fathers maintain close contact with the customers, and 51 enterprises representing 11.3% stated that both sons and grandsons maintain close contact with the customers.

7. SUGGESTIONS

- For an instance, if in a family business, one of the brothers who have an equal share in the business is a doctor by profession, he should be communicated of all the business details. This would develop the trustworthiness among the family members which in turn will enhance the business.
- Even though women in the family are only passive members, they should have a complete knowledge about the business.
- The younger generation of the family should know the family business' history. It is the responsibility of the elders to discuss their initial days of struggle and their road to success rather than their family politics.

- They can also conduct regular meetings, once in three months and discuss about the family business and its growth.

- Family tours and get together can be arranged once in six months where various family games can be conducted.
- This will enhance the unity of the family and that in turn will help the growth of the family business.

8. CONCLUSION

Family owned businesses in the study area have a strong traditional base that is culturally formed. They have their own family values and have earned goodwill in the society. According to our study, 72.42% of the family businesses in the study area progress prospectively. richyThe remaining 27.58% of family businesses do not progress prospectively. They lack proper succession planning, performance appraisal system, women participation in the business and professionalization of business. These families should be made aware of the above factors and implement them to show a progressive growth in their businesses. To create this awareness among them, a B (Business) School may be started in our study area.

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