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What are the hindrances to the growth of Indian family businesses?

By Dalhia Mani| Jun 17, 2022

Family businesses play a crucial part in the economic growth of a country when they move with the times. Many Indian family businesses are still stuck with the traditional ways of functioning. Here's what they need to do to break archaic chains and flourish

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Family businesses are associated with narrow-mindedness rather than innovation. At the same time, prominent family businesses in India are investing in cutting-edge technology and industries like electric vehicles and renewable energy Image: Shutterstock

Family businesses in India represent 70 percent of publicly traded companies and 85 percent of private firms. Worldwide, family businesses are responsible for 79 percent of employment and hence are crucial for a country’s economic health and growth. Interestingly, family businesses in some countries are more innovative and have higher performance compared to professionally run businesses. This is because family businesses have unique strengths (if they can leverage these)—family businesses where the owners are also managers can make quick and agile decisions without layers of bureaucracy and hierarchy. In addition, they are uniquely positioned to resist short-term profitability pressures and invest in long-term innovation.

And yet, in India, family businesses are considered ‘Lala companies’, associated with nepotism and crony capitalism. They are perceived as having an archaic and traditional mindset. And most people think family businesses are behind the times, both technologically and socially (for example, treating their daughters differently from sons and engaging in shady practices to avoid taxes). Hence, family businesses are associated with narrow-mindedness rather than innovation. At the same time, prominent family businesses in India, like the Tatas, are investing in cutting-edge technology and industries like electric vehicles and renewable energy. Progressive family businesses, like the Tatas and JSW, have organisation-wide policies to empower non-family professionals, inviting new business ideas from all levels of the organisation. They encourage and reward employees for identifying and building new business lines. In addition, Indian business foundations like Wipro and Infosys Foundation go far beyond the taxation requirements and have been at the forefront of giving back to society and solving big, hairy intractable social issues such as basic education, digitisation, environmental degradation, and healthcare. And yet, despite these many examples, Indian family businesses are largely perceived as archaic and students from top Indian schools prefer joining a multinational. How does one explain this conundrum?

IIM-Bangalore has been running the MPEFB (a certificate program for family business owners) for the past 12 years. One insight that jumps out at us time and again is that Indian family businesses differ greatly. Some families are at the cutting edge, continuously seeking and adopting the latest management and technological practices. Interestingly, these same families also keep up with the times socially, treating heirs of both genders equally and ensuring that outside professionals are valued and empowered. Even more interesting, these progressive families follow good governance practices, maintain clean books, and pay taxes in line with their revenues. These families scale faster because they attract big investors, corporate clients, and foreign partners, all of which conduct due diligence and require good corporate governance practices. What we see is that families that are open and progressive when it comes to innovation in technology and management practices are also open and progressive when it comes to internal family dynamics and external stakeholder management. These families stay together because open, transparent, non-hierarchical communication is the key to peace within the family. Without peace within the family, it becomes difficult to institute a new technological or management practice in the firm. Hence the two are linked. The same families that treat family members in a fair, open, and non-hierarchical manner, also keep clean books and attract and retain the best professionals, investors, large corporate clients, and foreign partners. These family businesses survive, innovate, and grow.

In contrast, families that follow an authoritarian, traditional culture, are also the most defensive and fearful in allowing outside perspectives and knowledge. They run a higher risk of conflict within the family, especially with the younger generation. They are secretive and do not plan properly for a smooth succession. They have complex and archaic governance practices and find it hard to scale and survive in a rapidly changing economy. The good news is that committed family business owners can learn new ways of being and communicating. They can learn the best ways to hire and retain mentors and outside directors, transform governance, update their skills, and grow into an open, innovative, and transparent organisation, hence strengthening both family relations and the family business.

The author is an Associate Professor at IIMB and coordinates the MPEFB (Management Program for Entrepreneurs and Family Businesses) program, which is open for applications and scheduled to begin on July 25th 2022.