Family Business in India: Performance, Challenges and Improvement Measures

Himani Chahal¹ and Anil K. Sharma¹

Abstract
Existing literature on family businesses brings out their significance globally. The prevalence of family businesses is a phenomenon that is universal and found in most countries worldwide, although their relative impact on economies does vary. This article reviews papers in the accounting and finance literature on family businesses around the world and shows that the involvement of family members in the business may have a positive, negative or no impact on its financial performance. In the Indian context, the literature review indicates that India’s rich and ancient history seems to be interrelated with the family-run businesses as the principal means of business organization. The paper gives a glimpse of the status of family businesses in India since independence and the distinct characteristics of Indian family businesses.

In the next section, we try to find out how family firms are performing in India in comparison to non-family firms by studying companies listed in the National Stock Exchange of India Ltd. (NSE) 500 Index for a period of 5 years ranging from 2014 to 2018. The results show that family businesses are not performing significantly better than non-family firms in the Indian business scenario. We try to highlight the reasons for the same by underlining the issues faced by family businesses and suggest measures to overcome these issues. The study concludes with a discussion on the lessons that new family business ventures can take from family business groups in India that have made a mark in the Indian and the world business scenario because of their ability to face and successfully overcome challenges faced by family firms.

Keywords
Ownership, management, Indian family firms, performance, challenges, improvement measures

¹Department of Management Studies, Indian Institute of Technology, Roorkee, Uttarakhand, India.

Corresponding author:
Himani Chahal, Department of Management Studies, Indian Institute of Technology, Roorkee, Uttarakhand 247667, India.
E-mail: hchahal@bm.iitr.ac.in
Introduction

Family controlled businesses are the firms that are under the ownership and, in most cases, management as well of a single founder–owner or family, that is, close relations. Family businesses form a major and crucial segment of many nations around the world (Miller & Le Breton-Miller, 2005). Between 65 and 80 per cent of the businesses in the world are estimated to be family firms (Flören, 1998). Extant literature on family businesses demonstrates that this model of organizational structure and ownership is quite popular across the world, including North America, Europe and Asia. Globally, family businesses make an important contribution to the GDP of economies, stock market capitalization and employment. Depending on the country of origin, family businesses may account for 20–70 per cent of the biggest companies globally (La Porta et al., 1999).

India has a rich business history and the traditional form of firm ownership in India has been based on families. A significant number of businesses are still being controlled and managed by families. Even though family firms in India are significant contributors to the country’s growth, they have faced serious competition since the liberalization of the Indian economy in 1991, from the global giants. Thus, the Indian family businesses faced a new environment and the family businesses that were proactive and flexible in their approach were able to survive and flourish in the new business environment in India, whereas others were not able to withstand the pressure of the newly created freedom and failed to become leaders in their field. It has been observed that research on Indian family businesses, particularly on their financial performance, does not appear to be entirely commensurate with the prevalence of family business in India and their importance and impact on the Indian economy and business scenario.

In this reference, it is suitable to learn how family firms in India have been performing after liberalization and also compare their performance with non-family peers. We study the companies included in the NSE 500 Index for the period 2014–2018 and try to find out the financial performance of family firms in comparison to their counterparts. In the next section, we mention the possible reasons for this performance and the ways to overcome the issues faced by family firms. Lastly, we discuss some examples from Indian family businesses that incorporated the required changes in their business patterns and rose to new heights.

Literature Review

A report by The World Federation of Exchanges on family firms states that family firms dominate the business landscape across both developed and developing economies. They account for over 50 per cent of GDP and employment in many markets and range from micro-enterprises to some of the biggest listed companies in the entire world. As a significant organizational mode, family businesses cover over two-thirds of businesses in East Asian nations (Claessens et al., 2000), around 44 per cent of the big businesses in Western Europe (Faccio & Lang, 2002)
and one-third of the Standard & Poor 500 index companies in the United States (Anderson & Reeb, 2003).

Family businesses form a considerable and crucial segment of the US economy as they contribute to 62 per cent of total labour, devote 64 per cent of the GDP and produce 78 per cent of new job creation (Astrachan & Shanker, 2003). As such, some studies have estimated that around 80–90 per cent of the US firms are family controlled (Morris et al., 1997). Different studies suggest that throughout Europe depending on the country, family businesses represent anywhere from 55–90 per cent of businesses. According to the European Family Businesses (2018) study, family businesses are the essence of the European economy, with more than 14 million businesses employing over 60 million people in the private sector and EU family businesses represent a turnover of more than one trillion Euros, over 9 per cent of the European GDP.

Family businesses are quite prominent in Asia also, particularly amongst the larger firms and a lot of them have progressed into conglomerates consisting of several independent firms (Dieleman et al., 2013). Family businesses in China represent over 90 per cent of the total non-public owned enterprises and these firms contribute about 60 per cent to the GDP (Lv, 2007). Seven out of the ten oldest companies in the world are from Japan and it has the highest concentration of old family businesses by any measure such as GDP, population and landmass (Schwartz & Bergfeld, 2017). Deloitte research (2013) reports that family firms constitute 85 per cent of total companies in India and also contribute an ample share of employment and domestic output. A Business Today article as quoted in this Deloitte research report states that family businesses contribute to 18 per cent of India Inc’s assets, 25 per cent of sales, 37 per cent of reserves and 32 per cent of profits after tax.

**Family Involvement in Business and its Financial Performance**

The literature on family businesses consists of several studies in different countries that evaluate the relationship between the involvement of a family in business and the firm’s financial performance (Anderson & Reeb, 2003; Chrisman et al., 2004; Garcia-Castro & Aguilera, 2014; O’Boyle Jr. et al., 2012). The results of earlier studies on this association have been mixed, with researchers finding neutral, positive and negative relationships (Dyer, 2006; Lubatkin et al., 2003; Mazzi, 2011; Rutherford et al., 2008). Studies advocating the positive association show that family firms, in general, perform better than non-family firms because of the reduction in the agency costs (Jayaraman et al., 2000) and willingness of family firms to commit to long investment time horizons as they think of the next generation rather than the next quarter (Anderson & Reeb, 2003; James, 1999). Supporters of the negative link between family involvement in business and financial performance postulate that non-family firms perform better than family firms because family firms are exposed to managerial entrenchment, managed unprofessionally and practice nepotism (Morck & Yeung, 2003; Schulze et al., 2003). Studies have reported the family involvement in business majorly through ownership and management.
Impact of Family Ownership and Control on Firm Performance

The question that whether family businesses are better performers has given rise to varying viewpoints and is an important topic of discussion and research. Given that, the basic proposition of the studies on family firms is that shareholding patterns, in particular promoter holdings, do influence financial performance and the studies have shown both the positive and negative impact on performance. A positive and significant relationship of the family ownership and control with the firm performance has been commonly reported in numerous studies on listed companies (Anderson & Reeb, 2003; Andres, 2008; Bertrand et al., 2008; Sraer & Thesmar, 2007; Singh & Gaur, 2009). However, because of the diverse definitions used for family firms in different analyses, these findings could be somewhat biased.

Lee (2004) in his study on US family firms stated that family ownership promotes a high return on investment by enhancing cost efficiency. Maury (2006) in his sample of firms from 13 Western European countries, reported that family ownership and control is associated with higher profitability. Barontini and Caprio (2006) in their study on a sample of firms from 11 Continental European Countries, concluded that family control has quite a positive impact on European corporations. Allouche et al. (2008) in their study on Japanese family firms reported that family ownership and control strongly influence performance in terms of profitability. Achmad et al. (2008) in their study on Indonesian firms stated that ownership type has a direct impact on their economic performance and family firms have lower profits as compared to firms with a diversified ownership structure. Cheng (2014) in his study on Chinese family firms stated that they have a high level of ownership concentration and have better performance in comparison to non-family firms, higher growth potential and are smaller. Badrul Muttakin et al. (2014) in their study on a sample of Bangladeshi family firms concluded that family ownership has a positive influence on firm performance. Thus, it has been observed that results are mixed varying from country to country.

Impact of Family Involvement in Management on Firm Performance

The role of family members in the management and their impact on the firm’s performance shows intricate and mixed results. Some studies show that listed firms managed by family members as CEOs have a positive relationship with a firm’s financial performance (Anderson & Reeb, 2003; McConaughy et al., 1998). Villalonga and Amit (2006) confirm that in a family firm when the founder functions as the CEO or as the Chairman with a non-family CEO, then the family firm’s value is bound to increase with the presence of family management. On the other hand, if descendants serve as Chairman or CEO, then it diminishes the firm’s value. Cucculelli and Micucci (2008) in a sample of Italian firms concluded that there is a negative impact on a firm’s performance due to maintaining management within the family and that the firm’s performance with founder-CEO is better than after succession by the founder’s heirs. Poutziouris et al. (2015) in a study on UK companies conclude that the presence of family persons in management appreciates the family firms’ performance across the generations. The role of outsiders, that is, the function of a hired professional CEO is again disputed, as it showed either an insignificant (Andres, 2008; Barontini & Caprio, 2006) or a
positive (Anderson & Reeb, 2003) association with the market performance. Subekti and Sumargo (2015) in a sample of Indonesian firms stated that family management negatively impacts a firm’s performance as a lot of family firms are managed by family members who are opportunistic and inefficient. Gill and Kaur (2015) in their sample of Indian family firms documented that family involvement in management is associated with higher financial performance. On the other hand, Bhatt and Bhattacharya (2017) on his sample of India firms stated that family management is irrelevant to the firm value and performance. Thus, different studies are giving a mix of results.

Comparison of the Performance of Family Firms and Non-Family Firms

Family businesses have been a discipline of academic research for a significant period in various countries. Some of these studies focus on the concerns and disadvantages that family businesses face when compared to businesses where control and equity are held in a more diversified pattern (Claessens et al., 2002; Morck & Yeung, 2003). Also, several studies that focus on family firms perform better when compared to non-family firms (Chakrabarty, 2009; McConaughy et al., 2001). Their lower agency costs, long-term commitment to the business, farsighted investment, shared family aspirations and values and better social relationships and corporate culture make them more prompt than non-family firms (Ceja et al., 2010; Davis et al., 2000; Weber et al., 2003).

Finally, some studies put forth no significant distinction between the family and non-family firms (Chrisman et al., 2004). Pieces of evidence from the United States, Germany, France, United Kingdom, China and Japan confirm that family firms are better on both accounting and market performance measures (Anderson & Reeb, 2003; Andres, 2008; Cheng, 2014; Ansari et al., 2014; Maury, 2006; Mehrotra et al., 2013). In the Indian context, there is less empirical and more descriptive research on the comparison of the family and non-family firms’ performance.

Family-Owned Businesses in India

Literature review shows that studies on family-run businesses’ performance appear to be quite scarce in India. This is rather startling given the extensiveness of such businesses in India. The Deloitte Research Report (2013) states that family firms constitute 85 per cent of total companies in India and also contribute an ample share of employment and domestic output. There have been few studies of the Indian family businesses and business families (Dwivedi & Jain, 2005; Parikh, 2001; Ramachandran, 2006; Rastogi & Agrawal, 2010; Sharma & Rao, 2000). Furthermore, there are limited studies on Indian family firms and their performance (Chittoor & Das, 2007; Gill & Kaur, 2015). Ramachandran (2006) highlights that in India study of family-owned businesses remains a black box and substantially not much is known either about the factors leading to successful continuity of
family firms in India or their survival rate. It has been observed that most studies on Indian family-controlled firms tended to focus on non-financial parameters and characteristics, with relatively lesser attention to financial data.

Indian history has been presided over by family business groups since Independence in 1947. In the formal sector, Indian families possessed the majority of the Indian manufacturing at the time of Independence and these families had nurtured their companies—for example, Birla, Tata, Thapar, Sahu Jain and Shingania Families (Ray, 1979). After independence, the Indian government took a socialist stand on investment, and the Industrial Policy Resolutions of 1948 and 1956 reserved a lot of industries for the state sector (Manikutty, 2000).

The extent of activities for the private sector was restricted by the government by imposing high import quotas, high duties and licenses, making imports highly expensive (Jalan, 1996). In 1969, monopoly legislation further interrupted extension of capacities, and also restraints were introduced on foreign investments (Dandekar, 1992). Further, in the 1970s, private-owned enterprises majority of which were family controlled at that time, were put through retrogressive policies to restrain expansion of private wealth (Bhattacharyya, 2007).

Manikutty (2000) points that the period between 1970 and 1990 rendered the Indian enterprises inefficient and unfit for global standards. In 1991, the opening of the Indian economy and reduction of government control, license, quotas, duties and restrictions on FDI to a very low level, lead to an escalation in the level of foreign investments, imports and, competition for Indian firms. Thus, the Indian family businesses faced a new environment and the family businesses that were proactive and flexible in their approach were able to survive and flourish in the new business environment in India whereas others were not able to withstand the pressure of the newly created freedom and failed.

Distinct Characteristics

As per Piramal (1996) and Bhattacharyya (2007), family-owned businesses in India have the following features which distinguish them from other family businesses worldwide:

1. Family relationships play very high importance in determining the position a person holds in the business.
2. The predominance of few castes which are the connotation for family-owned businesses in India (Aggarwals, Guptas, Chettiars, Jains, Parsees and Marwaris).
3. All members in the business follow a presiding culture pursued by the caste to which they belong.
4. Family, relatives and extended family have a strong feeling of trust and sincerity to the family that naturally construe as trust and sincerity to the business.
5. Higher positions are more likely to be held by sons and male relatives and in succession, as compared to the female relatives.

The Challenges Faced by Family Businesses in India

1. Chauhan (2017) states ‘concerns about Indian family businesses include a culture of controlling business by intuition rather than facts and
professionalization, the lack of separation between ownership and management and the resulting consequence on governance, structure, and organization’.

2. Bhattacharyya (2007) lists some challenges faced by Indian family firms including non-participative family members, family emotions, family orientation overriding business orientation, difficulty in defining authority levels of young family members, fair-to-all approach, inability to retain non-family professionals and lack of succession planning.

3. Chakrabarty (2009) underline a problem with the Indian family firms in the context of division of value and assets from the company to the owner by forming significant pyramid structures and carrying out tunnelling activity that transfers cash flow and value from minority to controlling shareholders.

4. Pawar (2009) highlights family conflicts that lead to a high rate of failure as a major issue amongst Indian family firms. He states that India has a very small survival rate of 13 per cent to the third generation and beyond it, the survival rate is just 4 per cent.

5. Ramachandran and Bhatnagar (2012) state that Indian family firms face five major challenges namely, leadership, succession planning, managing family relations, family wealth management and professionalization.

Rationale and Scope of the Study

Currently, family businesses are fairly prevalent in India and play a prominent role in the country’s business scenario. These Indian family businesses are not only sole proprietorships and small to medium-sized firms; instead, they include a large number of publicly listed companies as well. Given their prevalence in the county, their importance to the economy, their bearing on key management theories, as well as the lack of prior empirical research in this area, this particular study on the comparative performance of Indian family businesses has the potential to not only make a significant contribution towards understanding this phenomenon, but also point out the way to conduct more detailed research on Indian family businesses. This study is based on companies listed in NSE 500 Index for the period 2014–2018.

Objectives of the Study

It has been observed that research on Indian family businesses, particularly on their financial performance, does not appear to be entirely commensurate with the prevalence of family business in India and their importance and impact on the Indian economy and business scenario. The objectives of this paper are: (a) to study how family firms are performing in India in comparison to their non-family counterparts; (b) to discuss the possible reasons for this performance and the ways
to overcome the issues faced by family firms and (c) lastly, we discuss the learnings that new business ventures can take from Indian family businesses that incorporated the required changes in their business patterns and rose to new heights.

Data and Research Methodology

Defining a Family Business for the Study

The literature on family business consists of numerous definitions of what comprises a family business. Broadly, a family business is defined to be one that is owned, controlled and sometimes managed by one or more family members. In the context of academic literature and research, family businesses definitions with empirical focus specifying practical norms to measure family business characteristics, particularly those with impact on the relationship between ownership and family performance are introduced by authors like Anderson and Reeb (2003), La Porta et al. (1999), Villalonga and Amit (2006), etc.

A lot of articles on family businesses in the US and other western countries, in general, define family firms as a public corporation where family members own the firm and its CEOs are either the founder or his family members (Andres, 2008; Chrisman et al., 2004; Lee, 2004; McConaughy et al., 2001; Westhead & Howorth, 2006). In Asian studies, family firms are commonly defined to be the ones where the founding family is the biggest shareholder or the companies that are part of a family business group (Claessens et al., 2000; Faccio et al., 2001). It is clear that the literature on family business is quite broad and comprehensive and it is hard to find unanimity on the precise definition of a family firm.

For this study, we have taken the definition of a family firm as used by Anderson and Reeb (2003) and Gill and Kaur (2015) in their study on Indian family firms. We identify a family firm to be the one where at least 10 per cent of the outstanding shares of the company are held by the founder and their descendent family members either directly or indirectly, through another family firm or fund which the family controls or owns and; the CEO or the Chairman of the company is a founder or his descendant.

Sampling

For this study, the sample includes companies comprising of the NSE 500 Index as of 31 March 2018 for a period of 5 years from 2014 to 2018. Firstly, we have excluded all the financial and banking companies for our sample as they are administered by the Banking Regulation Act, 1919, and the RBI Act, 1934. Also, it is difficult to calculate Tobin’s q (TQ) for such companies. Secondly, public sector firms are excluded as several social obligations influence their performance. Thirdly, the companies that had missing data for the period of study were excluded. Finally, we have a sample size of 302 companies, accounting for 1,510 firm-year
observations. The total list of 302 companies grouped by the two-digit National Industrial Classification (NIC) code is presented in the Appendix. Family firms constitute 63 per cent of the NIC codes in our sample, implying that they operate in a wide spectrum of industries.

The data for companies was drawn from a corporate database (Prowess), the companies’ annual reports, the reports filed by the companies with the NSE, individual company websites and other such sources.

**Variables**

Prior literature on family businesses identifies two different measures of financial performance, that is, market-based measures and accounting-based measures of performances. Therefore, the current study recognizes both TQ and Return on Assets (ROA) as the essential financial performance measures. Anderson and Reeb (2003) state that the full measure of profit on the company’s total assets is given by both earnings before interest tax and depreciation (EBITDA) and net income (NI). Accordingly, EBITDA scaled by total assets is calculated to indicate the operating performance of the firms and NI divided by total assets represents the efficiency of the management in generating returns by using its assets. Market performance is measured by TQ which is calculated as the market value of the firm scaled by total assets. These measures have been largely applied in similar studies, for example, by Anderson and Reeb (2003), Gill and Kaur (2015), Khanna and Palepu (2000), McConaughy et al. (1998), etc.

Several control variables were introduced in the study to control for various firm and industry characteristics. We derive the control variables used in our study through prior literature review (Anderson & Reeb, 2003; Gill & Kaur, 2015; Mazzi, 2011) and are as follows:

- **Age**—the number of years since the firms’ incorporation;
- **Size**—book value of total assets;
- **Leverage**—calculated as long-term debt divided by total assets;
- **Growth opportunities**—measured as research and development expenses divided by total sales;
- **Asset tangibility**—computed as the ratio of (net) tangible assets to total assets;
- **Risk (Beta)**—a measure of stock’s volatility relative to the market;
- **Board size**—total number of directors on board;
- **Board Independence (BoardIn)**—the percentage of independent outside directors on board.

The univariate analysis is done to give descriptive information for the whole sample of companies. It gives information for all the key variables by providing mean, standard deviation, minimum and maximum values. To test the performance of family firms over non-family firms, we applied the difference of means tests between the performance indicators and other variables of the two groups.

**Data Analysis and Findings**

Table 1 demonstrates three panels with detailed results for our sample firms. Panel A gives the maximum, minimum, means, medians and standard deviations for the
Table 1. Descriptive Data for Family and Non-Family Companies

Panel A: Summary Statistics for the Full Sample

| Variable                        | Mean     | Median   | Std. Dev. | Minimum  | Maximum  |
|---------------------------------|----------|----------|-----------|----------|----------|
| ROA (EBITDA) (%)                | 16.258   | 14.573   | 10.844    | –57.676  | 132.645  |
| ROA (NI) (%)                    | 7.846    | 6.569    | 8.519     | –75.178  | 95.582   |
| Tobin’s Q                       | 3.918    | 2.976    | 3.588     | 1.024    | 70.617   |
| Size (in Rs. Million)           | 115,677.2| 346,233.3| 346,476.2 | 1673     | 618,3670 |
| Age (in Years)                  | 40.562   | 32       | 24.331    | 4        | 155      |
| Leverage (%)                    | 15.171   | 10.640   | 13.705    | 0        | 65.646   |
| Asset tangibility (%)           | 23.412   | 21.253   | 16.433    | 0.017    | 77.699   |
| BETA                            | 1.047    | 0.98     | 0.451     | 0.14     | 2.64     |
| Growth (%)                      | 1.426    | 0.054    | 12.665    | 0        | 19.752   |
| Board size (no.)                | 10.602   | 10       | 2.895     | 4        | 25       |
| Board independence (%)          | 51.204   | 50       | 10.305    | 17.647   | 84.615   |

Panel B: Difference of Means Test

| Variable                        | Family Firms | Non-Family Firms | t-statistics |
|---------------------------------|--------------|------------------|--------------|
| ROA (EBITDA) (%)                | 16.15        | 16.44            | 0.491        |
| ROA (NI) (%)                    | 7.91         | 7.74             | 0.359        |
| Tobin’s Q                       | 3.79         | 4.14             | 1.909        |
| Age                             | 38.64        | 43.82            | 4.078        |
| Size (Rs. Million)              | 107,187.79   | 130,078.9        | 1.038        |
| Leverage                        | 15.33        | 14.91            | 0.558        |
| Growth                          | 2.02         | 0.41             | 3.108        |
| Risk                            | 1.075        | 0.997            | 3.255        |
| Asset tangibility               | 23.90        | 22.58            | 1.488        |
| Board size                      | 10.47        | 10.83            | 2.268        |
| Board independence              | 53.07        | 47.988           | 8.851        |
| No. of Firms                    | 190          | 112              |             |

Source: Authors’ calculation.

key variables. The univariate test on the whole sample indicates that in terms of performance, the mean ROA based on EBITDA (NI) of an average company in the sample is 16.26 per cent (7.85 per cent). The market measure as given by TQ shows a mean value of 3.92. The sample companies had an average age of 40.5 years, indicating that they are quite well established. The size of companies ranged from as low as Rs. 1,673 million to as high as Rs. 61,83,670 million. In the sample, an average company had the mean leverage of 15.17 per cent and it varied from some companies having zero leverage to as high as almost 66 per cent. On average, companies had R&D expenses to sales ratio of 1.43 per cent with some companies not spending anything on such expenses whereas others spending huge amounts through borrowings or other measures. The companies had a tangibility of 23 per cent on average. The beta of an average company is 1.04 suggesting them to be a little more volatile than the market. The board characteristics data shows that the companies on average have a board size of nearly 10 members with 51 per cent of the total number of directors being the independent directors.
Panel B shows the difference of means tests for variables between family and non-family firms. For performance indicators, non-family firms showed better performance than family firms while considering the market measure of performance, that is, TQ. On the other hand, there was no significant difference in the valuation of family and non-family firms when we consider accounting measures of performance, that is, ROA based on EBITDA and NI. The possible reasons for this are discussed in the section below. When we talk about age, family firms are relatively younger than non-family firms with higher leverage, risk, growth opportunities and asset tangibility. Board size is almost similar for family and non-family firms, but family firms have more number of independent directors on the board than their counterparts.

**Reasons for Family Firms Lagging and Ways to Cope up**

The above section shows that despite the prevalence and significance of family firms in the Indian economy, they do not seem to be performing better than their non-family counterparts. This could be due to a variety of reasons. The advantageous position of a family in the business can have certain repercussions for the business. For instance, family businesses can suffer when there are several hostile family stockholders whose votes enable them to cancel one another’s initiatives (Claessens et al., 2002). With the passing of generations, the potential for conflict amongst the controlling family increase because of the increase in the number of relatives (Schulze et al., 2003). Family conflicts can lead to a high rate of failure amongst family businesses and are the reason why a lot of family businesses are not able to continue their operations beyond two–three generations. In some family businesses, the controlling family enjoys a disproportionate share of control as compared to its actual ownership of stock. This can happen if there are special types of shares that provide control with little ownership or by the use of holding companies for pyramiding purposes (Morck & Yeung, 2003).

Therefore, it becomes imperative to discuss the possible reasons for family firms lagging in India and measures to overcome them and improve their performance. Bhattacharyya (2007) and Ramachandran and Bhatnagar (2012) have discussed the challenges faced by the Indian family businesses at length. Some of the most important reasons have been discussed below:
| Focus               | Reasons                                                                 | Measures                                                                                   |
|--------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Economic returns   | Economic returns are the main focus for non-family firms, whereas family firms are majorly driven by several socioemotional goals such as safeguarding social and family ties, continuity of family control, emotional attachment to the business and protection of their family identity. | Family owners should understand that emphasizing more on socioemotional aspects may hamper their judgment regarding new technology adoption by the company and influence its competitive advantage. They should try to maintain a balance in their focus on economic returns and socioemotional goals. |
| Innovation and technology | Innovation and technology are regarded as a major challenge by some family business leaders and is a hindrance to the growth of a family firm. Existing technology is rendered to be obsolete because of the continuous advancement in technology. Not all generations in a family may have the same entrepreneurial zeal as the founder and this may lead to a decline in business as it is passed on to future generations. | It has been observed that family businesses prioritize long-term growth over innovation. They should recognize that family businesses that flourish and evolve across multiple generations are the ones that do not fear diversification, do not resist change and expand their business. Family members should focus on keeping the entrepreneurial zeal intact in the business. |
| Professionalization | Family businesses are regarded as tending to have a lack of professional management since the tendency is for the management to consist of members of the controlling family. This certainly restricts the available management talent pool, with adverse consequences for the firm’s performance. | Family businesses in India need to formalize their organization with well-defined rules and roles. For a business to grow they need to have hiring strategies, pay policies and promotion guidelines, distinct roles for people and should stick with these policies and guidelines. Business families should understand and accept the fact that they cannot have within the family all the expertise and proficiency needed to operate and run a modern business. |
| Section                  | Details                                                                                                                                                                                                 | Details                                                                                                                                                                                                 |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Treatment of outsiders   | Outside professionals may feel that they will not be able to enjoy the same freedom in a family business as offered by other businesses and therefore, could be hesitant to join the family business and also top positions held by family members act as a hindrance. | Family members must accept responsibility for their actions or the lack of them and must be held accountable for them to minimize the probability of resentment within the firm. To create an environment wherein non-family professionals are motivated to give their best, family and non-family members should be treated alike in business. |
| Succession planning      | Another issue for family businesses is the lack of succession planning and preparing the future generation of leaders for the business. Many of the family business leaders are reluctant to pass on the baton to the next generation and therefore do not have a robust and documented succession plan in place. | Families should underline the importance of timely grooming of the future generations and they should be unbiased in examining various succession options. Family leaders must formulate a well-defined family constitution with details of succession plans well before they even need it. |
| Family conflicts         | Diverse views of different family members on a subject matter could lead to conflicts and delayed decision making. Sibling rivalries, managing succession, older generation making efforts to retain control, induction of next-generation into business, introduction of daughters and wives to the family business, preferential treatment notion amongst family members, navigating emotions within the family, identification and acknowledgment of meritocracy are some of the reasons that may lead to conflicts in a family business. | To avoid and resolve conflicts within the family and the business, family members should keep the lines of communication open and have regular strategic and in-depth discussions related to business. Some family businesses believe that they can improve decision-making by having clearly defined roles amongst themselves while others feel that decisions should be based on collective inputs. |

**Source:** The authors.
Implications of the Study and Lessons for New Business Ventures

It has been already observed that family businesses play an important role in the growth of the Indian economy. Although the literature also points out that most of the family businesses across the globe are not able to get through the third generation for a range of reasons. Therefore, this study on the performance and challenges faced by these businesses becomes imperative to give a glimpse of the Indian family business scenario and further identify the steps to be taken to ensure that they survive beyond three generations.

Given the importance of family firms in India, this study compares the performance of family and non-family firms in the Indian context. As discussed in the paper, family firms have certain unique characteristics and challenges, therefore, this comparison is significant as it provides a snapshot for the new entrepreneurs to help them decide the kind of organizational structure they want to have for their new business venture as they grow. The findings of the study show that family firms do not seem to be performing particularly better than their non-family counterparts. But, it should be noted that the results of studies on the comparison of family and non-family firms can be influenced by a variety of factors, viz., the definition of a ‘family firm’ used to study the comparison, whether the study is based on private or public firms, firm size, the performance variables used, the culture of the country in the study, etc. The current study does not take into consideration all such factors and this provides scope for further research on the topic.

Further, the literature on family business mostly focusses on the challenges that family businesses experience when compared to businesses where control and equity are held in a more diversified pattern. The current study makes an attempt to highlight the measures that such forms of business organizations need to adapt to overcome these challenges. This might help in providing certain learnings for new business ventures. In this section, we have discussed the lessons that some Indian family firms can offer to the new business ventures by setting an example in successfully managing the issues faced by a family firm and made a mark in the Indian and the world business scenario. These business houses have set a standard and shown a path to other business families to learn from them and grow their business across generations.

1. The success of a family business is a result of their entrepreneurial, zealous and ambitious mindset which gives robust profits even amid economic disruptions. Family firms can survive and prosper over a long period because of their long-term attitude on investments and profits along with solid entrepreneurial drive and flair for innovation. An example is Apollo Hospitals, founded in the 1980s by Dr P. C. Reddy, that has constructed a substantial competitive advantage through technological advancement. They have an innovation division that nurtures new ideas and the employees are working hard with innovation labs in the United States, Israel and India to keep up with the new developments around the world. This has enabled them to reach out to many more people and grow
successfully. New business ventures can learn from such successful family firms and incorporate the culture of resilience, entrepreneurial flair, innovativeness and strong commitment.

2. A number of family businesses in India do not last past two–three generations. The main reason for this is the lack of proper succession planning and family governance in place. A family can ensure the continuity of its business across generations with proper governance mechanisms in the family. The famous feud between the Ambani brothers for control led to other families into thinking about making their family constitution in time. Following this, the GMR group, established in 1978, and one of the most diversified infrastructure organizations in the nation created a detailed succession plan, code of conduct and rules for entry and exit of every family member into the business. This gives learning to the new family business ventures to have proper succession and governance mechanisms in place by having a visionary leadership and efficient management.

3. Accommodating outside professional management in family firms is quite challenging because the tendency is for the management to consist of members of the controlling family. This certainly restricts the available management talent pool, with adverse consequences for the firm’s performance. After a century of successfully running and managing Dabur Ltd., the Burmans had realized that the complexities in managing the family were rising since it had grown in size. The family members then realized the need to professionalize the management for Dabur to grow rapidly. They understood that it was necessary to keep the top positions vacant to attract the best managerial talent. Two decades after the family decided to professionalize their business, it is growing exponentially and the family is undivided. From such examples of successful businesses, new family firms can learn to be adaptive according to the needs of the enterprise and stay professional in their functioning.

Conclusion

The presence of family businesses amongst the business organizations in the world is at significant levels. A variety of viewpoints have been presented by the existing literature about family-run businesses’ performance in comparison to their counterparts. These vary from family businesses being better performers to the contrasting results of them underperforming and facing challenges as compared to their non-family peers.

Family businesses evidently play a powerful role in the Indian business scenario and the Indian economy. The literature also highlights the status of family businesses in India since independence, some unique features of Indian family businesses, and the challenges faced by them as underlined in previous studies. In this paper, we attempt to find out whether or not family firms perform better than non-family firms in the Indian context given their prevalence and importance for
the economy. We studied the companies included in the NSE 500 Index for the period 2014–2018. The results show that in the Indian context there seems to be no significant difference in the performance of family and non-family firms when we consider accounting-based measures of performance, whereas non-family firms seem to be performing better when we consider the market-based measure of performance. We have mentioned the possible reasons for this performance and the ways to overcome the issues faced by family firms. Lastly, we discuss the advice and recommendations that the new business ventures can take from already established successful family businesses.

However, it must be noted that the implementation of the advice given to family-run businesses on how to conquer their shortcomings and strive to be world players might not be easy. This is because family values, customs and traditions are deep-rooted in family firms. They find it challenging to undo what is familiar to them and make changes in their business patterns and traditions. There are some business families in the country that did not achieve the required results by separating ownership from management and were forced to return to the older order as the separation led to a decline in family fortunes. Such things make other business families also apprehensive of such changes. The question regarding what is best for the Indian family businesses continues.

Declaration of Conflicting Interests
The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

Funding
The authors received no financial support for the research, authorship and/or publication of this article.
| NIC Code | Industry Description                                                                 | Total | Family Firm | Non-Family Firm | % of FFs |
|---------|--------------------------------------------------------------------------------------|-------|-------------|-----------------|----------|
| 10      | Manufacture of food products                                                          | 10    | 7           | 3               | 70       |
| 11      | Manufacture of beverages                                                             | 4     | 1           | 3               | 25       |
| 12      | Manufacture of tobacco products                                                       | 3     | 1           | 2               | 33.33    |
| 13      | Manufacture of textiles                                                               | 7     | 6           | 1               | 85.71    |
| 14      | Manufacture of wearing apparel                                                        | 3     | 2           | 1               | 66.67    |
| 15      | Manufacture of leather and related products                                           | 1     | 1           | 0               | 100      |
| 16      | Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 3     | 2           | 1               | 66.67    |
| 17      | Manufacture of paper and paper products                                               | 1     | 0           | 1               | 0        |
| 19      | Manufacture of coke and refined petroleum products                                    | 2     | 0           | 2               | 0        |
| 20      | Manufacture of chemicals and chemical products                                       | 30    | 21          | 9               | 70       |
| 21      | Manufacture of pharmaceuticals, medicinal chemical and botanical products             | 28    | 21          | 7               | 75       |
| 22      | Manufacture of rubber and plastics products                                          | 15    | 8           | 7               | 53.33    |
| 23      | Manufacture of other non-metallic mineral products                                    | 16    | 7           | 9               | 43.75    |
| 24      | Manufacture of basic metals                                                           | 13    | 10          | 3               | 76.92    |
| 25      | Manufacture of fabricated metal products, except machinery and equipment              | 3     | 0           | 3               | 0        |
| 27      | Manufacture of electrical equipment                                                   | 11    | 6           | 5               | 54.55    |
| 28      | Manufacture of machinery and equipment n.e.c                                          | 17    | 8           | 9               | 47.06    |
| 29      | Manufacture of motor vehicles, trailers and semi-trailers                             | 12    | 7           | 5               | 58.33    |
| 30      | Manufacture of other transport equipment Other manufacturing                           | 4     | 4           | 0               | 100      |
| 32      | Other manufacturing                                                                   | 3     | 3           | 0               | 100      |
| 34      | Metal products and parts, except machinery and equipment                               | 8     | 7           | 1               | 87.5     |
| 35      | Electricity, gas, steam and air conditioning supply                                   | 4     | 4           | 0               | 100      |
| 41      | Construction of buildings                                                              | 9     | 7           | 2               | 77.78    |
| 42      | Civil engineering                                                                     | 14    | 7           | 7               | 50       |

(Appendix 1 continued)
| NIC Code | Industry Description                                                                 | Total | Family Firm | Non-Family Firm | % of FFs |
|---------|--------------------------------------------------------------------------------------|-------|-------------|-----------------|----------|
| 46      | Wholesale trade, except of motor vehicles and motorcycles                            | 11    | 7           | 4               | 63.64    |
| 47      | Retail trade, except of motor vehicles and motorcycles                               | 6     | 5           | 1               | 83.33    |
| 50      | Water transport                                                                      | 1     | 1           | 0               | 100      |
| 51      | Air transport                                                                        | 1     | 0           | 1               | 0        |
| 52      | Warehousing and support activities for transportation                                | 6     | 2           | 4               | 33.33    |
| 55      | Accommodation                                                                       | 3     | 3           | 0               | 100      |
| 58      | Publishing activities                                                                | 2     | 2           | 0               | 100      |
| 59      | Motion picture, video and television programme production, sound recording           | 2     | 2           | 0               | 100      |
| 60      | Broadcasting and programming activities                                              | 4     | 3           | 1               | 75       |
| 61      | Telecommunications                                                                   | 6     | 3           | 3               | 50       |
| 62      | Computer programming, consultancy and related activities                              | 16    | 9           | 7               | 56.25    |
| 63      | Information service activities                                                       | 2     | 1           | 1               | 50       |
| 64      | Financial service activities, except insurance and pension funding                    | 8     | 6           | 2               | 75       |
| 70      | Activities of head offices; management consultancy activities                         | 5     | 2           | 3               | 40       |
| 72      | Scientific research and development                                                  | 1     | 1           | 0               | 100      |
| 73      | Advertising and market research                                                       | 1     | 0           | 1               | 0        |
| 77      | Rental and leasing activities                                                        | 1     | 1           | 0               | 100      |
| 79      | Travel agency, tour operator and other reservation service activities                 | 2     | 0           | 2               | 0        |
| 86      | Human health activities                                                              | 2     | 1           | 1               | 50       |
| 93      | Sports activities and amusement and recreation activities                              | 1     | 1           | 0               | 100      |
| **Total**|                                                                                     | **302** | **190**     | **112**         |          |

*Source:* Authors' calculation.
References

Achmad, T., Rusmin, R., Neilton, J., & Tower, G. (2008). The iniquitous influence of family ownership structures on corporate performance. *Journal of Global Business Issues, 3*(1).

Allouche, J., Amann, B., Jaussaud, J., & Kurashina, T. (2008). The impact of family control on the performance and financial characteristics of family versus nonfamily businesses in Japan: A matched-pair investigation. *Family Business Review, 21*(4), 315–330.

Anderson, R. C., & Reeb, D. M. (2003). Founding-family ownership and firm performance: Evidence from the S&P 500. *Journal of Finance, 58*(3), 1301–1328.

Andres, C. (2008). Large shareholders and firm performance—An empirical examination of founding-family ownership. *Journal of Corporate Finance, 14*(4), 431–445.

Ansari, I. F., Goergen, M., & Mira, S. (2014). The determinants of the CEO successor choice in family firms. *Journal of Corporate Finance, 28*, 6–25.

Astrachan, J. H., & Shanker, M. C. (2003). Family businesses’ contribution to the US economy: A closer look. *Family Business Review, 16*(3), 211–219.

Badrul Muttakin, M., Khan, A., & Subramaniam, N. (2014). Family firms, family generation and performance: Evidence from an emerging economy. *Journal of Accounting in Emerging Economies, 4*(2), 197–219.

Barontini, R., & Caprio, L. (2006). The effect of family control on firm value and performance: Evidence from continental Europe. *European Financial Management, 12*(5), 689–723.

Bertrand, M., Johnson, S., Samphantharak, K., & Schoar, A. (2008). Mixing family with business: A study of Thai business groups and the families behind them. *Journal of Financial Economics, 88*(3), 466–498.

Bhatt, R. R., & Bhattacharya, S. (2017). Family firms, board structure and firm performance: Evidence from top Indian firms. *International Journal of Law and Management, 59*(5), 699–717.

Bhattacharyya, R. (2007). Road blocks in enhancing competitiveness in family-owned business in India. *Institutional Repository of Indian Institute of Management Kozhikode. Conference on Global Competition and Competitiveness of Indian Corporate, IIMK. http://dspace.iimk.ac.in/bitstream/handle/2259/73/623-629%2b.pdf*

Ceja, L., Agulles, R., & Tàpies, J. (2010). The importance of values in family-owned firms (Working Paper No. WP-875). *IESE Business School-University of Navarra, Barcelona. doi: 10.2139/ssrn.1701642*

Chakrabarty, S. (2009). The influence of national culture and institutional voids on family ownership of large firms: A country level empirical study. *Journal of International Management, 15*(1), 32–45.

Chauhan, V. S. (2017). Family Controlled Businesses: A Comparative Performance Evaluation [Unpublished doctoral thesis]. IIM Lucknow.

Cheng, Q. (2014). Family firm research—A review. *China Journal of Accounting Research, 7*(3), 149–163.

Chittoor, R., & Das, R. (2007). Professionalization of management and succession performance—A vital linkage. *Family Business Review, 20*(1), 65–79.

Chrisman, J. J., Chua, J. H., & Litz, R. A. (2004). Comparing the agency costs of family and non-family firms: Conceptual issues and exploratory evidence. *Entrepreneurship Theory and Practice, 28*(4), 335–354.

Claessens, S., Djankov, S., & Lang, L. H. (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics, 58*(1–2), 81–112.

Claessens, S., Djankov, S., Fan, J. P. H., & Lang, L. H. P. (2002). Disentangling the incentive and entrenchment effects of large shareholdings. *Journal of Finance, 57*, 2741–2771.
Cucculelli, M., & Micucci, G. (2008). Family succession and firm performance: Evidence from Italian family firms. *Journal of Corporate Finance, 14*(1), 17–31.

Dandekar, V. M. (1992). Forty years after independence. In B. Jalan (Ed.), *The Indian economy: problems and prospects*. Penguin.

Davis, J., Schoorman, R., Mayer, R., & Tan, H. (2000). The trusted general manager and business unit performance. *Strategic Management Journal, 21*, 563–576.

Deloitte. (2013). From the Family to the Firm: A view through the Indian Prism. *Deloitte Touche Tohmatsu India Private Limited*. https://www2.deloitte.com/content/dam/Deloitte/in/Documents/human-capital/in-hc-from-the-family-to-the-firm-noexp.pdf

Dieleman, M., Shim, J., & Ibrahim, M. (2013). Asian family firms: Success and succession. *DBS Bank Ltd. & Centre for Governance, Institutions and Organisations*.

Dwivedi, N., & Jain, A. K. (2005). Corporate governance and performance of Indian firms: The effect of board size and ownership. *Employee Responsibilities and Rights Journal, 17*(3), 161–172.

Dyer, W. G. (2006). Examining the “family effect” on firm performance. *Family Business Review, 19*(4), 253–273.

European Family Business. (2018). The new Europe: The family business vision. *Fifth European Family Business Summit*.

Faccio, M., & Lang, L. H. (2002). The ultimate ownership of Western European corporations. *Journal of Financial Economics, 65*(3), 365–395.

Faccio, M., Lang, L. H. P., & Young, L. (2001). Dividends and expropriation. *American Economic Review, 91*, 54–78.

Flören, R. H. (1998). The significance of family business in the Netherlands. *Family Business Review, II*(2), 121–134.

Garcia-Castro, R., & Aguilera, R. V. (2014). Family involvement in business and financial performance: A set-theoretic cross-national inquiry. *Journal of Family Business Strategy, 5*(1), 85–96.

Gill, S., & Kaur, P. (2015). Family involvement in business and financial performance: A panel data analysis. *Vikalpa, 40*(4), 395–420.

Jalan, B. (1996). *India’s economic policy: Preparing for the twenty first century*. Viking

James, H. S. (1999). Owner as manager, extended horizons and the family firm. *International Journal of the Economics of Business, 6*(1), 41–55.

Jayaraman, J., Khorana, A., Neiling, E., & Covin, J. (2000). CEO founder and firm financial performance. *Strategic Management Journal, 21*, 1215–1224.

Khanna, T., & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *Journal of Finance, 55*(2), 867–891.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1999). The quality of government. *Journal of Law, Economics, and Organization, 15*(1), 222–279.

Lee, J. (2004). The effects of family ownership and management on firm performance. *SAM Advanced Management Journal, 69*, 46–52.

Lubatkin, M. H., Ling, Y., & Schulze, W. S. (2003). *Explaining agency problems in family firms using behavioral economics and justice theories*. Academy of Management Meetings.

Lv, H. X. (2007). *An investigation of innovation of Chinese family business’s governance mechanism*. Zhejiang University Press.

Manikutty, S. (2000). Family business groups in India: A resource-based view of the emerging trends. *Family Business Review, 13*(4), 279–292.

Maury, B. (2006). Family ownership and firm performance: Empirical evidence from Western European corporations. *Journal of Corporate Finance, 12*(2), 321–341.
Mazzi, C. (2011). Family business and financial performance: Current state of knowledge and future research challenges. *Journal of Family Business Strategy*, 2(3), 166–181.

McConaughy, D. L., Matthews, C. H., & Fialko, A. S. (2001). Founding family controlled firms: Performance, risk, and value. *Journal of Small Business Management*, 39(1), 31–49.

McConaughy, D. L., Walker, M. C., Henderson Jr., G. V., & Mishra, C. S. (1998). Founding family controlled firms: Efficiency and value. *Review of Financial Economics*, 7(1), 1–19.

Mehrotra, V., Morck, R., Shim, J., & Wiwattanakantang, Y. (2013). Adoptive expectations: Rising sons in Japanese family firms. *Journal of Financial Economics*, 108(3), 840–854.

Miller, D., & Le Breton-Miller, I. (2005). Management insights from great and struggling family businesses. *Long Range Planning*, 38(6), 517–530.

Morck, R., & Yeung, B. (2003). Agency problems in large family business groups. *Entrepreneurship Theory and Practice*, 27(4), 367–382.

Morris, M. H., Williams, R. O., Allen, J. A., & Avila, R. A. (1997). Correlates of success in family business transitions. *Journal of Business Venturing*, 12(5), 385–401.

O’Boyle Jr., E. H., Pollack, J. M., & Rutherford, M. W. (2012). Exploring the relation between family involvement and firms’ financial performance: A meta-analysis of main and moderator effects. *Journal of Business Venturing*, 27(1), 1–18.

Parikh, I. J. (2001). Strengths and weaknesses of family business: The Indian context (Working Paper no. 1646). *IIMA Institutional Repository*. http://vslir.iima.ac.in:8080/jspui/bitstream/11718/725/1/WP%202001_1646.pdf

Pawar, S. (2009). Family business: Has a future in India. *NCRD’s Sterling Institute of Management Studies*, 1–38.

Piramal, G. (1996), *Business Maharajas*, Viking Penguin India.

Poutziouris, P., Savva, C. S., & Hadjielias, E. (2015). Family involvement and firm performance: Evidence from UK listed firms. *Journal of Family Business Strategy*, 6(1), 14–32.

Ramachandran, K. (2006). *Indian family business: Their survival beyond three generations*. Indian School Business, Hyderabad.

Ramachandran, K., & Bhatnagar, N. (2012). *Challenges faced by family businesses in India*. Working Paper, Indian School of Business.

Rastogi, S., & Agrawal, R. (2010). Intention of offspring to join the family enterprise: A study of Indian businesses. *Annals of Innovation & Entrepreneurship*, 1(1), 5603.

Ray, R. K. (1979). *Industrialization in India: Growth and conflict in the private corporate sector, 1914-47*. Oxford University Press.

Rutherford, M. W., Kuratko, D. F., & Holt, D. T. (2008). Examining the link between “familiness” and performance: Can the F-PEC untangle the family business theory jungle? *Entrepreneurship Theory and Practice*, 32(6), 1089–1109.

Schulze, W. S., Lubatkin, M. H., & Dino, R. N. (2003). Toward a theory of agency and altruism in family firms. *Journal of Business Venturing*, 18(4), 473–490.

Schwartz, H., & Bergfield, M. M. (2017). What Japan’s over 1000 year-old family owned businesses can teach us. Munich Business School Insights. https://www.munich-business-school.de/insights/en/2017/family-business-japan/

Sharma, P., & Rao, A. S. (2000). Successor attributes in Indian and Canadian family firms: A comparative study. *Family Business Review*, 13(4), 313–330.

Singh, D. A., & Gaur, A. S. (2009). Business group affiliation, firm governance, and firm performance: Evidence from China and India. *Corporate Governance: An International Review*, 17(4), 411–425.
Sraer, D., & Thesmar, D. (2007). Performance and behavior of family firms: Evidence from the French stock market. *Journal of the European economic Association, 5*(4), 709–751.

Subekti, I., & Sumargo, D. K. (2015). Family management, executive compensation and financial performance of Indonesian listed companies. *Procedia-Social and Behavioral Sciences, 211*, 578–584.

Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of financial Economics, 80*(2), 385–417.

Weber, J., Lavelle, T., Lowry, T., Zellner, W., & Barrett, A. (2003). *Family Inc. Business Week*, 100–114.

Westhead, P., & Howorth, C. (2006). Ownership and management issues associated with family firm performance and company objectives. *Family Business Review, 19*(4), 301–316.