Introduction

According to Wikipedia “A family business is a business in which one or more members of one or more families have a significant ownership interest and significant commitments toward the business’ overall well-being.”

According to Peter Leach “A family managed business is one where the family body may effectively control business operations because it owns more than 50% of the voting shares, or because family members fill a significant number of the top management positions”.

Family owned firms are Organizations where two or more extended family members influence the directions of the business through the exercise of kinship ties, management roles or ownership rights. It is also a complex dual system consisting of the family and the business. Members involved in the business are part of a task system and also a part of the family system and these two systems may overlap.

Family owned businesses exist all over the world and some of the world’s oldest firms are family owned – Eg. Kongo Gumi of Japan was founded in 578 AD and today it is in its 30th Generation. Some of the largest wealth creators and businesses are family owned, like Wal Mart.

According to some estimates, over 80% of world businesses are controlled by families and they employ around 50% of the world’s work force. They contribute around 40-50% of the world GNP but the sad part is only 15% businesses survive till the 3rd generation.

Family businesses comprise the predominant form of enterprise around the world, yet until recently, little information or guidance has been available on the unique and complex issues they face. This is because it is only in the past 25 years or so that we have started to study and understand two fundamental ideas:
a) That family businesses differ in a variety of critically important ways from non-family businesses

b) And that business families function quite differently from non-business families.

If a family business is to achieve its full potential, it is essential that its management understands them and the challenges they create.

In the Indian scenario, today’s Indian industrialists roots are fairly recent going back largely to the First World War. Before that they were traders and money lenders. Even in Bombay and Ahmedabad in Western India where the cotton textile mills came up earlier in the last half of the 19th century, it was the trading communities which became industrialists. The Agarwals & Guptas in the North, the Chettiyars in the south, the Parsees and Gujarati Jains and Banias, the Muslim Khojas and Memons in the west and Marwaris all over India.

Gradually from small businesses, they grew to medium and large sized corporates. R.K. Hazari, an eminent Industrial Economist had concluded after exhaustive analysis that most of the prominent Indian industries on the contours of Indian businesses in the 1950s were concentrated in the hands of only 18 Indian families and 2 British houses.

Over the history of Indian business scenario, from the early developmental stages, to the present, the business scene has been dominated by Family Managed Businesses. Be it a small proprietor running a grocery store, being passed on from grandfather to son and to the grandson, to the multinational corporates such as the Tatas, Birlas, Ambanis.
Rationale of the Research

The research on “A Study of the Factors Contributing to the Success and Failures of Family Managed Businesses” focuses on understanding and identifying the major factors which affect the family managed businesses and how the successful ones tackle them to stay afloat and how the not-so-successful ones fall prey to them and sink.

Family Managed Businesses are the pre-dominant business forms the world over. All the family managed businesses have more or less the same start. They all are exposed to the same business environment prevailing in their respective fields, which are also prevailing for all other players. Yet, over the years, while passing the baton from one generation to the other, the rate of survival of family managed businesses has been shrinking. The above graphical representation shows the fact widely researched and concluded that, only 33% of family managed businesses survive the 2nd generation and only 15% of family managed businesses survive over the 3rd generation.

On the other hand, we have examples of many prominent family managed businesses houses who have survived the onslaught of the dynamic business environment and have
weathered the inheritance troubles of generation over generation and have been doing well for themselves, with soaring personal and family fortunes and also being important contributors to the national economy and providing employment to thousands of people.

The area of study is based on identifying what it is, that the successful family firms have managed to do or not do, that the failures or the not so successful firms have not been able to do or not omitted to do. This study is an attempt to indentify and bring forth the various factors that distinguish a successful family managed business and a failed family managed business. The researcher aims to identify what are the factors that have been faced by both types of the sample, and what the successful companies have done differently or better than the companies who have failed and have led to the closure or failure of the family managed business.

The researcher will attempt to investigate the major factors faced by family managed businesses and throw light on how these factors are to be effectively tackled leading to a road map of a successful business managed by a family over the generations.

Some major factors or Independent variables, on lines of which this study is going to be conducted, are as follows:

**Independent Variables :-**

a) **SUCCESSION PLANNING**

"Succession planning" is a process for identifying and developing internal people with the potential to fill key leadership positions in the company. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available.”
In the family managed business context, succession planning has been seen as a success mantra for unhindered, smooth & fruitful transition of the reigns of the business from one generation to the next.

The willingness of family company owners to plan for their succession is often decisive factor, determining whether their business survives or fails. A well structured systematic approach to succession planning is required to overcome all the forces that favour doing nothing.

b) **FAMILY BUSINESS DYNAMICS**:

The special status of family businesses derives from their structure, which is characterized by complexity on three levels: a family system, a business system and an ownership system, all linked together by wealth, legal arrangements, employment relationships and emotional / relational bonds. To understand family business dynamics, it is essential to be aware of the interaction of these systems and the way that complexity increases over time.

c) **STRATEGIC VISION AND BUILDING TEAMWORK**:

Successful families learn to build a shared vision by aligning individual and family values and goals, and that vision becomes a guide for planning, decision-making and action. The process of developing a family strategic plan helps families approach their businesses in a committed, unified way, rather than as a group of individuals who just happen to be related.

d) **NEXT GENERATION HUMAN RESOURCE MANAGEMENT AND LEADERSHIP PERSPECTIVES**:

The new generation grows up in a commercial culture that is different from earlier family members. Overlaps and conflicts between family, business and ownership
systems are particularly acute and troublesome in relation to human resource management practices.

Research indicates that most business families do not adequately anticipate the challenges that the next generation will face in balancing responsibility to the family with their own career aspirations.

This aspect looks at examining the problems family businesses face in the areas of recruitment, remuneration, appraisal, and so on.

e) PROFESSIONALISM:

Here professionalism depicts Professionalism of the Boardroom in a family managed business. Often the senior members of the family business are reluctant to let go of the reigns and trust element is very low. However, the disadvantage of this viewpoint is that they continue to function and run the company in the traditional manner which has been practiced for ages. There is lack of new ideas and new systematic methods of functioning.

Bringing professional approach to the Board Room – by way of appointing outside professionals as board members would allow for influx of new ideas and looking at things in a fresh manner. Establishing a board that includes independent outsiders is crucial for vast majority of family businesses if they are to achieve long term success.

f) OUTSIDE RESOURCES:

As a company becomes larger and more complex, the foundations have to be laid for a more structured, less centralized organization. The task is significantly more difficult for family than for non-family businesses because there is a strong temptation in many family firms to depend on internal experience and internal
judgments. This tendency to introversion can be countered by effective use of outside talent: non-family managers, non-executive directors; and advisers and consultants.

**Dependent Variables:-**

a) SUCCESS :
For the purpose of this study, the term success is being associated by the success of a family managed business. In terms of this perspective, the researcher has linked success to certain indicators of the family business.

A successful family managed business is one that:

- Has achieved a steady growth in turnover over the years and over the generations
- Has seen a steady increase in the profitability over the years and over the generations
- Has seen diversification of the business over the years and over the generations
- Has seen expansion in the scale of business over the years and over the generations

Success is a comparative variable which is dependent very much on the independent variables. Inability of the family management to tackle the independent variables mentioned above adequately, can lead to success eluding the company.
b) **FAILURE** :

Here again, failure is seen in context with the family managed business as the other side of the coin, namely success.

Failure in terms of family managed business is:

- Failure of the business to increase its turnover substantially vis-à-vis the industry standards in comparison to the turnover achieved by the company in its early stages.
- Failure of the business to increase its profitability substantially vis-à-vis the industry standards in comparison to the profitability achieved by the company in its early stages.
- Failure of the business to diversify its main line of business over the years to achieve better growth or take advantage a particular market opportunity.
- Failure of the business to expand substantially its scale of operations in comparison to the early stages of foundation of the company.

**Utility of the Study**

In the present competitive business environment, running a business and surviving in face of global depression and recession itself is a major achievement, let alone, thriving and being profitable.

In the Indian scenario, since majority businesses are some sort of representations of the family business modules or have emanated from a Family business and grown to greater heights, it is imperative to find out why some family managed business have prospered and flourished whereas others have failed or even wound up.
The utility of this study would be as follows:

1. It would help management of family businesses to get an insight as to where they stand vis-à-vis the factors identified for success and failure in this study.

2. It would enable the management of family businesses to better understand the challenges that are pre-dominantly faced by family managed businesses and how to overcome them.

3. It would enable the management of family businesses to better understand their strengths and be able to leverage them for achieving a successful future for their companies.

4. It would enable all the generations involved in the business – be it 1st, 2nd or 3rd generations across the board, to have a better understanding of family managed business dynamics, which is extremely crucial.

5. This study would also serve as a reference guide and an user manual for family managed businesses and to new entrepreneurs who are interested in setting up family managed businesses or have just inherited them in fledgling stages.