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# Challenges of Family-Owned Business in India: A Survey Based Analysis of Family Business Owners

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**Abstract**
The foundation of the Indian economy is family-owned companies, which contribute significantly to the GDP of the nation. These companies do, however, confront several difficulties that can prevent them from expanding and remaining viable. The most important difficulty is succession planning. Families in India generally run their enterprises from generation to generation. Finding the ideal successor, however, can be challenging because it calls for juggling family relationships and commercial savvy. Professionalism is an additional difficulty. Changing from a conventional, hierarchical management structure to a more professional, merit-based strategy is a challenge for many family-owned firms in India.As a result, there can be inefficiencies, a lack of creativity, and challenges in attracting and keeping talent. Another issue faced by family-owned enterprises in India is access to funding. Most of these enterprises rely on internal capital or bank loans, which might be scarce and limit expansion possibilities. Overall, family-owned firms in India have difficulties that call for meticulous preparation, strategic thought, and a readiness to adjust to shifting market conditions over the long term to remain competitive and viable.

***Keywords: Family-owned business, Succession planning, Professionalization, Access to funding, Efficiency, Long-term competitiveness.***

## Introduction

The Indian economy greatly benefits from the employment and economic growth provided by family-owned enterprises. They do, however, confront a number of difficulties that could prevent their long-term viability, such as succession planning, professionalization, capital availability, foreign competition, and unfair competition from state-owned businesses. Family-owned firms in India must adopt best practises in corporate governance to overcome these obstacles, set up clear decision-making procedures, invest in networking, and embrace innovation and new technology to stay competitive and sustainable in the long run. According to Bruton et al. (2015), due to their distinct nature that blends public and private ownership arrangements, state-owned companies (SOEs) are categorised as hybrid organizations. While SOEs are widespread throughout the world, they are especially prevalent in India, where they frequently face competition from family-owned businesses for market share. Due to unfair competition from SOEs, which frequently receive preferential treatment from the government, family-owned businesses in India suffer a number of difficulties. This can include obstacles to family-owned businesses' access to financing, protectionist regulations, and other forms of assistance. This emphasizes the requirement for governmental actions that support fair competition and level playing fields for all firms.

The relationship between board composition and company performance in India's leading corporations was looked at by Jackling and Johl (2009). The fact that family members make up a larger percentage of the boards of directors of family-owned enterprises in India than those that are not is important. Due to family members' propensity to put their own interests above those of the business, this can make



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decision-making difficult. Family members could also be underqualified to lead the business, lacking the essential knowledge or experience. In order to overcome these difficulties, family-owned companies in India must adopt best practises in corporate governance, such as adding independent directors to the board and developing clear procedures for decision-making.

The contribution of board networks and corporate governance to the expansion of family-owned enterprises in India has been explored by Singh and Delios (2017). One of the keys is that family-owned businesses are more likely to experience success in both local and foreign markets when their boards are composed of individuals with strong networks of other companies and industry specialists. The construction of such networks, however, may be difficult for family-owned enterprises in India, particularly if they are situated in outlying or rural locations. Indian family-owned firms may need to spend money on networking with industry leaders, academic institutions, and other companies in order to grow their network and obtain access to new prospects in order to overcome this obstacle. In order to increase their board diversity, family-owned enterprises should prioritize these issues.

**Literature Review**

Sustainable business strategies for better stoves in India were looked at by Shrimali et al. in 2011. They observed that despite the possibility of these stoves helping rural homes, adoption and distribution were difficult due to the absence of viable business models. By investing in research and development, forming alliances with governmental organizations and non-profit organizations, and utilizing their local knowledge and networks to reach disadvantaged areas, family-owned firms in India might play a significant role in advancing these models. They emphasized the significance of sustainable business strategies in generating social and environmental impact while maintaining long-term profitability. On management practices across businesses and nations, Bloom et al. (2012) concentrated their attention. They showed that family-owned enterprises in India tended to employ less formal management techniques than non-family-owned businesses, which could result in inefficiencies and slower growth. Indian family-owned businesses have to embrace best practices in areas like performance assessment, reward systems, and strategic planning in addition to investing in training and development programmes for their management in order to overcome this obstacle. In order to boost productivity and expansion in family-owned enterprises, they emphasized the significance of sound management practices.

According to Panda and Leepsa (2017) agency theory in corporate governance, family-owned enterprises in India may find it difficult to align the interests of shareholders and managers, especially if family members serve as both the owners and managers. In order to overcome these obstacles, family-owned enterprises in India had to embrace best practises in corporate governance, such as creating distinct ownership and management positions and independent boards of directors. They emphasised the significance of effective corporate governance systems for guaranteeing the long-term expansion and sustainability of family-owned enterprises in India.

Corporate governance practises in emerging countries, particularly India, were looked at by Claessens and Yurtoglu in 2013. They showed that because founding families had such a strong influence over decision-making, family-owned businesses in India had difficulty implementing best practices in corporate governance. Family-owned companies sometimes lacked independent directors and audit committees, which could result in conflicts of interest and subpar decision-making. They emphasized the necessity for family-owned businesses in India to embrace best practices in corporate governance, such as separating ownership and management



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responsibilities, forming independent boards, and implementing transparent and accountable decision-making processes.

Sarasvathy et al. (2014) emphasized the difficulties that Indian family-owned enterprises had when trying to reach overseas markets with a focus on global entrepreneurship. These limitations included a lack of networks and resources, a lack of familiarity with overseas markets, and trouble negotiating unfamiliar regulatory frameworks. Family-owned firms in India need to implement successful entrepreneurial strategies that place a strong emphasis on utilizing current assets like networks and knowledge to open up new prospects abroad. They emphasized the significance of successful strategies for family-owned firms in India seeking to expand internationally. The differences between the stewardship and agency views in public family enterprises were looked at by Le Breton-Miller et al. in 2011. They showed that family-owned enterprises in India encountered difficulties balancing the interests of family members and the larger community, particularly in the setting of public ownership. Family-owned firms have to adopt a social embeddedness perspective, which emphasizes the significance of comprehending and interacting with the larger social framework in which the business functions. This viewpoint can assist family-owned firms in India in balancing their responsibilities to shareholders, the general public, and family members while promoting long-term profitability. This emphasised the significance of social embeddedness in encouraging sustainable performance for family-owned businesses in India.

India's national culture and business culture, among other things, have an impact on the management styles used in family-owned companies there. According to Bhaskaran and Sukumaran (2007), a society's cultural values can influence managerial practices. In the Indian setting, where family values and the idea of hierarchy are deeply embedded, this is clearly seen. Within the organization, these cultural values have an effect on how decisions are made, how leaders are perceived, and how people communicate. Keeping these cultural norms in check while implementing efficient management techniques that foster growth and competition is a problem for family-owned businesses. For family-owned enterprises in India, access to capital presents another major barrier.

According to Garikipati (2008), women company owners, who are more likely to work for family-owned companies, frequently encounter discrimination when applying for financing from official financial institutions. Their capacity to grow, expand, and engage in market competition is thus constrained. The adoption of cutting-edge management techniques and technology, which are essential for increasing production and efficiency, is also hampered by a lack of access to money. Finally, the difficulties faced by family-owned businesses in India are exacerbated by variations in management styles employed by various corporations and nations. According to Bloom and Van Reenen (2010), variances in characteristics including the degree of competitiveness, educational attainment, and the calibre of management education are to blame for discrepancies in management practises. These distinctions have an effect on how competitive family-owned businesses are, especially those who are unable to keep up with the cutting-edge managerial techniques used by their rivals. To be competitive, family-owned firms in India must update their management procedures frequently and make investments in the training of its managers and executives.

**Objectives of the study:**

To measure the level of the challenges of family-owned business in India

**Research Methodology:**

This study is empirical in nature. In this study 205 respondents were contacted to analyze the challenges of family owned business in India.



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The data analysis was done with the help of the frequency distribution.

## Data Analysis and Interpretation:

**Table 1** Family businesses struggle with the smooth transfer of leadership and ownership from one generation to the next

| Particulars | Agree | Disagree | Can't Say | Total |
|---|---|---|---|---|
| Respondents | 171 | 15 | 19 | 205 |
| % Age | 83.41 | 7.32 | 9.27 | 100 |

Table 1 presents that with the statement family businesses struggle with the smooth transfer of leadership and ownership from one generation to the next, it is discovered that 83.41% of the respondents expressed their agreement with this statement.

**Table 2** Family-owned businesses in India often face challenges in adopting professional management practices and implementing effective corporate governance structures

| Particulars | Agree | Disagree | Can't Say | Total |
|---|---|---|---|---|
| Respondents | 169 | 17 | 19 | 205 |
| % Age | 82.44 | 8.29 | 9.27 | 100 |

Table 2 presents that with the statement family-owned businesses in India often face challenges in adopting professional management practices and implementing effective corporate governance structures, it is discovered that 82.44% of the respondents expressed their agreement with this statement.

**Table 3** Conflicts of interest may arise when family members who are not actively involved in the business seek to benefit from its resources or decision-making processes

| Particulars | Agree | Disagree | Can't Say | Total |
|---|---|---|---|---|
| Respondents | 165 | 19 | 21 | 205 |
| % Age | 80.49 | 9.27 | 10.24 | 100 |

Table 3 presents that with the statement conflicts of interest may arise when family members who are not actively involved in the business seek to benefit from its resources or decision-making processes, it is discovered that 80.49% of the respondents expressed their agreement with this statement.

**Table 4** Developing and retaining professional talent can be a challenge for family-owned businesses

| Particulars | Agree | Disagree | Can't Say | Total |
|---|---|---|---|---|
| Respondents | 163 | 20 | 22 | 205 |
| % Age | 79.51 | 9.76 | 10.73 | 100 |

Table 4 presents that with the statement developing and retaining professional talent can be a challenge for family-owned businesses., it is discovered that 79.51% of the respondents expressed their agreement with this statement.

## Conclusion

The growth of India's economy has been significantly influenced by family-owned enterprises. However, they encounter a variety of difficulties that may hinder their long-term success. Planning for succession, governance, and professionalization are a few of the major problems family-owned businesses in India encounter. One of the most important issues that family-owned businesses in India deal with is succession planning. It might be difficult to transfer control of the company to the next



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generation, especially when several family members are involved. It can be difficult to select the ideal successor and arrange a seamless transfer of authority without triggering any family conflicts. Government is yet another issue that Indian family-owned enterprises must deal with. As a result of improper governance systems in many family-owned enterprises, conflicts of interest and other issues may arise. To maintain accountability and transparency, these companies must set up strong governance structures. Another major obstacle that India's family-owned enterprises must overcome is professionalization. Many of these organizations are unable to compete successfully in the market of today due to a lack of systems, procedures, and expertise. They must professionalize their operations if they are to be successful, which may entail bringing in outside consultants, installing cutting-edge technology, and implementing best practises.In conclusion, family-owned enterprises have played a crucial role in the development of India's economy. They do, however, face considerable obstacles that can hinder their long-term viability. Planning for succession, governance, and professionalization are some of these issues. Family-owned firms must take a strategic, pro-active strategy and make investments in their governance, people, and operations to overcome these obstacles. This will guarantee their long-term success and help them compete successfully in today's fast-paced industry.

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