Indian family firms treading path between tradition and modernity

Business academics Joseph Lampel, Ajay Bhalla and Kavil Ramachandran present research which sheds light on the workings of majority family firms in India

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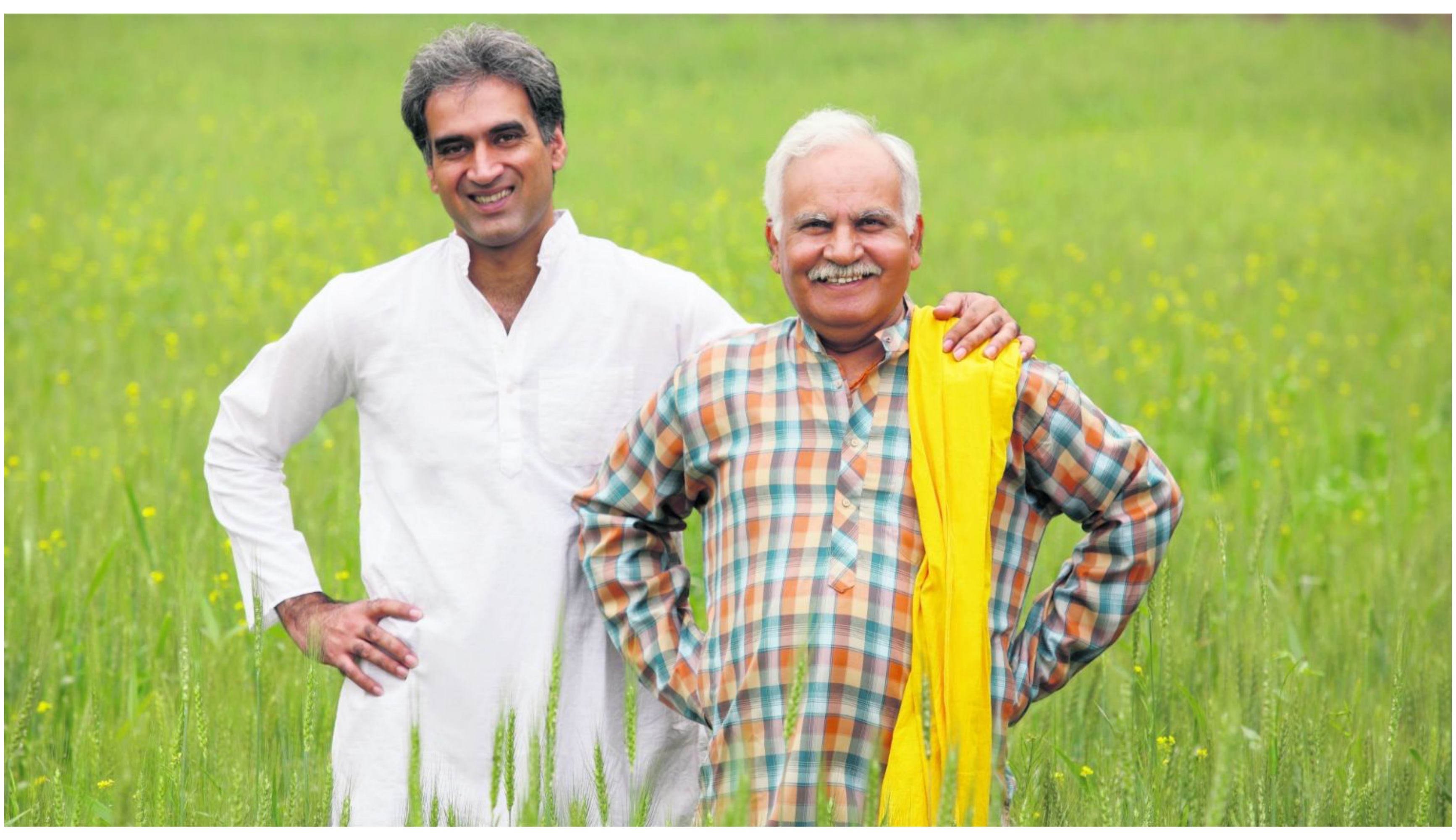

When Aditya Burman graduated from the University of Kansas in 2004, he was expected to follow family tradition and join Dabur, the family consumer goods business, as an executive.

The young Burman, however, was not enthusiastic about following a path mapped out for him. He had his heart set on launching a new venture in cancer diagnostics, an area outside Dabur's core business of Ayurvedic healthcare, personal hygiene, homecare and health foods. His father was sympathetic, but explained that getting Dabur's support depended on Aditya's grandfather, Gyan Chand Burman.

Gyan Chand had no executive position in the family business but, as head of the family, his influence was felt throughout the company. Fortunately for Aditya, he also had a soft spot for his grandson. So when Aditya presented his business plan he not only gave the young man his blessing and offered valuable advice, he also used his influence to persuade key family members to back the launch of what is today a successful venture.

Was it good practice for Burman family members to negotiate in private key strategic decisions? Dabur relies on competent professional managers to run the business, but they were not consulted until much later. In our research on Indian family firms, we have come across similar examples of family insiders pitching their business ideas to other members of the family, with professional managers who oversee the operations of the company left out of the deliberations until the launch of the new venture is pretty well decided.

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From the standpoint of Western management practice, this seems a dysfunctional way of making strategic decisions. Taking professional managers out of the equation, and letting family sentiments and clan politics determine resource allocation would seem to bode ill for the future of Dabur and other Indian family firms that operate similarly.

In the West, a family firm may, over time, lose its "familiness" and become like any other corporation, even when the family retains a substantial stake. Our research suggests that this is not happening in India; we have found that although Indian family firms recruit professional managers as they grow, this rarely changes the way they conduct business.

To understand why involves examining the culture and values of the society in which a family is formed. Although India is an increasingly modern economy, socially it is still very traditional. To Western observers persistence of tradition is often equated with inertia and refusal to adapt, but in India it is seen as the foundations on which economic, as well as social life, is built.

When Indians speak of the "family" they usually refer to what in the West would be considered the "extended family", in other words not only first cousins, but also second and third cousins. The inclusive nature of Indian families inevitably means an increase in the number of people who expect to participate in the management of the firm. Meanwhile, the hierarchical nature of Indian families, with power concentrated in the hands of senior family members, tends to relegate the younger generation to a subordinate role. Some are not unhappy with this situation but others, such as Aditya Burman, chafe at having to put aside their business ideas until their turn at the helm arrives. To avoid fragmentation and maintain cohesion, the family is often willing to back these individuals, even when the economic case for the venture is rather weak.

Indian family businesses, therefore, have two faces. One represents the traditional Indian family with its hierarchies of seniority and respect, where elders lead by example, serve as arbiters of family disputes and guard the family's standing in the wider community. The other is the modern business organisation that subscribes to accountability, technical efficiency, and decision-making processes that would be familiar to managers anywhere else in the world. The relationship between these two sides is complex and fraught with tensions that often come to the surface when important decisions are being considered.

These tensions force Indian firms into a complex balancing act between tradition and modernity. For example, in the past there was no clear demarcation between collective and individual wealth; the family owned everything, but made this wealth available to individuals on the basis of their need. Today's Indian family firms, such as Muruguppa or Munjals, have moved towards making a distinction between collective and individual wealth, but have maintained a system of cross-ownership.

One aspect of cross-ownership is the frequency with which members of the family will work in business units largely owned by relatives, thereby reinforcing family ties while at the same time conceding ownership rights. In the past, family firms kept tight reins on younger members, putting them to work as soon as possible. Today, they combine early work experience with advanced education that takes the younger generation abroad to the United States or UK. The expectation is that they will come back and put their skills at the service of the family firm. When they come back with ideas of their own, the family seeks to find an accommodation between collective consensus and individual ambition.

Finally, the balance between tradition and modernity has even touched the way that members of family firms live and socialise. In the past, Indian families lived in a common compound, which ensured family cohesion, but also gave rise to conflict. Rising standards of living and greater emphasis on individual self-expression has made this model increasingly difficult to sustain. Rather than break with tradition and live completely independent lives, Indian families today will tend to cluster in the same neighborhood, thus balancing proximity with privacy.

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