

Financial Strategy of Family Business in India

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INTRODUCTION

Meaning of Family Business

Family businesses can be defined as one where owner has power to take strategic decisions ,succession is based on family relation and the owner has full liberty to appoint his relatives to any position he wants.

Introducing the Problem – Identifying and Selection of Problem

Main Problem, which has been analysed, is whether theory of market structure based on premise of separation of ownership and company is workable in Indian conditions.

Management and Governance of the Company depends on country's culture, its history, state – Industry relations etc. In order to analyse decision-making process of the company, the above factors have to be taken into consideration.

Strategy of the company depends on external factors. Financial strategy of family business has been studied in a dynamic context in four periods. Difference in the five components of financial strategy has been studied by dividing the strategy into four periods. First, from 1900 – 1947, before India became independent. Secondly, from 1948 to 1969 when managing agency system was abolished and MRTP Act was introduced. Thirdly, from 1970 to 1990 i.e., before liberalisation. Fourthly from 1991 till 1999, since liberalisation.

Five components of the financial strategy have been analysed from case study basis with five companies following different corporate strategy.

An attempt has been made to determine the core competency of family business in India in general and the sectors in which they were successful. Three sectors have been studied and family business has been compared with MNCs and professional comp

HYPOTHESIS – 1

1. BPL Ltd. – FINANCE DRIVEN STRATEGY
2. Godrej Soaps – PRODUCTION DRIVEN STRATEGY
3. Nirma – COST DRIVEN STRATEGY
4. Titan – REVENUE DRIVEN STRATEGY
5. TCS – PROFIT DRIVEN STRATEGY

The characteristics of each strategic alternative and the reasons for following a particular strategy by family business houses has been analyzed.

Chapter six studies six companies out of which two each are from FMCG sector, consumer durable sector and software sector. Two companies selected in FMCG sector are Nirma and Godrej soaps. In consumer durable, two companies selected are BPL Ltd. and Videocon International. Two companies selected in software sector are TCS and Wipro. In case of FMCG sector, Nirma and Godrej have been compared with Hindustan Lever Limited (HLL) and Procter & Gamble (P&G). BPL Ltd. and Videocon are compared with Sony and Philips in the consumer durable sector. In case of software sector, though most companies are professional but still for comparison ,financial results of Infosys and Satyam has been benchmarked against TCS and Wipro.

HYPOTHESIS – 2

1. Family businesses will be successful in consumer durable sector.
2. Multinational companies will be successful in FMCG sector
3. Professional Indian companies will be successful in Information Technology sector.

In case of FMCG sector , where local responsiveness is most important attribute which a company should possess, MNCs are in a better position to develop this competency as compared to Indian family businesses. Main reason is the over centralization of decision making power in the hands of patriarch in case of Indian family businesses . MNCs operating in various countries develop a natural tendency to adopt to local conditions in order to succeed since taste of people for consumer non durable goods vary due to cultural, geographical and economic reasons. Experience gained by MNCs in other countries can be effectively used to succeed in Indian conditions where diversity is very high.

In case of consumer durable sector, where economies of scale is most important competitive advantage which the company should possess, Indian family businesses are able to exploit this attribute in the best possible way due to Indian family business houses tendency to go for backward integration in order to reap the benefits of economies of scale. That is the reason why Indian family business houses are successful

in this sector compared to MNCs like Philips and Sony.

Generation and distribution of knowledge is very important in software sector, where Indian professional companies like Infosys, Satyam, HCL have been very successful. Except for TCS and Wipro, no other Indian family business house has been successful in this sector. Indian professional companies have an edge over other companies because of high quality and low salary of knowledge workers in India.

Basic conclusion is that Indian family business houses have been successful in consumer durable sector. MNCs have been successful in FMCG sector while Indian professional companies have been successful in software sector.