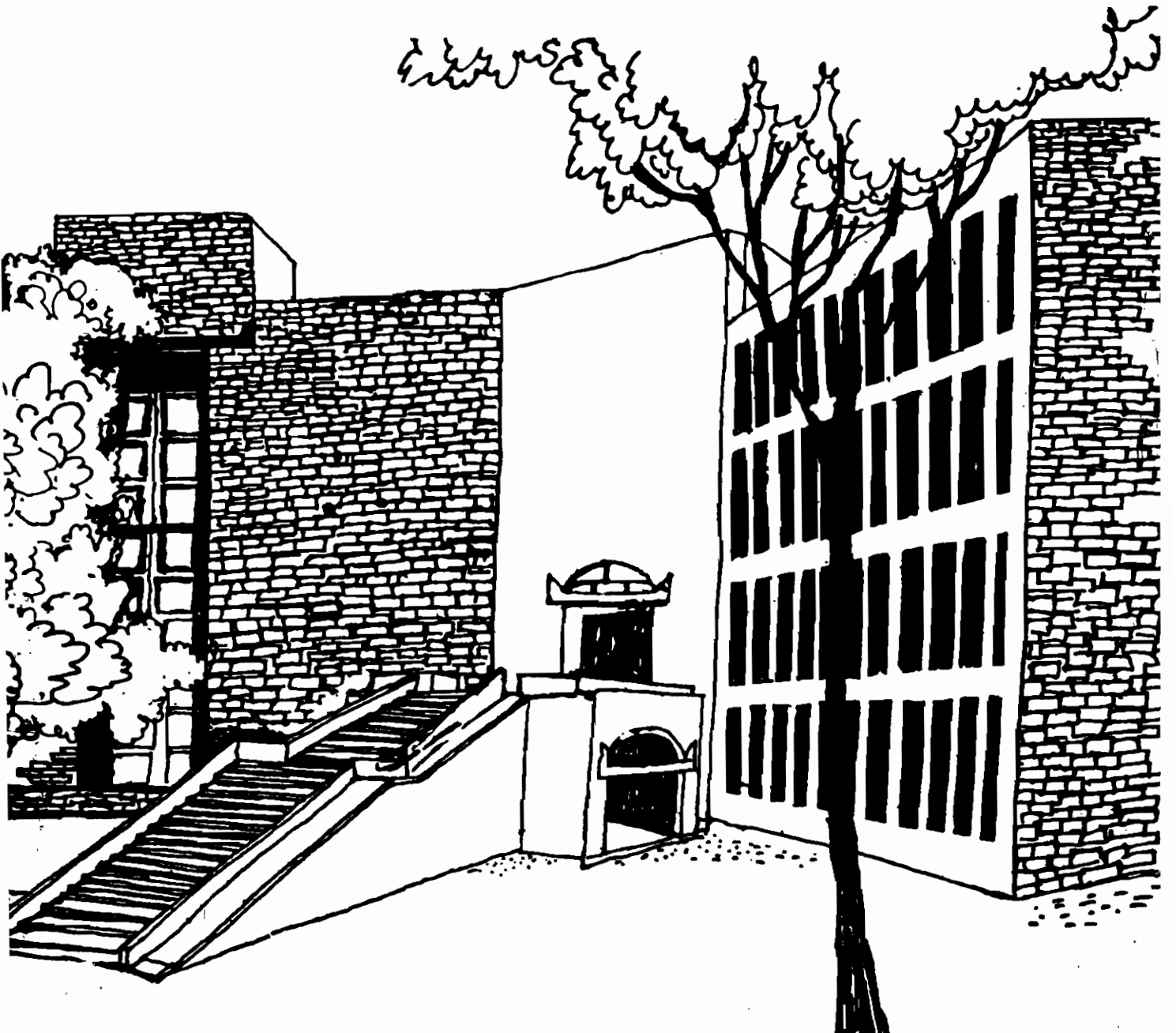




Working Paper



**STRENGTHS AND WEAKNESSES OF FAMILY
BUSINESS: THE INDIAN CONTEXT**

By

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INDIRA J PARIKH

INDIAN INSTITUTE OF MANAGEMENT, AHMEDABAD.

Abstract

The paper "Strengths and Weaknesses of Family Business: The Indian Context" was written and presented in CII, Family Business Meet at Jaipur.

The paper examines the location and status of family businesses in the industrial context of India. Indian Family businesses shifted from trading and distribution to manufacturing. The shift demanded changes in leadership role, mindsets of people and the interfaces around leadership style. Indian family businesses are characterised by the following significant processes:

- The entrepreneur is the hero idealised, glorified and respected by his people.
- The employees are treated as family members and extended family.
- The collective interest of the system and the group is upheld rather than the individual.
- Competent and capable leadership manages the workforce through social structures and role processes.

Similarly, there are weaknesses of the family businesses. These are unpreparedness for change, owner becomes larger than the organisation, decision-making is centralised, there are proxy sons in power position who erode structural authority and hierarchy, tolerance for mediocrity, tentativeness to formalise and professionalise and overall lack of strategic perspective.

The paper then reflects on the future of Indian Family Businesses and New Paradigms of family businesses. The choice is to evoke in the collectivity the fire to deploy their potentials and collectively mobilize the talent for innovativeness, excellence and forging a new role for themselves. The choice is between a successful role model of an organization or to become heroes or villains individually. New giants may come but the resilience of the entrepreneurial spirit, the phoenix like quality of the families to rise from the ashes, and the core values can provide the family owned organizations discover the wherewithals to not only survive but build an institution which lasts for generations to come. Then, perhaps the family saga may begin. Once upon a time..... and they created an empire..... where people had dreams and nurtured and fostered them and make them happen that which everyone thought was impossible.....

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CONFEDERATION OF INDIAN INDUSTRY

FAMILY BUSINESS MEET

NOVEMBER 24-25, 2000

JAIPUR

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The winds of change both gentle and turbulent are blowing across the country impacting the businesses of India more so the family-run and managed businesses. Family businesses today may be small, medium, large, mammoth and global. They have a unique status in the industrial context of Indian society as they have been the core around which industrialisation started.

The family businesses have kept pace with the transformations of Indian society and Indian business environment throughout its unfolding, from:

1. an ancient civilisation of vast richness to contrasting poverty and scarcity to today's plenty and multiplicity.
2. a society with rigid hierarchical authority and roles to possibilities of negotiability and flexibility across hierarchy and authority.
3. communities deeply embedded in rigid boundaries, narrow role definitions and limited spaces to mobility and giving expressions to ones dreams, aspirations and upgrading ones quality of life.
4. Indian family businesses movement from trading to manufacturing, marketing of shabby goods to increasing focus on professionalism, excellence and quality of products and services.
5. From a concept of successor and inheritor of family business to equipping the second and third generation with competency and capabilities to run the businesses.

Family owned organisations, businesses and enterprises evoke a myriad of images in the minds of people about the organisation and its management. There are also images about the entrepreneurs, the owners, the pioneers and progenitors of those organisations. Similarly there are images about the organisation work culture and about the people working in them. These images are sometimes real and sometimes unreal. Many myths and lore are attached to family owned / managed organisations. Indian family businesses by and large are seen as traditional, non progressive, seeped in personal relationships and centralised controls, lack of autonomy, poorly paid, tolerating for mediocrity, rooted in history and rituals and personalisation of relationships with their employees. Similarly, there are images, sagas of adventure, sagacity and wisdom as well as intuitive business sense of the individual owners. There are many stories from nowhere and nothing to building empires of immense wealth. These individuals are fondly remembered for their hard work, their ability to sense the right risks, to UNDAUNTINGLY take the challenges, to have ideals and values and be concerned about every individual employee who worked for them. These individual entrepreneur took their business from one success to another. As a consequence of these individuals who became successful their organisation gradually lost its identity and became synonymous with the individual. In the initial phases of industrialisation the names Birla, Tata, Godrej, Bharatram, Charatram, Modi and hundreds of other big and small names represented an individual who grew larger than life in his life-time. Their organisations were subsumed under the individual's image and name. If the owner became the institution then whatever be the quality and work culture of the organisation also acquired the institutional processes in the organisation. The rest of the qualities and employees of the organisation were then marginalised.

Business Today (1998) categorised the business families in several categories reflecting the century:

- The Great Empires, 1900
- The First Dynasties, 1918
- The Pioneer Patriots, 1919-1947
- The Self Reliants, 1948-1966
- The Old Moderns, 1967-1983

We must differentiate here between the Indian trader with acumen for business and trading and the entrepreneurs of manufacturing units. The ancient Indian businessman was an adventurous individual who went across the seas to generate resources and created his trading empires. History has many tales of all those individuals who left their country to give shape and discover their destiny and went on a journey to gather and build resources. They are known for their valour, courage and heroism in going into the unknown territories. From small they grew into big businesses and trading houses and build their empires.

Shift from Trading to Manufacturing

Then came the dramatic transformation in India. The seeds of industrialization were planted around a hundred years ago. The very same traders with resources and their business acumen sensed the changing tides of time and felt the winds of change. They moved from trading to manufacturing and set up production units.

This shift from trading to manufacturing required a shift in the mind set of the entrepreneur from personal business acumen to setting up a production unit and a formal organisation. Not every successful trader could do the transition. Many failed. However, those who did succeed went on to become great industrialists and built empires. Initially, the manufacturing was in the textiles (Dutta, 1997). Stories are many of the success and quality of the textile industry in India. All these industries were owned by individuals and their families and handed down to their children.

Indian is known for businesses run by individuals, who then by succession and continuity pass it on to their children and so on to their children. The succession of one generation to another of the ownership and management of business has established itself in India and has deep roots. Large part of the business be they small, medium, large and global are closely held and managed by families and the network of relationships of the family. Though India is known for businesses owned and run by families 40% of GNP generated by businesses in the USA are run by families. Similarly 80% of all enterprises in the US are family owned and managed. In most countries across the world much of retail trade, small industry and different kinds of services are

in the hands of the individual and the family from the corner store to the most hightech state of the art manufacturing (Dutta, 1997).

The first generation owners entrepreneurs lived and worked in an environment which was a continuity of the social environment. These owners and entrepreneurs had dreams and pushed their dreams through hard work. These entrepreneurs provided sound direction and guidance, were sagacious in relationships and generated a group of dedicated and committed employees. (Parikh & Rath, 1996). These entrepreneurs governed their people through personal care and focus on productivity. They created a culture of survival where if the enterprise made profit the people benefited and that was through hard work. And if the enterprise failed then everyone lost out on employment.

In whichever way we may locate Indian family businesses in the industrialisation process they have contributed immensely to India as a country becoming the 6th largest industrialised nation in the world . This has been possible only because there has been a tradition of an individual entrepreneur starting an enterprise, and fostering it to grow and subsequently handling it down to his children. The children and grandchildren have either enlarged it or they have sustained and maintained it.

Forty years of socialism grounded in an alien political ideology and modern concept of socialism of providing occupational opportunities could neither derail the Indian entrepreneurs or destroy the India's legendary entrepreneurship qualities.

Similarly, the political system with its own ideology, the choice of the economic system to provide employment and the social system to protect the minorities, the underprivileged and the deprived joined hands to create a new India. The political system focused on industrialisation, the economic system on self reliance and the social system on employment. The linkage created its unique configuration of license raj and a country governed by scarcity and controls. Similarly, amidst process of industrialisation large mammoth organisation like public sector were created. In this process many of the manufacturing units set up by individual entrepreneurs slowly got strangulated and frozen by the bureaucracy patronage to the public sector. The manufacturing units also suffered as the entrepreneurs found it very difficult to shift

their mind set from trading to manufacturing. The paradigm of trading and for manufacturing are qualitatively different and require a very different leadership role and management practices style.

It can be said that the family businesses also create patronage and an ongoing dependency on the patron or the founder. However, the patronage of the family ownership the patronage of the public sector and the multi-national corporations are qualitatively different. The patronage of the family was largely institutional and personal in nature. This means that the people were committed, loyal and conformed to the targets, results and performance of the organisation set by the owner. It was clear that if the unit did not make profit everyone suffered more or less, but everyone suffered. The dependency was more on the individual as a father figure which was a continuity of the social and societal processes in the organisation. But the patronage of the public sector was that once the individual got recruited he got wages, promotions and benefits were for life whether the individual performed worked or not work. In fact most people sought and also seek government jobs as opposed to any other sector be it private or family owned. The public sector government jobs provided life time security and pay checks. If they did work it enhanced their power, status and the right to exercise controls over others.

Similarly, family businesses are different from the multi-nationals. The multi-nationals are governed by a parent body outside the country. By the virtue of the three hundred years of external domination and the Indian penchant for the west the employees of the MNC's acquired a status and pride of belonging and identification with the organisation. It was also true that the individuals across the levels of hierarchy may not have had any significant autonomy, authority or power. However, the employees implemented well, had higher wages and were rewarded for their conformity. The MNC's also had the right and the power to ask people to leave if they did not perform. However, the interface between the owner and the employees of a family enterprise, the interface between the leader and the employees of the public sector and the interface between the leader of the MNC and the employees reflect a unique configuration of dependence, surrender of autonomy, power and performance,

personalisation, equation and security. However, these very same equations are undergoing dramatic shifts in their paradigms and assumptions.

STRENGTHS OF FAMILY BUSINESS: THE INDIAN CONTEXT

The Indian family businesses with reference to a manufacturing span about a century and more significantly last five to six decades. As such, we have family business largely belonging the individuals from trading and business castes and communities. Some were first generation businesses while others have two to five generations of heritage in trading and business. These businessmen have a fine business and financial acumen. They are open to taking calculated risks. Subsequently, beginning with the 1970s others with enterprising spirit and professionalism have started their own businesses as well as large manufacturing..

In the initial phases of growth, of the first generation of business families had an austere life style, a strong social orientation, a need to contribute to the community and society were anchored in values of equity distribution and sharing of resources (Dutta, 1997)

They had the ability to accumulate and manage wealth without feeling guilty. The families measure wealth and monitor the performance of each and every business on a daily basis (Birla). Indian business families had a fine balance between autonomy, commitment, and monitoring day to day resource generation as separate from production (Dutta, 1997).

Some entrepreneurs are driven by upgrading their community or class through businesses. The entrepreneurs want the business to continue. As such succession and leaving behind is one of the most critical factor. Children of entrepreneurs are born into an already existing intricate fabric woven by their parents. To them family business is seldom a neutral identity, it is a force in shaping the next generation, their sense of who they are, and what they want in life (Dutta 1997).

- The entrepreneur is the hero idealised, glorified and respected by his people.
- The employees are treated as family members extended family.
- The collective interest of the system and the group is upheld rather than the individual.

- **Competent and capable leadership able to manage the workforce through social structures and processes.**

The Indian family businesses have evolved decade after decade. The pulls of the environment and the individual's business acumen have propelled the organisation towards planned or unplanned growth. However, most family businesses have their inherent strength whether the business is in trading or manufacturing in a stable and consistent environment.

1. **Between the decades from 50s to 90s when the industrial environment was stable, the government policies protective and the economic policies restricted, closed the family business grew.**
2. **The culture of the family businesses was personalised relationships with all of its employees. Employees did whatever work was required without getting caught with job, role, functional boundaries. Loyalty, conformity and obedience were rewarded.**
3. **Decision Making was centralised which meant that the decisions got taken whether they were right or wrong. The employees went to the owner for both work related and personal life decisions.**
4. **The interface between the employer, progenitor, patriarch was that of father-son, elder brother-younger brother, uncle-nephew and reflected many other social roles. Both stood by each other in times of crisis, celebration or sorrow. Employees like the family were taken as a personal responsibility and so were their families. There are many family businesses where the families of the employees visit the plant or the unit once a year and meet the MD personally. There are many stories where the owner has taken personal interest and care of their employees as well as their family members.**
5. **There is a continuity of social equations and there are events where this equation and relatedness comes through in celebrations and or social institutional events. Here the progenitor, leader, patriarch and their family members are accessible, touchable and every single employee believes that he / she will be listened to. The employees are so committed and loyal they will do or die with the owner / progenitor of the organisation.**

6. The owner / progenitor acquires a larger than life image in his life time. He is revered but perceived as working for his people and the organisation feared for his discipline. He is experienced as living for the organization and making personal sacrifices. He is domineering as well as disciplining and feared but is perceived to be doing for the good of the employees as well as the organization, caring for the well being of his employees and with a strong belief that he would not betray or let them down. There is immense faith and trust in the organisation as well as the entrepreneur, owner, patriarch.
7. The patriarch holds the collectivity together. He is seen to be working for the collectivity and for the community and not for himself.
8. The union-management interface is like a family. The management comes through as working for the larger collective interests and as logical, rational and mature whereas the union comes through as irresponsible, emotional and sentimental. However, both have tolerance for each others idiosyncracies, are indulgent to each other in their temper tantrums and eventually are open to flexibility and negotiation.
9. Once the patriarch progenitor is convinced a whole lot of energy and resources are available for both people and system investment.
10. The family businesses have very loyal and committed employees across levels of the organisation who will stand by the family in their business as well as personal crisis. Similarly, the family and the organisation stands by its employees in good times and difficult times. Good events are jointly celebrated and sad events are shared and given support. This group identifies with the progenitor with the organisation, its image and identity.

WEAKNESSES OF FAMILY BUSINESS : THE INDIAN CONTEXT

The family owned organisations today evoke images of being traditional, non-responsive to change, insecure with complexity and competition, protective of themselves, non-competitive, only capable and fit to work in a protected environment, person based, hierarchical, controlling, centralized, non professional and operational, etc. A whole host of images which predict oblivion of family businesses in the emerging complexity, competitiveness and helpless against the hoards of giants landing on the Indian soil. Many talk of the family organisations as once upon a time and sadly shake the heads with nostalgia at how it once was and the glory of the organisation and its members.

However, when we talk of individuals, who are the progenitors of these organisations the images change to awe, glory, respect and books and words do not tire of discussing the sagacity, business acumen, courage, values, underlying ideals and philosophy of these individuals and the resultant growth and pride of their empires and dynasty.

Indian organisation have this unique characteristic that individuals are heroes. The collectivity has trust in them but do not trust the systems and organisations they have created. The institutions, the organisations and systems become synonymous with them. Once they leave the fear and belief is that the institution, organisations and systems will vanish. History and the socio-cultural realities of our land has reinforced this belief and yet we witness the living reality that no institution organisation or systems small or large has really withheld or perished. Many may not have blossomed and flowered but they have also not died. However, this reality may not last long. In today's business environment organizations will be created. They will grow and some will fall by the wayside and perish.

The contradictions of the images of the organisations and the individuals lies the real uniqueness of the Indian family organisations for both are real and both are highly accentuated.

1. The family businesses in India know the world is changing and the business environment is changing. They would like to change but are unprepared to change. The family businesses find it extremely difficult to work effectively in a turbulent and chaotic environment which demands a certain discipline from the management as well as the collectivity. The collectivity of the employees have become cocooned and secure in their comfort zones which makes it very difficult for them to change.
2. In the context of transformation when the owner / progenitor subsumes the organisation the organisation structure and systems becomes larger than life, all other role holder get shadowed. The employees then come through as echoes and shadows of the patriarch. They only take the role of doers and implementors.
3. Decision making continues to remain centralised and other role holders feel marginalised and or under-utilised in their role and capabilities. They end up playing the role of doing their duty.
4. The owner / progenitor has access to every employee. Often, he violates the designed structure, hierarchy and authority by directly and personally interfacing across levels. This makes the concerned role holders feel their role and authority eroded as well as their space violated.
5. The owner / progenitor has some key proxy sons who acquire enormous authority and power. They often play the role as proxy owners and sometimes erode the second generation successors authority and power.
6. Mediocrity is tolerated as employees are accepted with their limitations.
7. There is a hesitation and tentativeness to formalise and professionalise the organisation, its structure and work culture.
8. There is a divide between the old and experienced as loyal to the owner / progenitor and new professionals who join the organisation with different aspirations and ambitions. Sometimes there is a divide between the entrepreneur father and the second generation successor in the son.
9. Sometimes the organisation culture is of fragmentation and divide and rule practices which erodes the coherence in the organisation.
10. Change is a slow process - it is not accepted or considered desirable.
11. Policy strategic perspective is not transparent and not conveyed down the line. Only the top holds the directions. They may not have a strategic perspective.

12. Delegation, loyalty and conformity are rewarded. The owner / progenitor cannot let go the hands on role.

LIMITATIONS IN THE PRESENT CONTEXT

1. The strategies for growth rests only with the leader / progenitor. The emergence of an effective top management, corporate management or collective leadership does not emerge.
2. The organisation does not have a long term policy perspective to respond to the challenges and opportunities in the environment.
3. The organisation does not have the ability to work as a team or a collectivity.
4. There is no collective leadership. Management is anchored in one person and is relationships oriented.
5. Organisations are haunted by the larger than life progenitors. Every subsequent generation is compared to that giant of his times when today the global, external business and internal people environment has changed dramatically.
6. Unique talents of each one is not owned up or recognised.

Indian businesses lived with the belief that people and technology would renew themselves by themselves. They continued to work with the same mindset, the same people, and the same technology. Investment is not made to upgrade the management knowledge, attitudes and skills of the employees. Technology is upgraded incrementally.

Most Indian family business houses have reached an organisational plateau. This plateau reflects saturation of growth, leadership competency and managerial capabilities of its people. The organisation has collected debris and baggage cumulatively which creates dysfunctionality in the system.

Some family business wake up as if from a slumber and find it difficult to respond to the realities, challenges and opportunities of today. Some find it difficult to respond to the aspirations of the younger generation and want to hold on to the austerity and the values of scarcity for the younger generation. Organisations have gotten entrenched in their work culture and need renewal so that they mobilised to respond to present the

future. If the organisation is taken over by the next generation the energy of the organisation is vested in the earlier progenitor and leader. The energy needs to be retrieved by the collectivity of the employees for themselves to bring it to the organisation. It is in the energising of the collectivity that the family businesses would experience renewal and regeneration.

FUTURE OF INDIAN FAMILY BUSINESSES

The family owned businesses are the core around which the Indian industrialisation began. The strangulation of the license raj, the shrunken space of the closed economy and the invisible and hidden costs of government and industrial policy did not wipe out the Indian family businesses. The dramatic transformation of the 90s to open up the economy, and liberalisation of competition is also not going to wipe out the Indian family businesses, if at all the country is going to make leaps and bounds towards progress in the industrial growth. For this to happen certain primary conditions are necessary. This growth will come from the stability of the families, enterprising effort, spirit of adventure and dreams of both the traditional and the young modern heirs and successors of those path breaking pioneers. The success will come from the ambitions of the newly educated professional entrepreneurs to build their organizations. Most important, when the Indian entrepreneurs will respond to the changing tides of time, accept the pride of being an Indian with intellectual resources as well as business acumen and the passion and fire to bring themselves and India on the industrial and economic map of today and tomorrow.

The history of most Indian family owned and managed organisation suggest that unless the family works together with clarity of each others roles in the work place, defines a boundary between the social and work roles, fosters and evolves a shared understanding of the individual and collective roles and goals, the family businesses would not survive. There are chances that others within the organisation and outside can chip away the cementing factors of social relationships. The possibilities of creating a wedge amongst the family members and creating conflicts and stress are easy as each one carries the debris and baggage of past and long history. The wedge largely feeds on each other's insecurities, anxieties, issues of power and status, visibility and significance, centrality and ones own marginality and self-image and

identity. The epics and the myths, the folktales and the folklore of Indian society is replete with such processes. There are no stories that end with "Happy Ever After" in the family businesses (Parikh, 1999)

In business it is not the business differences which makes the business fall apart but the social differences which contribute to the business falling apart. Families carry social, personal and emotional history. And the past has many residues. These residues are often frozen necessary. A process of family renewal. New meanings to the past experience, new relatedness in the present and trust and faith in the future – all put together contribute to the creation of a new family saga and history. The bonds and the fondness of relationships in the family contributes to create an Institution of either an individual or the organization which then lasts for generation to come. If the family owned organizations are to survive in today's times then some critical questions need to be answered (Parikh, 1999).

1. Who will give shape to the culture of the organisation of tomorrow? and facilitate the transition from familial culture to professional culture?
2. Who will provide the role of leadership the social hierarchy or the expertise and vision of the younger generation. Or could the family ownership facilitate multiple leadership based on the expertise of each role?
3. Who will provide direction to the organisation. The one with power and controls of hierarchy and structure or the one with clarity and understanding of the market place of the global economy?
4. How is the organisation performing and how will the performance be measured? Are the people participating and performing? How will their performance be measured and valued?
5. What is the destination of the organisation? Is there clarity of strategy, vision and direction and who would look beyond the horizon, have courage of convictions? Who is willing to climb the new mountain?
6. What is the emerging identity and image of the organisation? Is the organisation society responsive? Are the leaders of the organisation willing to replenish the organisation, its employees and the society?

7. Why have so many individuals joined the organisation and what is their role in giving shape to the future of the organisation. Will the organisation invest in its people and work with processes of regeneration and renewals?.

NEW PARADIGMS OF FAMILY BUSINESSES

The family businesses and industrial empires would need to enhance their strengths and minimise their dysfunctionalities. They will need to address the following:

1. Share their dreams with the employees for the organisation survival amidst the increasing complexity and competition.
2. Arrive at a shared long term strategy let say for 7 generations (350 years) for the organisation as well as the family.
3. Design an appropriate structure and let it unfold. In effect, let the employees do their work. However, family members in the name of ownership create immense control or in the name of delegation create an undisciplined impulsive giant who is not responsive to change.
4. Integrate excellence and performance with human responsiveness. Design appropriate processes of work ethos. There is nothing so touching as a touch, there is nothing so evocative as reaching out as a human being and there is nothing so reassuring and feel good as a pat on the back and saying the family and the management values the employee for her / his contribution.
5. The family owner management to interface with the collectivity on traditional events and foster institutional processes inviting the family members of employees to the office / plant and personally meeting them.
6. The progenitor leader needs to be touchable, seeable, approachable, and with long ears to listen, deep stomach to hold their confidence and solid hands to reassure and protect its employees. At the same time demanding for performance and seeking accountability for non performance.
7. The family needs to be seen and experienced as cohesive and relating well with each other. Cracks in the family togetherness is the easiest pathway to decline.

The choice for the key role holders and the organization is whether to interface with the day to day operational realities and feel that they are in charge, significant and in control or to create a corporate structure and a corporate group with its strategic organizational perspective and take visionary roles for the growth of their organization for tomorrow. Essentially, the choice is between guiding people and providing directions to perform or inspire people to mobilise the collective energy so that they bring out their best and the organization discovers new mountains to climb and wide open vistas to initiate path breaking steps.

The choice is to evoke in the collectivity the fire to deploy their potentials and collectively mobilise the talent for innovativeness, excellence and forging a new role for themselves. The choice is between a successful role model of an organization or to become heroes or villains individually. New giants may come but the resilience of the entrepreneurial spirit, the phoenix like quality of the families to rise from the ashes, and the core values can provide the family owned organizations discover the wherewithals to not only survive but build an institution which lasts for generations to come. Then, perhaps the family saga may begin. Once upon a time..... and they created an empire..... where people had dreams and nurtured and fostered them and make them happen that which everyone thought was impossible.....

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