

Developing Family Business Members as Family Business Managers – With Reference to the Role of Education and Training on Development of Family Managed Businesses in India

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ABSTRACT

This article examines the cause and effect relationship between education and job related training with development of Family Managed Business.

Family Managed Businesses have been recognised for the contribution they have made and will continue to make towards the growth of the Indian economy. There is greater realisation of the need for planning the induction of new family members bearing cognisance of their individual aspirations, ability and knowledge, and the perceived impact on the business.

Findings indicate that the influence of education and training on development of Family Managed Business was noticeable, and reflected in the expansion and diversification of Family Managed Businesses in India, and that family members take longer to come into business after professional education and sometimes working in other firms.

Keywords: Family Managed Business, Education, Training, Development, Related Business Areas, Unrelated Business Areas

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** Evolve (Entrepreneur), Evolve. Name of Start up-Evolve.



Introduction

The Indian and the world economy are dominated by family owned businesses, which generate most of the economic output and wealth of a nation.

According to Boston Consulting Group, 'more than 30% of all companies worldwide are Family Managed Businesses accounting for sales in excess of \$1 billion.'

India is home to the largest number of family businesses, accounting for 67 per cent of all listed companies, a 2011 Credit Suisse study has said. '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 towards the business overall well-being.'

Family businesses are the lifeline of India's economy and the rest of the business community are largely dependent on them. Non-family corporations collaborate with family firms on various levels. While family owned companies are often strong competitors, they have vulnerabilities that need to be managed, and are often accused of lack of professionalism and mismanagement. A vast majority of family managed businesses (FMBs) experience difficulties like moving from one person general management to an institutionalised competence that results into competitive fitness across generations.

Significance of the Study

Family Managed Businesses in India view the need to continually innovate as a key challenge. Innovation is critical to maintain their relevance in the changing business environment. In order to innovate, they need to combine their new strategies to broader business goals.

Technological advancements are redefining business models, strategies and the changing industry dynamics. Family businesses are acutely aware of the risks their business face if they are unable to either adapt to the new technological advancements or bring in new technologies to enhance the quality of products and services.

The challenge before the owner of the family business is to develop the next generation leaders who have the wisdom to understand the

complexities of the globalised world, have sound knowledge of several fields that is essential to successfully manage a business, and also have acumen to manage competition for the benefit of all stakeholders. Companies feel the need to constantly keep up with the fast paced strides technology is taking in turning the older business models obsolete, and therefore the need to invest time and resources in getting their successors educated and trained in their family business.

Despite not being suitably qualified in education, experience or understanding the business, offspring may ascend to leadership positions because of the family connection, increasing the chances that business will fail.

This study will help to measure the cause and effect relationship of education and business related training on the development of the FMB in related and unrelated business areas.

This study would also serve as informative experiences guiding the founders of the family business to make sustained and conscious efforts to increase physical and cognitive diversity among leaders based on education, industry experience and training, while retaining the tradition, culture and history of the family business which is inspiring and enabling.

The researchers are sure that if the findings and suggestions given are examined along with adequate emphasis and effort to promote professionalism in FMBs through education and training, this will lead to their increased competitiveness and development.

Objectives of the Study

- To determine whether formal/professional education is necessary for the success of FMBs in related and unrelated business areas in India.
- To highlight the benefits of business related training on the development of FMBs in India.
- To develop usefulness of this study to the founders/owners of family businesses who wish to bring professionalism in the management while retaining the family culture and business ethos.

Scope of the Study

It is viewed that FMBs are the real engines for economic growth of a nation, and education and job skills are instrumental in equipping FMB owners to handle succession planning, bringing in professionalism and better awareness of governance practices.

Educational opportunity will prove a major stepping stone in the career path of young leaders of family businesses who want to upscale the existing operations. With Indian business families turning their ventures into huge global firms, exposure to high quality business processes and management training (studies) will therefore be extremely useful for the Indian Family Businesses going forward.

The study aims at understanding the efficiency of linkages between educational qualification and professional job related training to the expansion and diversification of FMBs in India.

The dogging of their personal variables (education and training) in relation to their entrepreneurial performance would help in defining certain important business traits, which in turn could be improved upon in the present day family business owners or can be transmitted to new and prospective ones through teaching and training media.

The identification of these constraints at entrepreneurial level and its relationship with the development of their family business would help find remedial measures and lead to overall development of FMBs in India.

Hypothesis

Professional qualification and job related training does not play a significant role in the development of FMBs in the related business areas only.

Research Methodology

Primary Data

The study was purposively carried out on owners/founders of 70 micro-, small- and medium-sized FMB units in India.

A structured blend of open and close-ended questionnaire format was used to collect data from the respondents which was analysed by the administration of the Chi-Square Test.

The questionnaire basically covers five key characteristics which are further classified under various categories:

1. Type of Enterprise—Micro, small or medium, based on the investment.
2. Number of family members involved in the business, with their qualification, training, and the year of joining the business.
3. Information regarding the business development where the options are classified into related areas and unrelated areas. Related areas refer to the development of the existing business in the form of expansion, i.e. open another location, target other markets, expand to internet, etc. Unrelated areas refer to development of the business in the form of diversification, i.e. acquire another business, export other's products and so on. The respondents were asked to provide information since the inception of the family business, year of business development if any, and the family members joining the business.
4. Information regarding the role of education, formal business training and skill-related training also collected, tabulated and analysed.

The responses to the questions were administered to the Chi-Square Test by the researchers and analysis derived. Wherever possible, graphical presentation techniques were also considered to focus on the on-going study.

Secondary Data

Relevant secondary data is also considered in the form of references from books, articles in journals, periodicals and magazines. The use of online resources was also made to seek current relevant information required in the research study.

Sampling Frame

An attempt is made to develop a sampling frame in which simple correlations are established which are shown in Figure 1.

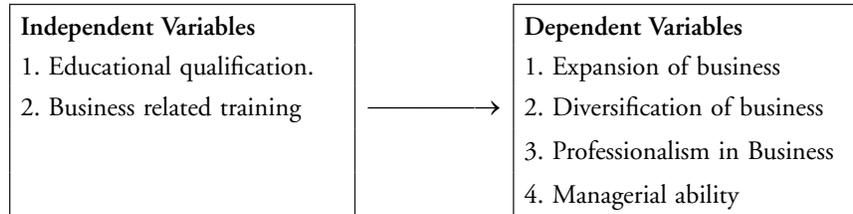


Figure 1

Limitation of the Study

The open ended questionnaire format required some subjective interpretations by the researchers.

Data Analysis and Interpretation

Quantum of Turnover of the Respondents of the Study Interpretation

The pie-chart in Figure 2 indicates that amongst 70 respondent companies, 27.6 per cent belong to manufacturing sector, 34.5 per cent to trading sector, 24.1 per cent to service sector, 6.89 per cent to manufacturing and trading sector, and again 6.89 per cent identified themselves to other categories. (The figures have been rounded off to the second decimal which give an error of -0.02 per cent.)

Type of Enterprise (%)

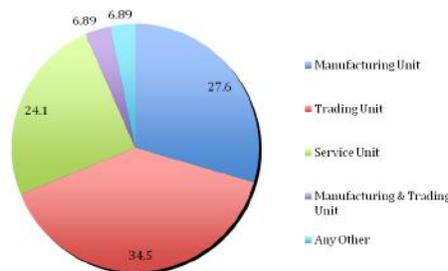


Figure 2: Type of Enterprise

Number of Employees

Interpretation: Table 1 indicates that there are 26 companies that have 0–10 employees, eight companies that have 11–20 employees, four companies that have 21–30 employees, seven companies that have 31–40 employees, six companies that have 41–50 employees, two companies that have 51–60 employees, three companies that have 61–70 employees, again three companies that have 71–75 employees, and six companies have 75 and above employees.

Table 1: Number of Employees

Number of Employees	0-10	11-20	21-30	31-40	41-50	51-60	61-70	71-75	75 and Above	Total
Number of Companies	26	8	4	7	6	2	3	3	6	70

Importance of Education

Interpretation: The pie chart in Figure 3 indicates that amongst the 70 respondent FMBs there are 62 FMB which consider education important for business growth and replied ‘Yes’, five companies which replied ‘No’ and three companies were uncertain and responded ‘Unsure’.

Is Education Important for Business Growth?
(Responses of companies out of 70)

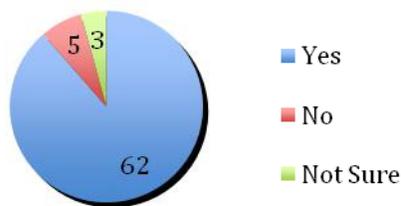


Figure 3: Importance of Education

Interpretation: The pie chart in Figure 4 indicates that amongst the 70 respondent FMBs there are 61 FMBs which consider that education does improve management and replied ‘Yes’, 8 FMBs which replied ‘No’, and 1 FMB was uncertain and responded ‘Unsure’.

**Has Education Improved Management?
(Responses of Companies out of 70)**

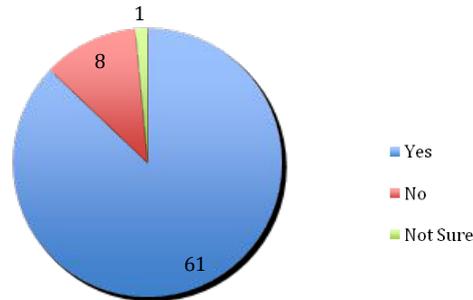


Figure 4: Improvement of Management Through Education

Interpretation: The pie chart in Figure 5 indicates that amongst the 70 respondent FMBs there are 32 FMBs which consider that education 'Moderately' strengthens preparation as an entrepreneur, 36 FMBs which replied 'Completely', and 2 were uncertain and responded 'Unsure'.

**Does Education Add Strength to the Preparation as an Entrepreneur?
(Responses of Companies out of 70)**

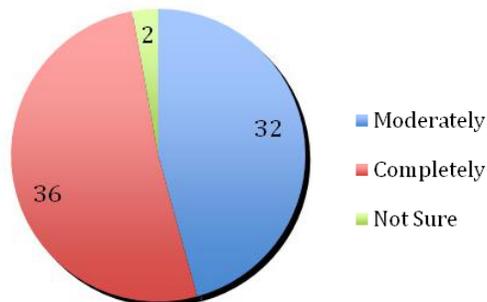


Figure 5: Role of Education in Preparing an Entrepreneur

Interpretation: The bar-diagram in Figure 6 indicates that amongst the 70 respondent FMBs there are 57 which consider only formal education is sufficient and replied 'Yes', 10 replied 'No', whereas 3 were uncertain and responded 'Unsure'.

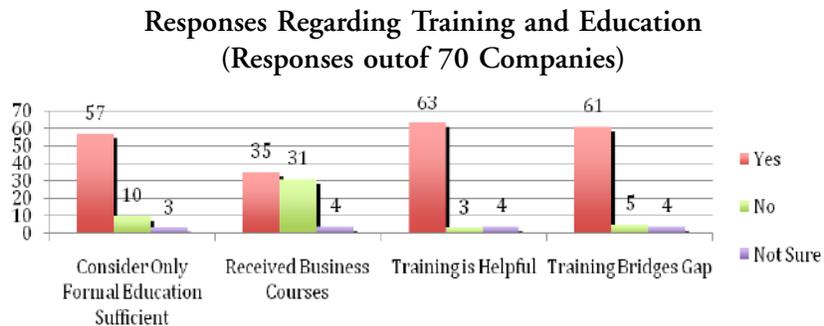


Figure 6: Training and Education

However, again, amongst the 70 respondents there are 35 who replied ‘Yes’ to have received business courses, 31 respondent which replied ‘No’, and 4 did not specify and hence categorised under ‘Unsure’.

Further, amongst the 70 respondent FMBs there are 63 FMBs which consider training as helpful in business growth and replied ‘Yes’, 3 FMBs which replied ‘No’ and 4 FMBs did not specify and hence categorised under ‘Unsure’.

Similarly, amongst the 70 respondent FMBs there are 61 FMBs which consider that training bridges gap between theory and empirical inquiry and replied ‘Yes’, 5 FMBs which replied ‘No’, and 4 FMBs did not specify and hence categorised under ‘Unsure’.

Interpretation: The pie chart in Figure 7 indicates that amongst the 70 respondent FMBs there are 60 FMBs which consider that skill related training helps in business growth and replied ‘Yes’, 6 FMBs which replied ‘No’, and 4 FMBs were uncertain and responded ‘Unsure’.

Does Skill Related Training Help Business Growth? (Responses out of 70 Companies)

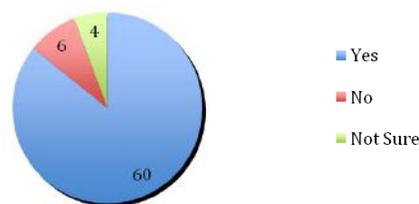


Figure 7: Training and Business Growth

Interpretation: The pie chart in Figure 8 indicates that amongst the 70 respondent FMBs there are 37 FMBs which consider that education 'Moderately' develops confidence and ability to cope stress, 32 FMBs which replied 'Completely' and 1 FMB was uncertain and responded 'Unsure'.

**Does Education Develop Confidence and Ability to Cope Stress?
(Responses of companies out of 70)**

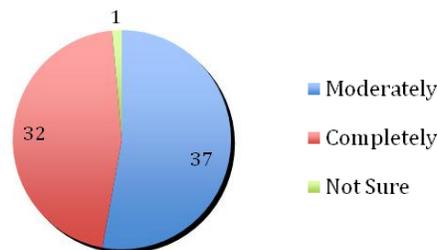


Figure 8: Education and Ability to Cope Stress

Framework of Analysis

In order to examine the relationship between professional qualification and job related training in the development of FMBs in related and unrelated areas, the Chi-Square test is applied. The Chi-Square value is calculated by adopting the following formula:

$$\chi^2 = \text{SUM} \frac{(O-E)^2}{E}$$

With (r-1) (c-1) degrees of freedom

Where, O = Observed frequency

E = Expected frequency

$$E = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

c = Number of columns

r = Number of rows

Table 2

	<i>Related Areas</i>	<i>Unrelated Areas</i>	<i>Both (Related and Unrelated Areas)</i>	<i>Total</i>
Professional qualifications and job training received	18	7	20	45
Professional qualifications and job training not received	15	5	5	25
Total	33	12	25	70

Table 3

<i>O (Observed)</i>	<i>E (Expected)</i>	<i>O-E</i>	<i>(O-E)²</i>	χ^2
18	21.21428571	-3.214285714	10.33163	0.487013
7	7.714285714	-0.714285714	0.510204	0.066138
20	16.07142857	3.928571429	15.43367	0.960317
15	11.78571429	3.214285714	10.33163	0.876623
5	4.285714286	0.714285714	0.510204	0.119048
5	8.928571429	-3.928571429	15.43367	1.728571
				4.23771

$$\chi^2 = 4.23771$$

$$\chi^2 (0.05, 2) = 5.9991 \text{ (Table Value)}$$

In this study, the hypothesis formulated was that the professional qualification and job related training does not play a significant role in the development of FMBs in the related business areas only.

The calculated value of Chi-Square was compared with the table value of Chi-Square for the given degrees of freedom at 5 per cent level of significance.

χ^2 (calculated value) is less than χ^2 (table value) – the hypothesis is accepted.

Findings of the Study

1. As per the Chi-Square test, professional qualification and job related training plays a significant role in the development of FMBs not only in related areas (expansion) but also in unrelated areas (diversification) of business.

2. The research findings prove that the percentage of family business owners venturing into development of their business in unrelated areas is significantly higher than those who have not received professional education and training.
3. As per the research analysis, it is proved that professional know-how and job training helps the family business owners to identify business opportunities in areas different from their existing business and makes them prepared to meet global challenges and competition.
4. On analysing the cause and effect relationship and the linkage between education and job related training with the development of FMB in India, it was found that despite diverse sectors including manufacturing, trading, services and others, there was a marked similarity in their approach towards earning education and receiving training for the development of their family businesses.
5. The sample respondents were of the thought that while education added strength to their preparation as an entrepreneur, developed confidence in them and broadened their horizon, it did not help in developing their sense of initiative, whereas training developed in them business acumen, enhanced management skills and created additional value to their family business.

Recommendations

Receiving professional education by the succeeding generation of FMB will increase the job preparedness of the entrepreneurs, create experiences in them that would enable development of insight needed to discover and create entrepreneurial opportunities and the expertise to successfully manage their own business and to take advantage of these opportunities, whereas job-related training will aid in furthering business professionalism, cultivate global thinking, and make existing successful business even more competitive.

Scope for Further Study

‘A good research is the one that can pave way for another research.’

This study opens up fresh areas of research such as:

- Entrepreneurship Education – its need for FMB
- Classroom learning v/s on-the-job training for family business Owners
- Balancing past and future – staying true to the core values of the family business group
- Culture v/s Professionalism – requirements for development of FMB.
- The limited role of women in FMB

Conclusion

It is desirable to come from learned, successful entrepreneurial parents, but it is also beneficial to gain work experience and adequate education. This scenario will substantially enhance the probability of success. So, many factors are unrelated to genetics and support the counter paradigm that ‘Entrepreneurs are often made, not born.’

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