DYNAMICS OF THE FAMILY FIRM IN INDIA : AN EXPLORATORY ANALYSIS OF THE ROLE OF FAMILY AND KINSHIP IN INDUSTRIAL ENTREPRENEURSHIP

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CERTIFICATE

This dissertation entitled "Dynamics of the Family Firm in India : An Exploratory Analysis of the Role of Family and Kinship in Industrial Entrepreneurship" by Sujata Kashyap for the Degree of Master of Philosophy, has not been previously submitted for any other degree of this or any other University. We recommend that this dissertation should be placed before the examiners for their consideration.

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C O N T E N T S

			Pages
ACKNOWLEDGEMENTS		... ...	i - ii
CHAPTER	I	FAMILY FIRMS AND INDUSTRIAL DEVELOPMENT : AN INTRODUCTORY OVERVIEW	1 - 33
CHAPTER	II	THE RESEARCH SETTING	34 - 54
CHAPTER	III	CONDITIONS CONDUCIVE FOR THE PERSISTENCE OF FAMILY FIRMS	55 - 80
CHAPTER	IV	ADAPTATIONS OF THE FAMILY FIRMS TO THE CHANGING MILIEU	81 -103
CHAPTER	V	DISINTEGRATION OF FAMILY FIRMS	104-140
CHAPTER	VI	CONCLUSION	141-155
REFERENCES AND BIBLIOGRAPHY		...	156-167

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CHAPTER I

FAMILY FIRMS AND INDUSTRIAL DEVELOPMENT : AN INTRODUCTORY OVERVIEW

This dissertation attempts to study the family firm in India - the factors which are conducive for its persistence, the manner in which it operates and the conditions under which it disintegrates. On the basis of this study I hope to assess the future of the family firm in India. Such an understanding would throw light on the nature of India's industrialization, and the impact that this industrialization would have on social change.

I

The Role of Family Firms in Industrialized Societies

Analysts of industrialization and social change in the West tend to argue that family firms represent a transitory phenomenon. They regard that industrialization radically truncates the role of the family and differentiates the firm as an economic unit from its unity with the household or family. In this regard there is considerable unanimity in both the Marxist and the Weberian traditions.

According to Marx, the family in pre-capitalist social formations remains a self-propelling and self-sufficient economic unit. The product of the household industry never

attains the status of a commodity which is characteristic of the capitalist order (Marx, 1977: 82-83). But with the development of capitalism, the family loses its economic and social significance. The capitalist system entails a large organization, namely the factory system, which would sweep away small scale units characteristic of the pre-capitalist order (Marx, 1977: 699). The individual capitalist is progressively alienated from his hold over the firm with the progressive development of the joint stock company system. With this, naturally, the hold of the family over the firm also diminishes. This represents the ultimate development of capitalist production (Giddens, 1971: 59). Modern industry, according to Marx, overturns the economic foundation on which was based the traditional family, and loosens all traditional ties (Marx, 1977: 459). In this process, the sentimental veil is torn away from the family, and the family relation is reduced to a mere money relation (Marx and Engels, 1977: 45). Marx stresses that modern industry creates a new economic foundation for a higher form of the family, and liberates the women and children from the tyranny of traditional familial authority (Marx, 1977: 460). Thus Marx envisages not merely the breakdown of the family firm itself, but also the transformation of family ties.

In the same tradition, Harry Braverman argues that the role of the family in productive processes remained

central in the early stages of capitalism but the development of capitalism destroyed the economic functions of the family (Braverman, 1979: 271).

As is well known, Weber's analysis of the development of capitalism has been in terms of the progressive development of rationality in social and economic processes and institutions. Capitalist rationality involves (a) calculability and the institution of modern book-keeping; (b) the appropriation of all the physical means of production as the property of the industrial enterprise; (c) rational technology; (d) calculable law; (e) existence of free labour and the like. Weber holds that it is "the qualitative uniqueness of the development of modern capitalism" to differentiate the family from the economy to allow for rational calculation of economic activity (Turner, 1981: 295). He goes on to delineate the rationalizing process thus:

> Continuous capitalist acquisition became a special vocation performed in an increasingly separate enterprise. An autonomous rational association emerged out of the social action of the household, in such a way that the old identity of household, workshop and office fell apart...the household ceased to exist as a necessary basis of rational business association...business assets had to be separated from the private property of partners. (Weber, 1978: 379)

For Weber, the crucial factor in this development of rationality is however not the mere spatial separation of

the household from the workshop and the store. Rather it is:

> the separation of household and business for accounting and legal purposes, and the development of a suitable body of laws, such as the commercial register, elimination of dependence of the association and the firm upon the family, separate property of the private firm or limited partnership, and appropriate laws on bankruptcy. (Weber, 1978: 379)

Analysing the impact of capitalism on the household, he points out:

> it is becoming increasingly inopportune for an individual to join a large communistic household. An individual no longer gets protection from the household and kinship groups but rather from political authority... household and occupation become ecologically separated, and the household is no longer a unit of common production but of, common consumption. Thus the household declines in size as well as its importance for the individual. (Weber, 1978: 375)

It should be stressed that Weber is concentrating here mainly on the development of capitalism as it occurred in the West. He is careful to point out that the domestic authority and the household can be independent of economic forces. He also notes that under circumstances where the household is based on common property there would be a tendency for it to continue to remain large. Nevertheless, he is of the view that the separation of the family from the firm is the unique feature of modern capitalism. In other

times and other places, organization of the economy, polity and society may have existed which resembled capitalism but crucially lacked this particular differentiating characteristic (Weber, 1978: 377-80).

Following Weber, Parsons also regards that with industrialization, the family firm loses its pre-eminent position in the economy and society. He is, however, aware that the family firm played a crucial part in the early industrialization of the West - a part which may even be regarded as indispensable. He recognizes that the family firm could be the sole institution at the early stage of industrialization responsible for production independent of governmental authority. He says:

> It could focus enterpreneurial ability beyond the interests or life time of a single individual, it could accumulate and safeguard capital and it could establish a solid reputation in the community. But at later stages it can become a serious source of obstruction to further development. The more recent tendency has been clearly toward differentiating these components from each other. The typical occupational manager in the larger firms is no longer in his position by virtue of kinship ascription, and property ownership is not a significant factor in his leadership and authority within the firm. (Parsons, 1960: 149)

Thus, according to Parsons, industrial development leads to structural differentiation of the family firm, so that in time it is replaced by a large-scale corporate unit.

Parsons not only views the family firm as becoming outmoded, but also regards that the family itself undergoes a transformation with industrial development. First, with industrialization the extent of kinship solidarity gets narrowed and the conjugal family emerges as the most suitable kinship unit for the modern occupational system. Along with it, the family loses its productive role and becomes primarily a system with its accent on affectivity (Parsons, 1951: 186-87). Much the same view is held by scholars such as Ogburn and Nimkoff (1955) and Goode (1963).

A variation of the above theme is to be found in the works of Hoselitz (1960) and Furstenburg (1960). They tend to revert the relationship between industrialization and the nuclear family. Quoting evidence suggesting the existence of the nuclear family much before the onset of industrialization in America and England, they argue that the nuclear family might have facilitated the growth of the industrial system.

It is important to note however that some anthropologists hold a contrary view regarding the impact of industrialization on kinship structures. Firth says:

> What the development towards an industrial society probably does is to break down the formal structures of kin groups, except perhaps that of the elementary family, which is most resistant. The lineage, the extended family, large cooperative cognatic kin unit is likely not to survive as its members disperse into industrial employment and

> their traditional resources and authority structures lose meaning. But personal kin ties tend to be retained on a selective basis. Indeed, they may be even strengthened if the physical isolation of the elementary family is promoted by industrial, urban conditions. There is no reason then to think that extra familial kin ties are likely to decrease in our modern society. (Firth as quoted in Singer, 1972: 287)

Notwithstanding Firth's position it can be inferred that the dominant line of scholarship in the West has viewed the family firm as an institution which cannot survive the onslaught of industrial development. Although the family may survive, its significance in both the economic and social spheres gets drastically altered in the modern industrial world.

II

The Family Firm and Industrialization in the Third World

There is a tendency on the part of sociologists to transpose the Western experience of industrialization on the newly developing countries in the third world. Following Marx and Weber, it is often asserted that industrialization is such a compelling force that it inevitably transforms the third world societies in the image of the industrialized societies. Kerr (1973) and Moore (1965) tend to argue that industrialization would bring about

a limited convergence of cultures across the world. This convergence would be such that while the presently developing societies may not become exact replicas of industrialized societies, they nevertheless would come to acquire certain crucial institutions and ways of life that are found in the industrialized West. Some would go further to assert that to become industrialized a society has to discard its traditional values and replace them by an industrial value complex. For example McClelland holds: "Under developed countries must develop a strenuous, more achievement-oriented attitude towards life, whether they like it or not, if they want economic development." (McClelland as quoted by Singer in Moore and Feldman, 1960: 259).

In this perspective, the family firm in developing countries is also viewed as playing a crucial role only in the early stages of industrial development, just as it did in the West.

Burton Benedict (1968) in his work on family firms in some developing countries, has tried to indicate the importance of family firms for economic development. He contends that the family firms uniquely combine several socio-economic characteristics in them, which are crucial for economic growth. These are particularistic role relationships, potential for risk-taking, potential for making investments in training of personnel, capability to

raise capital, and the provision of continuity and security. The author intends to study the family firms in process, "to perceive how the family firm develops or to learn how it transforms from a family to a non-family business" (Benedict, 1968: 2). He assumes that family firm organization is more important in the early stages of the growth of the firm than in the later stages. He says: "Indeed it seems likely that role relationships in the firm must change qualitatively if the firm is to grow" (Benedict, 1968: 2). The family firms face two major crises in the course of their development. The first arises when the sons reach maturity and want more influence in the management of the firm, thereby challenging the authority structure in the family. Secondly, the growth of the firm necessitates the incorporation of outsiders. If these two crises are not met by an alteration in the pattern of relationships between firm members, the firm may not expand and may even dissolve (Benedict, 1968: 18).

Thus Benedict too falls prey to the common notion that the family firm is a transitory phenomenon. Time and again he emphasizes that the family firm organization may not be important in the later stages of the growth of the firm as in the early stages.

Nafziger (1969) conducted a study on the impact of the Nigerian extended family on the entrepreneurial

activity in that country. He found that almost all entrepreneurs had their apprentice training virtually funded by their respective extended families. Secondly, they depended very much on the extended family for capital to establish the firm. Finally, with the expansion of the firm, the current consumption expenditure of the family increased, which could otherwise be re-invested in business. This hindered the expansion of the firm. Applying the same logic to his Indian study, Nafziger says:

> However, the Indian case might be expected to be similar to the Nigerian case, where one study indicates that the extended family, with its ability to mobilize large resources, facilitates the acquisition of entrepreneurial training and establishment of firms. On the other hand, like the Nigerian case, the joint family in India would be likely to hinder the expansion of firms by diverting resources for current consumption which might otherwise have been invested in business. (Nafziger, 1978: 50)

Thus Nafziger also assumes that the growth of the firm would lead to a decline of the role of the family in business. He thereby reiterates the stand adopted by Parsons and others.

Khalaf and Shawyri (1966) studied family firms and industrial development in Lebanon. They point out how traditional norms along with the institution of the family firm support industrial development in its early stages. Industrialization, according to them, entails a considerable

degree of disruption and change in socio-economic institutions. In such times of flux and uncertainty, one can find refuge and security in certain traditional forms of social organization (Khalaf and Shawyri, 1966: 60). In Lebanon, they observe, nepotism exists but does not create inefficiency because there is a critical shortage of managerial and professional skills. As for centralization of authority, the Lebanese manager favours horizontal sharing of authority at the top, where group decisions are taken and subordinates can express their views. The Lebanese employer is a benevolent provider and paternalism is of a 'democratic and participative type'. Finally Lebanese conservatism did not preclude the entrepreneurs from taking risks and introducing innovations, necessary for industrial enterprises.

Thus in the same tradition to which Benedict and Nafziger belong, Khalaf and Shawyri recognize the important part family firms play in Lebanon at a given stage of industrialization, by providing capital and technical skills which are at the moment in short supply. They also therefore accept the view that industrialization is a compelling force which would inevitably transform societies.

Milton Singer (1971) however takes an entirely different view. He holds that tradition has sufficient resilience and capacity to absorb modernizing trends and

values into the corpus of traditional beliefs and practices. He says:

> Judging from a preliminary exploration... which I have attempted, the process of incorporating modern innovations such as industry is a kind of cultural metabolism well-known in Indian civilization. It is a process of cultural intake and assimilation which operates with artifacts, technical processes and idea systems, as well as with social groups. Innovations in these fields are introduced into the system tried out and tested, accepted or rejected according to a fairly regular sequence of phases. The overall aim of the process is not to modernize or 'westernize' in the sense of imitating the West or changing something old and traditional into something new and modern; it is just the converse - to change the new and modern into something old and traditional. In India, modernization takes the form of traditionalization. (Singer, 1971: 57)

Thus in his study of Industrial Leadership in Madras City, Singer argues that the joint family is flexible enough to face the pressures that industrialization creates, and thus traditional principles of family and kinship not only survive but actually offer distinct advantages for organizing an industrial enterprise. This takes place because there is an underlying structural congruence between the traditional Indian family and the requirements of modern industry. From the evidence drawn from the families of Madras industrialists, Singer finds that the joint family provides capital for new ventures, expansion,

as well as training of personnel. It provides a well structured pattern of authority, succession and inheritance, which meets the requirements of an organization for direction and management. Decisions are taken jointly, and varied talents of the family members can be utilized for industrial operations (Singer, 1968: 446-7). Commenting on the resilience of tradition, Singer also finds that the industrialists used various adaptive strategies to incorporate modern innovations, while still retaining their traditional beliefs and practices. These were compartmentalization, vicarious ritualization, the separation of ownership and control both in the family and the firm and lastly, the extension of the principles of household management of the rural joint family to modern industry (Singer, 1968: 445). In this manner the family is able to survive in an urban-industrial complex.

In perhaps the only study on the actual working of family firms, Allan Cohen selects eight firms in India for an intensive study. His study, conducted in 1964, focuses on inter-role conflict in family business by which he refers to a situation, "where role-pressures associated with membership in one organization are in conflict with the pressures stemming from membership in other groups" (Cohen, 1974: 21). This inter-role conflict creates strains in the functioning of family firms.

On the basis of his eight case studies, Cohen concludes that the strains created by the inter-role conflict will be maximal only in the case of family firms which are traditional in their family life but which use non-traditional managerial styles to conduct business. In contrast, in the case of those family firms which are traditional both in their family life and in their business, and in the case of those which are non-traditional in both family life and managerial styles, inter-role conflict will be minimal. Thus in his view family firms can continue to exist provided they adopt a non-traditional managerial style as well as a non-traditional family life.

Although both Singer and Cohen demonstrate the resilience of the family firm, the explanation they provide for this resilience are diametrically opposed. While Singer stresses on the 'traditionalization' of modern influences, Cohen is suggesting that the process of adaptation is one of using what he calls 'non-traditional' business practices and family life style. Cohen thus assumes that the traditional familial principles would be incompatible with the management of the firm based on universalistic criteria.

From the brief review made above, of works on family firms in the developing countries, one is likely to infer that they propell industrialization process mainly in

the initial stages. But, Harris's (1971) study shows that this generalization need not be applicable to all the developing societies. In his study of African family business in Kenya, he observes that kinship does not provide the resources and skills to facilitate business organization. He observes that in the domestic economy of East Africa the notion of the corporate family unit is absent. East African custom is highly individualistic, encouraging sons to use their right of equal share of property, at the time of marriage. Moreover business in commerce and industry is so new that the relatives from whom they can recruit business associates are of the same generation, where rivalries are greatest and authority is the least. Thus relatives in business were brothers and cousins, not father and son. Hence Harris's study offers a corrective to the generalization that the corporateness of the family is essential for the family firms to exist and operate in a rapidly changing economy.

From here, I proceed to understand the dynamics of the family firm in the Indian context. For such an understanding it is necessary first to provide a historical background of the pattern of industrialization and the rise of entrepreneurial families in India, and follow this up by a brief review of the literature on industrialization and the family in the Indian context.

III

A Historical Background of the Family Firm in India

Industrial capitalism came to India as a by-product of British economic penetration and political control. Prior to the advent of the British, Indian handicrafts industries had acquired a world-wide reputation. Though these were turned out by highly skilled craftsmen, the financing and marketing was in the hands of bania castes, who were traders and money-lenders. Since the merchant capitalists gave only loan capital and not risk capital, they displayed an extreme conservatism and found it unnecessary to risk capital in productive industries (Millman, 1953: 87-88).

By 1800 the factory system had been developed in England and soon British energies were focused on developing raw materials for export in return for British manufactured goods and in opening needed ports especially Bombay, Calcutta and Madras. It was in these cities that modern industry first made its appearance, and these centres had distinctive patterns of entrepreneurial development.

Though Calcutta had greater potential for development over Bombay, with its jute industry, and proximity to India's iron and coal fields, it was in Bombay that

indigenous capital arose. This was because (a) Bombay had been a centre for trade much before the British and offered strong opposition to them, while the Calcutta community consisted of zamindars and professionals and lacked a business community of its own. Thus the British emerged dominant in Calcutta. (b) While Bombay had light British rule, Calcutta was the seat of Britain's economic power and political administration; (c) most industries in Calcutta were managed by British agencies while in Bombay Indian businessmen even secured positions on the board of British managed companies (Lamb, 1954: 108-13).

After elucidating the differential pattern of industrial development, we shall now study how entrepreneurial communities made the transition from trade and money lending to modern industry.

The Parsi community in Bombay was the first to develop modern industry and banking. Much of their wealth originated in their trade with China in opium and yarn. The most important reason for their success was that their relative detachment from the Indian scene facilitated them to develop a compradore and complementary relationship to British trading and shipping interests in Asia (Guha, 1970: M107-M115). The Parsis had greater occupational mobility and fewer binding social commitments. Wealthy Parsis adopted Western education and even dined with the

British. Lamb observes: "This roughly equal relationship helped them enter the industrial field since it made it possible for them to hire British engineers and technicians who were necessary for the operations of their plants in the initial stages." (Lamb, 1976b: 120-21)

The first successful cotton mill was built in 1854 by C.N. Davar, a Parsi banker. He was emulated by the Parsi Petit family who invested their speculative gains in textile mills. The Tata family became active in building textile mills in 1870. Tatas made beginnings in Indian heavy industry, steel, electric power and shipping.

The next important transition from trade to industry was of the Marwari community and took place after the first world war. The Marwaris are Hindus and Jain trading castes from Rajasthan who migrated in large number to Calcutta in the 19th Century building themselves solidly into the economic life as important dealers in grain, rice and oil seeds. The cumulative gains received by various Marwaris, led to their accumulation of capital. The leading Marwari speculator was J.K. Birla who made his fortunes in the opium trade and founded the largest industrial house today. The Marwaris served as banyans or brokers for major British managing agency houses and also as middle men between the British manufacturers and Indian peasants.

During the first world war, Marwaris began moving from trade to industry. From control of the raw jute market they went into jute baling and finally jute manufacturing. The first Indian jute mill was set up in 1919 by the Birla family, who moved next into cotton textiles, and built mills in Delhi and Gwalior. The Dalmia Sahu-Jain family became very active in the cement and sugar business. The other important Marwari business families were Singhanias in Kanpur, and Ruia in Bombay and Goenkas in Calcutta. Helen Lamb says that since the Marwaris were later entrants into industry they could buy up existing plants as well as build their own. Moreover since they made their transition far from their homebase, they were less geographically confined and spread all over India (Lamb, 1976b: 124). Unlike the Parsis, the Marwaris knew just a smattering of English and arithmetic. Their close trading relationships with the British had little influence on their business and social habits.

The traditional trading community of the Gujaratis also moved from trade into industry in Bombay and Ahmedabad. The important Gujarati industrial families of Bombay were Morarjee, Gokuldas, Khatau, Thackersey, Vissanji and the Walchands who are Gujarati Jains. They established the Scindia Stem Navigation Company in 1919 with other associates.

Though Ahmedabad was away from the port, it developed indigenous entrepreneurs. Spodek attributes this to the development of social overhead capital, the improvement in political climate and establishment of financial and management institutions (Spodek, 1965: 483-90). By showing that the first cotton mill in Ahmedabad was set up by Ranchodlal Chotalal a Nagar Brahmin, he stressed that initially Gujarati banias did not want to risk capital in industrial ventures but established themselves after seeing the experience of outsiders (Spodek, 1969: M-27).

Broadly, there are two views, which have explained the rise of entrepreneurial communities in modern industry.

Timberg (1978), Lamb (1954; 1976a; 1976b) and Spodek (1965; 1969) explain the rise of these communities in large scale manufacturing in terms of the traditional social institutions which displayed a marked resilience, and favoured the expansion of Indian business. These studies point out that while the traditional trading castes were adaptive, they were conservative and far from innovative. Some of the institutions which favoured their rise were the managing agency system, the Hindu joint family, community resources and marriage networks. These shall be briefly elucidated.

The managing agency system was originally developed by the British so that owners in Britain could place

management of the companies in the hands of reputable agents. Since the managing agencies were mostly partnerships when a partner died he was replaced by his son or another official. The manner in which the managing agency system was adopted and modified by the Indians showed the adaptability of traditional principles to modern business practices. While most of the English companies were public corporations, among Indians, control of the agency was held by one family, or partnerships composed of relatives who had also invested heavily in the company stock. Operational control was still tightly held by a family even when the companies were becoming public corporations.

The Hindu joint family was also regarded by Gadgil (1959: 34) and Lamb (1954: 117) as a source of strength for organizing business. Property was jointly held with one brother in authority. Familial bonds encouraged joint administration of industrial empires between brothers or cousins.

Consolidation of business empires by marital ties also took place. Timberg says that the close associates of the Birlas include the Khaitans, Kanorias and Mohtas who are their in-laws (Timberg, 1978: 82). Spodek (1965) draws attention to the marriage connections established among the Jain entrepreneurs of Ahmedabad to cement relationships of community and business ties. Timberg

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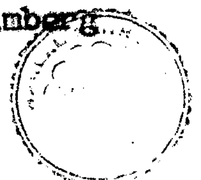

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has pointed out that among the Marwaris, the community's organizational resources also supported entrepreneurship. Community banks provided accommodation for goods in transit and remittance facilities. Communal customs provided for apprenticeships in which youngsters could learn the techniques of business and profit sharing schemes by which they could accumulate enough capital to start their own enterprises (Timberg, 1978: 6). They developed a unique credit network called the sarafi system which enabled a Marwari to obtain credit. Allen Cohen describes the sarafi system used by Marwari cloth traders in Benaras - "firms in the system borrowed from each other whenever short of cash, loans were payable on demand 'even at midnight', and interest was tallied and settled once a year, with total borrowing offset by total lending." (Quoted in Timberg, 1978: 6) Marwaris established strong intended families to take care of children. Basas or collective Messes were set up which provided support and housing to wandering traders (Timberg, 1978: 5). The Marwari management style reflected a communal and familial approach to the hiring of personnel (Lamb, 1954: 117). This view, explaining the rise of entrepreneurial communities, has not however focused on how traditional values actually make for the operation of the firm and success in business.

In contrast, Bagchi (1972) puts forward the proposition that entrepreneurial success of communities could

best be explained not by resources of the community, but by the economic opportunities that were available to them. Thus the Marwaris and Parsis rose because of their Compradore role, whereby they did not challenge, but only complemented British interests, by acting as brokers and inland agents to British interests. Bagchi also stressed that different degrees of European domination in different periods was the major factor explaining Indian participation in business and industry. Before the first world war, Europeans were in a privileged position to exploit resources since they controlled the major ports. Moreover, they adopted discriminatory policies against Indian business men. After first world war, the hold of the British over Indian economy loosened with their involvement in the war. Political uncertainty and the growth of the national movement forced the British to adopt protectionist policies in some consumer industries, which stimulated the growth of Indian capital (Bagchi, 1972: 192-95).

From this account several features about the pattern of industrialization in pre-Independence era emerge: (a) industrial development was highly uneven and concentrated in a few major port cities especially Calcutta and Bombay; (b) Industry was primarily confined to consumer goods rather than heavy industry. This left a major gap in Indian economy; (c) Moreover industry was

highly concentrated in the hands of large business houses or conglomerates which represented most successful forms of business organization; (d) Modern industry was divided between foreign and indigenous capital which developed divergent and antagonistic interests; (e) Indian capital was drawn primarily from a handful of traditional trading communities. Among indigenous entrepreneurs, family and community played a major role because of their ability to mobilize capital (Kochanek, 1974: 23-24).

With the attainment of independence, the pattern of industrialization was radically altered by the government's policy. A rapid industrial development was envisaged in the industrial policy resolution of 1948 and 1956. The national government framed policies which protected the interests of Indian capitalists against foreign competition. The 5-year plans and the various financial institutions like the FIC, LIC, IDBI, ICICI, provided much needed financial support for the expansion of investments by Indian capitalists. The Industrial Policy Resolution of 1956 was an interpretation of the Industrial Policy Resolution of 1948 which had been formulated to accelerate the growth of economy through rapid industrialization. The 1956 resolution expanded the scope of the public sector including in this category all basic and strategic industries, public utilities and industries requiring

huge investments. In addition the Industrial Policy Resolution of 1956 guaranteed protection against nationalization, provided for expansion of the existing facilities under specific circumstances, and permitted public-private co-operation in developing some industries.

This resolution was welcomed by the business community, because it removed the threat of nationalization and convinced it that there would be more than ample scope for the private sector to develop. During the next decade the private sector underwent rapid expansion.

Under the Industrial (Development and Regulation) Act of 1951 which gave the Government powers to control and regulate private industry, a licensing procedure was set up by which all industries had to be registered with the Government. The licensing system generated fierce competition among business houses for a share in the licensing capacity. Such cut-throat competition, led to the establishment of monopoly in the field. The Dutt Committee Report of 1969 concluded that the system worked largely for the top twenty business houses not for the industrial sector at large.

With this discovery the Government enacted a new Industrial Policy (1970). Under this new licensing system, small-medium industry did not require a license

to establish a factory which costed less than one crore rupees. The large industrial houses were asked to obtain first formal clearance under the MRTP Act of 1970. By this Act the Government adopted the size limit of Rs.20 crores as aggregate assets for identifying a large business houses. Goyal has pointed out that one weakness of the MRTP Act is that the inter-connected companies of the big houses are expected to register themselves voluntarily with the Government, so that a substantial reduction in the number of companies now registered under different houses has taken place (Goyal, 1979: 24-25). By such loopholes the big business houses have been able to take advantage of the situation and still dominate the industrial scene in India.

The Government has made efforts to check economic concentration by expansion of the public sector, the co-operative sector and has also encouraged small scale and medium industries. Nationalized banks help small scale business units and large industrial houses have been prevented from producing items reserved for small scale industries. In order to check monopoly the Government also abolished the managing agency system in 1976. This has however not had any effect in breaking family hold over industry. Verma has shown that the various governmental

policies such as MRTP have not succeeded in achieving their objective. Certain segments of industrial families, among the all India group have extracted disproportionate advantages by excess capacity installation and other measures (Verma, n.d.: 255).

Verma's study also shows that industrial families continue as single-corporate entities, by (a) avoiding fission in spite of the presence of tremendous amount of segmentation and turbulence; (b) skillful deployment of human and financial resources of the family; (c) non-distribution of familial income to individual members and centralized control over spending; and (d) avoidance of taxes (Verma, n.d.: 268).

Some studies have focused on the management styles in these family firms. Chaudhri and Burman in their study of a Marwari family firm in Calcutta conclude that the management style in the firm was highly autocratic. Authority and decision-making is centralized in the family head and decisions are taken informally. The method of recruitment and selection is 'lamentably unscientific, unsystematic and traditional'. Moreover despite these archiac practices the family firm showed a record of high productivity and industrial peace. On this basis the authors go on to argue whether these styles could be called an ideal model for Indian industry (Chaudhri and

Burman, 1981: M-117- M120). Verma's study also shows that appointments in industrial enterprises are made on the basis of loyalty, familial and kin ties (Verma, n.d.: 243).

Thus far we have established that the family firm continues to flourish in India, despite a changing environment. But one can account for the breakdown of the family firm by changes occurring in the family itself due to industrialization. Let us now examine this thesis.

A number of studies had been guided by the hypothesis put forward by the western scholars that a sharp break between traditional joint family and modern nuclear family was supposed to occur with industrialization. (Ross, 1961; Gore, 1968; and Desai, 1964) It is interesting to note that even studies guided by such a hypothesis revealed that though nuclear households were on the increase, jointness continues to prevail and kin ties continue to provide support to individuals in adapting themselves to the industrial urban setting. Gore's sample still conformed to the pattern of joint family living in behaviour, role perceptives and attitudes, though urban residence and education was inducing change. Thus he recorded limited change in the Delhi area. I.P. Desai has shown how people in Mahuva retained the ideals and sentiments of jointness though they did not reside together.

More recently, another group of studies have argued for the persistence rather than change of family either because it performs useful functions or because of the continuing strength of traditional sentiments (Ames, 1973; Vatuk, 1972; Owens, 1971; and Singer, 1968).

Vatuk's study of educated white collar migrants in urban city of Meerut shows a marked continuity with traditional family life characteristic of the rural pattern in terms of marriage, caste endogamy, local exogamy, segregation of sexes. The urban household was a branch family maintaining ties with the agnatic extended family in the village. Vatuk also finds incipient changes in quality of the family life. The neo-local residence is typical, whereby kinship has undergone a bilateral emphasis. Thus Vatuk's conclusions show that a change was minimal, a concession to differentiated ecological and socio-cultural settings rather than a repudiation of traditional norms and values.

Singer (1968) and Ames (1973) in their studies of industrialists in Madras and industrial workers in Jamshedpur have shown that their respondents used various adaptive strategies to meet the pressures created by industrialization, so that the joint family could persist. Singer says that this adaptive strategies were: (a)

compartmentalization, (b) vicarious ritualization, (c) household management in industry. Ames concludes that jointness in terms of obligations, property and ideals was alive because (a) the workers adjusted to modern occupational settings in interests of family welfare, and (b) limited adjustments to work spheres, remaining traditional in domestic sphere.

Owens (1971) study of entrepreneurial families of the Mahesya caste found that it was economic self-interest or rationality of business operations which determined whether families were commensually joint or not. Moreover a change in authority pattern and role relationships occurred for the karta had to use his skill to work out various agreements to maintain harmony as which contributed to the running of the family firm. Thus Owens shows that it is economic interest which maintains families together for the running of the business.

Thus these studies provide us with rich data on the persistence of the family and kin networks in the context of industrialization. The studies of family firms have shown that family is certainly not changing, rather it is adapting itself in various ways in order to persist in the industrial context.

A group of scholars on the basis of such evidence have argued that it is quite possible that traditional

social structures such as the family have persisted, because India's industrialization has been limited. Satish Saberwal states that the weakness and slow pace of industrialization is a prime factor in explaining the persistence of traditional institutions. Even in post-colonial India, Saberwal states, the economies of scale associated with large scale production have yet to be realized. "Into this leisurely industrialization, the pre-industrial institutions can settle relatively easily and if that bespeaks, 'the modernity of tradition' this modernity can only be of a very shadowy sort." (Saberwal, 1978: 10)

Such an argument thus assumes that once industrialization becomes rapid traditional institutions would necessarily be eroded because "the logic of advancing industrialism requires maximization of fresh investible resources, high performance levels in industry, a complex division of labour and the like" (Saberwal, 1978: 10). If this logic is applied to our study of family firms, it would necessarily believe in the erosion of an organization based on ascriptive ties.

Thus in order to locate this debate on the impact of industrialization on society, in its proper intellectual context, I have chosen to examine the contemporary dynamics of the family firm in India. Such a study would help us

anticipate whether there is a trend towards its persistence or decay, and highlight what implications this trend will have on India's industrial development and social change. This constitutes the problem of my study and I have sought to analyse the dynamics of the family firm in the following manner.

I have at first touched upon some methodological issues and problems involved in the study of family firms. This is accompanied by an introduction to the social background of the large industrial families that have been selected for this study.

The analysis of the family firm begins with a study of the various factors which have been conducive for and have contributed to the persistence of the family firms in India. This includes a study of familial and kinship principles as the basic organizing factor of the firm. The manner in which legal factors and the structure of the firm's organization have encouraged the family firm to persist has also been elucidated.

The next chapter studies the manner in which the family firm operates. It focuses on the adaptive strategies that family firms employ to cope with internal and external pressures in their efforts to perpetuate family hold over the enterprises and at the same time expand their firms. In this process a study of the

entrepreneurial styles in these family firms becomes important. Thus the continuities with the traditional business practices, as well as the new emerging entrepreneurial styles have also been highlighted.

Finally, an attempt has been made to study the conditions under which some family firms have disintegrated. It focuses upon the role of familial and kinship principles, the firm and legal factors in this process of disintegration.

The conclusion discusses the implications of the persistance and decay of family firms on industrial development and the impact of industrialization on Indian society at large.

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CHAPTER II

THE RESEARCH SETTING

Having explicitly stated the problem of this study, the main focus of this chapter is to highlight the methodological issues involved in such an analysis and to introduce the family firms selected for this study.

I

A Methodological Note

Studies on how the family firm operates in the developing countries are scarce, and in the previous chapter a brief review of such studies has already been made. From the review it stands out that there are only three detailed case studies on family firms in India that are available, namely Owens (1971), Singer (1968), and Cohen (1974). The former two focus upon the changes that are occurring in the family structure of these entrepreneurs. They ignore the interaction between the firm and the family. Cohen's is the only study which has focused on this problem.

Since sociological literature on the family firm in India has been scarce, in order to obtain useful information on this research topic, I examined the available autobiographies and biographies of industrial entrepreneurs.

However many of these turned out to be euologies and provided little relevant material on the role of the family in the management of enterprise. In the course of my data collection, I was then drawn to an interesting array of investigative reports and interviews with prominent industrialists belonging to the large family firms in India, which have appeared from time to time in popular business and news magazines of the country. These clippings provided some useful information on family relationships and the manner in which these operated in the business organization. Some cuttings gave an insight into the entrepreneurial styles. Of these family firms, while others discussed quarrels in the family in considerable detail. My analysis of these cuttings soon revealed a particular pattern emerging.

I am however aware that certain questions can be raised on the authenticity of such data, since subjective biases may have crept into the production of such knowledge.

/a Firstly, there can be/doubt that the data generated by business analysts are misrepresentative of facts. But this does not seem to be the case, since no objections have been raised against this information by the business families concerned. Moreover, such data represent the manner in which these business analysts have interpreted the world of business. Secondly, it is also possible that the

interviewees may have deliberately projected an image of themselves which they would like to portray. I have been conscious of this, and my interpretations of such reports and interviews aim at discovering the underlying value patterns and attitudes of entrepreneurs towards family relations and their entrepreneurial styles. By this, I have been able to tap information and images which were unintendedly projected by the interviewees, and which become crucial and valuable for a sociological analysis. For example when Rahul Bajaj said that his cousin Shekhar would be out of his job if he did not conform to the wishes of the group, it reflected that both in the family and in the firm, Rahul Bajaj had authority over his cousin. This clearly showed his authoritarian character. To ensure objectivity, I have also given the appropriate extracts, from various reports and interviews, so that the validity of my interpretations can be judged.

These sources have been utilized by adopting the 'method of apt illustrations' fairly consistently in the analysis. This method was advocated by Gluckman for the intensive field work of small tribal communities. This method involves rigorous observation of how subjects actually behaved, collection of information about customs, rituals, geneologies and the like. From this data, general outline of culture is analysed and finally the apt and

appropriate case is used to illustrate specific customs, principles of organization and social relationships. Each case is selected for its appropriateness at a particular point in the argument; and cases can even be derived from words or actions of quite different groups or individuals (Gluckman, 1967: xvii).

Finally, it is essential to focus upon some definitional issues in the study of the family firms.

Scholars writing on family firms, seem to have assumed what it is and have nowhere explicitly defined this concept. There is a need to put forward, at best a tentative working definition of the family firm for our understanding. The term family firm can be used to refer collectively to a number of firms under the control of one family. Sometimes the term can be used to refer collectively to a whole set of firms under the control of one family, and at other times to a particular firm under the control of the family. However this is a very broad definition, for in fact a variety of family firms exist, and those which form the focus of my study, need to be delineated.

The simplest form of the family firm refers to the cottage and household industries which form a part of the informal sector of the economy. Here the household is primarily both the unit of production and consumption

and performs mainly sustenance functions. Household members are both the owners and managers of the enterprise.

Another form of the family firm is the proprietorship or partnership. It is a form of business organization where two or more people join together to undertake some form of business activity. Although the family's economic function gets differentiated, yet the firm is regarded as being owned between the individuals that have come together.

The third and fourth form of family firms refer to the private Ltd and public Ltd companies. Where family firms control these companies, the firm becomes legally a separate entity, differentiated completely from the family. The firm functions according to Company Laws that aptly universally apply to all such firms. Though the members of the family retain financial and operational control over the firms, they are primarily the employees of the firm. They are identified according to the positions they occupy, not as relatives of one another. In a public limited company, the capital to set up the firm may be so great that it is acquired by public institutions and outsiders, though the management of the firm is still in the hands of the family. It is able to control the firm even by a minority ownership of the share capital. The family firms that have been studied in this

work comprise of private limited or public limited companies.

The next concept which is crucial for our study and requires clarification is that of the family.

Regarding the family as an easily identifiable empirical entity, scholars have defined the family in several ways. Some have regarded joint ownership of property as the essence of jointness such as Bailey (1960), Madan (1962), Ames (1973). Taking commensuality and co-residence as essential ingredients of jointness, scholars like Kolenda (1968), Vatuk (1972), Gould (1968), and Cohn (1961) define the family as a household group where members eat food cooked from the same hearth. These scholars have then elucidated various typologies of households. The number of elementary households should not be taken as evidence of the break up of the joint family, because this is only seen as a stage in the developmental cycle of the family. Others like Desai (1964) and Kapadia (1958) contend that the existence of ideals and sentiments of the family shows the persistence of the joint family.

In order to study the family and kinship in the context of business, property and household criteria become important for the definition of the family. Owens regards these two dimensions i.e. commensuality (where members budget and eat together) and property (where co-parceners

own joint property in common) both as crucial for his definition of the family. He says that "a coparcenary family frequently runs a business, whether or not its members live together as a commensual family". (Owens, 1971: 225-26) However the property dimension should not be overstressed. According to the legal definition of the family, Sontheimer points out, even two related persons such as a father and his unmarried son are enough to constitute a joint Hindu family (Sontheimer, 1977: xx-xxi). But Shah has rightly pointed out "to describe the father and son as a joint family within an elementary family would be clumsy and do violence to the word 'family', reducing family relations to property relations". (Shah, 1964: 34)

Modifying Owens definition then, I have taken property and household criteria as important for the definition of the family in this study of family firms. The family can thus be defined as: (a) a set of kin, affinal or agnatic who own joint property in common, or (b) a set of kin affinal or agnatic who live in a common household.

In a family business, the property component acquires special significance, for as Hazari points out industrialists transfer their wealth and property to set

up a number of companies which they manage collectively (Hazari, 1966: 366). Thus the family firm extends beyond the coparcernery to include also other agnatic and affinal relatives who come to acquire common interests in the firms.

A serious shortcoming of family studies is that they have focused on certain relationships to the exclusion of others. The filial and fraternal ties in a family are given primary importance. However, certain relationships such as the paternal-uncle-nephew relationships especially the chacha-bhatija relationship have not been examined.

I am not unaware of the various definitions that have been given to describe the entrepreneur. However, following Berna (1960) and Kilby (1971) the entrepreneur here refers to the industrial businessmen. It has been stressed that industrializing countries do not need innovaters, in the Schumpeterian sense, but imitators who can adapt technologies and products to the particular conditions of their countries. Thus the successful establishment and management of business becomes more important than technical innovations.

II

An Introduction to the Family Firms of the Study

I now proceed to provide a social background of the large industrial families which have been taken up for

intensive study. In the course of the study, I have also cited examples of other families which demonstrate that my conclusions have a wider bearing.

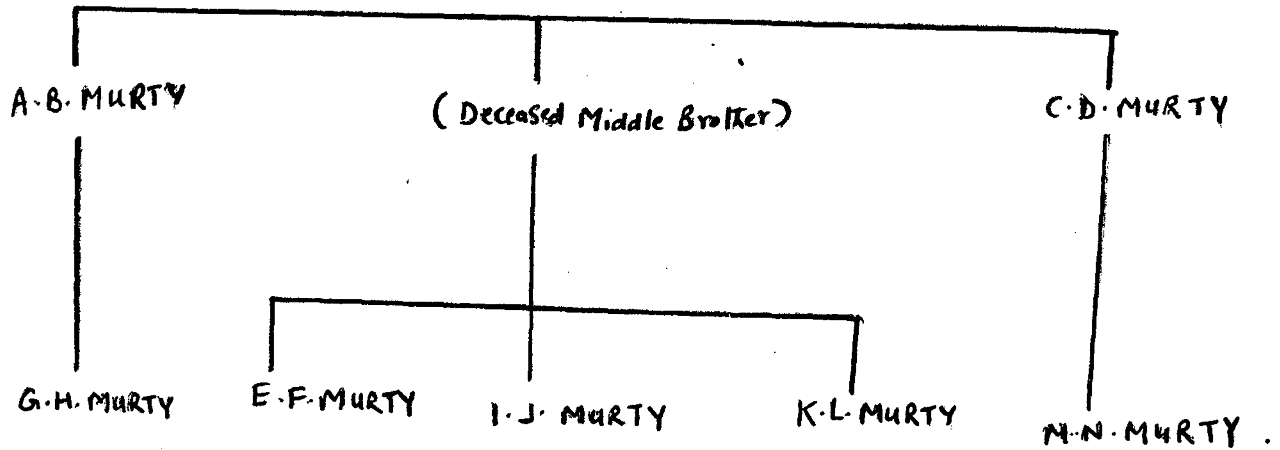
I have utilized Cohen's material on three large family firms, often to support my arguments. These three family firms are the National Products Ltd (NPL), the Murty Group of Companies and the Chand Group of Companies.

The NPL is run by the Bansal family. Its two main activities were the manufacture of textiles and industrial gases. The company was acquired from British managing agents after the first world war by Hari Das Bansal and shareholdings were divided between the families of his three sons. Sahdev Bansal was the Chairman of the Board. His son Ravi was the Director and both of them were concerned with textiles. Sahdev's younger brother Satpal Bansal was the Director and Managing Agent and with his son Chinmaya dealt with the Industrial Gases Unit. Meena, his daughter was an executive trainee. The deceased elder brother's son Mahesh was concerned with the tea units (Cohen, 1974: 57-59).

The second family firm was the Murty group of companies run by the Murty family. It consisted of nine companies which manufactured transistor radios and parts, plastic piping and industrial adhesives which were the

largest of their kind in India. In order to obtain technical know how, the two main companies collaborated with foreign firms, where the Murtys had the dominant controlling interest. The smaller companies were wholly owned by them. In 1970, the combined sales of all companies totalled nearly 80 million dollars (Cohen, 1974: 143-5). Their family tree can be represented thus:

Diagram 1



The third firm was the Chand Group of Companies run by six brothers. Its two most important units were a metal processing plant and an Energy Conveyor plant which was the second largest in the world. The four youngest brothers each managed a unit as director-in-residence, while the two eldest brothers were managing director and deputy of the family managing agency including all the companies (Cohen, 1974: 204-5).

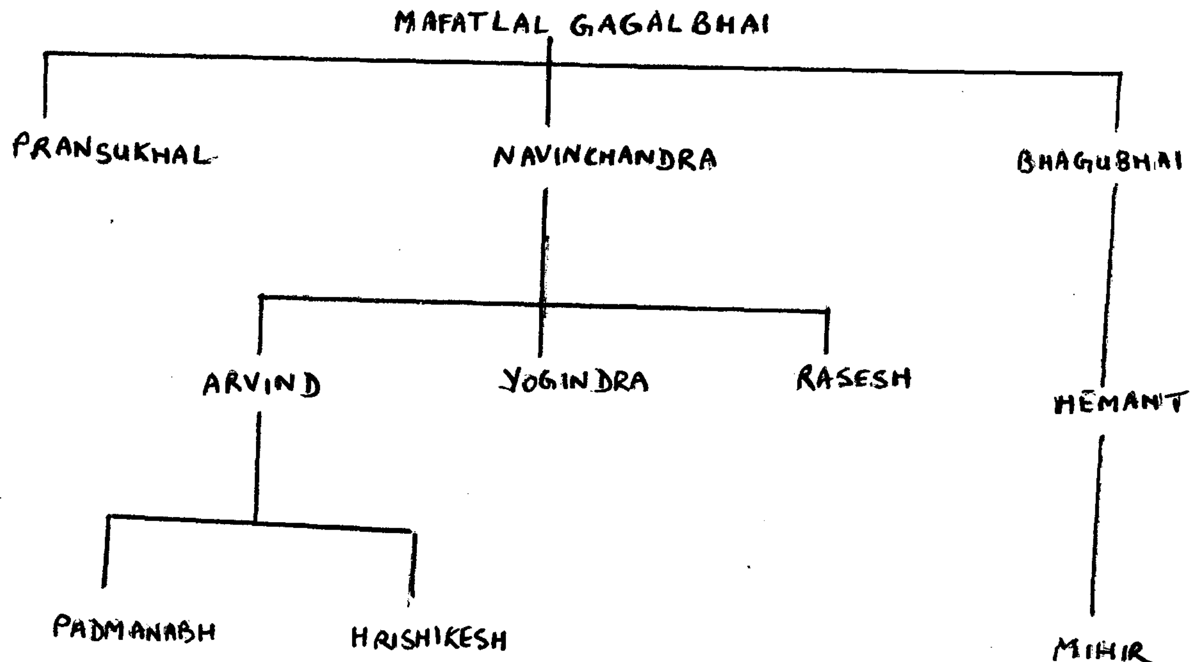
I have chosen ten industrial families for an intensive study, and these form my cases which I have aptly illustrated to support my arguments in various places in the course of this dissertation. The families I have chosen come from three dominant business communities, the Parsis, the Gujratis and the Marwaris. A short sketch of the social background of these families is given below:

The only Parsi family firm in our study is the Godrej family. The Godrej empire is the translation of the mission of Ardheshir Burorji Godrej, the eldest son of a Parsi family who in 1897 decided to switch from law to lock-making. Ardheshir handed over the business of safes and locks to his brother Pirojsher Burorji Godrej, whose sons and grandson continued to run the business. He thus started experimenting with soap, vegetable oils etc. and today the Godrej group produces a wide range of products - locks and steel furniture, security equipment, typewriters, refrigerators, machine tools, vegetable oils, fatty acids and animal feeds (Kaul and Venkataraman, 1981: 40). In 1977, the assets of the Godrej family were Rs.65.17 crores (Goyal, 1979: 59). P.B. Godrej's eldest son, Sorabji is chairman of the entire empire. The other two brothers are at the helm of affairs of two main companies. Naroji P. Godrej and his son Jamshed managed the Godrej and Boyce Company while Burorji P. Godrej and his sons Adi and Nadir

run the soap operations (Kaul and Venkataraman, 1981: 40).

The Mafatlals are Patels from Ahmedabad in Gujarat. The founder Mafatlal Gagalbhai was a small cloth trader who jointly with an European took over a small mill. In 1920 the first limited company was set up. Today Mafatlals produce high value cotton textiles, blended fabrics, dyes and intermediates, alkalis, flourine and flourides, and various chemicals and plastic products (Business India, 1979: 27). The total assets of the Mafatlals in 1978 were Rs.318 crores (Bobb, 1981: 68). Their family tree is represented thus:

Diagram 2



The three Mafatlal brothers, Arvind, Yogindra and Rasesh ran the business collectively. Each of them owned 17% of the family assets, while Hemant's son, Mihir, inherited 50% of the family's assets from his father. The four major Mafatlal companies, Mafatlal Industries, Mafatlal Fine, Standard and Indian Dyestuffs Industries were under the direct control of the family. In the partition between the brothers, the first two companies have gone to Arvind, the second to Rasesh, and the last to Yogindra Mafatlal. With the disintegration of the family firm the eldest brother Arvind has re-aligned with Hemant's son Mihir. Together they control 67% of the family assets. Arvind has two sons Padmanabh and Hrishikesh, who were absorbed into the family firm in 1974 (Business India, 1979: 28-32).

The Kasturbhais are Jain Banias from Gujarat. They set up as bankers in Ahmedabad nearly hundred years ago. The founder of this industrial family was Lalbhai Dalpathbhai who had a flourishing banking business. In 1897 Lalbhai floated the Saraspur Manufacturing Textile Company and in 1905 he floated the Raipur Mills in association with his two brothers Manibhai and Jagabhai (Tripathi, 1981: 46-48). Lalbhai had three sons Chimanbhai, Kasturbhai and Narottambhai. Chimubhai, their cousin, participated in the running of the enterprises. Kasturbhai

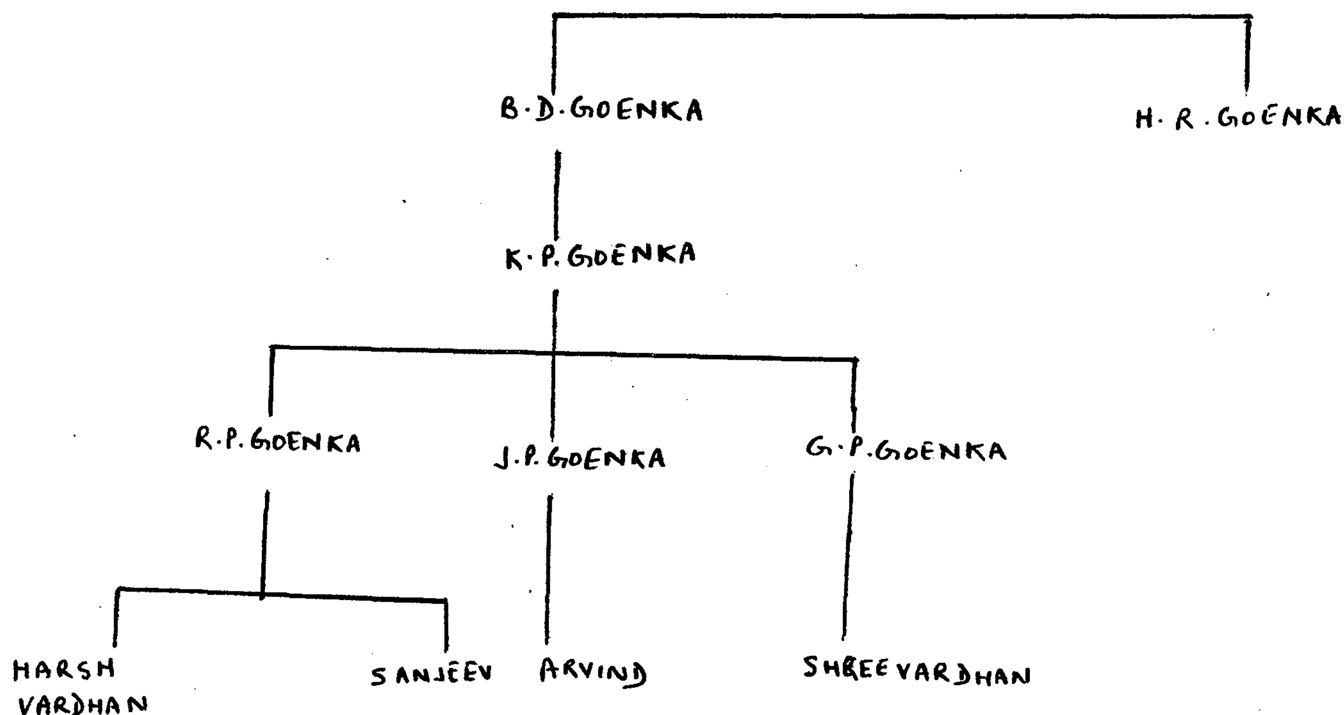
is now succeeded by his two sons--Siddharta and Shrenik--and many of his newphews are also involved in business (Tripathi, 1981). Kasturbhai set up a number of textile mills and in the 1940s diversified into production of starch, dyestuffs, which till today form the group's principal interests. In 1976 this house had assets worth Rs. 109.63 crores (Goyal, 1979: 59).

The Walchands are Jains from Gujarat, but settled in Sholapur for a number of generations. The family moved from money-lending and trade into industry after the first world war, when Walchand participated in the construction business. Walchands had interests in shipping, engineering and air lines also. Today the main activity of this house is characterized by manufacture of automobiles, undertaking of construction works and production of machineries. It controls three large corporations - The Premier Automobile Ltd., The Hindustan Construction Co. Ltd., and India House Pipe Co. Ltd (Noboru, 1970: 64). In 1976, the group had assets worth Rs. 129.42 crores (Goyal, 1979: 57). Since Walchand died issueless, the business has been taken over by his three step brothers, Lalchand, Ratanchand and Gulabchand and their children.

There are also six Marwari family firms that form a part of this study. The Goenkas belong to the Marwari community of Calcutta. Their traditional business was

banking, money-lending and trading. Badri Das Goenka and his brother, Hari Ram Goenka, were Calcutta's leading Marwari banias, and brokers to British firms (Timberg, 1978: 143). The Hind Bank, looked after by the two brothers was the main springboard from where the growth of this firm was financed. However, K.P. Goenka, B.D. Goenka's son, is responsible for the achievements of this family firm. He was a creditor to Duncan Brothers and took outright control of it in the 1950s. Now the group has diversified into tea, jute, textile, blades, carbon, black, power cables, radios (Kasbekar and Roy, 1982: 40-47). The current assets of this group are Rs.188.03 crores. Their family trees can be represented thus:

Diagram 3



The founder of the Bajaj industrial family was Jamanlal Bajaj. The Bajajs belong to the Marwari bania community and trace their origin to the Churu District in Rajasthan. Their traditional occupation was merchandise and trade. Jamanlal Bajaj had two sons Kamal Nayan Bajaj, born in 1915, and Rama Kishan Bajaj, born in 1923. Both of them took an active part in the freedom struggle. Kamal Nayan's son, Rahul Kumar Bajaj, is now the head of the Bajaj Auto empire. Shekhar, Rama Kishan's eldest son, is also in the business. He is the chief executive of Bajaj Electricals (Thomas, 1980: 43-47). The total assets of the Bajaj group in 1976 was Rs. 101.51 crores (Goyal, 1979: 57).

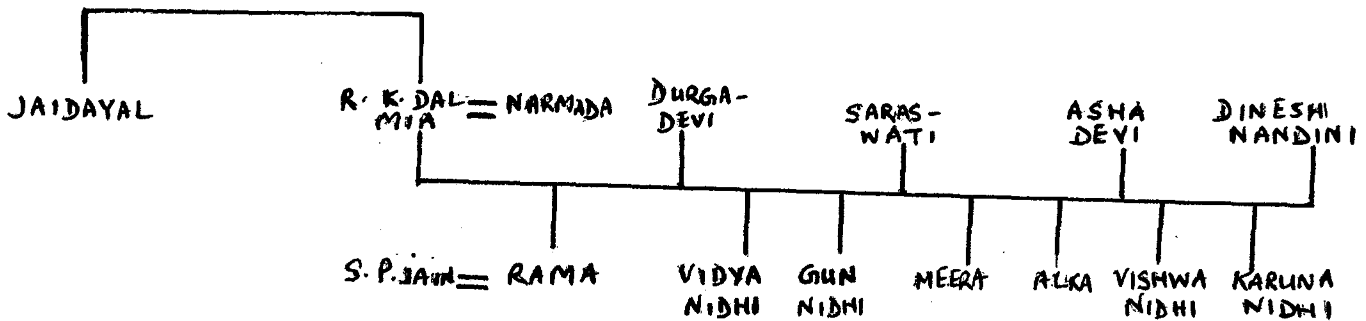
The founder of the Jaipuria family firm was Mungtu Ram Jaipuria who was born in 1901. The family belongs to the Marwari bania community. Their place of origin is Navalgarh. He and his brother B.L. Jaipuria who was born in 1929 became the chairman and managing director of Jaipuria Brother respectively (Noboru, 1970: 34). The family's traditional occupation was trading and shroff until Mungtu Ram bought the Swadeshi Cotton Mills from Sir Henry Horseman in 1946. With the rapidly growing demand for textiles, Swadeshi Cotton Mills acquired four other textile mills, two in Uttar Pradesh and one each in Udaipur

and Pondicherry. Besides the textile mills, the Jaipurias own two sugar mills and two coal mines in Uttar Pradesh. Mungtu Ram Jaipuria was at one time convinced that he could not produce an heir, and thus adopted one of his brother's 15-day old son, Sita Ram. Thirteen years later Mungtu Ram fathered his only child Raja Ram. When Mungtu Ram retired from business in 1966, Sita Ram took over as Chairman of SCM and Raja Ram as its Managing Director (Bobb, 1978: 68).

The Dalmia-Sahu Jain family firm was founded by Rama Krishna Dalmia, a Jain bania from the Marwari community. Dalmia's genius in manipulation of credit, and trading in silver netted him his first fortune. Dalmia gradually inducted his brother, Jai Dayal, into the business and soon Shanti Prasad Jain, who married Dalmia's daughter, Rama, became his third business associate. In 1932 Dalmia set up a number of sugar mills in Bihar. Soon thereafter he entered the cement industry. The group became prominent in the 1940s when Dalmia acquired well established companies from the British, such as Govan Brothers, with interests ranging from chemicals to aviation, and Bennett Coleman Industries. He raised Rs three crores from the public in shares for the Dalmia Jain Airways (Grewal, 1980: 27). The Dalmia Sahu Jain Group then diversified into rayon, sugar,

cement, paper, vanaspati, chemicals and spun pipe etc. While his empire was growing, Dalmia also set about expanding his family. Dalmia married six women who bore him a number of children. At his death Dalmia was survived by three wives and seventeen children. The rivalries between the step children led to the disintegration of the Dalmia family firm (Grewal, 1980: 28). The family tree can be represented thus:

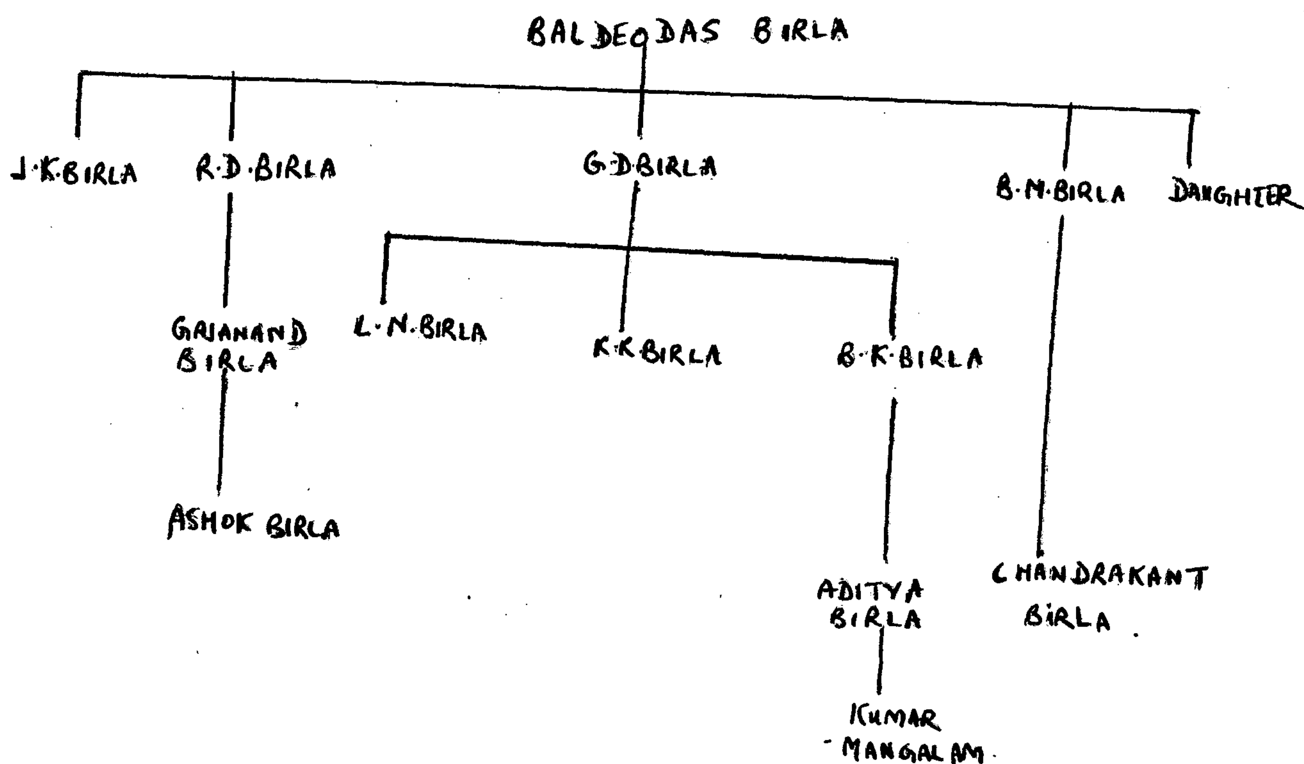
Diagram 4



The Birlas are Maheswaris from Pilani in Rajasthan. The family migrated in 1860s to Bombay when Shiv Narain Birla started a small trading and money-lending business. In the late 1890s, his son Baldeodas opened a branch in Calcutta. Birla Bros, the first limited Company

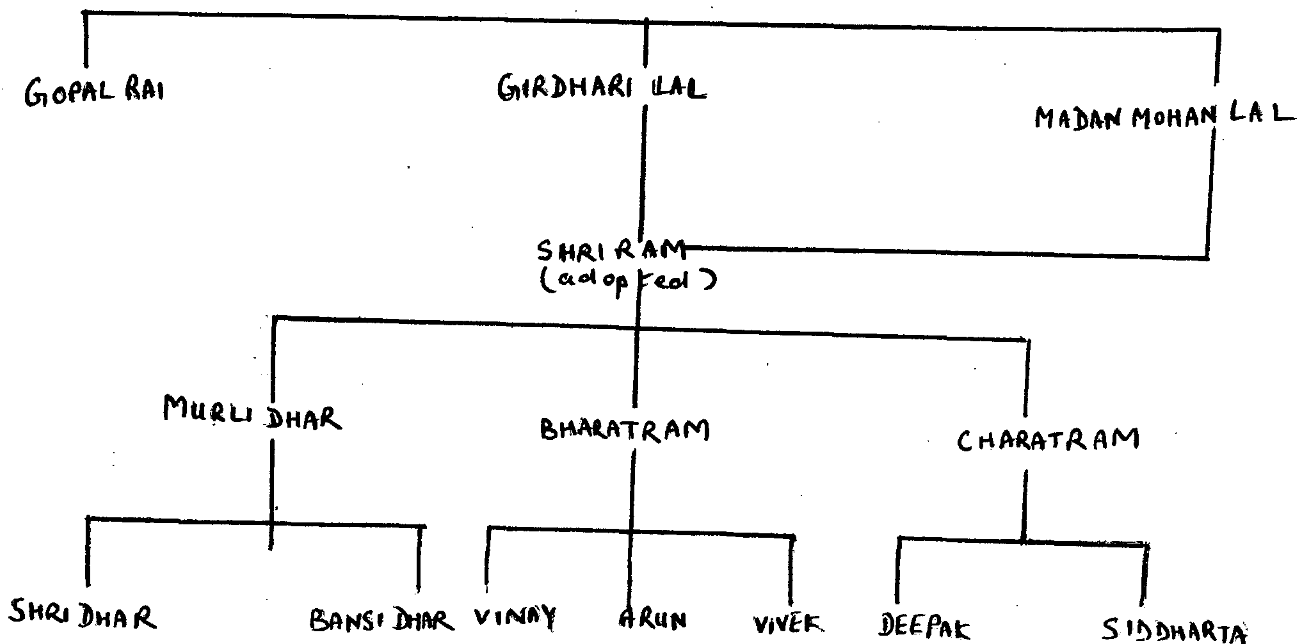
was set up in 1918. After the war the Birlas began manufacturing jute, cotton, sugar and publishing, and in the forties, diversified rapidly into manufacture of textile machinery, automobiles, bicycles, rayon, plastics, tea, vegetable oil, cement, chemicals, and sugar. The Birla group is the top-most family firm in India and managed to rise to this position because it made greater profits in consumer goods, finance and commerce (Noboru, 1970: 57). The firm's total assets in 1978 totalled at Rs. 1,171 crores (Bobb, 1981: 68). The Birla family is a very large one, and is now headed by the 87-year old patriach G.D. Birla. Their affinal relatives also have been incorporated to extend family control over industry. The family tree can be represented thus:

Diagram 5



The Shri Rams are Agarwal Banias who settled down in Delhi and acquired considerable real estate there. In 1889, the DCM was set up as a Limited Company, by Gopal Rai. The Company now forms the nucleus of the group and is the largest diversified company in India. Building upon the foundations, laid by Gopal Rai, Lala Shri Ram, his nephew, raised an industrial empire which in 1978 had assets worth Rs.205 crores (Bobb, 1981: 68). The group has now diversified and manufactures textiles, paper, chemicals, vanaspati, sugar, machines, fans, engineering and more recently, has ventured into electronics making mini-computers and calculators. Some of the family members in control of the business are the following:

Diagram 6



The above account then, has elucidated some methodological issues of this study and has provided the social background of the family firms chosen for this study. I now turn to the analysis of the dynamics of the family firm in India.

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CHAPTER III

CONDITIONS CONDUCIVE FOR THE PERSISTENCE OF FAMILY FIRMS

The chief concern in this chapter is to identify the host of factors - familial, legal and organizational - which are conducive for the persistence of the family firm and responsible for making it an important unit of business organization in India.

I

Family Firms and Kinship Principles

I shall first highlight how familial and kinship principles have contributed to the working of industrial enterprises in the Indian context. After delineating these principles, I shall see how they are reflected in the functioning of the family firms.

In the traditional patrilineal extended family in India, a son is essential for one's social, economic and ritual status. The son is seen as the principal upholder of the line. The mutual relationship between father and sons rests on the belief in the physical and psychic immortality of the father by the existence of sons. By having a son one could see one's duties performed and

unfinished tasks completed (Sontheimer, 1977: 27). The birth of a son is hailed in a business family because sons are seen as important investments useful in continuing the family business. Moreover in traditional families, family business is considered as a male prerogative. For example, in the Shri Ram family the birth of Lala Shri Ram to the youngest brother was a cause of great jubiliation to the entire family since the two elder brothers did not have male issues (Singh and Joshi, 1968: 6). The presence of sons is further re-inforced by the principle of succession in the Indian family.

In a patrilineal family system, family property is passed along the male line from father to son. In the Indian family business, the son inherits the business and succeeds his father, and is responsible for overseeing and expanding the business, not because of his professional competence, but because of his birth in that particular family. In 1956 when Shri Ram thought of retiring from business, he placed the sceptre of DCM in the hands of his eldest surviving son Bharat Ram (ibid: 32). With the death of his father, at 18, Dalmia entered the corporate world and family business of credit and trade (Grewal, 1980: 27). With the death of Kasturbhai Lalbhai, his two sons Siddharta and Shrenik came to the helm of affairs in business (Tripathi, 1981: 216). Thus expansion of the family

business requires sons. Moreover the prevalence of more sons, often encourages the expansion of the firm. One young Birla explains: "The sheer pressure of money coming in every year is so enormous that we must find somewhere to invest it. There are about 50 Birlas, young and old, and every one of them must be given a company or group of companies to manage, if only to keep him out of trouble." (Dubashi, 1980: 10)

The socialization of the child in the Indian family is mainly in the hands of family elders. Child-rearing in the Indian family assumed that children are incapable of self-direction until a very late age. The pattern of socialization was such that young men had little say in important decision making situations such as career, marriage and the like. This remained the preserve of family elders. This pattern was very conducive to the family firm. The sons had no choice as to their occupations but to enter family business, and training in business started at an early age. The family's socialization pattern aimed at initiating the sons by providing them with the necessary training that would be required. As G.D. Birla says in his autobiography: "Thus when I concluded my so-called schooling, I was directed to join the family business and at the age of 12 I took a plunge into it." (Birla, 1953: xiv)

Aditya Birla, who is G.D. Birla's grandson and eventual successor, has views regarding his own son which conform to the above pattern. Aditya Birla says of his son: "Yes he'll join the business, he will become a Chartered Accountant and read management at Harvard before coming back here. He is already looking at accounts during his holidays." (Singhvi, 1981: 37)

A Hindu family is by tradition regarded as a corporate entity. The identity of the individuals is submerged within the 'kula', the patrilineal extended household, which is supposed to maintain continuity through the presence of sons. This corporate nature or unity of the family is very functional for business. Arvind Kilachand, the head of one branch of the Kilachand family having prominent business interests in Bombay, says that family unity was very important for economic reasons, social security and familial ties. He opines: "The minute you think of I, the disruption begins. In the joint family we always think of we, not I." (Mehta, 1972: 10)

A family survives on an ethos of mutual trust, tolerance and loyalty over time. This enables them to function collectively in a business family. This is re-inforced by the fact that relationships in a family are characterized by mutual rights and obligations towards one another. According to the Chand brothers: "You can hire

ability but not always trust. So far as giving dignity and powers, outsiders should be equal. But we will have greater confidence in family members and they will be inside the working of the company." (Cohen, 1974: 213)

K.K. Chowdhry describes peer relationships in a large Indian family. According to her, "There is much criticism of each other at the peer level but there is also a high degree of tolerance which experience and circumstance has taught." (Chowdhry, 1966: 136) Thus peer relationships that develop in an extended family are marked by a lack of competition and are functional for the firm. Trust and tolerance between members enable the brothers to function collectively as a team even though they may be having very different styles of management due to different personality traits. In fact, differing styles may counterbalance one another and make for greater efficiency.

In the initial stages of the family firm when outsiders were not required, Kasturbhai and his brothers made a perfect team and supervised all aspects of business. Withdrawn and non-interfering, Chimanbhai played the role of a titular head who preferred to leave the actual decision-making and implementation to his two younger brothers who were more agile and hard working. Kasturbhai was extrovert, daring and aggressive. Narottambhai was an

introvert and extremely meticulous. Kasturbhai possessed keen insights in financial intricacies, while the younger brothers' strength lay in marketing and production field (Tripathi, 1981: 159). This tendency of team work among brothers may be seen even in the other family firms such as the Mofatlals.

The Indian family is patriarchial in nature where authority is vested on the basis of age and sex. Milton Singer says:

> Controlling authority in the Indian joint family resides in the family head or manager, usually the father or the eldest male. He makes all the major decisions on all important questions including the disposition of joint family property. Generally he is expected to consult family members, but his decisions are supposed to be binding on all once made. (Singer, 1968: 440)

Singer then sees a structural parallelism between authority structures in the family and in the firm. He says:

> The relationship of the manager of a joint family to the coparceners and other family members is analogous to the relationship of the managing director of a Company to its board of directors or stock holders. In each case there is a separation of ownership from control. The controlling authority does not necessarily own a major portion of the shares but has the major responsibility for making major policy decisions...with due consultation. (Singer, 1968: 440)

Where the authority line is clearly demarcated in the family, it is easily carried over for the functioning

of the firm. One can discern the authority line in the Bajaj family. Rahul Kumar Bajaj, the Chairman and the Managing Director of the Bajaj auto empire is the eldest grand-son of Jamanlal Bajaj. He is also the eldest in his generation. Bajaj regards his late father Kamal Nayan as his only mentor. He also has considerable authority over his cousin, Chandrashekhar, who is his _chacha's_ son and runs Bajaj Electricals. Commenting on the sharing of business responsibilities with family members, he says:

> Nobody has anything to do with Bajaj auto besides me. I will not tolerate any interference because it is not good for the Company. We will not interfere in each other's business. Shekhar runs Bajaj Electricals. I won't interfere. But if he comes to us for advice (he has to come to us) we give it to him. If he doesn't it's all right. Then in a rare situation of some decisions taking the company to the dogs we'll certainly tell him not to do it. If he still doesn't believe, he'll be out of job. This is a national asset, we can't make a mess of it. If it's your private wealth, yes you can throw it in the sea if you want. (Thomas, 1980: 47)

Various points can be inferred from this statement. Rahul Bajaj is very authoritarian for, though he will brook no nonsense from his cousin, he is fiercely individualistic about his own concern-manufacturing scooters. Secondly, Shekhar being the younger brother's son, is given only restricted autonomy to run his firm.

Rahul is assertive that Chandrashekhar has to come for advice to the family itself. There are also sanctions imposed by family members if this authority principle is violated.

In the Kasturbhai family, Kasturbhai Lalbhai was recognized as the senior most member and had authority over his cousin Chinubhai, his _chacha_'s son, who displayed a deep deference for Kasturbhai and took his orders in all seriousness (Tripathi, 1981: 80). In the Murty family too, there was an unquestioning acceptance of elder's authority sanctioned by age and long experience in business. E.F. Murty states: "If we disagree, the younger will accept the older's advice. Since each of the elders are working and have greater experience their views usually prevail." (Cohen, 1974: 149)

Another important aspect of the authority structure in the Indian family is the transference of authority from father to the eldest surviving son. This is a natural phenomenon and is facilitated by the concept of _Ashramas_ where each man moves from one _Ashram_ into another with the passage of time. Thus when the father becomes old, his elder son gradually takes over the charge and control of the house from the father, replacing him so to say in the cycle of life. This smooth transference of authority also takes place with reference to business. The father

gradually transfers the burden of the business to the son who, in course of time, assumes responsibility for the management of the household income and business. Almost in all our cases there occurred a smooth transference of authority. A. Birla says of his father B.K. Birla: "My father had the courage to delegate authority to me. Another person might have fed, guided and pampered me, but that way I would have learnt nothing." (Bobb, 1981: 63)

It is important to remember that though a father may transfer authority in the business sphere to his sons and grandsons, nevertheless because of his experience, his advice is constantly sought for. Thus in business families, experience becomes an important criterion together with age and sex for determining authority. R.K. Gupta, writes on G.D. Birla's life after retirement: "Babuji kept personal touch with every member of the family. He enquires about them about their activities and welfare and gives them advice and guidance not only on business affairs but also on household and health matters." (Commemoration Volume Committee, 1977: 142) Jay Dubashi points out that though G.D. Birla has taken to religious contemplation, there is no evidence that he has totally withdrawn from his vast empire (Dubashi, 1980: 7) Though Shri Ram had handed over the running of DCM to his sons, he provided them with new ideas such as persuading them to draw up a five year

plan of development for DCM (Singh and Joshi, 1968: 131).

Since all the sons have an equal share in the property with the father in the Hindu family, Karve points out, for the avoidance of rivalry between brothers, status is conferred on the eldest son, who becomes the karta, or manager of joint family affairs (Karve, 1965: 62). He has the controlling voice in the family and performs all religious and familial rites. Kasturbhai was the karta in his family, and the importance of his role as a karta was recognized even in the business sphere. He promoted various companies to benefit his sisters' families (Tripathi, 1981: 156).

But it will be wrong to assume that the authority structure in the Indian family is over-centralized in the eldest male. In actuality, the authority is diffused and there is a great deal of consultativeness built into it. This is specially helpful in decision making and co-ordination in business. There are numerous examples from our studies to support this point. In the Murty Group, decisions were based on consensus and a reasonable exercise of authority enhanced the respect for elders (Cohen, 1974: 155). The Chand Brothers also met once a week to discuss policy issues collectively. This was mainly done so that decisions were binding on the entire group (Cohen, 1974: 205).

In the Birla family too, there are no formal meetings though discussions frequently pertain to business (Bobb, 1981: 72). Arvind Kilachand says: "The impression that the eldest member of the family dictates and controls and always has his own way is not true....He has to make the maximum concessions to maintain unity in the family..." and he went on to talk about his brothers: "All our decisions are joint, like a healthy functioning cabinet. The house is also run jointly." (Mehta, 1973: 10)

The family system in India also functions as a social security unit. If one member of the family prospers, all can share in the prosperity and if one member is in trouble, his problems can be absorbed by all other family members. Kasturbhai Lalbhai believed firmly that even if a person did not work, the rest of the family had a duty towards him and he had a claim over the family (Tripathi, 1981: 156). Arvind Kilachand also stated: "In a joint family even a person with lesser talents is tolerated.... He is not thrown to the wolves." (Mehta, 1973: 10) In NPL, Chinmaya Bansal was incompetent and inefficient. The family was protective of him, but unwilling to sacrifice the interests of the company by making him an executive. After unsuccessfully going through the company's management training programme twice, Chinmaya was set to work as a

helper in the industrial cases division with the hope that by learning from scratch he would perform better (Cohen, 1974: 57).

The Mitakshara Law of Inheritance of the Hindu family facilitated the accumulation of capital for industrial enterprises. It is operative in all parts of the country except Bengal and Assam, where the Dayabhaga Law of Inheritance prevails. This law is followed among the Marwari and Gujarati business families and has the following characteristics: (a) A son has the right to the ownership of property vested in him from the time of his birth. Thus even a father and his unmarried sons are sufficient to constitute a coparcenery. Membership of the coparcenery is acquired by legitimate birth or valid adoption; (b) A man has ownership of self-earned property but is a part-owner in the ancestral property, where he had no rights of disposal since it is jointly owned by a man and his descendants; and (c) Partition of the property could be demanded any time by the co-sharers, though at best, it should be demanded after the death of the father. The Mitakshara law, thus favours the retention of capital within the family to be used by the family, because the coparcenery stresses collectivity, unlike the Dayabhaga law where partition of property takes place after the death of the father and he can dispose off the property in

any manner he likes.

Karve sums up the consequences of the two laws by saying them in the Dayabhaga, where the father was the sole owner of the property until the death, it could have led to an absolute rule, whereas in the Mitakshara, the family remained together and joint because property was jointly held by all members (Karve, 1965: 344). The Mitakshara law then favours existence of a business family. Joint control of capital has led to joint investments in various enterprises. The joint holding of capital also facilitates the holding of more industries in one name. From the common pool, capital can immediately be utilized when urgently required.

Kinship relationships provide a potential resource which can be utilized for the growth of the firm, especially to obtain financing and recruiting new personnel. Thus Agarwala says:

> I know more than ten famous examples where brothers in law have combined their wealth to control more industries, and they live as if they belong to one single family. For example, Dalmia Sahu Jain, Jatan-Bajoria, Bangur-Somani, Poddar-Khaitan etc. To command larger capital and to control greater number of industries, these families have been interrelated through marriages and are moving towards solidarity of kindreds. (Agarwala, 1955: 141)

Our studies indicate that affinal relations are useful for family firm in a variety of ways. In the Kasturbhai Lalbhai case, his concern for members of his extended family was a primary force behind the establishment of many firms. These mills - The Nutan, the Aruna and the Ahmedabad New Cotton - were floated to provide gainful employment to his sisters' sons who were fatherless (Tripathi, 1981: 1966). The role of affinal relationships becomes more evident when they are used to resolve crisis situations. In the 1960s, when Dalmia had to pay up a debt of rupees two crores to the Government or face imprisonment, his son-in-law helped him by providing him the money in exchange of Dalmias two biggest enterprises - Benett Coleman and Rohtas Industries. The sale was conditional and Jain was to hand back these companies when Dalmia returned the money (Mitra, 1980: 113). When Kasturbhai's father died, leaving behind his young sons to take over the business, Kasturbhai and his brother turned to their brother-in-law, Chandulal Zaveri, who helped them in managing the business (Tripathi, 1981: 55).

The above account thus shows how familial principles and relationships are actively utilized by industrial families in such a manner as to facilitate the successful management of the family firms.

II

Organizational and Legal Aspects of Family Firms

It is interesting to note that apart from kinship principles which have contributed to the organizing and functioning of the family firm, the fiscal and company laws have not posed any major obstructions in its way and thereby have contributed to the sustenance of the family firm in India. This section discusses how legal factors and the organizational structure of the firm allows for the hold of the family over enterprises.

Taking up the organizational structure first, we find that until about ten years back, the managing agency system was the most predominant unit of business organization in India. Under this system one or several companies, though legally independent, were controlled by a single firm which was one family. If families had considerable wealth they also had shares in the company. The managing agency system was nothing but the adaptation of the family system to industrial management. The business management structure was coterminous with the family management structure, thus commercial families found it easy to adopt the system for industrial enterprises as it entailed little change in managerial attitudes and practices (Tripathi, 1981: 152). Helen Lamb also points

out how a family constituting the managing agency can retain tight control over public corporations (Lamb, 1976a: 142). The best example of the managing agency system was found in the Lalbhai family where the Kasturbhai family constituted a separate managing agency for each new company since he wanted to involve all the family members into business (Tripathi, 1978: 70).

The managing agency system however was abolished vide the Companies Amendment Act of 1970, because it encouraged concentration of the hold over industry only in a few business families. It has been observed that many of the admitted evils of the managing agency system result from it being heritable, which resulted in tight control and technical and managerial inefficiency. The act thus stated that no agreement could provide for the managing agency being heritable or devisable by will (Ghosh, 1979: 873).

Even though the managing agency has been abolished, we still find the concept of the holding company important in family firms today. In the Godrej family, Godrej and Boyce Private Limited had interest in a number of subsidiaries such as Godrej Soaps Ltd., Godrej Investment Pvt Ltd etc (Kaul and Venkataraman, 1981: 43). The Duncan Brothers and Co. Ltd is the holding company of the Goenka family (Kasbekar and Roy, 1982: 40). In the

Jaipuria family, the promoter company had 30% shares in setting up Swadeshi Polytex Ltd (Bobb, 1978: 69). The notion of the holding company stems from inter-corporate investments which is regarded as an essential part of corporate growth. To avoid income tax, the rich impersonalize their share-holdings through the creation of companies. Companies have perpetual existence, are legally independent of their members, tax liabilities on them are low and they can accumulate reserve. Thus investments for giant companies come increasingly from these companies since individuals have little personal wealth. Thus companies breed other companies or align with each other and breed further (Hazari, 1966: 366). This system encourages industrial expansion under one family.

Religious trusts have played a very important role in reinforcing family control over industry. In the Tata, Birla, Singhania and Mafatlal groups trusts play a key role in holding controlling blocks of shares. Tabe Noboru points out that trusts are important units of capital because "as beneficiary organizations, the non-profit trusts are exempt from the Company Law, thus making it possible for them to make loans to companies owned by their family members without much restrictions." (Noburu, 1970: 54) Moreover, the creation of trusts is a common and significant technique of keeping personal fortunes

free of taxes on income and at the same time having the controlling investments.

The interlocking of directorships is another procedure which facilitates tight control of the enterprises under one family. In the Godrej family, B.P. Godrej, managing director of Godrej soaps is also director of Godrej and Boyce. His brother N.P. Godrej is managing director of Godrej & Boyce and director of Godrej Soaps (Kaul and Venkataraman, 1981: 41).

Familial representation on the Board of Directors is yet another device to control and guide the promoted companies. Established entrepreneurial families such as Birlas may not insist upon placement of family members on the board, since their interests can be guarded by their nominees, relatives and associates. Sharma finds single family representation on the Board of established industrial families, though he notes changes coming about due to insistence from financial institutions on broad-basing (Sharma, 1980: 221).

Apart from the firm's organization, certain managerial styles also reflect the importance of family, and kinship in the functioning of family firms.

The traditional occupations of family firms in our study has been banking, money-lending, trade and commerce. The managerial styles of industrial families reflect a continuity with personal supervision of business affairs

which was so characteristic of traditional business practices. This managerial style was useful in consolidating the business at best in the early stages, since industrial enterprises were expanded by utilizing personal kin ties.

D. Tripathi Kasturbhai's biographer says how Kasturbhai inherited from his father who was in the banking business, a managerial style which placed a great premium on personal supervision of business, like that in a 'pedhi'. Thus Kasturbhai believed that to be well-managed an undertaking has to be under his personal supervision (Tripathi, 1981: 211). He was thus not affected by professionalism and remained the central and dominant figure in the management of his undertakings (Tripathi, 1981: 211-12).

Tripathi also notes that most Ahmedabad industrialists had been used to manage their money-lending and trading operations from their 'gaddis' or seats and re-adapted this concept for managing their industrial undertakings (Tripathi, 1981: 211-12).

Family firms in India are largely nepotistic and utilize family connections rather than professionals for managerial control. The Birla management is still largely patriarchal. There is a Birla or his kinsmen in control of every company (Mohan Ram, 1980: 54). The same tendency was evident in the three large family firms

studied by Cohen. G.H. Murty stated "members of the immediate family have to be trained to take positions.... I assume a family member is good material or must be trained to be." (Cohen, 1974: 156) This was corroborated by the Chand Brothers who stated: "All family members get first chance at training, after all, the business is for the family." (Cohen, 1974: 213)

Families have such a tight control over their enterprises, both financial and managerial, that they have adopted an excessively centralized style of management in the firm, at the cost of outsiders. In the Godrej family all decisions are taken at the owner level and performance appraisal is very subjective (Kaul and Venkataraman, 1981: 40). One executive said that apart from all the major decisions on investments policy etc., even day to day operations are controlled by family members (Kaul and Venkataraman, 1981: 55). The Mafatlals too supervised the day to day management of their companies and refused to delegate responsibility to seniors (Business India, 1979: 33).

To counter the over-centralization of authority in themselves and keep professionals satisfied, the families follow a policy of paternalism towards its employees. In the Godrej family 25% of their turnover goes for employee remunerations and benefits. Lala Shri Ram provided for

workers' participation in management by having employee-director on the DCM board. His basic intention was to make a long-term settlement with his employees and to declare a moratorium on strikes and lock outs (Singh and Joshi, 1968: 37). Chaudhri and Burman found in their study of a Marwari family firm that the management style was confined within limits of exploitative-authoritative and benevolent-authoritative continuum inclined more towards the former (Chowdhri and Burman, 1981: 120).

Another aspect of this paternalistic style is the manner in which the family head takes all the crucial decisions, and hands them down to the other family members. Milton Singer cites the example of a founding father who was a severe disciplinarian and laid down certain rules which were an adaptation of traditional joint family practices to industrial life. These were: (a) No member of the family should have property of his own or outside investments; (b) All profits should be reinvested in business; (c) Shares in the business should be held only by male descendants; and (d) A member's financial transactions should be known to others (Singer, 1968: 441). Kasturbhai Lalbhai took the major decisions in the business. His cousins had to approach him before launching a new enterprise. When his cousin Chinubhai approached him with the idea of setting

up a starch factory Kasturbhai chided him for approaching him with a proposal without studying the problem intensively (Tripathi, 1981: 80).

Lastly, having family members in the firm is advantageous, because they keep information about the firm and its operations secret. One executive of Godrej and Boyce said: "I have hardly witnessed or even heard major decisions being discussed." (Kaul and Venkataraman, 1981: 55) Family control over business also helps in keeping information about the tax evasion practices of the family a closely guarded secret.

We have thus far seen how familial and kinship principles are even reflected in the managerial styles adopted by family firms.

The wide ramifications of family and kinship ties for operation and control of various industries, makes it difficult for the Government to actually define the size of a business house. The Government defines a business house as a group of inter-connected undertakings. This difficulty arises because the business houses do not voluntarily register all the companies with the Government. It has been stated that the Birla companies are difficult to identify. Officially they number fewer than eighty, but the real number should be two and a half times of that. As anti-monopoly laws began taking effect several groups of Birla companies emerged in place of one (Mohan Ram, 1980: 53).

Apart from identifying the number of companies under a business house, it is also very difficult to judge the extent of real ownership these families have in their companies. In most of their companies, the Birla ownership of equity is under 45%, but there is no doubt who is actually in control (Mohan Ram, 1980: 54). Hazari points out that it is difficult to identify some companies because they are superficially owned and controlled by nominees, either relatives, executives and professional consultants who are loyal to the industrial family, who derive social security benefits for lending their names to the property of the beneficial owners (Hazari, 1966: 4-7). Timberg shows how Birlas formed associated firms with their kin and community members. These include G.D. Kothari, the Khaitan, and Kanorias who are their in-laws and political associates. There are also alliances with the Saboos and Mandelias who are their top executives (Timberg, 1978: 82). Their other affinal relatives Somanis, Mantris, Dagas, Tiranis and Newars are also guarding the interests of the Birla house (Burman, 1950: 99). Thus familial and kinship factors which are utilized by industrial families make it very difficult to identify a business house.

We shall discuss now briefly how laws enable family control over industry. Company laws are strengthening

family control over industry. The composition of the board of directors should tell us how many can be recruited from one family, but according to company law there is no restriction with regard to the appointment of directors who are related to each other, provided the minimum number of directors, or maximum number of directors as required by the company law are complied with. However certain restrictions have been placed by the company law which states that a person can hold the position of a managing director only in two companies including a private company (Ghosh, 1979: 849). The managing director can hold office for a period of five years, though he is eligible for re-appointment as managind director, subject to the approval of directors, shareholders and the Government, as the case may be (Ghosh, 1979: 851). A person can hold the office of director in not more than twenty companies.

The company law then is silent on the incorporation of kin. Thus, as the family firm expands, there is an incentive to open more and more firms that are nominally run by relatives. Thus though *de facto* these firms are controlled only by a small number of men, *de jure* the managing directors or directors are wife, sister, brother-in-law, uncle, nephew etc. Thus for the expansion and prosperity of business, family will search for a pliable, even a ninth degree relative to proxy for them on the board of directors of other companies.

At this juncture it is crucial to mention here that while on the one hand the laws make for the extension of family and kin network over industry, at the same time they also make the family firm vulnerable to breakdown. They are formulated on the basis of universalistic criteria according to which firms have to operate, and are shaped to favour individuals irrespective of whether they belong to a particular family. Thus it is only on the basis of an understanding among family members that they can all work together and exploit the legal and secular apparatus to further the interests of the family firm. If however an individual wants to act autonomously and make independent decisions as a managing director, he receives full support from the law which has vested him with such powers. When this happens the entire structure of the family firm can be shaken to its roots, as we will seen in the case of the Mafatlals and the Jaipurias.

Certain secular laws such as the Income Tax law also favour the management of industrial enterprises by one family. The family holds a privileged position with respect to income tax as compared to an individual tax payer (Gulati and Gulati, 1962). This arrangement helps large scale tax evasion as the Vivian Bose Report on the malpractices of the Dalmia-Sahu joint enterprises brings out. Hazari points out how public companies were squeezed

of their capital in order to pay large amount of income tax-free money for fictitious services to the family members itself (Hazari, 1963: 679).

D.R. Agarwala has pointed out that the new laws of income tax, estate duty, abolition of the managing agency which are heralded as progressive measures making for equality will break the joint family institution (Agarwala, 1955: 145). But our study of business families shows that though in principle these laws are progressive, yet in practice, they are amenable to manipulation and thereby encourage the practice of bringing in various relatives such as daughters and their husbands on the board of directors so that tax deductions against each in the form of expense accounts etc can be made. The laws therefore encourage the participation of family members in business affairs.

Thus by studying the manner in which familial, organizational and legal factors have contributed to the persistence of the family firm, it is evident that in practice there exists a marked congruence between family and industrial organization in India.

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CHAPTER IV

ADAPTATIONS OF THE FAMILY FIRMS TO THE CHANGING MILIEU

The preceding chapter has indicated the factors which are conducive for family business in India. Nevertheless it should not be assumed that this co-existence of family and business is always a smooth one. Major difficulties may beset business families arising from internal failures and external pressures, necessitating the family firms to make several adjustments and adaptations in the process of their continuance. At first, I shall identify the adaptive strategies employed to cope with internal failures within the family. Next I shall deal with those adaptive strategies directed at coping with pressures emanating from the growth and expansion of the firm and a changing business environment.

I

Adaptations to Cope with Internal Failures Within the Family

The family firm is such a flexible institution that it can overcome eventualities by employing certain adaptive strategies. Some of these adaptive strategies were temporary solutions and created new tensions over a period of time.

An absence of sons in an industrial family can have dire consequences for the firm's future and so family firms respond in a variety of ways to acquire heirs to carry on the business. The most common practice is the incorporation of the son-in-law, a practice which has become institutionalized in the Indian family. In the absence of sons Dalmia oncorporated his son-in-law and made him his business associate. Dalmia writes: "Shanti Prasad, my son-in-law, has been with me since the beginning of my industrial career. Shanti Prasad has been more of a son to me....There was a time when he along with my brother were my left and right hands." (Dalmia, 1962: 8)

A second adaptive strategy was re-marrying in order to beget sons. R.K. Dalmia thus married six women in order to beget sons, who would manage his industrial empire. Dalmia is survived today by three wives and 17 children. Seeking recourse to several marriages has created several problems in its trail. There is hostility among the children of different mothers. In order to reduce tensions among his step sons, Dalmia segregated the three families who lived in separate residences. The children went to separate schools and avoided social contact with each other. Vishwa Nidhi, his son, says: "He had different ways of dealing with us. I think it was a policy of divide and rule." (Grewal, 1980: 28) This adaptation had grave

consequences when the sons grew up for they could not run the business together.

Adoption is the third strategy used to obtain heirs for the business. In the Jaipuria family, Mungtu Ram adopted his nephew, Sita Ram, but thirteen years later matters became complicated with the birth of a real son to Mungtu Ram.

The existence of incompetent and unmotivated sons in family firms often calls for adaptations. In this case, sons or younger brothers, who are more competent, may be asked to take over the family business. Though G.D. Birla was the third son, he became the head of the business because his older brothers were conservative and religious (Commemoration Volume Committee, 1977: 94). In the Kasturbhai family, since Chimanbhai had limited insights into business, Kasturbhai's widowed mother persuaded him to take over the management of the firms. He then assumed the position of the chief decision-maker in the family, and in all future expansions he played a decive role in the family firm. Everyone, including his brother, who remained the formal head of the family recognized his superiority (Tripathi, 1981: 155). Shri Ram family was at one time headed by Madan Mohan Lal, the brother of the founder Gopal Rai. Madan Mohan Lal was incompetent in handling business, and the affairs of DCM soon began to deteriorate when he

took over. He had no faith in Shri Ram who was given in adoption. When the latter took over the management, he was so successful that he soon reduced his father to a figurehead and became the *de facto* secretary of the DCM (Singh and Joshi, 1968: 37). In the National Products Ltd., Satpal Bansal said: "We consider it a family responsibility to settle each one, but in a small private company not in a public Ltd one." Chinmaya was thus not made an executive but was set to work as a helper in the industrial gases division (Cohen, 1974: 57). Thus where certain family members are incompetent, the family though protective of them, nevertheless recognizes competence of other sons who take charge of the management of the firm.

The untimely death of male head of the family, leaving behind minor sons can have dire consequences for the family business. In Kasturbhai Lalbhai's family Lalbhai died leaving the family business without leadership. The family adapted to this situation by sacrificing the education of the son, for the sake of the family business (Tripathi, 1981: 50-51). In such situations, it is the paternal uncle who would take care of the family firm, but this did not happen since the borthers had parted acrimonously.

Inter-generational differences between members of a family can create strains in the family business. In

two firms studied by Cohen, these were resolved by the coping mechanism of the link-pin. In the Murty group, E.F. Murty was the effective link between the younger and older members of the family. He was the eldest in his generation and when the youngsters waited to get a decision from the elders they utilized E.F. Murty to present their case. Similarly the elders' ideas were realyed downwards through him (Cohen, 1974: 174).

II

Adaptations to Cope with the Changing Business Environment

Family firms have had to make major adaptations in order to persist and expand. These adaptations have been necessitated by the policy of rapid industrial development pursued by the Government of India. The Government and various financial institutions by encouraging investments in industries, provided capital for growth and expansion of family firms. As is often commented, while the older generation competed in a world of freer commerce, buying ,, selling or manufacturing in more limited markets, with a relatively greater freedom of enterprise, the new generation must cope with greater competition, more restrictions, tighter control, fast changing technologies and above all rapid movement. This view is also widely held among some business journalists

and analysts (Bobb, 1981: 69).

The expansion of the firm necessitates the family to relinquish its financial control over the firm. Business families can hardly meet all the financial requirements of their heavy industries which call for long-term investments in large amounts. Thus financial control is relinquished and reliance is placed on banks and other financial institutions for capital. Nevertheless, family members are able to retain an operational control over their firms. The older generation such as Kasturbhai Lalbhai and K.P. Goenka coming from families of traders and bankers, had an essentially conservative approach to financial matters. Kasturbhai's emphasis was on moderate dividends, high reserves, ploughing back profit and increasing the capital of his companies through issue of right and bonus shares (Tripathi, 1981: 21).

The relinquishment of financial control is best illustrated by the Goenka example, which is a rapidly expanding group. In K.P. Goenka's time, emphasis was on internally generated resources, and large scale borrowings from banks was a taboo. Perhaps as the economic climate changed, the family gradually began to realize the need for finances from public institutions. R.P. Goenka, K.P. Goenka's eldest son, says: "In large measure I have carried on my father's financial conservatism." However he has now

seen the advantages of high financial gearing for quicker growth. (Kasbekar and Roy, 1982: 47) One of their managers says:

> Today most of our projects are being taken up by the joint sector with one or another state industrial corporation. Thus not only are we sharing our risk, we are reducing our financial commitment, while the government organization spearheads the moves for licensing, clearance and loans. Yet the managing director is our nominee. So we maintain managerial control of the new venture. (Kasbekar and Roy, 1982: 47)

Most of the new projects started by the Goenkas are of this nature. Wiltech India Ltd., for example, is a joint venture between Asian Cables (owned by the Goenkas) and the Karnataka State Industrial Development Corporation. Thus managerial control remains with the Goenkas though they are in a minority position in shareholding.

In the Jaipuria family firm the Swadeshi Polytex was set up with the help of financial institutions such as the IDBI who even put forward certain restrictive clauses for the Company's operations. Despite this, the running of the Company was in the hands of Sita Ram, who was appointed managing director of SPL for a period of five years (Bobb, 1978: 69). Thus expansion of the firm necessitates the relinquishment of financial control but operational control is still very much in the hands of the family firms. Thus family control over industry has only got modified but not weakened.

There is an increasing trend towards professionalization in family firms today. The incorporation of professionals has become imperative in family firms because (a) the sheer size of the company means that there would not be enough family members to perform all the tasks; (b) the need for expertise and specialization of tasks increases as the firm grows; and (c) expansion involves the firm in credit relationships with banks and financial institutions.

With the establishment of the Arvind Mills, the textile complex had grown too big to be managed by a simplistic organization. Kasturbhai Lalbhai then brought in a number of professional talents such as B.K. Mazumdar and Chandra Prasad Desai (Tripathi, 1981: 159). Bobb reports that in the rapidly expanding Modi group, great responsibility was being vested to professional managers. The Modi corporations have expanded so fast that there are now on an average six senior managers reporting to each family member at the top levels, as compared to one manager a few years ago. "We are now taking managers and putting them in charge of enterprises, a role that was originally being done by one of the family", says K.K. Modi, the eldest son of the Modi group (Bobb, 1981: 72). Even in recruiting professionals, the Birla family firm prefers distant relations or caste men. Their top executives are

the Saboos and the Mandolias, also from the Marwari community. The Birla family has a paternalistic style of management and there is a Birla or his kinsmen in control of every company. Gradually, however, more professionalism is being injected into management.

Dr Bharat Ram sees the process of the incorporation of professionals as a difficult one for family controlled business. "If the business expands there and there are not enough family members and you fail to realise that you have to protect your investment by getting managers from outside , there will be problems." (Bobb, 1981: 72) M.V. Subbiah, the grandson of Murugappa Chettiar group agrees that when these companies were started even the day to day operations used to be managed by family members. That just does not happen any more with the growth of the companies (Bobb, 1981: 72).

Thus almost all industrialists agree that the expansion of the firm necessitates the incorporation of outsiders in the company where initially only family members had control.

Even though outsiders are incorporated, actual decision making rests in the hands of family members. The professionals feel blocked by the lack of opportunity in the corporate sector where recruitment and decision

making are the prerogatives of family. To muffle such conflicts in the corporate structures the entrepreneurs have adopted a paternalistic style of management towards the professionals and workers alike, which enables them to retain control over the firm. In NPL, a non-family executive commented:

> Ravi Bansal is being groomed to take on responsibility of textiles. One can't deny the fact that he is in charge of textiles because he is Sahdev Bansal's son....The managing agents have been able to keep their staff controlled by salary. Whenever they think 'X' is upset by Ravi Bansal's coming in, they add Rs.1000 to his salary. (Cohen, 1974: 93).

In the mid-sixties, Kasturbhai Lalbhai introduced a participative system of management where problems of the company were discussed by a committee consisting of senior executives and principal family members. This did not reduce the powers of the members of the family, but the professional cadre felt a greater sense of involvement in the decision-making process than before (Tripathi, 1981: 164).

In the changing environment, industrial families have to become more open and use universalistic criteria such as skill, achievement and professional competence to meet particularistic ends. Though families have to relinquish financial control, they have no intention of

reducing the hold of their family at the top management level. They got their children professionally trained as engineers and business management experts so that they can effectively exercise control over their firms.

In the Shri Ram group, Dr Bharat Ram has three US educated sons. Dr Vinay Bharat Ram has been educated in Harvard and holds a Master's Degree in business management and a Ph.D. from Delhi School of Economics. Aditya Birla is a qualified Chemical Engineer from MIT. R.K. Bajaj is another Harvard trained industrialist. Chirayu Amin from the Alembic group is a management graduate from US. Kasturbhai Lalbhai's two sons Siddharta and Shrenik are both US educated. The former is trained as a Chemical Engineer and the other in Business Administration. Kasturbhai Lalbhai who himself was denied the benefits of higher education said: "We cannot run the various enterprises with old fashioned people and outlook." (Tripathi, 1981: 163) In the Murty group, the family was rigorously training its children in order to equip itself, and to prevent the family from losing control over the firms (Cohen, 1974: 157). One business analyst has said: "For the first time since they started business, family controlled business is responding to the challenges by professionalizing their own sons, giving them greatest leeway to use modern professional methods." (Bobb, 1981: 68)

After their training and education, the sons are only gradually inducted into the business. At first they work under professionals without any decision-making powers. This helps them apprehend the intricacies of business before they are vested with responsibility. Rahul Bajaj did four years of basic training with Bajaj Electricals and Mukand Iron and Steel before leaving for Harvard to do MBA. Vikram Thapar, currently General Manager of Ballarpur Industries, joined the business in 1971 as an accounts trainee in Calcutta at Karam Chand Thapar, the former Holding Company. He had been through various divisions before taking up his present post. He says: "Most of our companies are run by professionals, people whom I consider my seniors because I have worked under them and most family controlled business are operating on the same principles." (Bobb, 1981: 70)

There are also instances where with or without the necessary education, businessmen have begun their career from the lowest rungs of the management. Singhania joined business at the age of 18 and recalls that he was made to sit in the same hall as the clerks and junior officers. He was then rotated from department to department, given what he calls practical training. Shashikant Garware joined the business at the bottom with a salary of Rs.250 p.m. He worked as an apprentice in every department

of Garware Plastics, then a fledgling concern (Bobb, 1981: 70).

Two important points emerge from this discussion on the practical training given to entrepreneurs. Even though initially family members may be subordinate to professionals, they move up the ladder rapidly, to take over as the heads of the family firms, as their fathers retire. Moreover, since young entrepreneurs undergo training under the professionals, it reduces the distance between the two groups.

Families have responded to meet the growing demands of the firm by training and educating their own sons. This adaptive measure may create a crisis in the family firms as Milton Singer (1968) and Burton Benedict (1968) recognize. Professionally trained and educated sons will bring in new ideas into the business and would want a greater say, in turn, in how the business should be run. Thus if family control over the enterprises had to be retained, it was necessary to give the sons responsibilities and autonomy to satisfy their desires for challenge, initiative and independence.

Milton Singer shows how the Madras industrialists gave the younger generation special projects to manage and develop (Singer, 1968: 442). Rahul Bajaj is extremely individualistic about his auto industry and does not tolerate

any interference. The same is true of Aditya Birla. B.K. Birla initially gave his son a number of sick industries to manage such as Hindustan Gas, Jayshree Textiles and Indian Rayon. But Aditya has made them all profitable companies in his empire. Since then, Aditya Birla has never looked back and the only companies he handles are those which he had started or turned around himself. He says: "I don't have anything to do with my father's companies. I run my own and he runs his own." (Singhvi, 1981: 34-35). Elsewhere he has said: "My father had the courage to delegate authority to me. Another person might have fed, guided and pampered a new person, but that way I would have learnt nothing." (Bobb, 1981: 69)

Once the elders are convinced and confident about the young entrepreneur's capacities, they give them more autonomy and a larger number of companies to manage. The manner in which responsibilities are divided and autonomy is given in some family firms such as Bajajs, Modis, Birlas makes for the strengthening of the family firms. This happens when a number of companies are put solely under the charge of one family member, thereby giving him considerable autonomy to run these enterprises without being subordinate to anyone.

In the Birla family, Aditya Birla is chief executive of Gwalior Rayon and Indian Rayon and controls twelve

enterprises set up in South East Asia. Ashok Birla, his cousin controls six companies. Chandra Kant Birla, B.M. Birla's grandson is the director of two companies, Orient Paper and Hyderabad Asbestos. Sudershan Kumar Birla, one of G.D. Birla's grandsons runs four companies. In the same family firm, division of companies between brothers takes place along industry lines. In the Modi family firm, the five brothers diversified into different areas. K.K. Modi set up a yarn project - Modipon - in the mid '60s; V.K. Modi floated Modi Rubber in 1974; S.K. Modi floated Modi Carpets; V.K. Modi is setting up a sponge iron project and a dry company while Y.K. Modi is setting up a caustic soda plant (India Today, 1982: 100-101). On the other hand, the organizational structure of the top-level management in the Mafatlal family firm was such that responsibilities were divided on a functional basis, and each person had to be subordinate and dependent on the other for various purposes. Such a system stifled autonomy and achievement so important for the young entrepreneurs.

Even though the younger generation is given considerable autonomy to run their own enterprises, yet autonomy is not complete. The family still meets formally or informally to take crucial policy decisions. The Chand Brothers meet in Bombay formally every week in a council to discuss policy issues and common problems (Cohen, 1974:

205). In the Birla family, though there are no formal family meetings, their discussions frequently turn to business (Bobb, 1981: 72). M.V. Subbiah, Murugappa Chettier's grandson, asserts: "Being a family member does help to a certain extent because we grow up hearing business being discussed at the breakfast table." (Bobb, 1981: 70) It is interesting to note that though the younger generation has considerable autonomy in running their enterprises they nevertheless continue to be authoritarian vis-a-vis other members of the family. As has been cited in another context, we have seen how Rahul Bajaj says that if a relative does not listen to the advice given by the other members of the family, he would be removed from his job. Similarly Aditya Birla has already planned his 12-year old son's education and career in the family firm.

An added dimension explaining their authoritarianism is the fact that these entrepreneurs are competent and recognized as leaders of their group. Thus the authority pattern between the younger and older generation has also got modified. Dilip Bobb has shown how the older generation has displayed a reasonable approval of this shift towards professionalism. B.K. Birla approves of his son Aditya, and says: "Aditya is an industrialist in his own right. There are times when we disagree strongly with him, but the decisions are his and so is the credit."

Singhania says: "I strongly feel that the younger generation will go even further than the elders have done. They have been exposed to a much more modern way of thinking, so they are able to make significant contributions to the thought process and on policy matters." Dr Bharat Ram, the Chairman of the Shri Ram group, says: "The new generation is certainly better equipped emotionally. Their entry into the business has certainly made an impact in that they have new ideas and new projects." (Bobb, 1981: 72).

From the above account, it is clear that the prosperity of the family firms today is a result of their ability to move with the times, manifest in the adaptations they have made by incorporating professionals into the firms, by educating and training the younger members of the family and by delegating them enough autonomy to run their enterprises. The family has thus managed to retain operational control over the management of the enterprises. We have evidence to suggest that when family firms do not respond to the changing environment by making adaptations, there is a danger for the firms to stagnate. The Walchand Hirachand group has not floated a single new company since 1953 and is still involved in the civil engineering contracts which were Walchand's first interests. Though the heads of

all the companies meet every month, the elder generation has not given the sons any autonomy to function which has handicapped growth. Bahubali Gulabchand, Lalchand's nephew, says: "We keep on asking ourselves why we have not grown as fast as we should have." (Bobb, 1981: 72) The Godrej is another example where the family firm is stagnating because it has been unwilling to relinquish financial control and become a public concern.

In contrast, as we have already seen above, those family firms which have made successful adaptations to the changing environments have undergone notable expansion, beyond the domestic markets. Thapars, Birlas, and Bajajs Goenkas, Shri Rams, are now entering into foreign collaborations and are setting up industries in other countries and even competing with foreign and multinational firms. Aditya Birla has set up textile industries in Thailand, Philippines and Indonesia (Singhvi, 1981: 35), and up to date has launched twelve enterprises in South East Asia. Bharat Ram's sons Vivek and Vinay are entering into collaborations with Japanese and US firms for the manufacture of electronic equipment and automobiles (Bobb, 1981: 67). Rahul Bajaj has grown into the second largest scooter manufacturer in the world. Moving into exports, he has set up assembly operations in Indonesia and Taiwan, and is exporting scooters

to the US and Europe. Moreover he is actively seeking competition with global leaders on their terms (Ninan, et. al., 1982: 97). He says: "I want to be World No. 1. I lose my enthusiasm if the world is not my market place." (Ninan, 1982: 42)

These developments have led to the emergence of a new, aggressive, productivity-oriented entrepreneurial style. Rahul Bajaj emphasises on productivity. He says: "I have a poor opinion of productivity levels in Indian industry and am trying to blaze a trail." (Ninan, 1981: 43) Bajaj wants to raise the productivity level from 70 to 80 to 100% and says: "The workers know that if their productivity falls I will dismiss them." (Ninan, 1981: 43)

Rajan Nanda's obsession is the quality of his products. He says: "The name of the game is quality, and we have been able to demonstrate it by making a tractor equal in quality to that of a Ford tractor anywhere in the world." (Reyazuddin, 1976: 47)

In contrast to the Goenkas, Bajaj and Nanda have placed a heavy reliance on Research and Development. In the Goenka case, financial conservatism prevented them from investing in R and D and greater reliance is placed on technical knowhow from abroad (Kasbekar and Roy, 1982: 49). Rajan Nanda says that the company's effort has been

to grow technologically, not just in assets or sales. In his firm, research programmes are being worked out in the field of bio-mass management and fresh applications for the basic power packs being manufactured currently (India Today, 1982: 103). The Bajaj Auto Centre has the strongest R and D departments, which has proved to be one of Bajaj auto's strengths in the face of foreign competition (Ninan, 1981: 41).

The new generation of industrialists also seems better prepared to take risks. Shashi Kant Garware says of his father: "I think we would have grown even faster, if my father had been prepared to take more risks. He did not like to delegate authority. In our generation there is a tendency to trust your employees with more responsibility." (Bobb, 1981: 71) Rambhai Amin says: "Where I used to take blind risks, Chirayu has a more scientific grounding and takes calculated risks." (Bobb, 1981: 67)

The above account of emerging styles of entrepreneurship reflects certain important differences vis-a-vis those of the older generation. While experience and training in family business was held significant in the past (G.D. Birla, Kasturbhai and Shri Ram received only elementary education), professional training and education is considered vital for the functioning of family firms today. While in the past family firms depended on feudal

and particularistic loyalties, family firms today are moving towards greater professionalization along universalistic lines.

Nevertheless the entrepreneurial styles of the younger generation do reflect certain perceptible continuities with traditional business practices. These continuities are noticeable in the emphasis on accounts and financial management, expansions through acquisitions and diversification through vertical integration.

Even though Aditya Birla is a qualified chemical engineer from MIT, he has relied on traditional systems of accounting, known to his forefathers. He says: "Basically what I learnt from them was our system of financial reporting which is very important in our organization... Our companies are very finance-oriented, since the controls are essentially financed controls and that is one of the reasons for our success." (Bobb, 1981: 69) A. Birla's strong point as a manager remains his mastery over accounts and figures and he prefers to hire accountants rather than MBAs who he says "are out of touch with reality." (Singhvi, 1981: 37) In the same vein, S.L. Kirloskar also states "Which principal of a business school has run a factory? I don't care much for all these M.B.As." (Valluri, 1982: 41)

Expansions and diversification through acquisition, rather than the establishment of new industries

reflects financial conservatism, an emphasis on account and desire for quick profits. This is a characteristic of traditional business practices. The Goenkas have expanded rapidly by taking over sick units. They possessed the financial expertise, with which they could turn these companies into profitable concerns (Kasbekar and Roy, 1982: 46).

Finally family firms used the technique of vertical integration whereby they manufactured a number of products, all catering to the needs of the same industry. This reflects their emphasis on risk-free investments. The Mafatlals produce a number of related chemical and plastic products such as textiles, dyes, blended fabrics etc. (Business India, 1979: 27). The Godrej family has reflected a conservative attitude by going in for backward integration. They manufacture industrial goods like steel tubes, steel castings, machine tools and fork lifts (Kaul and Venkataraman, 1981: 43).

Young entrepreneurs who are professionally trained show that they can utilize both traditional business practices as well as modern ones in the management of their enterprises. Vinay Bharat Ram says that he relies on experience in the management of certain industries like textiles, paper, cement and sugar where changes in technology and management are not rapid, unlike in the

electronics industries which have to be managed by skilled professionals (Surya India, 1980: 85).

Finally, it is important to highlight the emergence of a trend towards conjugal family units, among younger generation of entrepreneurs such as R. Nanda, R. Bajaj and A. Birla. However jointness continues to persist and this trend is a reflection of the extent to which families have changed. Young entrepreneurs today perceive the conflict between work and family. Rahul Bajaj says: "If you want to work, to reach the top, to do better and better, then you need time, you need single minded dedication. It hurts your family. For me it is one area why I have not found satisfactory answers....I feel guilty." (Thomas, 1980: 47) The importance of the conjugal unit is now becoming evident.

From this analysis it is evident that family firms have had to make a variety of adaptations in their encounter with the internal failures within the family, and changes in the industrial milieu. In this process a new set of entrepreneurial styles is emerging. Nevertheless, some important continuities with the past are retained. Thus though family control over the firm has got modified, it has not weakened and family enterprises continue to persist to this day.

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CHAPTER V

DISINTEGRATION OF FAMILY FIRMS

In the previous chapter we have highlighted some of the important adaptive mechanisms generated by family firms to sustain themselves. However it is also necessary to study the conditions under some family firms have disintegrated so that an objective assessment of the future of the family firm can be made. It is important to note here that each case of disintegration is a result of a peculiar set of conditions. Hence I have sought to study each case by itself rather than by the method of apt illustration.

Before proceeding to analyse these conditions, a few clarifications are in order. At the outset it should be stated that the disintegration of family firms does not imply that kinship principles are no longer operative. In fact, even when the original family firms break up into smaller units, the possibility of realignments along kinship lines is not precluded. In consonance with the definition of the family explicated before, to regard the family firms to have disintegrated only when there is both partition of property or corporate business as well as the break-up of

the original household into smaller units. Since there is a possibility of running the business jointly, while living in separate households, and conversely of formally partioning the companies, but living together, it is essential to regard both these as necessary conditions for the disintegration of the family firms.

My analysis of the disintegration of family firms is based on four case studies. In this chapter, I have sought to analyse disintegration as it occurs under the following possible conditions: (a) when the hitherto successful adaptive strategies, under changed circumstances, create ruptures within the family firms; (b) kinship principles themselves play an important role in the disintegration in the following manner, that is, (i) when they are silent on certain relationships, (ii) when kinship principles necessary for family control over the firm get blurred in the family, and (iii) when certain kinship principles such as the law of inheritance themselves contribute to the partition of property which may lead to the disintegration of the family firm; (c) when the organizational structure of the firm contributes to disintegration, and (d) finally, when legal principles make for disintegration by being used to break up the particularistic bonds.

We now proceed to a case by case analysis of the phenomenon of disintegration of family firms in India. The

disintegration of the Dalmia Sahu-Jain group took place over a period of two generations. The disintegration began with the original business associates, Dalmia, Jaidayal and S.P. Jain separating from each other. The three men had expanded the industrial empire by indulging in various malpractices such as tax evasion, improper transfer of assets from one company to another and the like. Such activities did not go unnoticed, and soon Dalmia's troubles began. A commission of enquiry was set up to examine the nature and extent of control over these companies by the three associates and their relatives (Hazari, 1963: 677). Meanwhile the income tax department was closing in on Dalmia and he had to pay Rs.2 crores to the government or face imprisonment. Dalmia made a conditional sale of Bennet and Coleman and Rohtas Industries to Sahu Jain for Rs.60 lakhs. But Jain refused to give back the two companies (Mitra, 1980: 113).

Jaidayal and Sahu Jain then started dissociating themselves from R.K. Dalmia and put up a defence against their involvement on the grounds that the Dalmia-Jain group had been partitioned in 1948 and that the malpractices were common commercial practices. But the Vivian Bose Commission report concluded that in or about 1948, the partners explored the possibility of reorganizing themselves or effecting a dissolution by stages, but their affairs were

so interlocked and complex because of black money, secret undisclosed assets and undetermined income tax liabilities, that this (dissolution or partition) was not found to be easy (Hazari, 1963: 681).

It was not until about ten years later that the partition took some shape. S.P. Jain bagged the largest share of about 50% and a small portion went to S.P. Jain's brother Shriyan Prasad Jain. The next offer was made to Jaidayal who took over 5 companies; and the remainder of about 25% went to Dalmia and his immediate family (Grewal, 1980: 28).

The second generational conflict in Dalmia family took place between Dalmia's step-sons from his three surviving wives, over the companies Dalmia left behind. The Durga Devi Trust was set up to centralize the control of all the companies and the assets were to be equally divided among Dalmia's children. The trust was also the sole selling agent of Dalmia Biscuits Company. Dalmia co-opted Vidya Nidhi, the son of his fourth wife, Saraswati Devi, as the sole trustee of the trust. Together with this, Dalmia's will of 1977 provided the largest share to Saraswati Devi and her seven children. It bequeathed them ownership of Dalmia Biscuits, Edward Keventer, Dalmia Dadri Cement, South Asia Industries. The two other wives were left with very little property. Vidya Nidhi, then

the sole trustee, deprived Dalmia's youngest son Karuna Nidhi of his share in the following way. When the Trust had to remove itself from the affairs of the company with the abolition of the managing agency system, Vidya Nidhi transferred Rs.25 lakhs from the trust to Dalmia Biscuits and said there was no money left to pay some family members. Gun Nidhi, his brother says:

> My father's children were beneficiaries to the trust, but you always have to pay an outside creditor first. It is immaterial that it's our own company, but it is a separate corporate entity. So when it was cleared off, there was nothing left to pay off certain family members. But in any case this was something which was coming to them free, it was not as if they had invested. (Grewal, 1980: 29)

Karuna Nidhi thus went to court, and Meera, Asha Devi's daughter, also filed a uit in 1978 demanding a rendition of the trust's accounts (Mitra, 1980: 111).

The second issue that caused dissensions within the family was Dalmia's will of 1977, according to which a major portion of the share went to the fourth wife, Saraswati Devi and her children in comparison to others who got much smaller shares. The will is being contested by Vishwa Nidhi, Dinesh Nandani's son, and Alka, Asha Devi's daughter, because two other wills had been drafted in 1963 and 1973. Vishwa Nidhi says:

> In those earlier wills the bequeaths are totally different in contrast to what they are in the last will. When the last will was made my father had become mentally weak. In the earlier wills he bequeathed Edward Keventer and Durga Enterprises to us. Towards the end of his life my father stayed with Saraswati Devi and two of the above companies had supposedly been given to them according to the 1977 will. (Grewal, 1980: 28)

Gun Nidhi, Saraswati's son on the other hand says: "There were just marginal differences between these and the final will. One family might have got more and the other less, but that becomes a matter of detail rather than broad intent." (Grewal, 1980: 29)

An interesting feature which emerged from the study is that there exists a remarkable solidarity between the children of one family. What is even more important is that the families of the two younger wives have come together against the elder wife's family. They feel that with Vidya Nidhi's appointment as the sole trustee, Saraswati and her children gained effective control of the trust at their cost. This shows that realignments along kinship lines are taking place to pursue familial conflicts, even though there is no evidence that they are collaborating for business.

The third aspect of this fight involves dissensions between the two, affinally-linked families.

Dalmia's children are now even fighting for claim to the vast amount of property R.K. Dalmia had sold to Sahu Jain at a critical moment in the former's life. Vishwa Nidhi Dalmia says: "The Dalmia-Jain family is a Hindu undivided family and thereby no will can be left by the deceased." Relying on the conclusions of the Vivian Bose Commission Report which stated that the dissolution of the group was not found to be easy, Dalmia's children maintain that it should be treated as a Hindu undivided family. This is fraught with serious consequences for the present owners of Rohtas industries and Bennett and Coleman (the Sahu Jains) because according to law, a member of a Hindu undivided family cannot sell any part of the family's property to another. The Jains, however, have no truck with the Dalmias and seeing the precipitious course the Dalmia case is taking, they say: "Ours is a professionally prepared business house, while the Dalmia companies are family run. You can compare the two but don't correlate" (Mitra, 1980: 113).

An analysis of the nature of dissensions in the group would bring forth some important points. In order to beget sons for his industrial empire, Dalmia resorted to polygynous unions which brought grave troubles to the Dalmia family. Dalmia himself realizes this in his autobiography. He says: "I have brought troubles on my head with my eyes open." (Dalmia, 1962: 12)

Dalmia's problem was one of sustaining a family of so many step-children. He was aware of the possibility of conflicts developing, so he adopted the mechanism of residential segregation and brought up the three families separately. They went to different schools, lived in different houses and avoided social contact with each other. Vishwa Nidhi says: "He used to tell us that even real brothers fight and we were step-brothers." (Grewal, 1980: 28) Dalmia even set up the Durga Devi Trust because he expected the possibility of misunderstanding cropping up among his children. Dalmia may have thought that he could have avoided ill-feeling between step brothers by bringing them up separately, but in actuality this practice itself became at a later stage a source of conflict, for it prevented the development of trust, expectations and obligations which govern and sustain relations among members of the family.

Though the incorporation of a son-in-law into the family in the absence of a son has got almost institutionalized in the Indian family, there is no familial principle which stresses the identification of a son-in-law to his father-in-law's family where fraternal solidarity is stressed. Moreover there is always a relationship of distance between wife givers and wife takers. Miller and Rice in their study of contemporary business noted: "A difficulty of admitting sons-in-law into the business is that they have been brought

up by a different family, and though they may well continue the business as a family business, a different family may come to power." (Miller and Rice, 1967: 125) This is what happened in the Dalmia case. Once the Dalmia companies started making losses and tax liabilities had to be met with, Sahu Jain began to dissociate himself from the group. He refused to return the two companies sold to him by Dalmia at a time of crisis. There has thus been a shift in the balance of power from the Dalmias to the Sahu Jains family. We also find that though affinal links help in the expansion of family control over business they do not preclude the possibility of competition and rivalries between the related families. Such competitiveness between related families was found among the Poddars and the Goenkas, who were separately challenging the monopolistic position of the Malhotras in the blade industry (Pandit, 1981: 51).

When the authority line in a family firm is muffled and not clearly demarcated, it is possible to visualize intra-familial conflicts. The death of the family head, R.K. Dalmia, who was an authoritarian figure, sparked off a series of unending disputes between families. Vishwa Nidhi Dalmia contends that dispute would not have arisen if his father was alive: "My father was a very strong person and we could not even speak in front of him." (Grewal, 1980: 23) Vidya Nidhi's authority as the trustee was seriously

challenged by his step-brothers and sisters because age difference which is an important determinant of authority, could not be met with. Since Dalmia had married a number of women, children born of different unions were of almost the same age. Vidya Nidhi, Dalmia's son from his fourth wife, and Vishwa Nidhi, his son from his sixth wife, are both 26 years old while the youngest, Karuna Nidhi is only 25 years old. Conflicts were bound to arise between siblings of the same age. Mandelbaum says: "If one brother is considerably older than another by say ten years or more their relationship is less likely to become strained. Then the elder more easily assumes some of the responsibility and respect that the father commands." (Mandelbaum, 1970: 63)

The line of inheritance in the Dalmia family is not clearly demarcated. There are several reasons for this. Firstly, Dalmia had set up the 100 crore conglomerate almost single handedly, and hence had the right to dispose it in any manner he liked. Gun Nidhi who benefited from the will said:

> Basically a self made man feels free to distribute his assets in whatever way he likes. It is not a crude equation that all his children must get equal amounts. It depends upon the amount of affection he feels for them, the amount they care for him; so I guess...if he felt they deserved more, he would have given it. (Grewal, 1980: 29)

Moreover Dalmia could not partition the property in his life time since his assets were pledged in income tax. Thus he had to make a will which could be effected after his death.

Hazari points out that Dalmia's propensity to marry and belated ability to have sons who would displace the partners as heirs, was an important factor which was responsible for the split between R.K. Dalmia, Jaidayal and S.P. Jain (Hazari, 1963: 675).

Lastly, the women, i.e. Dalmia's wives, have also played a significant role in the generation of conflicts between the families. In fact Gun Nidhi says that the discord also arose because Dalmia knew that his last two wives had married him only for his money. Hence he had stayed with his fourth wife, Saraswati Devi, since 1964, and the other two families resented this very much (Grewal, 1980: 29).

We shall now examine how the fact that the Dalmia-Sahu Jain group was an entrepreneurial family, contributed to its disintegration.

It appears as if, the companies making losses exacerbate the process of disintegration and kindle the fight between relatives when a loss has to be shared. In the Dalmia case, when income tax liabilities came home to roost, the brother and the son-in-law did not relish the prospect of bearing heavy tax liabilities for Dalmia and

started dissociating themselves from him (Hazari, 1963: 675). Sometimes the prosperity of the firm also accentuates rivalries and jealousies between brothers. Thus the step brothers tended to fight over the more prosperous companies left to one family.

M.N. Srinivas in his study of a joint family dispute in a Mysore village has shown how individuals do not merely obey their customs or institutions but also frequently try to use them to achieve something which they have in mind (M.N. Srinivas, 1952: 2). We have seen how when there is family solidarity, the family firm can benefit by using company laws to extend family control. But it is important to note that laws pertaining to the family, the companies and trusts are so universalistic that they are liable to be used as additional weapons in the family feuds to gain a lion's share of the property. Several instances of this phenomenon are found in the Dalmia-Sahu Jain family. In one instance, a step brother denied another brother of his rightful share by saying that the trust owed money to his company. In another instance, by seeking recourse to the law on the undivided Hindu family, a son staked his claim over the property his father had sold off to an affinal relative. The above mentioned factors were then crucial for the disintegration of this family firm.

The second case of disintegration is that which occurred in the Goenka family firm. The Goenka group has split three ways, between the three brothers, Rama Prasad, Jagdish Prasad and Gouri Prasad Goenka. This event has not generated a great deal of publicity mainly because the split evolved over two years. As the brothers have begun working out the organizational implications of the separation and taking steps to outline their own individual corporate strategies, the lines of separation have become clear. R.P. Goenka, the eldest brother aged 51 years, has got Asian Cables, Phillips, Carbon Black, Murphy, Wiltech, Agarpen, Deccan Fibre Glass and Rajasthan Containers Ltd. The companies which J.P. Goenka, aged 44 years, has bagged are Swan Mills, Anglo-India Jute Mills, Woolcombers, Oriental Carbon, Schrader-Scowill Duncan, Aryodaya Ginning and Manufacture, Indian Fibre and Duncan International (Ltd.). The youngest brother, G.P. Goenka aged 41 years, will control Duncan-Agro Industries, turn over-wise the largest company in the pre-split group (which was the amalgamation of various companies). The Goenkas also control a host of investment and trading companies most of which are subsidiaries of the major companies listed above. The original holding company, the Duncan Brothers Ltd, continues to be held jointly by all the brothers and the nature of its partition has not yet been decided (Kasbekar and Roy, 1982: 40).

The inevitability of the split springs from the assumption on the part of the brothers that the next generation of male Goenkas - R.P. Goenka's sons Harsh Vardhan (24) and Sanjeev (21), and G.P. Goenka's son Shree Vardhan who is still a minor, may decide in future that they are not too keen to function together as a group. Therefore rather than waiting for internecine conflicts to develop, the brothers decided to part company (Kasbekar and Roy, 1982: 40). Their father K.P. Goenka (68) is perhaps the only person in the family who is unhappy. Two years back, in an interview with <u>India Today</u> he had said: "The day I'm no more they will separate and go their own way." (Bobb, 1981: 72)

R.P. Goenka, the father, says that he had the able assistance of his eldest son R.P. Goenka, his trusted lieutenant, as he calls him. Much of the later growth of the family firm has been attributed to him. The youngest son, G.P. Goenka on the other hand admits that there is tremendous competition between brothers. As he puts it: "the question to be asked is: ten years hence, which horse will win" (Kasbekar and Roy, 1982: 55). A senior business executive working for Duncan Brothers informs that the Goenka Brothers lived in separate households, and that it was the squabbles between the daughters-in-law over black money and conspicuous consumption which was the

chief cause of the split between the Goenka brothers.

In the Walchand Hirachand family, despite periodic demands, Walchand did not partition the family's property until the death of his father and uncle. "We are both beginning to get on it years. So far all the people in the family are getting on together swimmingly but still what guarantee is there that the future generation will do the same? Therefore while Raoji and I are still alive, looking to the ultimate good of the family and business, it will be wise to partition the estate between the 2 branches of Sakharam Nemchand and Hirachand Nemchand." (Khanolkar, 1969: 634-7). It was partitioned equally with half the share going to the Sakharam Nemchand branch (his son Raoji and his sons Rajubhai Raoji and Govindji Raoji) and the other half to the Hirachand Nemchand branch (Walchand and his 3 step brothers, Gulabchand, Ratanchand and Lalchand). Although the joint families of Sakharam and Walchand Hirachand thus became separate from the business aspect, they continued to live together as before. Moreover all the male members continued to serve as directors and executives of the companies which Walchand had established and assisted their development. Walchand's biographer says: "Whether we attribute it to Walchand's sterling qualities or of his firm and foresighted business policy, this family

has held together despite partition even to this very day." (Khanolkar, 1969: 637)

In the Kasturbhai Lalbhai's family firm, such a partition took place between his father and two uncles. Familial quarrels between them necessitated the division of the family's assets. The Saraspur Mills went to the two brothers while the Raipur Mills went to Lalbhai. Over time the management of Saraspur Mills was neglected by the uncles and the company had to be wound up. The uncles then sought the help of their nephew Kasturbhai, who also did not want the company to go out of family's control. Kasturbhai took over as the Chairman of the new managing agency, in which his uncles retained a 12.5% share each. Moreover, collaborations between Kasturbhai and his cousin Chinubhai soon began with the setting up of the Anil Starch Company in 1938. The bitterness of a bygone generation was soon forgotten (Tripathi, 1981: 79-81).

From these three cases it is clear that it is only in the Goenka case that disintegration of the family firm occurred, where there has been a division of the household and of business. In the Walchand case, the members continue to live together after the formal partitioning and the Lalbhais have come together again for business purposes. Hence they represent only cases of split not disintegration.

Mandelbaum has said that the common ideal in the Indian family is that of filial and fraternal solidarity, which prescribes that brothers should remain together in the parental household after they marry, sharing common property (Mandelbaum, 1972: 34). This solidarity and mutual support is better realized when brothers are under the firm authority of their father (Mandelbaum, 1972: 63). This ideal has been reinforced by the Mitakshara Law, where each son is entitled to an equal share of the family property from the moment of his birth (Mandelbaum, 1972: 35).

There are however both physical and social limitations to the survival of such a family and the fission of the larger family becomes inevitable in its domestic cycle. Though partition is often perpetrated by quarrels, living in separate households can even strengthen unity. Harold Gould has pointed out that the Mitakshara Law of Inheritance which guarantees an equal share to each son, also grants him with the freedom to ask for partition. He says:

> Mitakshara succession essentially provides a jural basis for maintaining a household consisting of male agnates, their wives, and their daughters until the latter are wed. Male agnates...are a sort of corporation of patrilineally related male kinsmen who share equally the property, productivity and liabilities of the domestic group... At the same time Mitakshara succession makes provision for partition of the joint property whenever it is the desire of any legal coparcener who is of

> age....There is...less potentiality for solidarity among siblings than there is between parents and children in the North Indian kinship system. (Gould, 1968: 415-16)

This shows us that the Mitakshara law of inheritance which on the one hand makes for family solidarity, also makes for division of the family at a later stage. Even the Dharmashastras have conceived of the fraternal joint family as a temporary institution, though they do recognize that by being united brothers can bring about economic prosperity (Sontheimer, 1977: 15). What implication does this kinship principle of partition have for entrepreneurial families?

A tradition of dividing and subdividing family property may work for land, but not for a firm whose viability depends upon the continuing integration of the activities of various members. Thus even though companies are divided among brothers, they continue to function with each other and may even live together as in the Walchand case. Partition of companies by mutual consent could also make for family solidarity in the future. The Kasturbhai Lalbhai case shows us that partition of property, can only be a temporary phenomenon and realignments along kinship lines are not ruled out. The division of companies may even sport off competitiveness among brothers as the Goenka case reflects.

Partition of property in the life time of the patriarch has been proscribed in Indian tradition. We have seen already how the patriarch K.P. Goenka was the only person unhappy to see the split between the Goenka brothers taking place in his life time. Walchand on the other hand, true to family traditions, resorted to partition only after the death of his father.

Sahai (1973), Gould (1968), and Srinivas (1952) recognize that conjugal ties and filial and fraternal ties are opposed forces. The former may become predominant after the patriarch's death and may even lead to the weakening of fraternal authority over sons who are heads of independent families.

Sometimes the firm itself becomes significant when partition of property is taking place. The Goenka's holding company, the Deccan Brothers Ltd., has not yet been given to any brother. Moreover, the division of the Goenka companies also shows how assets, profitability and the risk involved in certain businesses must have figured as important criteria while the division was taking place (Kasbekar and Roy, 1982: 55).

The next case of disintegration is one which took place in the Mafatlal family. The split in the Mafatlal group has occurred between the three senior-most members of the Mafatlal family - the brothers Arvind, Yogindra and Rasesh - who had jointly managed the thirteen enterprises

that constituted the Mafatlal group but who will now operate independently.

The brothers Arvind, Yogindra and Rasesh managed their four major companies until Arvind Mafatlal's two sons Padmanabh and Hrishikesh were absorbed into the group, five years ago. In the context of the style of over-centralized management, the entry of the two young Mafatlals had a destabilizing effect on the delicate equilibrium that had existed among the three older brothers and which governed their functions within the group.

Padmanabh and Hrishikesh in so far as they backed their father and strengthened his position in the top rungs of the Mafatlal hierarchy, lessened Yogindra and Rasesh's influence within the group. Another factor that played a role in driving a wedge between the three brothers must have been, that Arvind Mafatlal probably saw his son Padmanabh as the future head of the group after him and probably encouraged him to play such a role, if only in a limited way. This probably displeased Yogindra and Rasesh Mafatlal in certain instances. Thirdly the two younger Mafatlals, especially Padmanabh, who had proved themselves capable in running the most profitable enterprises of the group such as Mihir-Textile, probably expected to play a progressively more important role in the top management of the group. As Business India puts it: "They had been

groomed to be the generals of the army, not the colonels." (Business India, 1979: 29-30) This led to some tensions and conflicts over the allocation of definite functions to the two younger Mafatlals. They did not want to be surrogates to their uncles - Rasesh Mafatlal and Yogindra Mafatlal. Nor could the sons play the entirely independent roles that would suit individualists. The irony was that they were groomed by their father and uncles themselves for playing such individualist and independent roles. Thus there was a series of differences between the brothers, the most important of them about a year ago, when it was proposed that Padmanabh Mafatlal should be inducted into Standard Mills which was entirely in Rasesh Mafatlal's charge. Rasesh was reluctant to grant any operational autonomy to his nephew in the company. This prompted the brothers to go their separate ways (Business India, 1979: 28-30).

In fact it is impossible to understand why the break between the brothers occurred unless the basic differences in personality and entrepreneurial style of each Mafatlal are taken into account. While Rasesh is rash, aggressive and prepared to take risks, Yogindra is conservative and Arvind, the eldest, strikes the balance between the two. Thus there were always fundamental differences between the three brothers each of whom ran the whole

group as a military set up (*Business India*, 1979: 32-33).

Though the Mafatlals too have become a house divided, they nevertheless have retained minimal collaboration with each other and have regrouped themselves. While Arvind Mafatlal joined hands with his cousin's son to form the eighth largest business house, Yogindra and Rasesh while operating independently, will collaborate on a limited basis with each other through their enterprises. They thus do retain a certain minimal cohesion (*Business India*, 1979: 34).

The kinship principle of succession and inheritance in the Hindu family reflects the spiritual and material identification between father and son. Thus the son is his father's successor more than any other agnate, and this generated conflicts between cousins, uncles and nephews. In the Dharmashastras, a story is told in the Pali-Canon of a Shetti who dies without heir because he had killed his brother's only son for the sake of property, in his previous birth (Sontheimer, 1977: 14). This kinship principle can probably best explain how in the Mafatlal family, the father Arvind, encouraged his son Padmanabh to become the head of the group. The sons too backed and supported their father and strengthened his position, *vis-a-vis* their uncles.

It has been shown earlier that the fraternal joint

family is only a temporary institution. Sahai says:

> Actually the pattern of relationship undergoes a change after the entry in the household of one or more of the brothers' spouses and more definitely after the birth of children to them. This results in the growth of new and rival loyalties ... Sibling ties and conjugal ties are opposed forces... Conjugal ties prove stronger and eventually the brothers divide their household. (Sahai, 1973: 93)

The Mafatlal case has clearly shown how entry of sons and the desire to give a preference to one's own sons destabilizes the relationship among brothers and causes them to part company with each other.

Amongst familial relationships the paternal uncle-nephew relationship is important and attains special significance in business families. While kinship principles have clearly specified the relationship between the Ego and his father's elder brother, the relationship between the Ego and the father's younger brother, is not clearly determined. A few references to these two relationships are found in the words of Kakar (1982), Boss (1961) and Sahai (1973).

To understand the relationship between the Ego and his father's elder brother, the position of the eldest son in the Hindu family becomes crucial. Sudhir Kakar says:

> The eldest brother as future head of the family, holds an especially powerful position, as on his accession to family

> leadership, he assumes not only moral authority and ritual prominence in family life but also the economic responsibility for the family's survival and welfare. His younger brothers and their wives and children are then obliged to transfer to him the allegiance and obedience, once commanded by the father. Thus, the obligations of respect and obedience of nephews and nieces towards the uncle, who is the head of the family, customarily supercedes filial duty to their own father. (Kakar, 1982: 117)

Highlighting the major differences in the paternal uncle-nephew relationships, Ross says:

> If an uncle is older than the father, he may eventually become head of the joint family....But if the uncle is the father's younger brother, his role is more than that of a consultant and advisor. An uncle's authority, over his brother's family increased if the father died, for then he <u>theoretically</u> took over the father's responsibility. (Ross, 1961: 111)

Further Sahai in her study of the Rastogi Business community in Lucknow finds:

> Uncles and aunts fall into 2 categories from the point of view of their relations according to their age <u>vis-a-vis</u> the father. The father's elder brothers and wives (called <u>tau</u> and <u>tai</u> respectively) are given a respectful and deferential treatment almost like grandparents. Father's younger brothers and their wives (<u>chacha</u> and <u>chachi</u> respectively) are treated more as friends, as consultants and advisers to their nephews. In a Rastogi household where the leadership of the house goes to a younger brother rather than in the direct line of dissent, uncles and aunts are very important relations,

> particularly on the death of the father. This is so...since they are called upon to manage family business and their resources for their minor nephews. Some Rastogi young men treated their uncles and aunts with same deference as they gave their fathers and mothers, while others showed open indifference, even hostility for them. (Sahai, 1973: 84)

The above citations show the difference in the relationship a man has with his father's elder brother and father's younger brother. The kinship terminology used for each of the brothers (tau comes from the word tat meaning elder) also suggests the difference. From these statements it can be inferred that while one relationship is formal marked by deference, the other is informal and open. Though some studies have suggested the difference, by and large kinship principles seem to be silent on this relationship. In this context it is important to remember that avuncular conflict can be sparked off if the age difference between the uncle and the nephew is very slight. This could have been a common occurrence earlier when families were very large.

The more or less open relationship between the chacha and the bhatija acquires special significance in the business context, where they interact with each other and co-ordinate their activities in running the business jointly. Since the authority of the chacha over the bhatija is not clearly specified in the firm, criteria such as merit,

competence and achievement govern the relationship. In the Mafatlal family both the nephews, Padmanabh and Hrishikesh, are capable and dynamic and hence dislike being subordinate to their chachas, Yogindra and Rasesh. In the Kasturbhai family the chachas Manilbhai and Jagabhai were incompetent to run their company and thus reunited with their nephew, Kasturbhai, who saved the company from liquidation by taking charge of it (Tripathi, 1981: 207).

These two examples of the chacha-bhatija relationship in business families, one fraught with conflict, and the other leading to family unity, show clearly that the fact that it is an entrepreneurial family has deepened conflicts in one case and cemented them in another. In the first instance, both the uncles and nephews are highly competent and independent and cannot be subordinate to each other. In the second instance cementing occurred because uncles were, by their incompetence, subordinated to their nephews. Moreover cementing occurred because it is better to collaborate with relatives than outsiders.

If, as shown above, the relationship between the uncle and nephew is vaguely defined, then the relationship between the uncle and his cousin's son will be even more vague. One can account for an alliance of the latter type, as it occurred between Arvind and Mihir Mafatlal, as one

guided by economic interests. And just as in the Dalmia Sahu Jain case, when losses have to be shared, it is possible that the alliance may split up. Moreover, Mihir has 50% of the family's assets under his control. If he decides to strike out on his own, the entire complexion of the Mafatlal group can change (Business India, 1979: 34). Moreover to combat the combined strength of Arvind and Mihir, Yogindra and Rasesh will collaborate with each other in the management of their firms, to a limited extent.

An important point which has contributed to the disintegration of the Mafatlal family firm is the nature of the top-level organizational structure in the Mafatlal group. In the Mafatlal organization, responsibilities were assigned on a functional basis. Yogindra was in charge of purchase of the raw materials and Rasesh was in charge of marketing the group's textiles. This style did not allow any autonomous functioning to the younger generation who had to be subordinate to their uncles in every sphere. The situation was compounded by the fact the nephews were professionally trained by their own uncles, to take on individualist roles in the company, and function autonomously. In contrast we find that in the Birla, Goenka and Bajaj family firms responsibilities were divided in terms of independent charge of the companies concerned. This style prevented clashes and allowed for the autonomous functioning,

thereby preventing splits. This structuring of responsibilities for the management of the firm seems to be the unique contribution of entrepreneurial styles to the integration/disintegration of family firms.

The Mafatlal family also shows the carry over of frictions from the family to the firm and back into the family. Where kinship principly do not specify the authority pattern between the _chacha_ and _bhatija_, the friction that arises, is reinforced in the firm and attains overt manifestation. Here the conflict intensifies so much that it is carried over back into the family where the brothers resort to residential segregation. This puts the final seal on the disintegration of the family firm.

The last case study, that is available is the family feud in the Jaipuria family. The feud took place between Munshi Ram Jaipuria's two sons - Sita Ram, the nephew who was adopted, and Raja Ram, the actual son who was born 13 years after the adoption. While Sita Ram was given the best education and training, the father's affection was focussed on the real son, Raja Ram. This inevitably gave rise to jealousies and conflicts between the two brothers.

The hostile emotions between the brothers were denied overt expression until the father was the head of the family business. The suppressed hostilities between the two brothers found an outlet when the father retired

and left the management of enterprises to the two sons. The rivalries were thus manifest in the business sphere. In the early '70s Raja Ram started making overt moves to dislodge Sita Ram from his position as Chairman of SCM. These moves, Sita Ram said, were instigated by Munghtu Ram with whom he had fallen out of favour with the willing compliance of Raja Ram.

The event which brought the feud into the open was the setting up of Swadeshi Polytex (SPL), a polyster-staple fibre manufacturing unit by Sita Ram in 1970. The total project cost was Rs.13 crores and Swadeshi Cotton Mills, the promoter company, owned 30% shares in the new company. The rest was procured from financial institutions like the IDBI, the LIC, the ICICI and the IFCI. Of these, the IDBI had the biggest financial stake of Rs.1.94 crores, and it insisted on some restrictive clauses. These were, their prior approval for change of the Chairman, and for the sale of SPL shares and provision for equity conversion of the loan. Sita Ram who was still the Chairman of SCM was appointed as the managing director of Swadeshi Polytex for a period of five years.

While Swadeshi Cotton Mill was suffering losses due to extraneous factors in 1974, Swadeshi Polytex Ltd. emerged a profitable concern. In the fourth year of its

production, SPL made a profit of Rs.4.06 crores. This company now became the prize for the battle between the Jaipuria brothers.

Raja Ram, then observing the loss SCM was making, strategically ousted Sita Ram as the Chairman of SCM by convening a meeting of the Board of Directors, where Sita Ram was ruled unfit to manage the affairs of the company. Raja Ram then took over as chairman himself. In 1975, the brothers parted company. After Raja Ram's takeover SCM registered its largest loss ever of Rs.2.95 crores. SCM was also heavily in debt to the State Government and had not been able to pay the workers' wages. To overcome this situation the company's Board of Directors wanted to sell their Rs.10 lakhs shares in SPL. But they had to seek the approval of the financial institutions first. IDBI persistently refused to allow SCM to sell the shares. Raja Ram then even accused IDBI's chairman, Rao, of being in league with Sita Ram, and stalling the sale of shares so that Sita Ram could purchase them with the help of a third party. With this financial stalemate though no signs of being resolved, conditions at SCM Kanpur began to deteriorate. The district authorities then appointed a receiver to take over the financial affairs of the company and seize the SCM's 10 lakhs shares in SPL. He was later directed to sell them to the highest bidder.

With SCM's lucrative shares in SPL out of Raja Ram's hands, his obsession turned to gaining control of SPL. Once again he tried to displace Sita Ram by stating to the shareholders that Sita Ram ousted him from the directorship of SPL, and was thus unfit to guide the affairs of the company. But Sita Ram resorted to a counter-measure, and offered the profitable performance of his company as justification for remaining the managing director. Obviously the shareholders were inclined to favour him. All the clauses incorporated by IDBI at the time of granting the loan to SPL weigh heavily in Sita Ram's favour. IDBI exercised its option to convert part of its loan into equity, and thereby gained control of a 15% block of SPL's shareholdings - which became crucial in any fight for control of SPL. On the other hand, though Raja Ram's original block of shares in SPL has been reduced to 25% by IDBI, Raja Ram still has control of another 13% shares in SPL owned by his family and various trusts. Moreover Raja Ram's son, married Singhania's daughter in 1977. The two brothers tried to gain control of SCM's shares in SPL with the help of a third party and the battle between the brothers continues (Bobb, 1978: 68-71).

It has already been shown that it is common practice to adopt the brother's son in the absence of one's own. This practice however led to a rift within the family, when

Mungtu Ram begot his own son. While Mungtu Ram tended to favour his biological son, the fact that he had earlier adopted his nephew, meant that the latter had an equal claim over his property. Moreover, while by the law of adoption the two sons were brothers, biologically they were cousins. Sontheimer has pointed out that rivalry between collaterals and their descendants is early evidenced in the connotations of the terms for brother (bhratr) and brother's son (bhratrvya) which occasionally assumed the meaning of rival or enemy (Sontheimer, 1977: 14).

It is the principle of inheritance and succession which can possibly best explain the rivalries between brothers, cousins and even uncles and nephews in the Hindu family. While laying down the Mitakshara Law of Inheritance, Vijnanesvara distinguished the varying grades of the relation's ownership in one's own property. Sontheimer elucidates this as follows:

> In the inner circle of the relatives sons and grandsons have ownership in their fathers and grandfather's property as apratibandha dayadas or owners whose ownership's 'not accompanied by an obstruction'...Vijnanesvara ingeniously combined the notion of putratva, which made in the traditional patrilineal family, the son and son's son, the primary heirs....The outside circle of relations are sapratibandha dayadas that is, they are owners whose ownership is 'dormant rather than contingent...and while dormant, not unreal but merely ineffectual... Their ownership, is accompanied with obstruction,

> the obstruction being the existence of an owner who has full control over his property or whose control is only subject to the rights of the apratibandha dayadas. Thus an undivided family may consist of 2 types of dayadas, and ownership may be limited in 2 ways e.g. A may have a son B whose full ownership is limited but who would gain a higher degree of control over the property on A's his father's death, in preference to A's undivided brother C. C's ownership to the full estate was under 2 obstructions (sapratibandha daya) namely the existence of A and B; at the death of A one of the obstructions ceased, though C did not gain full control thereby, as B stood in nearer relationship to A on account of his being an apratibandha dayada....We notice that Vijnanesvara not only makes the sons apratibandha dayadas but selects as illustrations of sapratibandha dayadas not the widow or daughter, but near agnates like the brothers and paternal uncle. (Sontheimer, 1977: 121-23)

Vijnanesvara has thus clearly outlined the line of succession in the Hindu family. In the Jaipuria family we find that their line of succession has got blurred because the elder adopted son, Sita Ram, was actually Mungtu Ram's nephew and hence a Sapratibandha dayadas while Raja Ram was his own son and hence the primary heir. Though, according to law, by adoption, Sita Ram had an equal right to inheritance as Raja Ram, this did not rule out the possibility of rivalries between the two cousin brothers. However, rivalries between cousins and brothers is not new and references to such family feuds can be evidenced in the ancient mythological literature such as the Mahabharata.

Together with the line of succession, in the Jaipuria family, the authority line had also got blurred. Though Sita Ram was considerably older than Raja Ram, his authority was challenged by the younger brother because he was not the direct descendant of his father. In a large family the head is supposed to maintain a distance towards the younger generation, to avoid favouritism to his own children. Mangtu Ram deviated from this ideal by instigating much of the quarrels between brothers.

In the Jaipuria family, the father's authority was so great that until such time that the sons were dependent and under his authority, they suppressed the rivalries between themselves. As Cohen says:

> Negative motions towards family members especially towards elders, are generally denied overt expression. There might be, for example, intense rivalry between brothers for a parent's affection but it will usually take covert forms. (Cohen, 1974: 29)

Thus familial principles themselves produce stresses and strains in the business family. Moreover, the fact that these families are also entrepreneurial families, contributes to disintegration. I have found that the firm becomes an important battle ground for the brothers to fight, for here familial conflicts find an outlet and assume the character of fights over control and management of companies. It is in the firm that the fight

for power can reach enormous proportions between brothers and cousins as the Jaipuria case bring out. The rivalry between the two cousins, was manifested in the firm where Raja Ram tried to oust Sita Ram from his position as Chairman of SCM. He then fought to gain control of SCM's share in SPL, and finally sought operational control over SPL.

The differential performance of companies under the control of member of the same family, is an important factor which may exacerbate rivalries and jealousies. This is especially true when one brother heads a company incurring losses, while the other heads a company making profits. The performance of the company is also a reflection of the competence and dynamism of the person in charge. Thus while Sita Ram's Company SPL did outstandingly well because of his competence and pragmatism, SCM did not do so well. The performance of the company would also become an important factor to safeguard the position of the chairman of the company. When SCM was showing losses Sita Ram was very easily dismissed by the Board of Directors. When SPL was making profits, he was able to sustain his position despite many efforts to oust him by his younger brother.

The Jaipuria case also shows us how company laws have been utilized as additional weapons in the battle to

gain control over the companies. Both the Jaipuria brothers sought recourse to law to outdo each other. On the one hand, Raja Ram with the help of the board of directors tried to oust Sita Ram as Chairman of SCM and SPL while Sita Ram made use of various restrictive clauses put forward by IDBI, against his cousin, to retain the control of SCM's share in SPL which was his company. This shows us how the legal apparatus can be utilized to further individual interests not necessarily corporate interests. By being universally applicable, these company laws can be utilized to turn family members against each other making them enemies of one another.

Lastly, the most important point which emerges from this case study is that though kinship principles have played a major role in the initiation of the family feud, but once the brothers became heads of the firms, these conflicts and jealousies were carried over into the firm, and took the form of quarrels for the ownership and control of various companies. Interestingly enough, the effect of these conflicts in the firm have been carried over back into the family and the two brothers have even parted company with each other.

The various cases of the break-up of family firms have shown how kinship principles themselves have been important factors in the disintegration. However

disintegration does not imply the weakening of kinship bonds, or the dissolution of the family firm, for realignments along kinship lines have taken place. Moreover, every separated unit grows into a new family firm.

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CHAPTER VI

CONCLUSION

I have thus far attempted a detailed analysis of the dynamics of the family firm in India by examining the conditions that have made for its existence; the manner in which it has responded to the changing environment, in order to persist; and finally the conditions under which it has disintegrated.

The intensive study of some thirteen family firms in India shows us that some family firms have become strongholds of business organization in India, such as Birlas, Shri Rams, Bajajs, Lalbhais. Yet there are others which have stagnated such as the Godrej and Walchands, and others which have split up such as Mafatlals, Goenkas, Jaipurias and Dalmia-Sahu Jains. I will now elucidate the major conclusions of this study.

I

The Findings

The family firms in India have had a long tradition of business, and a combination of factors have made for their persistence. In the functioning of the firm, traditional familial principles are used. By far the most important

principle for the organization of business has been the authority structure in the family where the eldest male is also the head of the firm. However, this is tempered by mutual consultations among members for decision-making and co-ordination. In the absence of a authoritarian head, a younger brother could become the head of the business as it happened in the Birlas and Lalbhai family firms. Secondly, the importance of the son and the principle of succession are crucial for the perpetuation of any family firm since business has always been regarded as the man's domain. The Mitakshara law of inheritance by stressing the joint ownership of property facilitates family control over industry. The corporate character of the family permits the joint running of the firm by members of the family. Kinship also provides a reservoir of resources where affinal relationships can be utilized to expand the family firm. Thus in Indian tradition there exists a 'class fit' between family and business.

The organizational and legal structures of the family firm also contributed to its existence. The managing agency system permitted the control of a large number of firms by one family. With its abolition the new company laws also facilitate family hold over industry by not placing any restrictions on the number of family members who can be on the Board of Director. The method of inter-

corporate investments and inter-locking of directorships is important for the control of the family over the firm. Certain managerial styles such as paternalism, nepotism and the over-centralization of authority also reflect the influence of familial principles in the management of the firm.

The above-mentioned conditions are important for the existence of the family firm, however these are not sufficient conditions for its survival. To cope with internal failures within the family, the family firms make various adaptations to survive, such as incorporation of other relatives when there is an insufficiency of sons and the recognition of the competence of the younger sons in the family. Family firms have had to face a changing legal and economic environment marked by the government's stress on rapid industrial development. Recently encouragement has been given to the expansion of heavy and consumer industries and the introduction of modern technology. The managing agency system has been abolished and new company laws have emerged. Family firms have had to make a number of adaptations in such a milieu in order to survive and expand.

To facilitate the expansion of the firms, families have had to make the following adaptations: (a) Relinquishing tight financial control over their firms; (b) incorporating

professional managers into the firms. However the operational control of the family over the firms is sought to be retained by (i) imparting education and professional training to sons and giving them practical training within the firms before they assume responsibility; (ii) concomitant with this trend towards professionalism, the family firms also confer autonomy to the sons for the management of enterprises. This is reflected in the manner in which each family member is independently put in charge of certain companies. Within this arrangement, competent sons are placed in charge of a large number of companies and hence are regarded as the leaders of the group. This has been made evident in the case of A. Birla, R. Bajaj, Rajan Nanda, Vinay Bharat Ram etc. Besides conferral of autonomy, industrial families also show a marked approval of the shift to professionalism adopted by young entrepreneurs.

By making these adaptations, family firms are moving with the times and are able to retain family hold over enterprises, while expanding the firms. Many of the large business houses we have studied such as the Goenkas, Shri Rams, Birlas, Bajajs, are entering into foreign collaborations and are setting up various industries in foreign countries. Some are also becoming multinational corporations. They are now competing in a world market,

and the new generation of entrepreneurs such as Aditya Birla, Rajan Nanda, Rahul Bajaj, Vinay Bharat Ram have set in motion a new entrepreneurial style. This style is characterized by (a) an emphasis on quality and productivity, and (b) an emphasis on investment in Research and Development especially where the firm faces competition from abroad and know-how cannot be imparted.

Despite these changes however the management style continues to be conservative in other respects. There continues to remain a heavy emphasis on accounts and financial management, so characteristic of trading communities. Investments are made in areas where there is less risk and an assurance of sure and quick profits. Rapid expansion through acquisition instead of the establishment of new industries, also reflects a concern with accounts.

More importantly our studies show that even in a changed environment, there is a premium on the co-operation of relatives where there exists an informal understanding among members, loyalties are maintained and the authority structure is accepted. However, a new trend seems to be emerging, as Rahul Bajaj enters into partnership with his friend Viren Shah who is not related to him. There is also a trend towards the formations of new family firms where two of them merge into one such as the Goenka-Poddars, Kirloskar-Amins, and Singhania-Jaipurias. Even though

sons are given autonomy, they are still subject to the control of the family. In fact the leading entrepreneurs such as A. Birla and Rahul Bajaj of the family firms, think nothing of imposing their authority over other junior members of the family.

These adaptations which are essential for the survival of family firms have made them strongholds of business organization in India. But our case studies show that it is not always that family firms succeed, and some of them have stagnated or disintegrated. The Godrej and Walchand cases show how an unwillingness of the family to relinquish financial control and grant autonomy the younger generation become serious hinderances for the expansion of the firm. Our studies show that family firms have disintegrated under the following conditions:

(a) Adaptive practices employed to overcome internal failures in the family, may at a later stage make the disintegration of the family firm. The absence of sons as heirs to the business, necessitates the incorporation of relatives such as nephews and sons-in-law (who lack an identification with the family) which leads to disintegration. This happened in the case of the Dalmia-Sahu Jains and the Jaipurias.

(b) As in the case of the Dalmias and the Jaipurias, the absence of a well defined authority structure and a line of

succession within the family which could not be utilized for the management of the firm, causes the break up of the family firms.

(c) Kinship principles such as the Mitakshara law of inheritance can themselves make for the division of assets among members of the family as it took place in the case of Goenkas, Walchands and Lalbhais.

(d) The ambiguity of kinship principles with regard to certain crucial relationships such as the chacha-bhatija relationship can create dissensus within the family firm especially when these individuals have to function together in business. This was found in the Mafatlals family.

(e) Organizational structure of the top level management where responsibilities are divided on a functional basis, stultifies initiative and autonomy and creates tensions in the family firm. The economic performance of the firm can heighten rivalries and lead to disintegration. Where the firm suffers losses, as in the case of the Dalmia-Sahu Jain family, relatives may have no more to gain by staying together. When one branch of the family is prospering and the other is making losses, this may provoke rivalries and jealousies between brothers and cousins as in the case of the Jaipuria family.

(f) The fiscal and company laws are universalistic in nature and hence offer no protection for the maintenance

of particularistic ties. Hence they are amenable to manipulation by family members to further their individual industrial economic interests and can thereby be used as additional weapons to break up familial and kinship bonds. This was found in the Jaipuria and Dalmia family firms.

(9) Finally, the process of disintegration is facilitated by feedback of conflicts from the family, into the firm and back again into the family as noted in the Mafatlal and Jaipuria cases.

I have thus outlined the major conclusions of my study. From here, it will be prudent to go a step further and assess the implications of the disintegration and continuation of family firms on their economic performance. Our study indicates four major trends in this sphere.

(1) There are a number of family firms where family hold over enterprises is strong, and have recorded a high degree of growth and expansion, owing mainly to the adaptations they have made to changing industrial environment. In this category, we could place the Birlas, Lalbhais, Bajajs, Shri Rams from our study, and a number of others such as the Modis and Singhanias.

(2) The second trend shows that certain family firms such as the Godrej and the Walchands with a firm hold over their enterprises have not expanded and grown. In both

the Murty Group and Chand Brothers family cohesiveness has negative consequences for company growth in the sense that it has prevented them from utilizing the talents of professionals. The main reason for this appears to be a reluctance on the part of these firms to make major adaptations by giving autonomy to sons, employing professionals and relinquishing tight financial control over the firm.

(B) Certain family firms which have disintegrated such as the Mafatlals and the Goenkas manifest a trend towards increased expansion and growth after the separation. Financial analysts have predicted that such splits will pave the way for expansion rather than their decline. Two reasons have been given for this trend: (a) As in the Mafatlal case, where brothers display fundamental differences in their managerial styles, "the division of the group into more manageable subgroups is likely to make diversification easier and increase the groups management ability." (Business India, 1979: 35) (b) In the Mafatlal and Goenka cases disintegration has given a new impetus for growth by fostering competitiveness between the brothers. Kasbekar and Roy show how each of the Goenka brothers is starting new projects and setting his sights on rapid expansion (Kasbekar and Roy, 1982: 55). This trend shows disintegration

grants autonomy to entrepreneurs in running the firms making way for all round industrial expansion.

(4) The final trend displayed by our study indicates that with disintegration one separated branch of the family firm prosperous while the other branch either stagnates or declines. This is seen in the case of the Sahu Jain-Dalmia combine and S.R. Jaipuria-R.R. Jaipuria family firm. Surprisingly enough there is no case of disintegration which reflects the dissolution of the family firm. There is no evidence to suggest that the family firm is giving way to the modern corporation operating solely on universalistic principles. The cases show only the disintegration of the original family firm into smaller separate units, which become nodal points for the growth of new family firms as each of them again operate on familial and kinship principles. Moreover the disintegration of the family firm does not preclude the possibility of realignments and collaborations along kinship lines. Thus one can conclude that the very breakdown of the family firm sows the seeds for the growth of a new crop of family firms. We can then, broadly agree with those who say that family firms continue to dominate the industrial scene in this country. Our findings then, seem to contradict the positions taken by Benedict, Nafziger and Khalaf and Shwayri who have viewed family firms as important only in

the early stages of the growth of the firm and initial stages of industrialization. From my study there is no evidence that family hold over the firm has weakened. It has only got modified. This is so despite a history of industrialization extending almost beyond a century.

Now, it will be useful to elucidate what light this study can throw on the nature of India's industrialization. Family firms continue to be the major units of business organization, propelling industrialization. They continue to retain operational control, though capital is provided by public institutions and banks. The paternalistic management styles are not inimical to the growth of the firm and industrial development. There is a strong emphasis on accounts and financial management of the firms, characterized by a trend towards risk-free investments, and quick, sure profits. The next section now attempts to highlight the implications of industrialization on social change in India.

II

Industrialization and Social Change in India

In this section I shall attempt to relate my findings on family firms to the general debate on industrialization and social change in India. The two dominant views on this topic have already been highlighted

in Chapter I. It will be useful to recall them at this stage.

Singer in his study of the impact of industrialization on Indian society finds reason to argue that Indian tradition has enough resilience to incorporate modernity. Thus, he finds that social change in India is a case of traditionalization of modernity.

As opposed to this view Saberwal has taken the position that industrialization itself has been of a limited nature and hence its impact has not yet been so thorough-going as it has been in the advanced countries.

Recently a third view has been put forward by Andre Gunder Frank (1970) who maintains that in the third world if tradition is persisting, it is because the process of development itself has been distorted. Capitalism, he says, has grown by utilizing traditional social institutions for its own ends. Hence it is neither a case of traditionalization of modernity, nor a case of slow modernization, but is itself a case of distorted modernization.

I shall now try to relate my findings to these three strands on the debate on industrialization and social change. These findings can only be pointers in one direction, but no unequivocal answer can be given.

The most important conclusion which emerges, on the impact of industrialization on society, is that kinship principles continue to be dominant in the organization of entrepreneurial activity and that industrialization has not eroded family and kin ties. Even though entrepreneurial families have broken up into conjugal units, industrialists continue to rely on family and kin networks for the expansion of their firms. Although there is evidence today of the break-up of family firms, a closer examination demonstrates that such disintegration only paves the way for a new generation of family firms.

My study also points out some important continuities that exist in the tradition of Indian business, which are helpful to assess the impact of industrialization on social change.

It is possible to become impressed with the emphasis on competence and achievement in contemporary family firms. There are many examples to support the view that while all relatives are protected in a family firm, there is a recognition of talent, and the more competent sons and nephews are given pivotal positions in the managerial hierarchy. However the case of Kasturbhai Lalbhai and Lala Shri Ram indicates that this practice is not entirely new.

It is true that in order to survive in business, industrial entrepreneurs today need to be skilled, not merely in managing kin ties, but also manipulating political ties. K.K. Birla has been an ardent supporter of the ruling Congress and so has been Sita Ram Jaipuria. These political linkages have been used by industrialists to set up various industries. Sita Ram's considerable influence with Indira Gandhi, enabled him to set up the Swadeshi Polytex Ltd in Gaziabad. Sita Ram has been a Member of the Rajya Sabha from 1962-1974 (Bobb, 1973: 89). But the tradition of remaining close to the source of political power is again not new to industrialists. It is well known that G.D. Birla played an active role in the freedom struggle and since then has always been involved in politics. He says: "A businessman's karma is to amass wealth and his dharma is to provide for the general welfare. If political action is involved in this, I don't see why I should fight shy of it." (Dubashi, 1930: 11)

What appears then, as new in Indian industries is the content of entrepreneurial style itself. Today, it is recognized that a competent industrial entrepreneur needs to be well-acquainted with new technology, and modern business practices. Yet even in managerial styles, the change is not so dramatic. The present generation of Indian industrialists share with their forefathers the

emphasis on financial management and display a conser-vatism in business techniques.

These findings however cannot constitute a sufficient basis to support any one of the dominant views on industrialization and social change. To do this, a more intensive research exercise is required which will hopefully be possible in my Ph.D. work. On the basis of my study however it is only possible to stress the continuities that persist in Indian tradition, despite industrialization. From here I conclude that industriali-zation has not had a revolutionary impact on society in India.

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