India’s Family Businesses and the German Mittelstand - Similarities and Differences

Ritam Garg¹, Charlotte Schweizer*²

Universität Erlangen-Nürnberg Lange Gasse 20 Room 5.123, 90403 Nürnberg, Germany
ritam.garg@fau.de
Universität Erlangen-Nürnberg Lange Gasse 20 Room 5.123, 90403 Nürnberg, Germany
charlotte.schweizer@fau.de

Abstract
India’s family businesses and Germany’s Mittelstand have been identified as crucial to their country’s economy and characteristic of their national business environment. The Economist calls family business houses “India’s favorite way of organizing firms” (e.g. [9]). Whereas the Mittelstand has been named as the “main motor of Germany’s growth” (“German business”, 2011). Both countries have experienced economic success recently: India has been growing at an above-average growth rate, attracting foreign attention and capital, to position itself as a new economic power. Germany on the other hand, has enjoyed relative stability among crisis-ridden European Union members. Scholars argue that both India’s and Germany’s way of doing business contributes to their success. Therefore, the analysis of Indian family businesses and the German Mittelstand will shed light on the source of their countries’ strength. This paper seeks to define the two types of businesses and analyze their similarities and differences.

Keywords: India, Family Business, Germany, Mittelstand

1. Introduction

1.1 India’s Family Business
India’s family business groups or business houses can be defined as “collections of publicly traded firms in a wide variety of industries, with a significant amount of common ownership and control, usually owned by a family.” (e.g. [23], p. 867). They have significantly shaped India’s business environment, and have strongly contributed to India’s recent economic surge (e.g. [35]). The investor families behind the business groups have woven webs of businesses and conglomerates by continuously diversifying into all sectors of the economy (e.g. [35]). With the opening of the Indian economy in the 1990s, the family business groups are increasingly venturing abroad. For example, their interest in acquiring small- and medium-sized German companies is already pronounced and is estimated to grow further (e.g. [1]). It can be expected that their sphere of influence will move beyond their home market India and that they will become major global players.

As an example, the Tata Group and Reliance Industries Ltd. are considered as the most prominent representatives of India’s family businesses. The Tata Group is the biggest and most successful Indian business group, with its 146-year-old legacy it has emerged as the biggest private-sector enterprise and accounts for 7% of the Indian stock market (e.g. [6]). It is present in segments of the economy as diverse as the steel market and the IT industry (e.g.
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1.2 Germany’s Mittelstand

The Mittelstand is commonly used term to describe German small- and medium-sized companies. But the reflection on the Mittelstand has to be more differentiated. There is no official or universal definition of Germany’s Mittelstand, it is more of a concept that describes companies that are typical for Germany’s business environment. In order to, nevertheless, characterize the Mittelstand, it is essential to use quantitative and qualitative criteria. Concerning the quantitative criteria, the Institute for Mittelstand research (e.g. [19]) defines Mittelstand companies as having less than 500 employees and less than € 50 million in annual revenues (e.g. [17], p. 174). These quantitative criteria must be complemented by qualitative criteria to draw a comprehensive picture of the Mittelstand. Companies belonging to the Mittelstand are high-performing, typically family-owned and managed with financial caution (e.g. [12]). Active in the second sector of the economy, they tend to be highly specialized on one industrial core competency. In many cases, this core competency is the manufacturing of products. Because of their specialization, they have narrowly-defined market niches. Often, they dominate their “obscure” (e.g. [12]), as The Economist puts it, branches of industry.

As a notable example, the Würth Group is an industrial company based in Baden-Württemberg that manufactures tools for workmen, ranging from screws over drills to protective clothing (e.g. [37]). It is family-owned by the Würth family and is managed today by Bettina Würth (a third generation successor) (e.g. [37]). In 2011, the company had 66,113 employees (e.g. [38]), and is considered a Mittelstand company because of its specialized product portfolio and its corporate structure, i.e. family business. Even Bosch GmbH, an automobile supplier and company of global importance, may be considered a Mittelstand company. Founded in 1886 by Robert Bosch, it has continuously grown generating revenues to the tune of € 51.4 billion in 2011 (e.g. [38]). Despite being a business giant, its corporate structure is typical for a Mittelstand company. It is owned by a foundation, which in turn is controlled by the Bosch family (e.g. [18]). Even today, the management is influenced by the principles of the founder Robert Bosch, e.g. holding its employees in high regard (e.g. [18]).

Within the German Mittelstand, there is a group of highly successful companies, the so-called “Hidden Champions”. Simon [3] coined the term and defines them as specialized and export-oriented medium-sized companies. Although there are many Hidden Champions in the German-speaking business environment, the general public is unfamiliar with them, hence their name “Hidden Champions” (e.g. [33]). Building on their core competency, they occupy narrow niches. Most of the Hidden Champions are world market leaders in their market niches. For example, Tetra is the world market leader of equipment for garden ponds and aquariums (e.g. [33]). While [33] identifies the Würth Group as a typical Hidden Champion, the Bosch GmbH is a huge multinational player in his opinion.

2. Similarities

2.1 History

Both, India’s family businesses and Germany’s Mittelstand companies, can look back on a rich and successful history. They are deeply rooted in their respective societies and have played a vital role in their local and national communities for over a century. Their ability to survive turmoil may be seen as an indicator for their success in the highly competitive business environment of the 21st century. Although individual companies may not have survived throughout the decades, the concept of both business types certainly has. In the following, their historical development will be outlined.

Family business networks existed in India as early as the 18th century (e.g. [34]). Even though their business activities were restricted by colonial interests, there was room for economic gain (e.g. [34]). To protect themselves from the uncertainty of the relatively young and therefore under-developed commercial market, they were often highly diversified into various sectors of the economy (e.g. [34]). The custom of diversification is a long-held
tradition of Indian family businesses that has survived until today. After the East India Company lost its monopoly on trade with India, the business environment gave rise to several famous trading houses (e.g. [22]). Among others, the Tata Group was established in the middle of the 19th century during India’s pre-independence period (e.g. [22]). Even during the post-independence period in the 1960s, that was characterized by the Licence Raj and its restricting effects on business, family firms emerged (e.g. [22]). Reliance Industries is the most prominent example (e.g. [22]). The liberalization of the Indian economy beginning in the 1990s provided another impetus to the business environment. The 1990s saw the creation of various companies, e.g. Infosys and Ranbaxy etc. (e.g. [22]). Their resilience despite fundamental changes to their economic and political environment indicates their competitiveness in today’s business world. Coming from an emerging country with above-average growth rates, it can be expected that they have a bright future not only in India but in international markets as well.

The origins of the Mittelstand can be traced back to the 18th and early 19th century (e.g. [2]). At the time, poverty and fragmented agricultural holdings encouraged the population to seek business in semi-skilled, artisanal work (e.g. [2]). Networks of individual companies emerged that supported each other, allowing all members to be highly-specialized, flexible and competitive (e.g. [2]). Traditional German industries like engineering and precision mechanical work began to develop, mostly in form of early Mittelstand companies (e.g. [2]). Mittelstand companies proved resilient to major economic and political crises that struck Europe in the 19th and particularly in the 20th century. Berghoff [2] points out that the Mittelstand saw three economic crises, i.e. hyperinflation, the Great Depression and the postwar collapse, in the 20th century. However, it managed to survive relatively unharmed. Between 1900 and 1950, the Mittelstand operated in an environment of four different political systems (e.g. [2]). Even in today’s competitive and globalized business world, the Mittelstand remains robust and competitive. This is particularly remarkable considering that it stems from an industrialized country with high labor costs. Furthermore, Berghoff [2] identifies two factors for its continued staying power: social and political support for the concept, and the particular nature of the market. The demand for specialized and often custom-made goods of high quality continues to be high (e.g. [2]). These specialized products complement mass production regimes to this day (e.g. [2]).

2.2 Economy’s Backbone

Both types of businesses are important pillars of their respective national economies and contribute significantly to their performance. In qualitative terms, they are socially accepted as integral part of the economy and society. In India, the big business groups are present in every sector of the economy and “loom large in the Indian mind” (e.g. [9]). The Economist (e.g. [12], [7]) regularly identifies the Mittelstand as crucial to Germany’s economy. In the following, their role as the economy’s backbone is quantified.

It is difficult to quantify the importance of India’s business groups mostly due to a lack of reliable statistics. Several sources estimate that around 90% of all Indian businesses are family-owned (e.g. [28], [3]; [24]) and that 70% of India’s top businesses are family-owned (e.g. [28]). It is also estimated that about 75% of the large companies in India are family-owned (Dutta, 1997, as cited in [27]). On the Bombay Stock Exchange, the Sensex Index includes the 30 biggest and publicly-listed Indian companies. In 2010, out of these 30 companies, 18 were family-controlled (e.g. [3]). While these estimates differ, it is safe to assume that the business groups are incredibly important for the Indian economy, as contributors to the economic output and as employers. Aside from statistics, the “naked eye” has the impression that Indian companies are either government-controlled or associated with a large family business group.

Based on its quantitative definition of the Mittelstand, the IfM identifies 99.6% of all German companies as Mittelstand. They generate 35.9% of the total turnover in Germany and employ 59.4% of German employees (e.g. [19]). It is important to point out that the statistics concerning the Mittelstand depend on the quantitative definition of the Mittelstand. Because there is no official definition, statistical figures on the Mittelstand may vary depending on the source.

2.3 Family Ownership

Both, Indian business group and Mittelstand companies, are traditionally family businesses. Family ownership can be defined as the control or influence by a family on the operations of the business (e.g. [27]). The control or
influence typically extends over generations (e.g. [27]) as the business is passed on from the older to the younger generation. The family may influence the business in two ways: by employing family members as managers and/or by holding the majority of the capital (e.g. [27]).

In Germany, Mittelstand family businesses are usually small, privately owned companies. For example, Beckhoff GmbH, an automation and electrics company, is a typical Mittelstand company that is owned and managed in the second generation (e.g. [7]). All investments in the company are funded by Hans Beckhoff, who took over from his father as executive boss, and his three siblings (e.g. [7]). This clear-cut structure of capital holdings and management is typical for German Mittelstand companies.

India’s business houses are large publicly-listed conglomerates that are nevertheless family-controlled. The structure of family ownership in these business groups is more complex than the structure of the Mittelstand. Typically, the business groups are publicly-listed. However, the majority of the shares in the company are usually held by an investment group that is in turn controlled by one family and its numerous members (e.g. [23]). Because the business groups are publicly-listed, there are other investors aside from the family group, e.g. institutional or other private investors. This may result in a conflict of interest (e.g. [23]). The family typically unites ownership and management, i.e. the CEO of the company is usually a family member. But the other investors are simply owners and therefore underrepresented in the management. The family may exercise more control over everyday operations than the other investors, even if they hold a higher percentage of shares in the company. This conflict is particular to Indian business groups as they are usually publicly-listed, in contrast to the German Mittelstand.

Because they are structured as family-owned businesses, they are confronted with similar challenges. Typical problems of family businesses include conflicts over which takes priority, the interests of the family or the business. Additionally, family businesses are often accused of nepotism and inefficient allocation. This may concern capital allocation, where family members employed by the company are allocated a higher budget than non-family employees. This may also concern human resource management. Managers may be appointed not because they have the best qualifications among the applicants but because they are family members. Particularly, in the case of CEO succession, often there is no application process.

It is expected that the eldest son succeeds his father, independently of whether there may be an individual with better qualifications. The criticism of inefficient allocation may concern the allocation of decision rights when family employees have more authority than the corporate hierarchical structure suggests. However, it is also argued that family-ownership is rational and efficient regarding knowledge transfer. If tacit knowledge is the source of a company’s competitive advantage, it can be passed on efficiently only to trusted family members (e.g. [30]). In this case, family ownership and succession from within the family is rational and efficient as it ensures the longevity of competitive advantage.

2.4 Long-Term Orientation

Because of their family ownership, both types of businesses are characterized by trans-generational continuity. Publicly-owned companies are often accused of living from one quarter to the next in an endless pursuit of keeping the current shareholders happy. Both Indian family firms and the Mittelstand, however, are focused on long-term instead of short-term success. For the family members involved, the company is not simply a financial investment. They consider it “integral to their personal self-fulfillment” (e.g [2], p. 273). They do not necessarily seek to maximize their own personal earnings from the company. Instead, they seek to build a lasting company that is passed on to the next generation. It can be said that family firms are illustrations of the “natural human desire to leave something long-lasting for their offspring” (e.g. [3], p. 15f.). This is not very surprising for India where every activity, including business, revolves around the family (e.g. [27]). But in Germany, individual achievement and independence from one’s family background is encouraged and honored. This makes the prevalence of family-owned companies within the Mittelstand quite unusual. The CEO of Ritter Sport Schokolade, another typical Mittelstand company and even Hidden Champion, sums up their long-term orientation: “Wir denken nicht in Jahren, sondern in Generationen” [We don't think in years, but in generations] (transl.) (as cited in [33], p. 81).

While both types of businesses strive for long-term stability, they currently have different strategic positions. India - as an emerging country - has experienced impressive economic growth. Germany - as an industrialized country - has seen periods of slow economic growth or even shrinkage. This affects family businesses
as well as all other companies. Indian family firms, on the one hand, have to strategically cope with the explosive growth (e.g. [28]). They have to build corporate structures inside the company and between themselves and outside organizations to support their growth. This includes institutionalizing processes in line with the business requirements [32]. The Mittelstand, on the other hand, continuously struggles for survival. It is under pressure to re-invent itself and its products to remain competitive in the globalized business world. While Indian companies are swamped with businesses to ensure their long-term success, Mittelstand companies have to look for business more actively.

2.5 Succession Problems
Family ownership and family management is traditionally preserved by intergenerational transferal of ownership, control and management from father to son (e.g. [29]). This custom ensures the characteristic trans-generational continuity. In India, this custom was unquestioned by social custom until the country’s liberalization in the 1990s began to change society (e.g. [36]). Sons respected their elders, married within their social-religious communities and followed in the footsteps of their fathers (e.g. [36]). Even in Germany, where family ties are said to be somewhat looser than in India, Mittelstand companies prefer to pass on their businesses, often the founder’s lifework, to family members. The IMF estimates that 54% of family-owned Mittelstand companies are passed on to family members (e.g. [21]). 17% are taken over by the company’s employees and 29% are taken over by third persons (e.g. [21]).

Nowadays, succession customs have changed in the sense that more and more family businesses are not taken over by sons or even family members. Women are increasingly considered when making succession decisions. For instance, the Mittelstand company Würth GmbH is managed in the third generation by Bettina Würth, the granddaughter of the founder (e.g. [37]). This is particularly remarkable taking into account that Würth operates in an industry that is traditionally male-dominated. This development in favor of women is not as pronounced in India where traditional values prevail. A study by Sharma and Rao analyzed desirable successor attributes in Indian and Canadian family firms (e.g. [31]). They found that Indian family firms rated the characteristics gender, birth order and blood relation to the family as more important than Canadian family firms. For leaders of Indian family firms, it is extremely important to pass on their business to someone from their bloodline. Although this study did not compare Indian family firms with German family firms, it is nevertheless relevant. Canada and Germany are comparable in the sense that they are industrialized countries with similar cultural distance to India. Another study (e.g. [20]) also found that gender plays an important role with regard to succession in Indian family firms. 69% of the family CEOs said that they would pass on their business only to their sons. These studies illustrate India’s patriarchal structure and its family values that are more traditional than in Western countries. Women are usually expected to take supporting roles aside their brothers or husbands in top management positions (e.g. [28]). However, it should be noted that there are Indian family groups that boldly put daughters in high-ranking management positions, e.g. HCL Technologies (e.g. [28]). Furthermore, succession by non-family members has become more frequent in Germany. 49% of Mittelstand companies are taken over by non-family members (e.g. [21]). But this practice has not been common in India so far. A study by [20] of Indian family firms found that 96% of CEOs were related to the company’s controlling family either by blood or by marriage. The recent, prominent succession of Ratan Tata by non-family member Cyrus Mistry, however, has sparked attention. While he is not a Tata family member, he and his family have close connections to the Tata Group (e.g. [5]). His family is the second-biggest shareholder in the Tata Group after the Tata family (e.g. [8]). He was selected after vast and thorough research as a successor for Ratan Tata, who does not have children (e.g. [8]).

While succession by family members is supposed to ensure continuity, it is a central challenge and a possible source of frictions. Choosing a successor is a major issue for family firms from every cultural background (e.g. [31]). One could say that succession is the “final test” (e.g. [27], p. 274) for a family business. The main problem for both, Indian business groups and Mittelstand companies, is poor succession planning. The leaders of family firms generally are not keen on relinquishing their power, even if they pass it on to their sons (e.g. [3], [20]). Many Indian family leaders plan to stay in control of their business empires until their death or physical incapability (e.g. [3]). A study of succession behavior of Indian family firms by [20] found that 52.2% of CEOs planned to continue business until their death or disability. Often, CEOs do not
proactively address the issue of succession, hence the poor succession planning. This makes the actual succession, e.g. in case of death or disability, an unplanned and confusing affair. The lack of succession planning makes the failure of the business more likely (e.g. [20]). Succession may also fail because of a lack of preparedness of the incoming CEO (e.g. [20]). Before India’s liberalization, the slowly-changing environment allowed patriarchs to effectively lead their empires until old age. Traditional family structures and their social capital prevented internal conflicts from exploding into full-scale family or sibling feuds (e.g. [3]). But increasing globalization brought fast-changing environments and loosened family ties. In comparison to the extended family, the nuclear family has increased in importance (e.g. [3]). While the history of succession in Indian business groups is characterized by family splits, they had been seen as isolated incidents until the beginning of the 1970s (e.g. [29]). Ever since, the pace of family feuds over succession has accelerated (e.g. [29]). They are often fought in the public eye and may even be taken to court (e.g. [36]). To avoid succession problems, some business groups chose to partition the business empire. This leaves each son responsible for one division, now separate and legally independent companies (e.g. [36]). It is hardly possible to maintain family harmony when breaking up the business, only to account for every son’s business aspirations. Partitioning the business will curb sibling rivalry resulting in fierce competition. The recent family feud at Reliance Industries Inc. illustrates the challenges of succession. When the founder and patriarch Dhirubhai Ambani died in 2002, he did not leave a will that outlined the future of his huge business empire (e.g. [13], [14]). His two sons, Mukesh and Anil, both ambitious, wanted to lead the empire. Their mother brokered a deal which lead to the partition of the business. Mukesh received the heavy industries, e.g. petrochemicals, and Anil received the weightless industries, e.g. telecommunications (e.g. [13]). However, the public feud continued. The estranged brothers quarreled over the pricing of oil from one of India’s most important oil fields in the Bay of Bengal (e.g. [15]). Their fight had serious implications for the whole nation. It threatened the smooth output of oil and gas that is crucial for the energy-starved country. India continues to import more than 70% of its crude oil (e.g. [14]). This case illustrates the nasty repercussions of insufficient succession planning. They are felt not only by the business groups and families, but in the case of Indian business groups, also by the whole nation. The groups’ enormous power dominates the nation’s economy (e.g. [29]). This makes the succession in big family groups not exclusively a private family matter. Instead, it can have implications for the whole country (e.g. [29]). Conflicts between family members of business groups may be detrimental to a whole sector or even the whole country.

In order to prevent succession problems, business families must not procrastinate but set out a detailed succession process. This integrated process should combine succession planning with retirement planning (e.g. [20]). This ensures that both the progenitor and the successor are well-prepared; the progenitor to let go and the successor to take over (e.g. [20]). Succession and retirement planning, a form of strategic planning within an organization, may take several years depending on the complexity of the business and the capabilities of the successor (e.g. [20]). Families could set an irrevocable retirement age for the senior generation (Kumar, 2011, as cited in [32]) to ensure dynamic management by the modern generation. Succession decisions should be made while the progenitor is still alive and in full control of the business [32]. When picking a successor, it was shown that both Western and Eastern family firms rate integrity and commitment as the most important successor attributes (e.g. [31]). Ideally, the incoming CEO should be trained by the old CEO. For example, Cyrus Mistry shadowed Ratan Tata before becoming the CEO of the Tata Group. If children are to succeed their fathers, they should be well-educated before they join the family business. Additionally, they should be exposed to the technical aspects of the businesses, e.g. by apprenticeships within the company. Legal issues surrounding the transfer of control from the progenitor to his successor must be sorted out well in advance [32]. Succession planning is crucial for both Indian family businesses and the Mittelstand. However, it was shown that culture, i.e. family values, strongly influence succession planning (e.g. [20]). This suggests that the two types of businesses tackle succession planning in different ways.

3. DIFFERENCES

3.1 Environment

The economic environments in which the two types of businesses operate differ greatly. The “Ease of Doing Business Ranking” places India on the 134th rank out of 189 nations and Germany on the 21st rank (e.g. [4]).
ranking reflects the different macroeconomic structure in the two countries. In Germany, as an industrialized country, the institutional context is characterized by well-functioning capital, labor and product markets (e.g. [23]). In India, as an emerging country, the institutional context is characterized by market failures caused by information and agency problems (e.g. [23]). For instance, Germany has a capital market with fully-evolved financial intermediaries such as financial analysts, mutual funds, investment bankers and the financial press (e.g. [23]). In India, the capital market is rather underdeveloped, illiquid and highly influenced by the government (e.g. [23]). The market for labor in Germany offers a big pool of talent with certified skills. While business schools in India are rapidly emerging, management talent remains scarce and workers are inflexible (e.g. [23]). Concerning the product market, liability laws are reliably enforced and consumers efficiently informed in Germany (e.g. [23]). This is not the case in India. Due to the absence of intermediary institutions, it is expensive for Indian firms to acquire necessary inputs such as finance, technology and management talent (e.g. [23]). The Indian government is what one could call "soft" (e.g. [16]). It cannot fill the existing institutional voids in the capital, labor and product market. It is poor at providing infrastructure, enforcing contracts and unpredictable in its judgments (e.g. [16]). Because of the unique macroeconomic environments in India and Germany, the two types of businesses are of different scope. This difference in scope is analyzed in the following section.

3.2 Scope

India's business groups are highly diversified across all three sectors of the industry. The Tata Group excellently illustrates the business groups' diversification. It is active in the first sector as Tata Global Beverages, which is the world's second largest tea producer. In the second sector, it is present with its steel production Tata Steel and chemicals production Tata Chemicals. Its third sector activities include its IT business Tata Consultancy Service (TCS) and its hotel business Taj Hotels Resorts and Palaces (e.g. [11]). The mentioned businesses are only examples. The number of individual businesses under the roof of the Tata group in each economic sector is much higher. Other business groups, e.g. Reliance Industries, are equally diversified. Despite their high degree of diversification, they often dominate entire industries. For example, Tata Steel is India's biggest producer of steel (e.g. [11]). Their dominance, however, may also be detrimental. The Ambani brothers' feud regarding the price of oil drilled from the Bay of Bengal nearly paralyzed India's energy industry (see section 3.5 for in-depth analysis).

The German Mittelstand is highly specialized in the second economic sector and does not diversify nearly as much as its Indian counterparts. The Mittelstand companies typically concentrate all resources on one core competency and occupy very narrow niches (e.g. [33]). While their niches are narrow, they are also very deep (e.g. [33]). By combining their core competency with globalization, they serve only a small market, but they serve it in a number of countries worldwide (e.g. [33]). In 2003, McDonald et al. conducted a study that analyzed the internationalization behavior of Mittelstand companies (e.g. [26]). They found that the Mittelstand exhibits a high degree of internationalization. Most of the Mittelstand companies have moved beyond the low-commitment strategy of exporting. While it remains the dominant form of internationalization, many firms have moved central parts of their operations, e.g. manufacturing, to their main foreign markets (e.g. [26]). Even though the Mittelstand companies are proactive and innovative when it comes to internationalization, they are not risk-seekers (e.g. [26]). They remain cautious in their internationalization process, following the chain of psychic distance and establishment. This is in line with their general, traditional risk-adverse attitude. Often, the Mittelstand's niches are so narrowly defined that they hardly face any competition at all (e.g. [33]). The Economist (e.g. [12]) analyzes that the German Mittelstand has found its niches blending engineering, technology and services that require constant and incremental innovation. Increasingly, the Mittelstand engages in so-called "soft" diversification (e.g. [33]). They start new business activities that are closely related to their core competency. This enables them to protect their current market niches. Additionally, soft diversification serves to decrease the risk associated with specialization and overcomes growth barriers in narrow, saturated industries. For example, Beckhoff Automations now offers maintenance services along with their products (e.g. [7]).

One important reason for the difference in scope is their economic environment (see 5.1). In India's context of institutional voids and market failures, business is more profitably pursued as part of a large diversified business group (e.g. [23]). It fills the institutional voids left by the weak government and acts as an intermediary between
individual businessmen and imperfect markets (e.g. [23]). The scope of the business house allows a replication of the functions provided by institutions in advanced economies like Germany (e.g. [23]). The size of the business house justifies the fixed costs needed to create the internal structures and processes for performing the intermediating function (e.g. [23]). The individual businesses have access to these functions which allows them to mitigate external market failures (e.g. [23]). Concerning capital, it is unlikely that there is an internal capital market between the individual companies of one business house. This is due to their structure as publicly-owned and legally independent entities (e.g. [23]). Therefore, it is difficult to use the cash flows of one business to fund the operations of another one. This suggests that capital cannot be allocated inefficiently in the sense that successful businesses artificially keep slumping group businesses alive (e.g. [23]). Nevertheless, it was found that capital structure decisions of Indian group-affiliated businesses are influenced by the profitability of other group affiliates and the group’s size (e.g. [25]). It was also found that group affiliates enjoy superior access to foreign capital and technology (e.g. [23], [25]). A study that compared group-affiliated and non-affiliated companies showed that group affiliates enter more joint ventures with foreign partners than non-affiliated companies (e.g. [23]). The foreign partner would usually contribute knowledge and technology, while the Indian partner provided market access. Foreign investors may prefer business groups as business partners because of their ability to protect the property rights of the investments. This could be due to the business groups’ investment in reputation or their good relationship with bureaucrats (e.g. [23]). While the firms owned by one business group cannot exchange cash flows, they can use them to launch new ventures in which the family and other group affiliated businesses hold stakes (e.g. [23]). When the group identifies business opportunities, it can explore them by providing venture capital, i.e. in-house risk capital and managerial talent (e.g. [22]). Their good reputation contributes to the good prospects of the new venture. The Economist (e.g. [11]) has identified the fight for talent and trust as most important for Indian companies. Reference [22] illustrates the phenomenon using the example of TCS. Until the mid-1960s, the IT industry in India was virtually non-existent. The first real player in this industry was TCS, founded as a wholly-owned subsidiary of the Tata Group in 1968 (e.g. [22]). The ownership link between the Tata businesses, informal leverage of the Tata brand and shared managerial talent enabled TCS to exploit the entrepreneurial opportunities that the IT industry in India offered. This new entity was to act as an information technology bureau for the other Tata businesses. The Tata Group was able to pool management talent from its already existing operations in the new entity. Foreign talent or knowledge was inaccessible due to the government’s protectionist restrictions at the time (e.g. [22]). It established import channels to account for institutional voids in the product market, i.e. the availability of quality hardware. The Tata Group provided finance for the new venture as capital markets were underdeveloped. By the mid-1980s, TCS had established the Indian software industry and itself as the biggest player. It is doubtful that a stand-alone non-affiliated company would have been able to develop the whole IT sector out of a vacuum of institutional voids (e.g. [22]). It should be pointed out that the liberalization of the Indian economy beginning in the 1990s did eliminate certain institutional voids. Other voids, e.g. information problems regarding publicly-listed companies, remain (e.g. [22]). The German Mittelstand operates in an environment with fully-evolved institutional intermediaries and infrastructures. Supplemental services associated with running businesses, e.g. financial services, are provided by external organizations or the government. Therefore, it is not necessary for the Mittelstand itself to venture out and diversify. Aside from the non-existent necessity to diversify, the German Mittelstand has a strong interest in being specialized. The companies are fanatic about concentrating on their core competency and cultivating it (e.g. [33]). They react to changes in the business environment by constantly innovating, but never by exploring business outside of their traditional field of business.

3.3 Corporate Structure

Indian business groups and the Mittelstand have different corporate structures regarding bureaucracy and complexity. Mostly due to the difference in scope and scale, they exhibit different organizational patterns. In the following, their corporate structures are analyzed and contrasted.

The business houses are huge conglomerates that need to be supported by bureaucracy and complex hierarchies. Because of their sheer size and crossholdings between the individual businesses, there are many hierarchical layers and complex chains of command. If their structures are evaluated critically, one could say that they were "unco-
ordinated, overmanned and undermanaged” (e.g. [11]). Growing international competition, however, forces them to streamline their businesses. The Tata Group is an excellent example of a business group that has transformed itself to be competitive on a global scale. After India’s liberalization, it concentrated on six core businesses, systematically trained employees and installed sophisticated corporate governance structures (e.g. [11]). Despite its restructuring, it remains true to its traditional corporate structure, i.e. diversification.

The Mittelstand has clear, flat and flexible hierarchies that are held together by a strong internal cohesion (e.g. [33], [2]). Most Mittelstand companies are one-product and one-market companies. This makes complex hierarchies mostly unnecessary. There is a culture of informal cooperation and a strong sense of belonging to one’s company (e.g. [2]). Long job tenures and a lower-than-average number of sick days (e.g. [33]) illustrate the employee’s loyalty to their Mittelstand employer. Similarly to Indian business houses, Mittelstand companies face growing globalization. This development makes organizational change necessary. Internationalization and growth render the corporate structure of Mittelstand companies more complex. They may need to move away from a functional organizational structure, towards divisional or matrix structures to account for their growing international operations (e.g. [33]).

3.4 Visibility

Whereas Indian business houses are highly visible in the media, society and economy, Mittelstand companies are mostly invisible. This holds for their products and their people. This section discusses their visibility for the general public with regard to the two dimensions of products and people.

Concerning the products, the business houses’ products are highly visible in India and increasingly around the world. In Germany and other countries, the products by Mittelstand companies are largely invisible. This is partly due to the different position within the value chain. The business houses often provide products or services for a broad mass of end consumers. Their products are branded with the group’s name on it, e.g. Tata Tea. By contrast, the Mittelstand operates in the hinterland of the value chain (e.g. [33]). The Mittelstand companies are often suppliers whose products are processed further into the final product. As discussed in section 3.2, the Mittelstand often occupies obscure industrial niches and manufactures products that are interesting for a limited number of industrial consumers. Furthermore, the companies of the Mittelstand often choose to be invisible. They do not want to attract attention in order to protect their competitive advantage and their narrow niches (e.g. [33]). This is why most Mittelstand companies are known in their immediate regional communities but not even nationwide.

The leaders of Indian business groups and the German Mittelstand show similar difference in visibility as with regard to their products. For example, Reinhold Würth is a successful businessman who led his company to worldwide success and made billions of euros. But still, the wide public does not know him. Only in the small region surrounding his hometown Künzelsau in Baden-Württemberg, people know of him and his success. The Mittelstand’s leaders are largely not present in the media. It can be speculated that they want to remain invisible. In contrast to that, the leaders of India’s business houses like Ratan Tata and Mukesh Ambani are publicly admired heroes in their country. The annual meeting of shareholders in Reliance Industries appears to be somewhat religious as people come out in droves to applaud Mukesh Ambani (e.g. [10]). The feud between him and his brother Anil was a very public affair. Ratan Tata is the most powerful businessman in India (e.g. [11]). He is respected and admired by many (e.g. [5]). The Tata Group’s founder, Jamsetji Tata, is worshipped even today, as thousands participate in an annual march to celebrate his birthday (e.g. [11]).

4. Conclusion

India’s family businesses and Germany’s Mittelstand are an integral part of their countries. These characteristic companies shape their nations’ economies and contribute to their recent success. India’s family business groups or business houses are collections of highly diversified firms that are controlled by a family. Defining the Mittelstand is difficult since it is a soft concept that describes companies that are typical for Germany’s business environment. Mittelstand companies are specialized, high-performing and family-owned. Within the German Mittelstand, there is a group of highly successful, export-oriented companies, the so-called “Hidden Champions” (e.g. [33]). When comparing the two types of businesses, five striking simi-
laries were found. Firstly, both can look back on a rich and successful history beginning in the 18th and 19th century. They have proven unusually robust when faced with major economic and political crises in the 20th century. Secondly, they both form the backbone of their respective economies. A large percentage of Indian businesses, particularly the biggest like Tata Steel, belong to a business house. Over 99% of all German companies can be identified as Mittelstand companies (e.g. [19]). Thirdly, they are traditionally family-owned. But the structure of their characteristic family ownership differs. Both confront similar problems associated with family ownership, for instance accusations of inefficient allocation of resources. Fourthly, they are characterized by trans-generational continuity and long-term orientation which is mostly due to their family ownership. Fifthly, they are frequently faced with succession problems that can be avoided by thorough succession and retirement planning. Leaders in both businesses prefer to be succeeded by family members compared to non-family members. Aside from these similarities, four differences are discussed. Firstly, India and Germany constitute different economic environments for the businesses. In Germany, the institutional context is characterized by well-functioning capital, labor and product markets. In India, it is characterized by market failures and a soft government that cannot fill the existing institutional and intermediary voids. Secondly, their scope is fundamentally different. The Mittelstand is highly specialized in the second economic sector and does not diversify. The business groups are diversified across all three sectors of the industry. Their numerous operations fill the institutional voids left by the weak state and act as a market intermediary. It enables them to exploit entrepreneurial opportunities. Thirdly, they differ in their corporate structure. Indian business groups have complex and bureaucratic structures, whereas the Mittelstand has flat and informal structures. Fourthly, they exhibit different levels of visibility. Indian business groups’ products and leaders are highly visible. In contrast to that, the Mittelstand’s products and leaders are invisible, often by choice.

Comparing India’s family businesses and the German Mittelstand is fascinating. Even though there are tremendous cultural, economic and political differences between the two countries, one finds that the two business types show considerable similarities. Both concepts are deeply rooted in their respective societies and pursued with passion. They are the reason why Germany and India are economically successful. They influence national and international business in an, one could assume, inimitable way. In the light of their importance, it is surprising that they remain under-researched. Particularly the Mittelstand has not received abundant scholarly attention. Academic interest in Indian business houses is bigger, particularly regarding succession. Overall, scholars have not exhibited pronounced interest in the characteristic businesses of India and Germany. Research gaps include, for instance, how and how strongly culture influences the succession process in family firms. It can be speculated that the lack of research is due to their soft concept that is difficult to quantify. In case of the Mittelstand, the lack of research may be due to its secretive behavior (as analyzed in section 4.4). In contrast to that, the Economist, a newspaper magazine, has published several, extensive articles about the two types of businesses. By comprehensively pointing out similarities and differences, this paper seeks to contribute to the academic comparison of the two types of businesses. Indo-German business is becoming more important, mostly due to India’s growing sphere of influence. Therefore, the information presented has managerial relevance. For example, it points out similarities which can act as common ground in daily business interactions between the diverse cultures.

5. References

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