ISB | Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

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Welcome!

*I am pleased to share with you the latest issue of our newsletter, '**Family Business Briefs**.' This issue contains some interesting facts and information about family businesses that you may find useful. The briefs have been organized into the following sections:*

- *Summaries of research articles with practical implications on **Strategic Risk Taking, Decline-Stemming Strategies,** and **Family Strategic Resources and CEO Succession***
- *Summary of a family business case on **Cipla***
- *Inspirations from the life of **Dr. S. K. Burman***
- *Interesting insights on **Social Entrepreneurship at Aravind Eye Care***
- *Infographic on **Family Firm Dominance across Service Sectors in India***

We hope that you will find these insightful.

I encourage you to send your feedback and share suggestions about something interesting and relevant, which you may want us to include in future.

Best regards

Ram

Kavil Ramachandran, PhD

Professor & Executive Director

Thomas Schmidheiny Centre for Family Enterprise

Indian School of Business

Born to Take Risk? The Effect of CEO Birth Order on Strategic Risk Taking

- Robert J. Campbell, Seung-Hwan Jeong, and Scott D. Graffin

The significance of birth-order or age-hierarchy in family as a determinant of individual behaviour has been acknowledged in extant literature. However, the understanding of how birth-order affects strategic decision-making of CEOs, remains inadequate. Addressing that knowledge gap in this study, the authors examined family data and strategic risk-taking behaviour of CEOs of 67 publicly-traded, Korean family-controlled firms. This summary succinctly describes the study, its findings and implications for family firms.

CEO Birth Order and Strategic Risk Taking

Strategic risk taking is a core decision a CEO makes. The upper echelons theory suggests that an executive's characteristics influence his/her strategic decisions. Birth-order reflects an individual's early-life experiences in the family and shape his/her characteristics. The evolutionary perspective suggests that siblings compete for parental attention and resources, for which they may engage in risky behaviours.

The authors argue that an earlier-born child tend to garner more parental investment, and hence, may not engage in risky behaviour. In contrast, the later-born siblings tend to get less parental investment, hence they may make more riskier moves to survive and grow. Therefore, the authors posit that CEO birth order is positively linked to strategic risk taking. Later-born CEOs are likely to take more strategic risks compared to earlier-born CEOs.

Moderating Effects of Sibling Rivalry

The authors theorize that the effect of CEO birth order on strategic risk taking is moderated by the nature of the sibling rivalry. They suggest that this happens in three ways:

1. When the **age gap** between siblings is small, they compete more intensely in childhood. Therefore, if the age gap between the CEO and the closest sibling is small, then the CEO is more likely to take strategic risks.

2. Recall of childhood sibling rivalry diminishes with age. Therefore, younger CEOs are more likely to take strategic risks than older CEOs.

3. Ongoing sibling competition in adulthood intensifies the rivalry and risk taking behaviour. Thus, a CEO is more likely to take strategic risks if s/he has a sibling who is also a CEO.

Risk-taking was measured in terms of capital expenditure, R&D spending and business acquisitions. Statistical analyses found support for the authors' hypotheses (except for *CEO age*, which turned out to be inconsequential).

Practical Implications

The study has significant implications:

- Crucial strategic risk taking decisions of family CEOs that may determine the growth and survival of the family business are affected by their childhood sibling rivalry.
- Family firms aiming for growth may give the CEO role to a later-born sibling in the family.
- In family business groups that have multiple sibling CEOs heading different verticals, sibling rivalries may continue to intensify. If not addressed in time, these rivalries may lead to risky decisions, which may threaten survival of the business and family harmony.

Source: *Academy of Management Journal, Vol. 62, No. 4 (2019), pp. 1278-1306.*

The Impact of Socioemotional Wealth on Decline-Stemming Strategies of Family Firms

- Giacomo Laffranchini, John S. Hadjimarcou and Si Hyun Kim

Financial turnaround after a prolonged decline in firm performance has been studied in detail. However, the role of stakeholders in the turnaround process of a family business has not been adequately probed. In this research the authors studied 104 turnaround situations (during 2000-2012) in publicly traded family-controlled US firms. They examined how socioemotional wealth affected the strategies that halted the firms' downward spiral (termed 'decline-stemming strategies' by the authors). This summary briefly presents the study and its practical implications.

Strategic Responses to a Turnaround Situation

Firms can respond to a turnaround situation in two ways. They can adopt decline-stemming or recovery strategies. ***1. Decline-stemming strategies:*** are measures to stop further decline. These strategies include: *i. aggressive cost-cutting*, *ii. severe asset reduction*, and *iii. sales improvement*. ***2. Recovery strategies:*** are measures that reposition firms and recover performance.

Whether a firm's strategic response to a turnaround situation is decline-stemming or recovery, depends on how specific stakeholders exert pressure on the firm and the relevance, the firms assigns to the respective categories of its stakeholders.

Socioemotional Wealth and Decline-Stemming Strategies

Socioemotional wealth consists of the non-financial gains that the family derives from business ownership and control, like family reputation and social status. SEW can have two broad dimensions. ***1. Restricted SEW (SEWr)*** are emotional benefits that result by exercising influence over the business to achieve highly family-centered goals. Short-term well-being of immediate family members drive the strategies of firms that follow SEWr. ***2. Extended SEW (SEWe)*** are emotional benefits that accrue from fulfilling family needs across generations and that of external stake-holders. These include creating strong relationships with external partners, societal goodwill and transgenerational survival.

Family firms with restricted-SEW orientation focus on immediate short-term interests of the family and fail to engage in decline-stemming strategies because those increase short-term losses. In contrast, family firms with extended-SEW orientation focus on the larger SEW benefits that accrue over time and engage in decline-stemming strategies.

Practical Implications

Important implications for family firms are:

- Family firms trying to turnaround, can better anticipate and address conflicts among different stakeholders and avoid aggravating the crisis.
- Adopting an extended view of SEW would benefit family firms as they will move beyond short-term interests of stakeholders.
- Family firms attempting to turnaround would benefit by adopting decline-stemming strategies, which will maximize their long-term pay-outs and welfare.

Source: *Entrepreneurship Theory and Practice, Vol. 44, No. 2 (2020), pp. 185-210.*

The “Most Wanted”: The Role of Family Strategic Resources and Family Involvement in CEO Succession Intention

- *Giovanna Campopiano, Andrea Calabrò and Rodrigo Basco*

CEO succession is a significant and challenging transition for family business. However, the pre-succession phase that involves the formation of succession intention is inadequately examined in extant literature. Using 490 observations from a global family firm survey conducted in 35 countries (STEP survey), this study examines how strategic family resources critical to firm's competitive advantage, shape the intentions to appoint a family or non-family CEO successor. The paper also examines whether this process is affected by family involvement in the firm's top management team (TMT). This summary briefly explains the study, its findings and implications for family firms.

Family Strategic Resources

Family strategic resources are critical to a family firm's competitive advantage. These are financial, physical, human and social capital resources. ***Financial resources*** include patient capital in the form of equity, debt and retained earnings. ***Physical capital*** includes machines and facilities. ***Human capital*** comprises unique managerial and technical capabilities and experiences. ***Social capital*** comprises the family firm's relationships and reputation with local community and social networks.

The authors hypothesize that the intention to appoint a family CEO successor is more likely when a family firm considers human and social capital as more critical resources to sustain its competitive advantage. In contrast, if financial and physical capital are considered more crucial, then the family firm might opt for a non-family professional as CEO successor, since non-family CEO can garner these resources from untapped sources.

Family Involvement in TMT

The relationship between family strategic resources and CEO succession intention is moderated by family involvement in the firm's top management team. The TMT composition influences the way managers perceive the use of available family strategic resources like, patient capital, tacit knowledge, and social networks. These are critical to the ‘familiness’ of the firm. Hence, the authors suggest that regardless of distinct importance assigned to these strategic resources, family firm TMTs will tend to prefer a family member as a CEO.

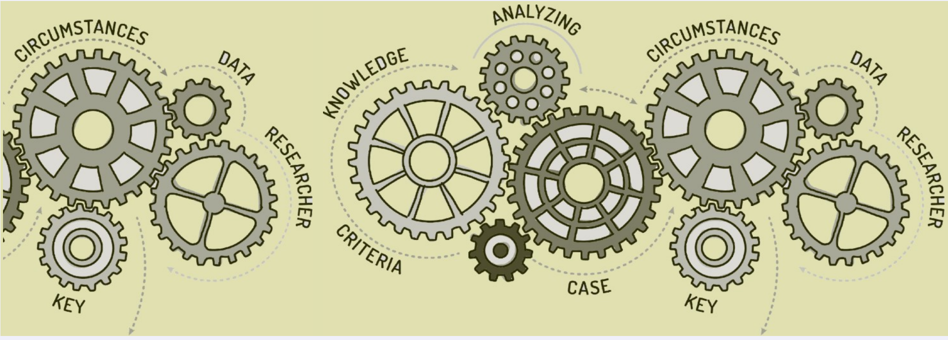
Key Findings

It was found that only human capital was related to CEO succession intention, that too in a way contrary to the authors' hypothesis. Since, the families understood the negative effects of a family CEO, they opted for a non-family professional who could retain talented and experienced personnel. However, the moderating effect of family involvement in TMT was confirmed to strengthen succession intention in favour of a family CEO.

Practical Implications

- It is crucial for family firms to understand different family strategic resources critical to sustain competitive advantage.
- Prioritizing these resources would be beneficial for families in planning the CEO succession process.
- By evaluating their TMT composition and identifying their sources of value, family firms can assess the impact of succession even in the pre-succession phase.

Source: *Family Business Review, (2020). DOI:10.1177/0894486520927289, pp. 1–26.*



CASE SUMMARY

Cipla: Next-Gen Leader Carries the Family Legacy Forward

Chemical Industrial and Pharmaceuticals Laboratories Limited, later known as Cipla, was established in 1935 by Khwaja Abdul Hamied. He started Cipla to make medicines affordable to everyone. Being a follower of Mahatma Gandhi, he also wanted to reduce dependency on the British for medicines. In 1972, after K A Hamied's death, his sons Yusuf and Mustafa Hamied assumed crucial roles in the business. Strongly rooted in its founder's values, Cipla disrupted the Indian pharmaceutical Industry by providing access to low cost drugs. By 2019, Cipla had 34 manufacturing units in eight locations in India and had presence in over 80 countries. Primarily, it developed medicines to treat respiratory and cardiovascular diseases, and disorders like, arthritis, diabetes, obesity, and depression.

In 1993, Cipla launched a drug azidothymidine (AZT), which could postpone the onset of AIDS, at one tenth of the international price. When pharma industry giants accused Yusuf Hamied of bypassing patents regime, he responded that the only motive he had was "*to do good before he dies*." Cipla also developed low-cost anti-cancer drugs and saved millions of lives, especially in the developing countries.

Yusuf Hamied stepped down from executive role in 2013. The Hamied brothers envisaged a new Cipla in which family values and legacy would provide the strategic direction to the business, while professionals would manage it. Samina from the third generation (daughter of Mustafa) was inducted into the board in 2015 as its Executive Director and Global Head of Strategy. Prior to this, she had worked on shaping the company's consumer health care business (a part of Cipla New Ventures) and as an investment banker with Goldman Sachs.

As part of its professionalization efforts, Cipla hired capable non-family professionals at CEO and CFO positions. A five member management council headed by the CEO and overseen by Samina, was formed to provide strategic direction to the company. The senior Hamied brothers served the firm as its non-executive directors, while all operations were managed by a team of professionals.

In 2016, Yusuf Hamied made a family agreement which unified all voting rights of family members to one person (family member with majority shares). This ensured the unity of the family to other shareholders and guarded against potential takeovers which were very common in the pharmaceutical industry.

Under the new leadership of professionals and next-generation family member, the 85 year old pharmaceutical giant was taking new leaps to cater the needs of society. Revenues from North America, and emerging markets of Asia and South Africa contributed most to Cipla's top line. Taking more business responsibilities on herself, Samina also affirmed long-term commitment of the founding family to Cipla.

Learnings for Family Businesses

The key takeaways from this case study are:

- Professionalization is crucial for growth as it makes a family business more efficient and helps acquire new capabilities and expertise.
- Value-based governance, shared vision and next-generation leadership development are critical to family business longevity.
- Family governance mechanisms such as, family agreements are important to keep the family united across generations.

Sources: https://www.business-standard.com/company/cipla-114/information/company-history

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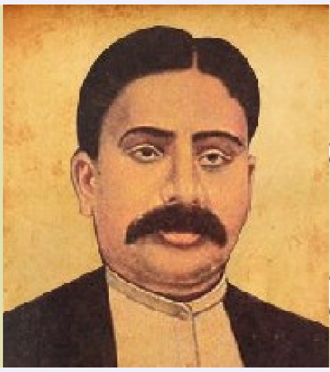

FAMILY
BUSINESS
LEADER

DR. S. K. BURMAN

(1856 - 1907)

S.K. Burman was a physician in the erstwhile Bengal province (now West Bengal) who worked to provide effective and affordable cure for people living in rural areas. He undertook the task of preparing natural cures for the killer diseases prevalent in those days, like cholera, malaria and plague.

He started Dabur in 1884 in Calcutta (now Kolkata) with a vision to provide good health for all. He was popularly known as "**Da**ktor **Bur**man" hence he named his enterprise as DABUR. He produced and dispensed Ayurvedic medicines to a wide mass of people who had no access to proper treatment.

His commitment and ceaseless efforts resulted in the company growing from a fledgling medicine manufacturer in a small Calcutta house, to a household name that at once evokes trust and reliability.

In 1896, Dr. Burman expanded his operations by setting up a manufacturing plant for mass production of formulations. With innovation at its core, Dabur identified nature-based Ayurvedic medicines as its area of specialization in early 1900s. It was the first Company to provide health care through scientifically tested and automated production of formulations based on our traditional science.

Since then the company has forayed into personal care products like hair oil, soaps, and food products like biscuits, snacks and juices.

Dabur India Ltd. is world's leading Ayurveda company, the largest Ayurvedic medicine producer with 25% of the branded ayurvedic market in India and one of the largest FMCG company in India. Dabur has a 136 years old legacy of quality and experience and is now led by the fifth generation of Burmans with the sixth generation also actively involved in the business. The company had a revenue of Rs7,700 crores in 2019.

Dabur is one of the first family business groups in India to separate ownership from management and professionalize the group. The family now has limited direct involvement in the day-to-day operations of the group companies. Allowing a team of able managers to run the company and steer its fortunes.

They have formulated a Family Council, which acts as an interface between the family and the Board and management of Dabur.

The family members are encouraged to develop their own ventures. The proposed ventures are then presented to the Family Council for approval and funding a professional management team that would be able to launch Dabur onto a higher growth path.

"Sundesh" is a non-profit organisation started by the family that aims to carry out welfare activities in the spheres of health care, education and other socio-economic activities.

"What is that life worth which cannot bring comfort to others"...S.K Burman

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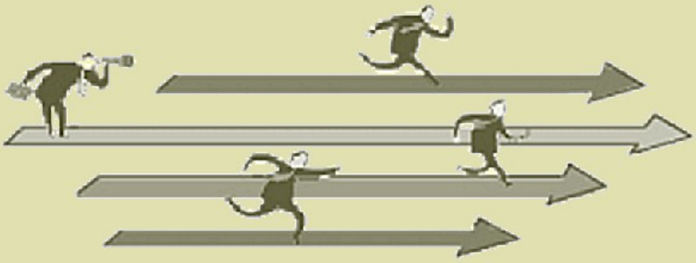
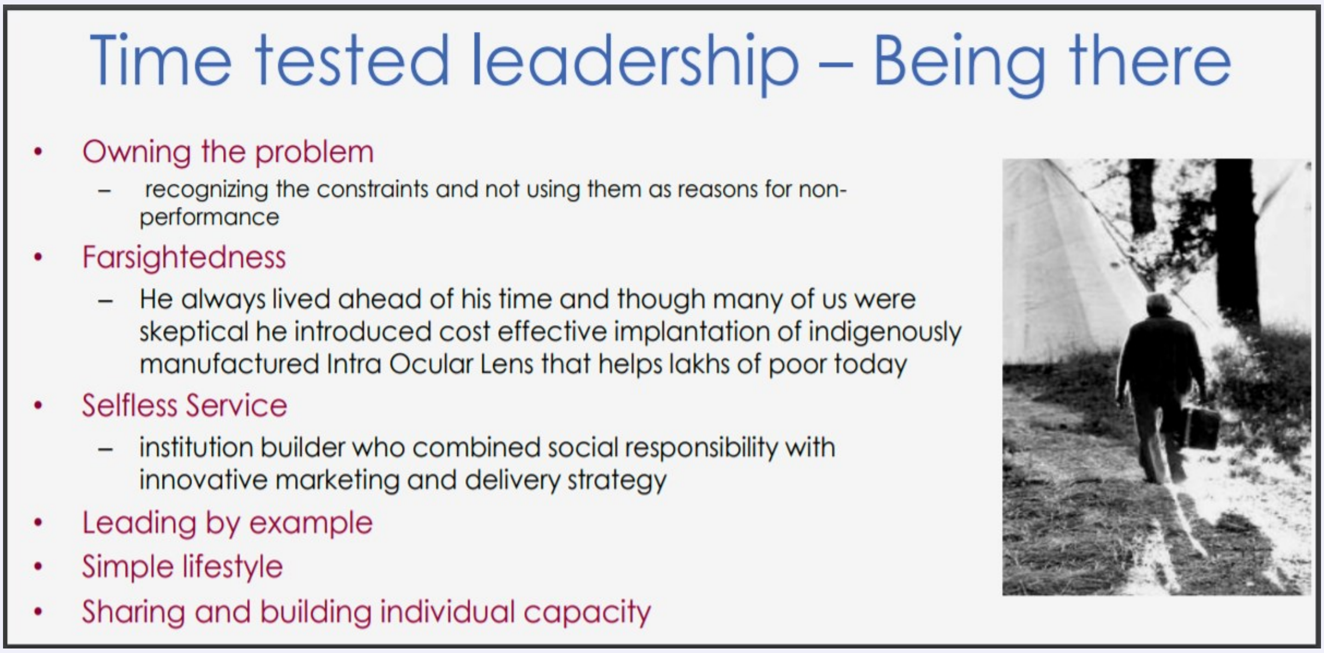


BENCHMARKING LEARN FROM THE BEST

Aravind Eye Care System was founded by Dr. Govindappa Venkataswamy (Dr. V) in 1976 with a 11 bed hospital. Today, it is a conglomerate, Aravind Eye Care System. It operates a growing network of eye care facilities, a postgraduate institute, a management training and consulting institute, an ophthalmic manufacturing unit, a research institute and eye banks. Aravind's eye care facilities include 13 eye hospitals, 6 outpatient eye examination centres and 75 primary eye care facilities in South India.

Since its inception, Aravind has handled more than 56 Million outpatient visits and performed more than 6 million surgeries. The Aravind Eye Care System now serves as a model for India, and the rest of the world. This remarkable growth was driven by the founder's vision to "eliminate needless blindness by providing high quality high volume compassionate eye care to all." Dr. V's leadership style still guides the family members.



The Building blocks of Aravind were it's delivery system, value system and innovation. Through focus on productivity and utilization, Aravind drastically reduced the unit fixed costs. Standardization of procedures led to better economies of scale. Despite more than 50 percent of the treatment being done either free of cost or at highly subsidized rates, Aravind depended on earned income rather than on donations or grants. This was possible due to the culture of cost consciousness at the organization level.

Further, scale of operations, best in class technology, training, standardization of systems and processes and a competitive eco-system ensured that the organization remained financially viable and efficient.

Aravind Eye Care System is an example of an organization driven by the vision of it's founder. As Dr. V used to say, "*Intelligence and capability are not enough. There must be the joy of doing something beautiful.*"

Source: Dr. Aravind Srinivasan, Sustaining and Growing Social Entrepreneurship, Presentation at the Seventh Asian Invitational Conference on Family Business, Indian School of Business, February 2-3, 2019.

DO YOU KNOW?

In an industry wise analysis done by the Thomas Schmidheiny Centre for Family Enterprise, interesting patterns were found. For example, Modern Services, such as Telecommunications and IT services, are completely dominated by family firms. Take for example the Air Transport industry. This sector has very significant family presence (Exhibit 1). The only one public sector carrier, Air India, is an unlisted firm.

Exhibit 1: Share of Total Assets – Family vs Non-Family Businesses

Service Sector	Share of Family Businesses
Financial service activities, except insurance and pension funding	10%
Public Utilities (Electricity, gas, steam and air conditioning supply)	17%
Telecommunications	96%
Civil Engineering	58%
Computer programming, consultancy and related activities	71%
Wholesale trade, except of motor vehicles and motorcycles	85%
Construction of building	95%
Warehousing and support activities for transportation	34%
Retail trade, except of motor vehicles and motorcycles	84%
Air Transport	100%

Exhibit 2: Family Businesses: Standalone vs Business Groups (2018)

Service Sector	% of Firms		Asset Share (%)	
	FBGF	SFF	FBGF	SFF
Financial service activities, except insurance and pension funding	30%	70%	78%	22%
Telecommunications	68%	32%	100%	0%
Computer programming, consultancy and related activities	35%	65%	91%	9%
Civil Engineering	38%	62%	74%	26%
Construction of building	32%	68%	79%	21%
Wholesale trade, except of motor vehicles and motorcycles	24%	76%	80%	20%
Public Utilities (Electricity, gas, steam and air conditioning supply)	73%	27%	98%	2%
Warehousing and support activities for transportation	42%	58%	84%	16%
Air Transport	32%	68%	45%	55%

Resource-intensive sectors like Telecommunications, Public Utilities and Warehousing require significant capital investments. We observe a higher number of Family Business Group affiliated firms (FBGFs) in these three sectors. They also heavily dominate in terms of their share of total assets. Air transport as a service sector has a small number of companies (airlines) and the market leader is a standalone firm (SFF) (Indigo Airlines), hence the bias towards SFFs (Exhibit 2).

Industries such as Financial services, construction of building, computer programming and consulting and wholesale trade, where the capital resources required to start a business is lower, the number of SFFs is large but FBGFs still dominate in terms of size and have a much larger percent share of assets.

Source: Bang, N.P., Bhatia, N., Ray, S. & Ramachandran, K. "Family Businesses and India's Transition to a Services Led Economy (1991–2018), Thomas Schmidheiny Centre for Family Enterprise, 2020

Indian School of Business

Indian School of Business (ISB) is a global business school offering world-class management education across its two campuses - Hyderabad and Mohali. The School has grown at a rapid pace over the past sixteen years since its inception and already has several notable accomplishments to its credit it is the youngest school ever to consistently rank among the top Global MBAs, one among the select 100 global b-schools to have AACSB, AMBA and EQUIS accreditation, one of the largest providers of Executive Education in Asia, and the most research-productive Indian management institution. A vibrant pool of research-oriented resident faculty, strong academic associations with leading global b-schools and the backing of an influential Board, have helped the ISB fast emerge as a premier global business school in the emerging markets. For details visit www.isb.edu

Thomas Schmidheiny Centre for Family Enterprise

The Thomas Schmidheiny Centre for Family Enterprise, at the Indian School of Business, has emerged as the foremost authority on family businesses in South Asia. It undertakes training, research and outreach activities covering all major topics on family business. The Centre collaborates with global academic institutions and leading family businesses in India and abroad, for the exchange of insights and knowledge among diverse stakeholders.

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