ISB | Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

Issue 51 / December 2018

Welcome!

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

- *Summaries of research articles with practical implications on **Family Entrepreneurship, Top Management Compensation,** and **Corporate Sustainability***
- *Summary of a published family business case on **Eastern Condiments***
- *Inspirations from the life of **Jamnalal Bajaj***
- *Interesting insights on the **Muthoot Family***
- *Infographic on **CSR Expenditure by Indian Family Businesses***

We hope that you will find these incisive and refreshing. As always, I encourage you to send your feedback and share suggestions about something interesting and relevant, which you may want us to include in future.

*I take this opportunity to remind you about the **7th Asian Invitational Conference on Family Business**, which we are organizing during **February 1-3, 2019** at ISB, Hyderabad Campus. The conference theme is **'Generations to Generations - Building Family Business Legacy Harmoniously.'** This event will be an unparalleled confluence of globally renowned family business leaders, academicians and practitioners, who will share their invaluable insights with conference delegates. I urge the members of family business community to attend the event and benefit from this unique learning and networking opportunity. **For registration and further details please visit our conference website: www.isb.edu/seventhfbconference***

Best regards,

Ram

Kavil Ramachandran, PhD
Professor and Executive Director
Thomas Schmidheiny Centre for Family Enterprise
Indian School of Business

P : +91 40 23187101
F : +91 40 23007046
www.isb.edu/familybusiness

ARTICLE SUMMARY

Relational Embeddedness and Firm Growth: Comparing Spousal and Sibling Entrepreneurs

- Miriam Bird and Thomas Zellweger

Firm growth increases a firm's competitive edge and market power and signals success. The quality of relationships among the firm's entrepreneurial team is a key determinant of growth because relationships serve as critical resources for attaining economic goals. Relational embeddedness may differ across firms on account of varying levels of - trust, identification and obligations - among the members of its entrepreneurial team. In this research the authors analysed the data of 4900 Swedish family firms for 2004-2009 and probed how relational embeddedness had a varying effect on firm growth in businesses managed by a spousal entrepreneurial team as against those that were managed by a sibling team. This summary succinctly presents the research design, key findings and their practical implications.

Entrepreneurial Teams, Relational Embeddedness and Firm Growth

Social relationships among entrepreneurial team members play a central role in firm growth. Relationship embeddedness is defined as the accessibility to resources on account of a network of relationships of a social entity. The authors argue that three facets of relational embeddedness - namely, trust, identification and obligations, facilitate a firm's growth in the following ways:

1. Trust among entrepreneurial team members - deepens information exchange, enhances effectiveness of cooperation, and keeps a check on opportunism.

2. Identification (i.e., entrepreneurial team members viewing themselves as one) leads to a shared sense of purpose, good understanding and concern for collective outcomes.

3. Mutual ***obligations*** among team members promote confidence in each other's promise, commitment to continuity and altruistic resource transfers.

Relational Embeddedness of Spousal versus Sibling Teams and Firm Growth

Spousal entrepreneurial teams share a household and a business partnership. They collaborate to achieve collective goals in both personal lives and in business. They develop a shared point of view on how to grow the business. They embody loyalty and care. Thus, trust, identification and obligations are high in spousal teams which positively affect firm growth. The authors argue that in contrast, sibling relationships may involve rivalries, family baggage, and jealousy, which may lead to lack of trust and conflicts that may undermine business growth.

The Swedish family firm data analysed for this research confirmed these varying effects of spousal v/s sibling teams on firm’s growth.

Practical Implications

The paper explains how family firm growth is influenced by the relationships in leadership team. Different types of family teams (spousal/ sibling) may either propel or constrain business growth. Family firms need to be cognizant of this and take measures to nurture leadership teams that score high on trust and identification, and work cohesively.

Source: *Organization Science (2018), Vol. 29, No. 2, pp. 264-283.*

ARTICLE SUMMARY

Founder versus Family Owners' Impact on Pay Dispersion among Non-CEO Top Managers: Implications for Firm Performance

- Peter Jaskiewicz, Joern H. Block, Danny Miller, and James G. Combs

Large variation in the pay of non-CEO members of a firm's top management team (TMT) is detrimental to the firm because it creates feelings of inequity and adversely impacts cohesion and collaboration in the TMT. In this research the authors seek to explore why do firms allow this TMT pay-dispersion? They analyze panel data of Standards & Poor's (S&P) 500 firms in USA and examine whether this variation in TMT pay-dispersion is significantly different in founder-led firms compared to that in the family-owned firms. This summary presents in brief the research study, its findings and practical implications.

TMT Pay Dispersion: Founder versus Family Ownership

Large disparities in pay are known to trigger : - perceptions of inequity, decreased team cohesion and collaboration, relationship conflicts, job turnover and decrease in firm performance. In case of founder-led firms the founder remains focused on measurable performance indicators. This reduces TMT members' discretion in decision-making. Decisions are monitored against observable benchmarks. Founder's long association with the business, tacit knowledge, and ability to assess the impact of decisions help them align the manager's performance goals with firm-level performance goals. Therefore, the authors argue that pay dispersion among TMT members is likely to be low in founder firms.

Socioemotional Wealth Goals and TMT Pay Dispersion

The authors argue that in family owned firms competing loyalties to business and family emerge. Family owners also aim for socio-emotional goals, promote their kin, invest in social responsibility, avoid job-cuts, and shelve projects perceived to weaken the fmaily's control. Thus, the TMT members face a larger challenge in evaluating, making and monitoring such decisions. Hence, managerial discretion is high leading to a high TMT pay dispersion. However, in later generation family firms pay dispersion comes down again as firms tend to become more professionalized and effectively governed. The incentive to pursue socioemotional goals also goes down as firms transition to cousin consortiums.

Data analysis confirmed that founder firms had low TMT pay dispersion compared to family firms but this difference narrowed down in case of later generation family firms.

Practical Implications

The paper has significant implications for family firms. TMT pay dispersion is not advisable as it leads to multiple negative effects. Family firms must focus on establishing clear performance metrics and decision-making criteria for its TMT so that discretion is minimized and their pay is standardized based on clearly defined parameters.

Source: *Journal of Management (2017), Vol. 43, No. 5, pp. 1524-1552.*

ARTICLE SUMMARY

Business Group Affiliation and Corporate Sustainability Strategies of Firms: An Investigation of Firms in India

- Sougata Ray and Bikramjit Ray Chaudhuri

Business groups (BG) constitute a significant part of economies across the globe. Though their economic value creation strategies have been examined, not much is known about whether BGs contribute to sustainable development and shared value creation for the society. In this article the authors analyze data from 163 Indian publicly listed firms and probe whether BG firms differ from non-BG firms in their corporate sustainability strategy (CSS). They further examine how BG affiliation affects the relationship between the firm's CSS and its stock of fungible resources. This summary presents the gist of the study, its key findings and their implications for family businesses.

Business Group Affiliation and Corporate Sustainability Strategies

BG affiliated firms are characterized by a complex web of formal and informal relations, such as, reciprocal debt and commercial ties. Group image, common family owner, and informal social ties provide BG firms their identity and sense of social responsibilities. Social responsibility projects require huge investments which may affect short-term profits. Large firms in the group assure smaller firms of financial support and protection from a takeover. BG firms also get support from the group's network, for instance, access to unique resources and external partners with expertise in social sustainability. Hence, the authors argue that BG affiliated firms are more motivated to adopt corporate sustainability strategies compared to non-BG firms.

Group Affiliation, Fungible Resources and Corporate Sustainability Strategies

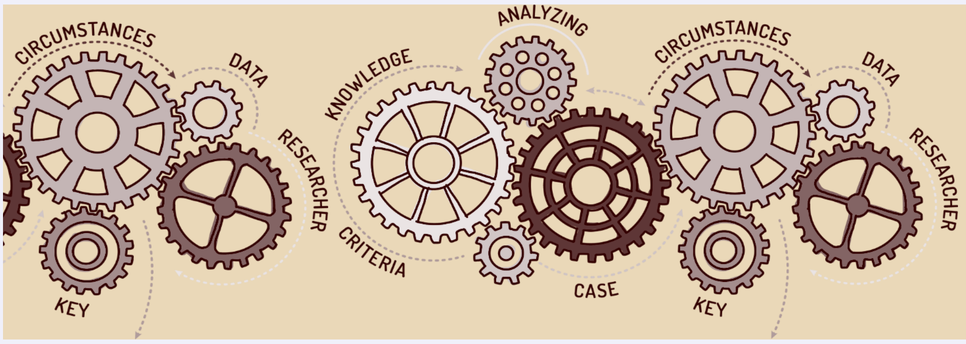
CSS implementation requires investments in specialized activities and in building unique capabilities. For instance, an environmental sustainability task may require specialized technology for reduction in greenhouse gas emissions. Firms having larger stock of fungible resources can acquire specialized resources. However, in the BG context, firms with greater fungible resources have to pool those into the common resource basket of the group. Therefore, BG affiliated firms with greater stock of fungible resources may end up spending proportionately lesser amount on corporate sustainability strategies. However, this is only a moderating effect.

The data analysis confirmed that BG affiliated firms made significant contributions to shared value creation and environmental and sustainability development strategy.

Practical Implications

The paper has important implications for BG firms. BG firms with more fungible resources must assess their corporate sustainability goals and resource requirements. They may then contribute spare resources to the group level pool. BG firms must also supplement their resources with those of their group's network, to implement corporate sustainability practices and maximize their shared value creation.

Source: *Journal of Business Ethics (2018), Vol. 153, No. 4, pp. 955-976.*



CASE SUMMARY

Eastern Condiments — The Changing Curry Company

- Kavil Ramachandran and Sonia Mehrotra

Navas Meeran, aged 46, took an early sabbatical from company operations. He passed the mantle of leadership of Eastern Condiments Private Limited (ECPL) to his younger brother Firoz for a year. On his return, Navas was impressed to find that the company had grown significantly in his absence — clocking 22% growth in net profits to INR 374 million in 2015.

Under Firoz's watch, who was now Managing Director, the company had undertaken several organizational changes that led to profession-alization and adoption of state-of-the-art systems, industry best practices, and meritocracy. However, these changes came at the cost of losing long-term employees with attrition rates touching 10%-15% across all levels in the organization. This ruffled Navas considering the family values of compassion and loyalty that ECPL had been built on.

ECPL took roots in 1961 when M.E. Meeran, who was the father of Navas and Firoz, setup a small shop that distributed various consumer products. Recognizing an opportunity in the branded spices market, he invested his personal savings to setup a factory in 1984. The company adopted a direct distribution model to retailers and grew on the back of good demand for its offerings. By 1992, two larger factories were maintaining a constant supply of its products in the market which included spices, blended spice powders, pickles, breakfast staples and beverages.

Navas joined ECPL shortly after completion of college in 1991. Though both Meeran and Navas were intent on growing the company, they differed in their approach to business operations. Navas initially found it difficult to persuade his father to adopt his ideas but was later successful in implementing double-entry accounting system, establishing a HR department and hiring several senior non-family professionals. At the same time, Navas also nurtured the values of compassion and loyalty that his father had instilled in the company.

Firoz, who was 15 years younger than Navas, joined the business in 2008 much like a third generation entrepreneur. By 2014, he was at the helm of affairs and undertook a series of steps to overhaul operations. The pace and execution of these changes worried Navas as he wondered if it was right for a family run business to forgo its long-standing values. Would it be possible to maintain growth with this sudden shift? Questions flooded his mind as he ruminated the future course of action.

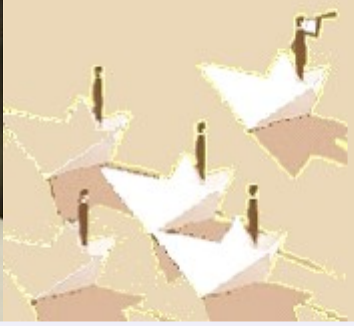
Learnings for Family Businesses

The case highlights the challenges of professionalization of family business while maintaining growth. Overall, the case emphasizes the importance of:

- Putting into place structures, systems and processes to achieve next phase of growth
- Managing change without forgoing established organizational culture and traditions
- Building common communication platforms for promoters to be on the same page from an organizational perspective

Source: *Eastern Condiments — The Changing Curry Company, Case Authors: Kavil Ramachandran and Sonia Mehrotra.*

https://www.isb.edu/research/cases/eastern-condiments-private-limited-the-changing-curry-company



FAMILY BUSINESS LEADER

Jamnalal Bajaj
(1889-1942)

Jamnalal Bajaj was born into a poor Marwari family in Kashi Ka Bas, near Sikar, Rajasthan. He was adopted as a grandson by Seth Bachhraj and his wife Sadibai Bachhraj, a rich Rajasthani merchant couple of Wardha. He got involved in the family business and acquired the skills of being a tradesman—rigorous book keeping, and buying and selling commodities. In 1926 he founded the Bajaj group of industries.

During the First World War, he was appointed as an honorary magistrate and later was conferred with the title of Rai Bahadur, a title he later surrendered during the non-co-operation movement of 1921. He was impressed and influenced by Mahatma Gandhi and became his close associate and follower. Gandhi is known to have adopted him as his son. He completely committed himself to the Indian freedom movement.

Apart from playing an active role in the freedom struggle, he was a social reformer too, who walked his talk. He abolished purdah (veiling by women) in his own home and opened the doors of his family-owned temple to Harijans (untouchables) - the first temple in India to do so. As a freedom fighter he suffered protracted jail terms and preferred 'C' class prisoner status. Though a 'Merchant Prince,' he lived a lower middle class life.

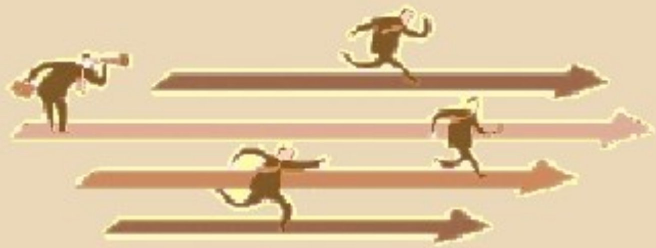
The Government of India honoured his memory by releasing a commemorative postal stamp in 1970 and officially celebrated his Birth Centenary Year in 1990. Several institutions in India bear his name, including the Jamnalal Bajaj Institute of Management Studies. A locality, JB Nagar, in the sub-urban Andheri in Mumbai has been named after him. Jamnalal Bajaj Award was established in 1978 by the Jamnalal Bajaj Foundation and are given away each year on his birth anniversary.

The Bajaj Group is one of the largest conglomerates in India with 24 companies, including 6 listed companies. The group is now being run by the fourth generation of the family. With revenues of about US$ 6 billion and close to 45,000 employees, the group is into automobiles, financial services, steel, investments and cosmetics, amongst others.

Bajaj Group is involved in a variety of welfare activities, which are carried out with the support of its companies and trusts, keeping the legacy of Jamnalal Bajaj alive.

Source: *http://www.jamnalalbajajfoundation.org/jamnalal-bajaj/about*

https://en.wikipedia.org/wiki/Jamnalal_Bajaj



BENCHMARKING

LEARN

FROM THE BEST

The Muthoot family business began with timber business - with 5000 people and 17 elephants in Kozhencherry, 800 years ago. Today the Muthoot brand spans across 17 diverse businesses, from Power Generation to Media, from Hospitality to Infrastructure and many others and is being managed by the 20th generation of the family.

PAT should drive synergy between family and business values

- **P - Professionalism:**
  Define roles clearly, avoid interference as much as possible, respect each other.
  At Muthoot: Scope of work clearly defined across geography & business divisions.

- **A - Acceptance:**
  Adapt to changing times, younger generation would bring innovations and fresh ideas, avoid one-upmanship, supremacy or attitude to overpower others.
  At Muthoot: 20th generation leading technology driven transformation (CRM, CBS, HRMS, FAMS to name a few).

- **T - Togetherness:**
  Have frequent family meetings, give freedom of expression and as a leader concentrate on larger roles.
  At Muthoot: Monthly Family Boards

- ***Finally, there is always enough for everyone. It is LOVE for the family and all the members which should drive business.***

The family tightly holds and closely-guard's its Values. The family and business values are same and has remain unchanged in the changing times. They safeguard their values during times of rapid growth through:

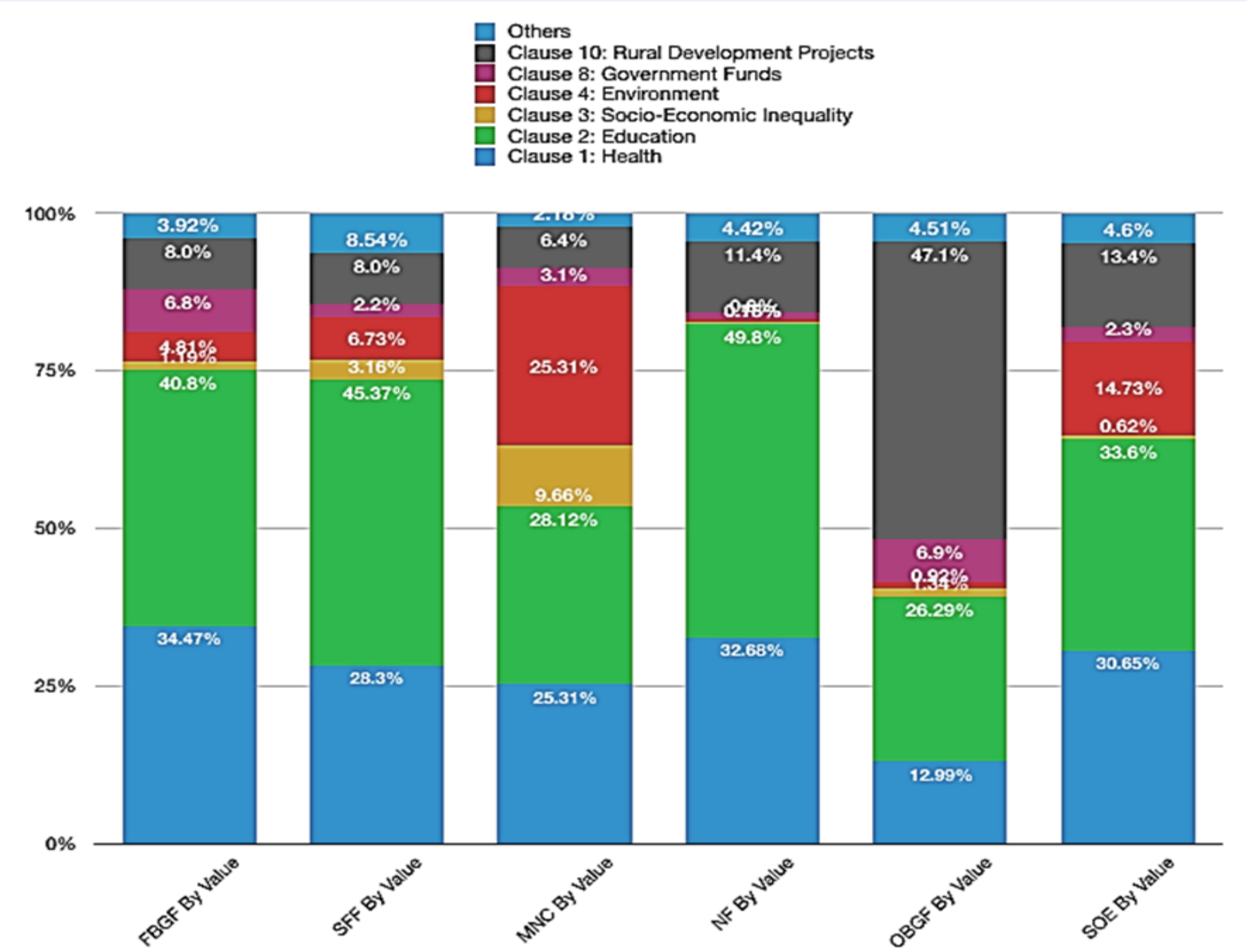
- Consistency- Daily Morning Prayer concurrently at 9am across all +4500 branches
- Robust Structure- Network of 67 Regional Offices to ensure values are adopted at ground level
- Employee Benefits- Staff Welfare Measures like ESOPs, NPS, education benefits to children of all sub staff and Periodic Fast Track Promotions
- Leadership Opportunities- Through well defined Career Path for Operational, Sales and Administrative teams
- Active Controls- Live monitoring of every branch through centralized surveillance system to check compromise in values causing loss to customers and Strong audit mechanism- +1300 auditors, 12 types of audits conducted at every branch.

Source: *M G George Muthoot, Chairman, The Muthoot Group, presentation at the fifth Asian Invitational Conference on Family Business, Indian School of Business, February, 2015.*

DO YOU KNOW?

In a White Paper, *"Family Businesses: Heeding the Call of Corporate Conscience 2015-2017"*, the first comprehensive analysis of CSR activities since it was made mandatory in India, we explored the nature of CSR spend for a sample of 1,210 firms over three financial years i.e. 2014-15, 2015-16 and 2016-17. As per the Ministry of Corporate Affairs, Schedule VII of the Companies Act 2013 had ten clauses defined broadly across various development sectors such as education, healthcare, environment, rural development, women empowerment, and art and culture.

Figure: Split by Clause %



Our study shows that on an average, nearly 60 percent of CSR funds are routed towards education and healthcare activities. Further, we find a heavy bias towards Healthcare and Sanitation, Education, Vocational Training and Skill Development, Environment, Government funds and Rural Development Projects. Together these five clauses account for around 90% of CSR spend, in value, for all category of firms.

In line with increasing their socioemotional wealth, family firm members and managers are more likely to pick projects closer to their 'heart'.

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 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.

Family Business Briefs Content Development Team: Dr Navneet Bhatnagar (Senior Researcher) and Dr Nupur Pavan Bang (Associate Director)

For further information, please visit www.isb.edu/familybusiness or contact Sushma GNVS at fambiz@isb.edu or +91 40 2318 7189.

Registered Office & Hyderabad Campus:
Gachibowli, Hyderabad - 500 111, Telangana, India.
Ph: +91 40 2300 7000, Fax: +91 40 2300 7099

Mohali Campus:
Knowledge City, Sector 81, SAS Nagar, Mohali - 140 306, Punjab, India.
Ph: +91 172 459 0000
www.isb.edu

Corporate Identity Number: U80100TG1997NPL036631