ISB | Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

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Welcome!

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

- *Summaries of research articles on **Ownership Competence, Internationalization, and Influence of Values on Socioemotional Wealth in Family Business***
- *Summary of a published family business case on **Ujwal Bharati***
- *Inspirations from the life of **O. P. Jindal***
- *Interesting insights on **Azim Premji's Philanthropy Rooted in Values***
- *Information on the **Evolving Role of Women in Family Business***

We hope that you will find these insightful and stimulating.

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.

Best regards

Ram

Kavil Ramachandran, PhD
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ARTICLE SUMMARY

Ownership Competence

- Nicolai J. Foss, Peter G. Klein, Lasse B. Lien, Thomas Zellweger, and Todd Zenger

Business ownership is viewed as a means to create economic value. Researchers have explored the incentives and value creation aspects of ownership with the assumption that all owners are homogenous and have same abilities. However, in reality, owners differ in their capabilities and talents. In this paper, the authors formalize the concept of "***ownership competence***" and discuss its role in value creation based on concentration of ownership, lifecycle effects, external environment and market efficiency. This summary succinctly presents the study and its implications.

Traditional View of Ownership

Ownership is viewed in economics and law as a bundle of rights that include possession, exclusivity and control. These control rights allows the owner to derive residual income or profit from an asset. However, in business ownership context, this incentive-based view is limited because it does not account for the strategic role played by the ownership in resource bundling and value creation. It also assumes that owners are homogenous actors. However, in reality owners differ in their capabilities. This requires ownership to be viewed from a competence perspective.

Ownership Competence

The competence of owners differ in number of ways. Ownership abilities include judgment, foresight, attitude towards risk-taking, and productive abilities. The authors identify three dimensions of ownership competence:

1. Matching Competence – *What to own:* it is the owners' capacity of foresight and judgement about the resources needed to create value,

2. Governance Competence – *How to own:* it is the capacity to organize and design the organization with effective governance practices,

3. Timing Competence – *When to own (enter or exit):* it is the owners' ability to time their investments in a way that maximizes the value.

Contextual Effects on Ownership Competence

The authors argue that ownership competence for value creation varies due to contextual factors. For instance, concentration of ownership affects ownership competence which is constrained by the owner's share in the business. Different competences are required at different life cycle stages of the firm. For instance, matching competence is essential during start-up phase. As the firm grows, governance competence becomes more significant. Ownership competence becomes very crucial in a fast changing, uncertain environment. For instance, timing competence is critical in times of environmental uncertainty.

Hence, the authors emphasize that value creation is maximized when competent owners assume the ownership of a business.

Practical Implications

- Acquisition of ownership competencies enables family business owners to create and capture optimal value from the business by aptly determining what, how and when to own.
- It is essential for family business owners to develop the right mix of context-specific ownership competencies.
- Ownership competence mix must be reviewed with changes in the business environment.

Source: *Strategic Management Journal (2020), pp. 1–27, DOI: https://doi.org/10.1002/smj.3222.*

ARTICLE SUMMARY

Behind the Internationalization of Family SMEs: A Strategy Tripod Synthesis

- Somnath Lahiri, Debmalya Mukherjee, and Mike W. Peng

Scholars have examined the determinants, processes, and outcomes of internationalization of family-owned small and medium enterprises (SMEs). This has resulted in a large and diverse body of literature, which is replete with mixed findings. In this paper, the authors synthesize the literature at the interface of family firm and SME internationalization. Using a strategy tripod framework, this paper identifies the drivers of family SME's internationalization. This summary briefly describes the study and its implications for family business.

Distinct Internationalization of Family SME

Internationalization of family SMEs is unique because it may result in both gains and pains for the family and the firm. The gains that may accrue to the family are financial benefits, reputation, and career opportunities, while the firm may gain profits, organizational learning and growth. However, if internationalization is fraught with risks, then the possible pains for the family include, increased uncertainty and loss of control and reputation. The firm may lose critical resources (time and capital), revenues/profits and market reputation. Thus, the family's influence on internationalization of the SME can be ***facilitative*** or ***restrictive*** based on how it is viewed: gainful or painful.

Strategy Tripod Framework and Drivers of Family SME Internationalization

The authors suggest that a *strategy tripod framework*, which combines *resource-based*, *institution-based*, and *industry-based views*, provides a comprehensive understanding of the determinants of family SME internationalization.

(I) Resource-based Considerations: Family-specific resources that influence the internationalization of family SMEs include:

1. ***Structural Resources:*** family ownership and involvement,
2. ***Functional Resources:*** family leadership and strategic renewal,
3. ***Affect-based Resource:*** Socioemotional wealth and generational involvement,
4. ***Network-based Resources:*** external social capital and stakeholder ties, and
5. ***Cognition-based Resources:*** international experience and managerial stress on technology.

(II) Institution-based Considerations: Both, formal institutions (such as, investor protection regime) and informal institutions (such as, trust towards other nations), significantly influence family SME's internationalization decisions.

(III) Industry-based Considerations: Family SMEs in a high-quality niche industry requiring close connect with customers, are more likely to internationalize. However, the authors also caution that the current research on industry influence on internationalization remains limited.

Practical Implications

- Strategy formulation for internationalization requires family business leadership to comprehensively understand all the factors that may influence the firm and its decisions.
- A detailed examination of resource-based considerations would help family business leadership assess the capabilities and resources gap that needs to be addressed.
- Prior assessment of institution and industry based considerations would help the family business leadership plan more effectively for their internationalization strategy.

Source: *Global Strategy Journal, (2020). Vol. 10, No. 4, pp. 813–838.*

ARTICLE SUMMARY

Back to the Roots: Applying the Concept of Individual Human Values to Understand Family Firm Behavior

- Philipp Julian Ruf, Michael Graffius, Sven Wolff, Petra Moog, and Birgit Felden

Values believed and practiced by family business owners are known to influence firm behaviour. However, little is known about: which values are predominant, and how exactly they manifest and influence the family business. In this study, the authors theorize that values of family firm owners influence various dimensions of socioemotional wealth (SEW). This relationship was statistically tested using survey data from 1003 family business owners in Germany. This summary succinctly presents the study, its findings and implications.

Values, SEW, and Family Firms

Values are an individual's beliefs that provide guidance to behaviour. They serve as "*personal standards of conduct*." In family firm context, the owner family members share their core values, owing to family bonds. Family firms are also known to pursue non-financial goals. These create an affective endowment, called SEW. It has five dimensions known as ***FIBER***, which are characterized by ***F***amily control and influence, ***I***dentification of family members with the firm, ***B***inding social ties, ***E***motional attachment of family members, and ***R***enewal of family bonds. The authors argue that owners' values affect SEW dimensions and thereby influence family firm behaviour.

Higher-Order Values and SEW Dimensions

The authors suggest that individuals have the following four higher-order value clusters:

1. ***Openness to Change*** (OC) is characterized by distinctive values, such as, ***self-direction*** (creativity), ***stimulation*** (excitement), and ***hedonism*** (enjoying life). These values have a personal focus and growth motivation. Hence, the authors suggest that OC of family owner-managers affects the SEW dimensions of ***F***amily control and ***I***dentification.

2. ***Conservation*** consists of values such as, ***security, tradition***, and ***conformity***. Individuals with conservation values emphasize on safety, harmony and a stable relationship. Hence, the conservation value affects all SEW dimensions.

3. ***Self Transcendence*** (ST) includes distinctive values of ***benevolence*** (helpfulness, honesty), and ***universalism*** (equality, social justice). Individuals with these values are motivated by preserving the well being of others. Therefore, it is likely to be related to the SEW dimensions of ***B***inding social ties***,*** ***E***motional attachment***,*** and ***R***enewal of family bonds.

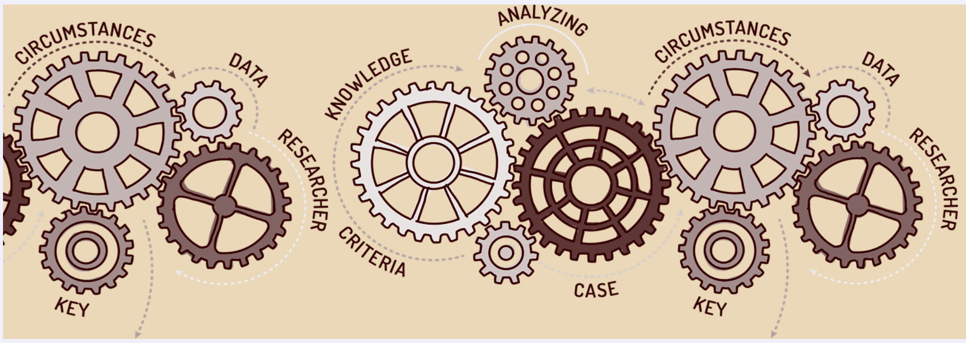
4. ***Self Enhancement*** (SE) values are ***achievement*** (success) and ***power*** (authority). These have personal motives. Individuals with these values are ambitious, successful and capable. Hence, this value affects the SEW dimensions of ***F***amily control and ***I***dentification.

Statistical analysis confirmed these relationships.

Practical Implications

- Family firms must be cognizant of how their values manifest and influence firm behaviour.
- Understanding the relationship between values and SEW, helps owners and family mangers in making better strategic decisions in both the business and family contexts.
- Family business owners must establish and communicate clear set of values, which must be practiced in alignment with SEW and firm objectives.

;***Source:*** *Family Business Review (2020), pp. 1-23, DOI: doi.org/10.1177/0894486520944282.*



CASE SUMMARY

Professionalization of Ujwal Bharati

- Kavil Ramachandran

Ujwal Bharati, a pharmaceutical firm, was founded by Rajeshwar Rao in pre-independent India. Soon after independence, the company gained growth momentum and became a nationally renowned business.

Rajeshwar Rao hailed from an affluent family. He had two sons, Srinivas and Shankar. Srinivas became the managing director of the firm, while Shankar, who had a masters degree in Chemistry, took care of its R&D activities. The only male member in the third generation was Shankar's son, Vishesh.

After years of steady growth, the brothers realised the need to professionalize the business. They hired a consultancy to develop new strategies for the future. Management guru, Parasuram handled the assignments with the consultants and the family. This, eventually brought him closer to the brothers and their families. Based on Parasuram's advise, the family agreed to hire a non-family professional as the CEO of the company.

In 2006, UB recruited Jairaj as its new CEO. Jairaj came from a multinational firm and was appreciated for his turnaround capabilities and process orientation. Initially, Srinivas felt relieved after passing on to Jairaj the business leadership responsibilities which he was shouldering for the past 30 years. The new CEO tried to put processes in place and made decision-making more transparent. Initially, Jairaj met Srinivas everyday. But those meetings became less frequent once Jairaj got accustomed with the activities.

Soon, Srinivas began to feel the loss of control over the business and became unhappy with the way Jairaj functioned. Srinivas opposed him on investing in a biotech venture. Jairaj finally realized that he was fighting a losing battle and resigned the job. Srinivas approached Parasuram again to help him find a suitable CEO. Parasuram thought through this and assumed the role of CEO in 2007. Initially, Parasuram was very particular in involving Srinivas in every key decision. All the major recruitments, transfers, growth plans and new project ideas were presented to Srinivas.

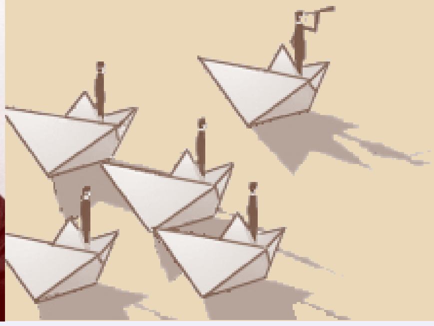
One of Parasuram's major projects was to establish an online store for over the counter drugs which did not require prescription. However, this project required external funding. The executive vice president of finance, Natarajan was displeased with the funding strategy. He had spent all the 37 years of his career with UB and believed in their family policy of never relying on an outsider for funding. Srinivas expressed his disappointment for not involving Natarajan in key decisions. He thought that involving senior people was crucial as the company owed a lot to them.

Parasuram took a holiday for a week and gave the responsibilities of operations to Natarajan. Upon his return, Srinivas looked tense and uncomfortable. He asked a number of probing questions to Parasuram, which required revisiting some key decisions.

Learnings for Family Businesses

- Professionalization and policy-based decision-making are crucial for sustained profitability and growth of a family business.
- It is critical to have clarity on the rights and responsibilities of family business leaders, successors and non-family executives.
- Family businesses must establish clear policies to ensure that the family and non-family executives do not encroach each other's decision-making domains.

Source: Professionalization of Ujwal Bharati (2010), Ivey Publishing.
Case Author: Kavil Ramachandran.



FAMILY BUSINESS LEADER

Om Prakash Jindal (1930 – 2005)

Om Prakash Jindal was born in 1930 to Netram and Chandravati Jindal in Hisar, Haryana. He was married to Savitri and had four sons – Navin, Sajjan, Ratan, and Prithviraj.

Jindal was a farmer's son. Yet, he started trading in steel pipes in Nalwa, a village in Haryana. In 1952, he started a manufacturing unit at Liluah, near Kolkata, to make steel pipes, bends and sockets. Soon, Jindal established a professional culture in the organization.

In the early 1960s, Jindal developed India's first fully indigenous pipe mill at Hisar. This was a breakthrough, the first of many in the years to come. Jindal built up a reputation for ingenuity and integrity of his products. In 1970, he established Jindal Strips Limited and a mini steel plant set up at Hisar to manufacture coils and plates through the electric and furnace route.

From an indigenous single-unit steel plant in Hisar, the organisation grew into a multi-billion, multi-locational and multi-product steel conglomerate. With its motto, "We are the Future of Steel," Jindal has been expanding, integrating, amalgamating and growing, over the years.

OP Jindal, forayed into politics and attained great success. He was elected a Member of the Haryana Legislative Assembly three times and Member of Parliament in the 11th Lok Sabha from the Kurukshetra constituency of Haryana with a landslide victory in 1996.

The late industrialist and politician knew how business families in India behaved into their second and third generation. Jindal made sure his family was different. Even before he died in 2005 in a helicopter crash, the patriarch had put in place a unique structure. First, he divided his empire between his four sons. Jindal ensured that each son had a cross-holding in his brother's company which was considered as a masterstroke. This ensured that all the four benefited from each other's growth, especially in good times. Secondly, Jindal had ensured that his sons never split. His wife Savitri chaired each of the companies and the OP Jindal Group.

OP Jindal, fondly remembered as 'Bauji' left behind a rich legacy and touched thousands of lives during his lifetime. He is remembered as the innovative stalwart of Indian steel industry; the man who talked to machines and encouraged innovation, the leader who listened to his constituents, the torchbearer of social equality and champion of girls' education.

He worked hard to uplift the condition of the underprivileged and poor people. His commitment towards girls' education led to the foundation of Vidya Devi Jindal Residential School for girls. He was the Chairman of N.C. Jindal Charitable Trust. He was also on the board of several charitable trusts.

He was awarded the Life Time Achievement Award from the Bengal Chamber of Commerce for his invaluable contribution to the steel sector. He was also listed amongst the richest in India and the world by the Forbes magazine.

Dr. Manmohan Singh, the former Prime Minister of India, called him "a highly successful industrialist with a keen interest in philanthropy and Indian politics."

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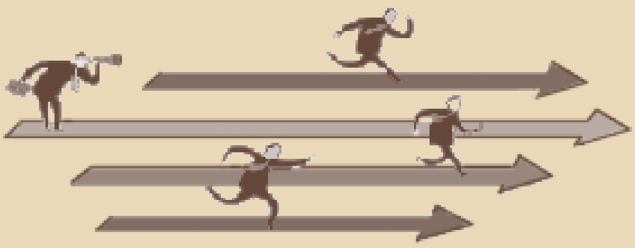

BENCHMARKING

LEARN

FROM THE BEST

Azim Premji's Philanthropy Rooted in Values

Padma Bhushan Azim Hasham Premji, the 'Czar' of Indian IT industry and the founder Chairman of Wipro Ltd., the $27 billion market capitalization multinational corporation that provides information technology, consulting and business process services, is also India's most generous billionaire. He has pledged $21 billion of his personal wealth to charitable foundations.

We look into the life of the man who gave away Rs 22 crore daily in financial year 2019-2020, as per a report collated by Hurun Report India and Edelgive Foundation, by drawing from the recently released book, "*Azim Premji – The Man Beyond the Billions*" by Sundeep Khanna and Varun Sood, Harper Business (2020).

- Azim Premji is a reclusive man and not much is known about his personal life. Though his business dealings are known for their transparency.
- He refuses to go along with people merely to avoid unpleasantness and never tries to win a popularity contest.
- Azim Premji's typical day is 17 hours long and he is known to be extremely hardworking.
- He is known for his frugality, an uncommon trait in a billionaire. His lifestyle did not change with his increasing wealth and he never flashed his wealth. He would travel economy class, wash his own clothes at hotels, stay in modest hotels and share a room with his son, drove modest and second hand cars, and worried about wastage of coffee and toilet paper at Wipro offices.
- He built one of India's largest and most successful software companies, on the bedrock of ethics, commitment, integrity, character and values. His communications regarding the goals of the company and basic tenets of his philosophy were clear and straight-forward.
- He insisted on quality and refrained from making any exaggerated claims with regards to the company's products or services.
- He introduced professional business practices and inducted professionals to the board of Wipro very early on. He was firm in his disapproval and expressed it if the board members were not diligent and not prepared for the meetings.
- He is counted amongst the top philanthropists in the world.
- He never attached much importance to his personal wealth. He had once said, "*Mahatma Gandhi believed that wealth must be for the people and there must be a trusteeship to it. I also believe in this and I feel strongly about it.*"
- His foundation works with the government – and not in parallel – to better the lives of millions.
- He is deeply involved with his foundation and is committed to the cause of education and development.
- He established Premji Invest, one of the most successful family offices in Asia. Azim Premji committed all the wealth managed by Premji Invest to the Azim Premji Foundation in 2017.
- Premji Invest undertakes rigorous due diligence before committing to invest in an enterprise. They also take up board positions in a few of the investee companies.
- So far, Azim Premji has gifted 90% of his wealth or about $21 billion to his philanthropy arm, the Azim Premji Foundation.

DO YOU KNOW?

The Evolving Role of Women in Family Business

Women constitute 18 percent of family business leaders globally. The highest percentage belonging to family businesses in Europe and Central Asia. Traditionally, women have been relegated to "invisible" role in family businesses in administrative duties, or as informal advisors or to exclusively managing the household. However, the role of women in family business has been evolving over the last few decades.

The 2020 STEP-KPMG report reflects upon how demographic shifts are changing the role of women in family businesses. The report finds that women in family businesses are slowly breaking the stereotype and engendering greater diversity at the workplace. Though women continue to face the dilemma and role conflict, they are equipping themselves to balance the obligations at work and at home. The salient findings of the report are:

Emerging from the shadows: Women are now equipped with the required education and training and actively taking up positions of power, authority, and decision-making roles in the family business. They are taking up leadership positions in the so-called 'masculine' industries such as, manufacturing, mining, and construction.

The 'hidden' CEO: The societal and cultural bias have women play the role of a chief emotional officer. They are required to nurture and take care of the emotional needs of the family, keeping the family together and perpetuating the family's values and traditions across generations. Instinctively, these unique characteristics make women holistic leaders with unique management styles.

Redefining "women's work": Women in family businesses, especially Millennials, are breaking down the barriers and redefining how women in non-traditional businesses are perceived. They have the knowledge, experience and skills in their business and are valued and respected by the employees and customers

Transformational power of women: Though women continue to face role conflicts, they are able to balance the need at the workplace and at home. They have sophisticated and transformational leadership style, judgement, and unique outlook.

Succession by merit: Traditionally in family businesses, succession is based on primogeniture, which discourages women to consider professional careers in their family's business. However, certain country level rules such as gender equality movements and one-child policy in China have given women better access to resources. Family firm succession decisions are increasingly being driven on merit and capability instead of gender.

Societal change and family business leadership: There has been a push from governments around the world to address the issue of under-representation of women in business. Mandatory gender quotas have prompted family firms to have higher percentage of women representation on the boards.

Altering outdated mindsets: Challenging the established beliefs, women in family businesses are proving that they can bring about major changes in organizations and society and help mentor, guide, and develop the pipeline for future women leaders.

The findings of the survey are relevant to the family businesses in India too. Women in Indian family businesses have been breaking various cultural and societal biases and perpetuating the businesses to new frontiers. Yet, in India, female participation in the work force is decreasing and is one of the lowest in the world. India is placed at 95 out of the 129 member countries in the UN SDG gender index score and is ranked below the global average on gender equality. Women in family businesses are well placed to lead the way to bring about greater gender parity, offer and create opportunities for other women too.

Source: *The power of women in family business (November 2020), STEP-KPMG. (https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/12/the-power-of-women-in-family-business.pdf)*

Indian School of Business

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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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