ISB | Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

Issue 52 / February 2019

Welcome!

*I am delighted to share with you the latest issue of our newsletter, '**Family Business Briefs**.' This issue contains some thought-provoking ideas, facts and figures about family businesses that you may find noteworthy. The briefs has the following sections:*

- *Summaries of research articles with practical implications on **Successor Socialization Process**, **Selective Conformity** and **Familiness Effects on Innovation***
- *Summary of a published family business case on **Touchdown Footwear***
- *Inspirations from the life of **Walchand Hirachand Doshi***
- *Interesting insights on **Nalli Group of Companies***
- *Infographic on **CSR Spending by Indian Family and Non-Family Firms***

We hope that you will find these interesting and inspiring.

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,
Professor & Executive Director,
Thomas Schmidheiny Centre for Family Enterprise,
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Multilayered Socialization Processes in Transgenerational Family Firms

- Zografia Bika, Peter Rosa, and Fahri Karakas

One of the fundamental concerns of family business researchers is to understand how family members are ‘socialized’ into the family business. Existing models of socialization emphasize a linear unidirectional flow of information, norms and values from the senior to younger generation of family members. Over the years, sociology and psychology research on socialization has evolved to a more dynamic theory that emphasizes the influence of multiple external and internal factors on socialization. However, family business research has not kept pace with this theoretical shift. Hence, in this research the authors conduct an in-depth case study of a four-generation Scottish family firm to understand the complexities of socialization processes in transgenerational family firms. This summary describes the study, its findings and implications for family business.

Socialization as Continuity, Interaction, and Experience

According to the traditional view, socialization is achieved through learning that consists of embedding socially desirable norms, values, and roles in an individual's mind. Thus, continuity across times and generations is maintained by perpetuation of values, attitudes, roles through family socialization (internalization). However, in recent years the interpretivist sociologists have questioned this functionalist view of socialization. They view socialization as a dynamic interactive process since different influences and contexts (e.g., family, school, community, peers, work, media, social class) in different phases of life differentially affect individuals producing conflicting responses (interaction).

The authors argue for a third approach to understand socialization and its outcomes in the family business context. According to this view a family business successor's socialization is influenced by his/ her personal experiences accumulated by over the lifetime and his/ her ability to influence external conditions (experiential).

The Triple-Layered Model of Socialization

Based on the in-depth case-study analysis, the authors suggest a triple-layered model of socialization in family business. These three layers overlap and differently unfold over time.

Internal Socialization: Family leaders transmit values, roles and practices to younger generation members, who internalize these.

Interactive Socialization: Peers and external stakeholders influence the successor's learning.

Experiential Socialization: Innovative learning through role improvisation and iterative changes shape the successor’s socialization.

Practical Implications

The study has significant implications for family business:

- Different forms of socialization coexist, hence family firms need to adopt integrated successor development approach.
- Successor training must also include peers, mentors, advisors, non-family managers, external shareholders and others.
- Even the senior generation needs to go through re-socialization training to open up to more flexible and changing context.

Source: *Family Business Review (2019), pp. 1–26, DOI: 10.1177/0894486519827435.*

Blending In While Standing Out: Selective Conformity and New Product Introduction in Family Firms

- Ambra Mazzelli, Josip Kotlar, and Alfredo De Massis

Family firms face the competing pressure of whether to conform to their non-family peers for gaining legitimacy or to distinguish themselves to gain recognition. However, research findings on this issue are divided. Hence, in this paper the authors study the conformity-distinctiveness trade-off made by 2,338 Spanish manufacturing firms in introducing product innovations between 1998 and 2012. This summary succinctly presents the study, its key findings and practical implications.

Conformity, Distinctiveness and New Product introduction in Family Firms

Grounding their research in the behavioural agency model and institutional theory, authors argue that the motivations driving conformity depend on firm membership in one or multiple social categories in an industry. Firms vary in their propensity to conform based on the distinctiveness of the firm's social category and the degree of exclusiveness of a practice. The authors suggest that variations in conformity-distinctiveness behaviours are well exhibited in new product introductions since new products are subjected to the pressures of conformity but yet need to stand out to be recognized as distinct products.

Varying Propensities to Conform in Family and Nonfamily Firms

Family and non-family firms exhibit variations in their propensity to conform when they introduce new products. ***1. Ownership-based Social Category Effect:*** If a product innovation has been predominantly introduced by family firms then other family firms will be forced to introduce the same to conform to peers. Non-family firms will follow only if the product innovation becomes widespread. ***2. Geographic Region Effect:*** Family firms have strong local/ regional ties. Family firms are more likely to introduce product innovations when other regional firms have introduced the same. ***3. Distinctiveness to Signal Superiority:*** Family firms are likely to introduce distinctive product innovations to signal to the market about their ability to provide superior value compared to their competitors.

The statistical analyses found support for these effects, albeit with varying strengths.

Practical Implications

The study has significant implications for family firms. Decisions in family firms are driven more by avoidance of social losses than economic rationale. Family firms need to strike a balance between these two aims. Though family firms can aim for conformity with other family firms, or their industry or regional peers, they must also be cognizant of the importance of creating a distinct image for themselves. By making intelligent distinctions in their offerings family firms must signal to the market that they are providers of high quality products that give superior value compared to those offered by the competitors.

Source: *Entrepreneurship Theory and Practice (2018), Vol. 42, No. 2, pp. 206–230.*

ARTICLE SUMMARY

How Familiness Affects Innovation Outcomes Via Absorptive Capacity: A Dynamic Capability Perspective of the Family Firm

- Joshua J. Daspit, Rebecca G. Long, and Allison W. Pearson

Familiness is the unique set of resources and capabilities of a family firm attributed to the family's involvement in business. Though familiness is known to affect family firm outcomes, how exactly it influences the internal dynamics of the firm and leads to outcomes like innovation, is not clearly understood. In this paper, based on extant literature on dynamic capability perspective, the authors conceptualize how familiness affects the firm's absorptive capacity, which shapes the firm's innovation outcomes. The authors also explain how the involvement of non-family member leads to heterogeneity across family firms. This summary presents the crux of the study and its implications for family firms.

Familiness, Absorptive Capacity, and Innovation Outcomes

Familiness has three key dimensions - **Structural Dimension:** the network ties of the family that business gains from **Cognitive Dimension:** shared vision and language, and **Relational Dimension:** trust, and family norms, obligations and identification.

These dimensions lead to two important benefits to the family firm: - **1. Access to information** and **2. Associability** (i.e., collective goals and action, and emotional support).

Firm's ability to acquire and integrate new internal and external knowledge in pursuit of commercial goals is known as the firm's **absorptive capacity**. It is an essential dynamic capability for a firm to develop innovations.

Based on observations from the literature, the authors theorize the following effects among familiness, absorptive capacity and innovation outcomes:

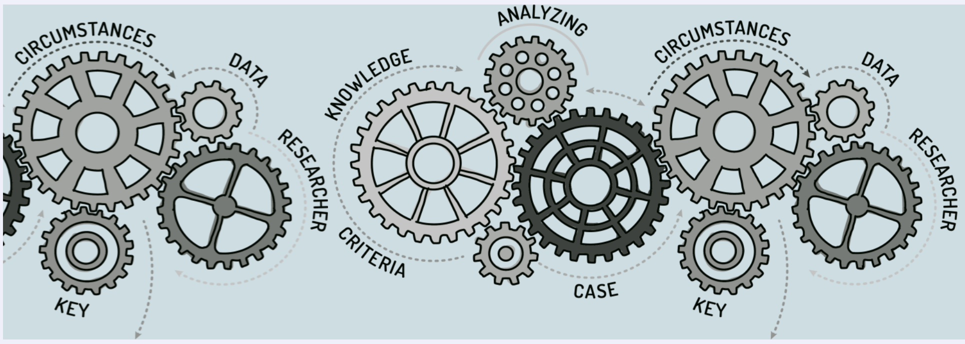
(i) *Information access* and *associability* among kin in the family negatively affect the firm's ***potential absorptive capacity*** (acquisition and assimilation of new knowledge) as the firm relies more on internal knowledge and fewer external resources are acquired. However, both these factors positively affect the firm's ***realized absorptive capacity*** (transformation and exploitation capability) as more knowledge in the family and collective goals and action lead to enhanced innovation outcomes.

(ii) Greater involvement of non-family member in the firm positively affects the relationship between *information access/ associability* and ***potential absorptive capacity*** because the non-family member brings in new knowledge and engages in external knowledge acquisition, leading to enhanced innovation.

Practical Implications

Family firms would do well if they proactively engage in acquiring and assimilating new knowledge from means that do not threaten familiness, like discussion boards, trade association publications, and trusted advisors. Family firms must be open to hiring non-family managers and actively involve them in acquiring and assimilating new knowledge from external sources. This is likely to enhance the family firm's innovation outcome.

Source: *Journal of Family Business Strategy, (2018), 1-11, DOI: 10.1016/j.jfbs.2018.11.003.*



CASE SUMMARY

Touchdown Footwear on a Slippery Slope

- Navneet Bhatnagar and Kavil Ramachandran

Vivek Pai, Director at Touchdown Footwear (TFL), was in a difficult spot by 2016. The company, which started manufacturing non-leather footwear in 1965, had been clocking low profitability since 2014 and facing a working capital crunch. Though net sales were going up and the market was growing, there was stiff competition in the highly fragmented industry. Additionally, the increase in the price of natural rubber, availability of cheap Chinese products in India further affected the pricing and cost-effectiveness which had hurt the company's bottom line.

TFL was started in the 1960s by Vivek's grandfather Giri Pai (and his three sons) in Mangalore, Karnataka when natural rubber was readily available in South India. In the next three decades, the company expanded marketing operations in other parts of India and built two other manufacturing units in Bangalore and Pune. The company's revenue had a dramatic increase from 1995 till 2008. The company had traditionally been owned and managed by the family, i.e., the founder and his sons, who led all operations of the firm. Subsequently, the second generation of brothers and cousins entered the business and managed different functions with overlapping responsibilities in finance/ marketing/ production divisions. However, every family member had different leadership and management styles. There was no central leadership or hierarchy in the organizational structure.

Due to archaic sales forecasting mechanisms and inventory management, and lack of communication and coordination across marketing, design and production units – the company often faced challenges with obsolete inventory and lost sales. This led to frequent infighting and blame game.

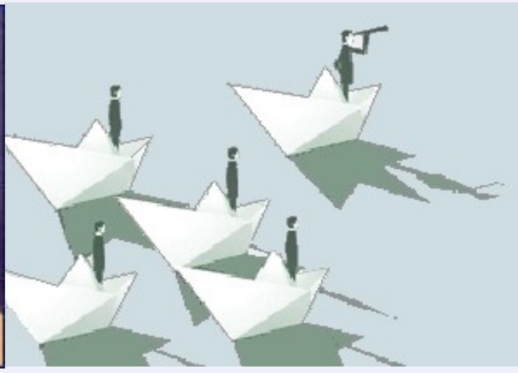
On the family front, the generations were loosely held together by family values and mutual affection. There was no formal mechanism for family governance. Joining the family business was considered a birthright of family members. There was no defined entry or retirement policy. Family members were paid salaries in proportion to their share-holding. Advised by expert consultants, the family had tried to infuse professionalism and streamline processes in both the business and family. Those efforts had not been successful in bringing a change. In this backdrop, Vivek had the challenge to turn around the course of TFL and to develop the capabilities, structure, and systems to sustain the family business!

Learnings for Family Businesses

The case aims at showcasing the challenges faced by family businesses when there is a lack of strategy, communication, governance structure, and professionalism. Key learnings:

- Define the organizational structure (centralized or lean or matrix) depending on the stage of the business for better flow of information, coordination, & communication.
- Adopt high-quality merit-based and capability-based systems, processes, and policy to build the resources' attitude, skills and knowledge.
- The transition towards a professionally run business keeping the essence of family culture and values.

Source: *Touchdown Footwear on Slippery Slope (2018), Case Authors: Navneet Bhatnagar and Kavil Ramachandran*

FAMILY BUSINESS LEADER

Walchand Hirachand Doshi

(1882-1953)

Walchand Hirachand Doshi was born in Sholapur, Maharashtra, on November 23, 1882 in a Gujarati Jain family from Wankaner in to Seth Hirachand Nemchand Doshi and his first wife Raju. He matriculated in 1899 from Solapur Government High School and earned a Bachelor of Arts degree from St. Xaviers College.

In 1900 he married Jiu Kilachand, daughter of a Solapur banker. His wife died in childbirth, while giving birth to his daughter, Chatur. Later in 1913, under family pressure, he married to Kastur Mehta. He had no surviving children from his second marriage.

Walchand had a brief stint in his father's business in cotton trading and money lending but he wasn't interested in it and later became a railway contractor for constructions.

He built tunnels through the Bhor Ghats for a railway route from Mumbai to Pune and lay water pipes from Tansa lake to Mumbai. In 1919, he bought from the Scindias of Gwalior, the ship SS Loyalty. The ship made its maiden international voyage on April 5 the same year, from Mumbai to London. The day is now celebrated as National Maritime Day.

He started Hindustan Aircraft (now Hindustan Aeronautics) in Bangalore and Hindustan Shipyard at Visakhapatnam in 1940 and Premier Automobiles in Mumbai in 1945.

Known for flexibility and innovative spirit, he was never afraid to take up challenges. His entrepreneurship in shipping, aviation and automobiles earned him the title 'Father of transportation in India'.

Walchand was the founder of many trade associations and charitable trusts. He was honored by the Government of India in 2004 by issuing a postage stamp. A road in Mumbai, a road in Solapur, a hall at Indian Merchants' Chamber house at Mumbai and an industrial township near Pune are named after him, in his honor.

Walchand industries, a nuclear equipment and defence equipment manufacturing company, and other group companies are now run by descendants of his brothers Gulabchand, Lalchand and Ratanchand, as Walchand himself did not have a son.

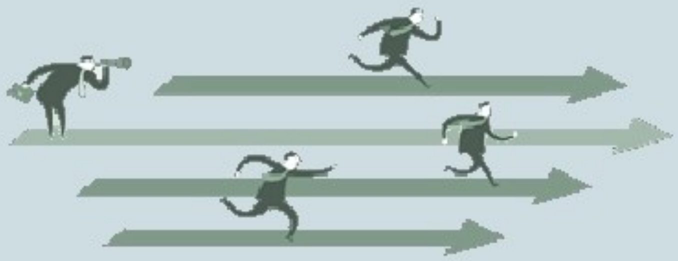
"*The patriotic industrialist whose life was a triumph of persistence over adversity*"- Sardar Vallabhabhai Patel, India's first Home Minister.

Sources: *https://en.wikipedia.org/wiki/Walchand_Hirachand*

https://www.walchand.com/about-us/company-profile/founder/

https://www.indiatoday.in/magazine/news-makers/story/20170925-seth-walchand-hirachand-father-of-transportation-in-india-entrepreneur-1044634-2017-09-16

http://www.hccindia.com/mission.php?id=21



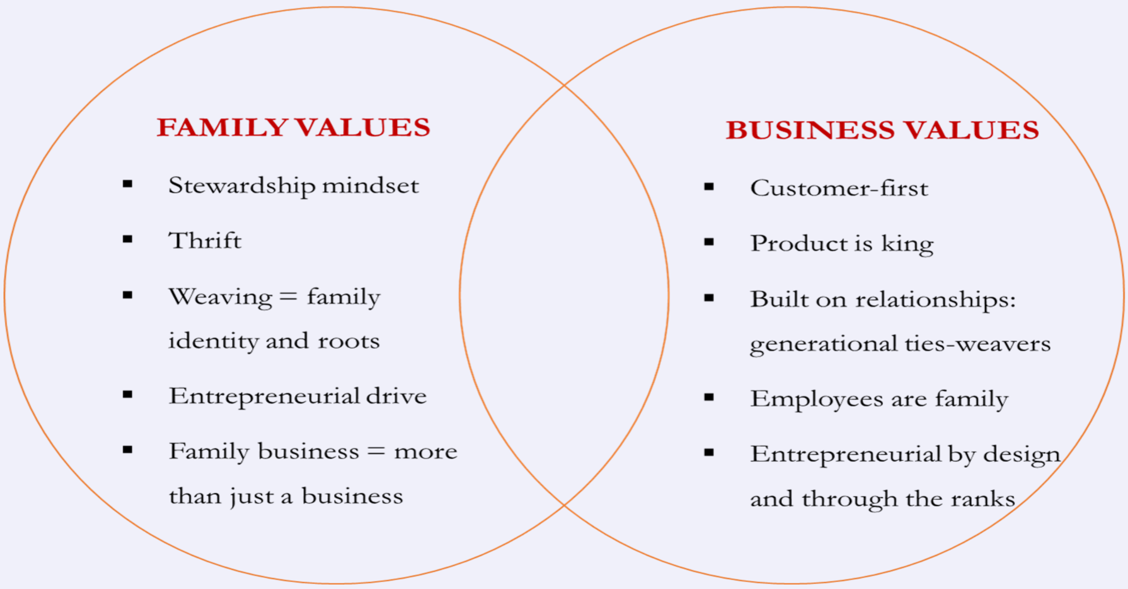
BENCHMARKING

LEARN

FROM THE BEST

Lavanya Nalli, the fifth generation scion and Vice-Chairman of the 90 years old Nalli Group of Companies is a MBA from Harvard Business School and had brief stints at consulting firm McKinsey in Chicago, USA and the fashion portal Myntra.com back at home. Lavanya works with three generations of family members and integrates her learnings from within the family, business and from the external world to take the group to the next level of growth and scale, while being in tune with the values and ethos of the group.

Core values = Family + Business values



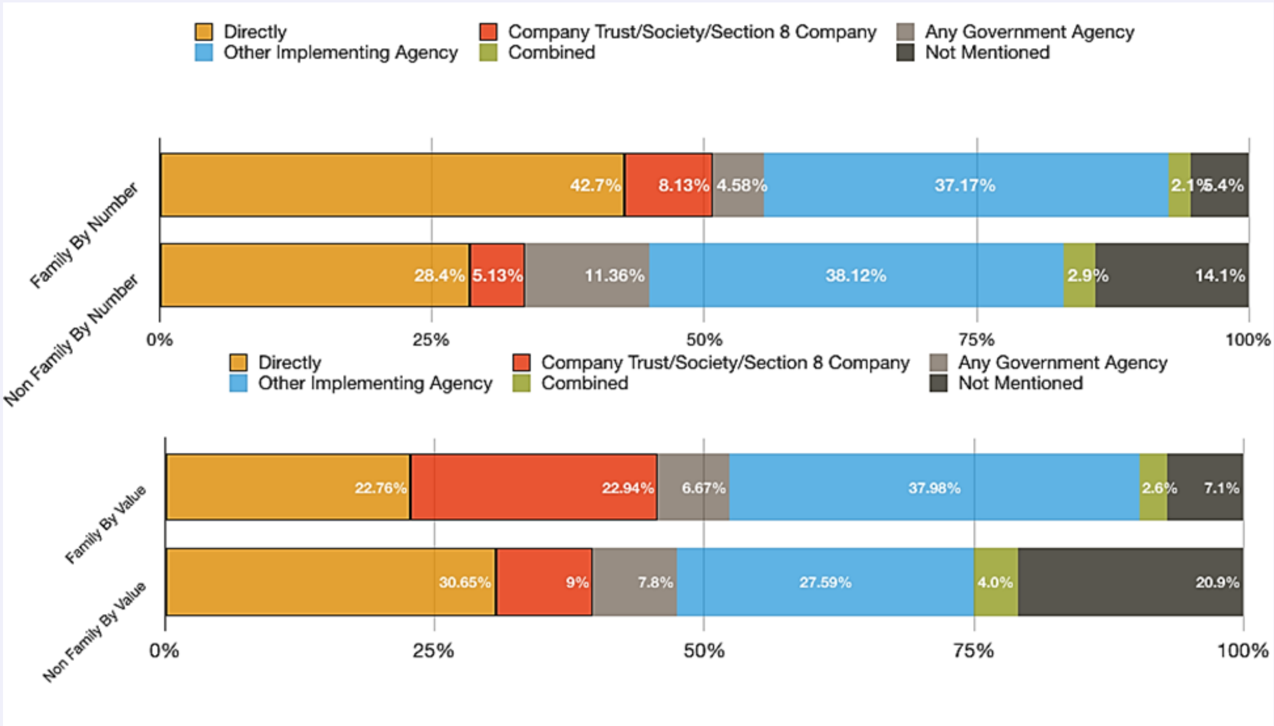
Strong emphasis on the family and business values like employees first, ethics, expanding through retained earnings and operational excellence have taken the group to Rs700 Crore in revenues. It is the only national and international sari brand with 38 stores and has high repeat customers. They do limited marketing but the word of mouth is very positive for them. Learnings at Harvard, McKinsey and Myntra has helped her become more analytical, planned and hypothesis driven. However, she remains committed to the core values of the group.

Source: Nalli, Lavanya., Modernizing a 90-year old iconic brand: Learnings from the Nalli Silks Journey, presentation at the 7th Asian Invitational Conference on Family Business, Indian School of Business, February 2-3, 2019

DO YOU KNOW?

The Government of India passed a prescriptive law under the Companies Act of 2013 making CSR mandatory for certain class of companies from the financial year (FY) 2014-15. It required the companies to spend at least 2% of the average net profit towards CSR activities.

A study done by the Thomas Schmidheiny Centre for Family Enterprise found that Family firms prefer direct modes of implementation to spend the CSR money, i.e. through the CSR department of the company or through the foundations established by the companies as compared to non-family firms.



Prior research has shown that in the Indian context, company owned foundations are typically not known for practicing arms-length philanthropy as compared to the Western foundations such as Bill and Melinda Gates Foundation, Ford Foundation and Rockefeller Foundation which are run by professional managers at the helm. The promoters in India exert significant influence over the foundation maintaining control of funds and the projects undertaken. This leads to principal-principal agency cost, especially in the case of concentrated ownerships.

However, Charitable entities registered under Section 80(G) and Section 35AC of the Income Tax Act, which provide 50% and 100% tax rebate respectively can be expected to have, to some degree, influenced the implementation modes adopted by the firms in our sample. In fact, contributing CSR funds to the corpus of companies' own foundation provided these tax benefits, contingent on their foundations being registered under Section 80(G) and the company, subsequently, choosing to avail the tax benefit.

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.

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