ISB | Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

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Welcome!

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

- *Summaries of research articles with practical implications on **CEO-Pay and Performance, Values and Entrepreneurial Growth,** and **Stewardship in Non-family Employees***
- *Summary of a family business case on **Dabur India Limited***
- *Inspirations from the life of **Aditya Vikram Birla***
- *Interesting insights on **Pledging of Shares***
- *Infographic on **Countries with Mandatory Quota for Women on Corporate Boards***

We hope that you will find these interesting and inspiring.

***8th Asian Invitational Conference on Family Business:** We received many requests from family business community members in favour of an in-person conference. With the decline in Covid-19 infection cases in India and the ongoing vaccination, the scenario looks positive. Therefore, we have decided to defer the conference by a few months. We believe that an in-person conference will be possible in the last quarter of this year. We will inform you soon about the revised conference dates. We look forward to your participation in this event!*

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,
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ARTICLE SUMMARY

Does Nepotism Run in the Family? CEO Pay and Pay-Performance Sensitivity in Indian Family Firms

- Guoli Chen, Raveendra Chittoor and Balagopal Vissa

CEO compensation is a widely examined topic among business researchers. However, most of the extant research on the subject is in the context of developed markets. Especially, the compensation of a family CEO in emerging economy context remains under-examined. In this study, authors contrast the relationship between CEO pay and firm performance for family CEO versus non-family CEO. The authors use a sample of 277 publicly listed family firms in India and examine the CEO pay and firm performance data during 2004-2013. This summary succinctly presents the study, its findings and their implications for family businesses.

Family CEO in Emerging Economies

In developed economies such as the USA, family CEOs are likely to have lower pay than professional CEOs. The family CEOs have greater non-monetary benefits such as, socio-emotional wealth which reduces the need for monetary benefits. However, in emerging economies, due to institutional voids and power imbalances, the compensation is favourable to the controlling family. As the family members take powerful executive positions, it gets easier for them to negotiate the compensation in order to maximize the overall family wealth. Hence, the authors propose that in emerging economy family firms, family CEOs receive higher pay compared to non-family professional CEOs.

Firm Performance and Compensation

The power imbalance between family and non-family CEO is also demonstrated in differential standards of rewarding firm performance. The firm performance is sometimes linked with CEO competence and at other times with chance. The family CEOs and non-family professional CEOs are evaluated using different yard sticks. This results in the disparity between compensations of a family CEO and a non-family CEO for the same level of firm performance. This is known as pay-performance sensitivity. The authors hypothesize when firm performance is higher, the family CEOs receive higher pay compared to that received by non-family CEO. Hence, in the emerging economy context, family CEOs have higher performance sensitivity compared to the non-family CEOs of other high performing firms. The authors also suggest that this pattern is stronger in better performing firms, if the company name overlaps with family name.

Findings

The empirical data analysis confirmed the hypotheses. The results differed from extant research mostly done in developed economies with mature financial markets.

Practical Implications

The study has key implications for family firms:

- Insights from the study help family firms design better corporate governance practices in order to attract capable non-family CEOs.
- Understanding that disparities may exist in CEO compensation helps family businesses design more balanced CEO compensation packages.
- This article also helps family business leaders to mitigate tunnelling of resources and establish fair governance practices.

Source: *Strategic Management Journal, (2020), pp. 1-26, DOI: doi.org/smj.3263.*

System-Spanning Values Work and Entrepreneurial Growth in Family Firms

- Johanna Raitis, Innan Sasaki and Josip Kotlar

Family culture and values are important drivers for sustaining entrepreneurship. However, overtime, the conflicts of values arise and they inhibit entrepreneurial efforts. This article attempts to probe how family businesses can reconcile the conflicting values and sustain entrepreneurship for the long-term. In this research, the authors conduct a longitudinal case study spanning across 45 years of Ponsse plc, a Finland-based large global family firm. This summary briefly describes the study and its key implications.

Evolution Stages in a Family Firm

The authors identify three stages, which long-lasting multi-generational family firms go through in their evolutionary journey. **1:*Start-up and establishment*:** It is the early entrepreneurial stage of family firm's development. **2: *International expansion and professionalization:*** In this stage the family firms move from founder-led to professionally managed business, and **3: *Maturity*:** This stage depicts the transition of business leader-ship from the founder to the next generation.

Culture and Values: Rooting, Revitalizing and Spreading

Family firm values originate from family, business, local community and industry. Over time, old values get transformed and new values are adopted. Conflicting values of family and business can lead to tensions. These 'value tensions' emerge at each stage of the family business. The authors suggest a ***'system spanning values work'*** framework to address these tensions. In **stage 1**, the business value of the founder (*being best in the business*) clashes with the value of *humbleness*. When the leader installs a new business value in the family system it creates the 'family business system' and this process is termed as '***Rooting***'. This leads to envisioning of the future and infusion of ambition.

In **stage 2**, the conventional family value of equality is challenged by the introduction of hierarchical leadership by a non-family CEO. During this phase, if the family value (equality) is embraced while rejecting an external business value (hierarchical leadership), this value work is labelled as '***Revitalizing***'. This leads to preservation of family values and entrepreneurial expansion.

In **stage 3**, the younger generation embraces individualism which is in contrast to the family value of hard work. During this phase, family values are espoused into artefactual form to prevent the drift of family values and undesired values such as individualism are unwelcomed. Collectively, these activities are called '***Spreading***'. This enables transgenerational entrepreneurship while retaining the legacy.

Practical Implications

- Values and culture form the core of family entrepreneurship and need careful nurturing.
- Understanding tensions between values can help family business leaders prevent cultural breakdowns in organizations.
- By rooting, revitalizing, and spreading values, family businesses can achieve transgenerational entrepreneurship and long-term sustenance.

Source: *Journal of Management Studies, (2020), DOI:10.1111/joms.12653, pp. 1–26.*

What Makes Nonfamily Employees Act as Good Stewards? Emotions and the Moderating Roles of Stewardship Culture and Gender Roles in Family Firms

- Kai C. Bormann, Sabrina Backs and Christina Hoon

Scholars have established that the extent of stewardship culture differs across family firms. However, the contrast in stewardship practices of their family and non-family employees is not well understood. Especially, the role of emotions and gender in shaping stewardship behavior of non-family employees remains unexplored. In this paper, two studies were conducted in Germany to understand the stewardship behaviour. First study surveyed 564 family and non-family employees. The second study surveyed 136 non-family employees of family firms. This summary presents the study and its implications.

Stewardship Culture and Practices in Family versus Non-family firms

A firm with high stewardship culture enables its employees to attain their potential through care, loyalty and collectivist behaviour. In contrast, a firm with low stewardship culture leads to individualistic behaviours. At the individual level, '*Organizational Citizenship Behaviour*' (OCB) includes stewardship behaviours such as, helping colleagues that are outside the formal hierarchy. Family firms, have high stewardship culture because of the presence of the owner family. The dominant family values present in family firms also drive the OCB at individual level. Hence, the authors hypothesize that the relationship between stewardship culture and OCB is stronger in family firms than non-family firms.

Affect-driven Stewardship Behaviour

Stewardship behaviours of non-family employees are entangled with emotions. Family firms also provide breeding ground for emotional reactions. The authors focus on two feeling states: ***1. Daily Positive Affect***: It refers to positive feelings such as enthusiasm, activeness and alertness, and ***2. Daily Negative Affect***: It relates to nervousness, being upset and distressed. Since, stewardship behaviours arise from individual and collective context, stewardship culture affects the daily affect and OCB behaviours of employees.

Male and Female Stewardship Behaviours

Men in general are more likely to let positive and negative feelings effect their work related behaviours such as OCB. Whereas, women may try to avoid affective reactions in high stewardship environments in order to protect collectivism. Hence, the authors hypothesize that stewardship culture makes OCB of male employees driven more by the daily affect. On the other hand, stewardship culture makes OCB of female employees less driven by affect.

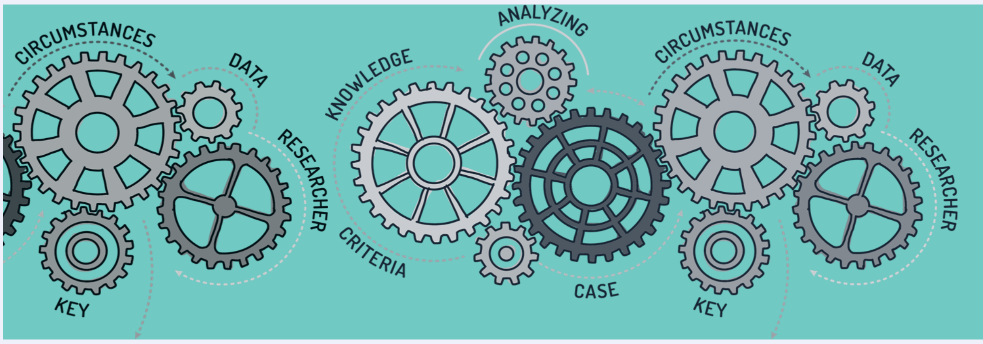
Statistical data analysis confirmed the authors' hypotheses.

Practical Implications

The study has key implications for family firms:

- Nurturing stewardship culture in family business is likely to improve organizational citizenship behaviours among non-family employees.
- Better understanding of positive and negative emotions at workplace will help family business leaders in promoting stewardship practices among their employees.
- Understanding of the relationship between gender and OCB can help family businesses diversify workforce and craft practices to improve affective commitment of employees.

Source: *Family Business Review, (2020). pp. 1 -19, DOI: https: 10.1177/0894486520968826*



CASE SUMMARY

136 Years and Counting: Dabur India Reinventing Itself

Dabur India Limited is one of the leading FMCG companies in India. It was established by Dr. S K Burman at Kolkata in 1884. Dabur began as a small pharmaceutical company with a mission to provide high-quality, traditional Indian medicines at affordable prices. Now, the healthcare division of Dabur has over 260 products to treat various ailments ranging from common cold to chronic paralysis. Dabur is currently managed by 5th generation Burmans.

Dabur established its first production unit at Garhia in 1896. It was one of the few Indian companies to start its own R&D unit in 1919. Dabur specialized in nature-based ayurvedic medicines. Innovation has been the key to its success. Over the years, Dabur launched various non-prescription products for health and wellness. These included, vitalizers, digestives, and herbal tooth powder. During political unrest and uncertainty in Kolkata in 1969, Dabur expanded its operations to Delhi. It had significant growth from 1970 to 1990.

In 1993, AC Burman (great grandson of the founder, SK Burman) decided to take Dabur public as the company needed additional funds to expand its production and R&D. However, the Burman family continued to manage the business operations. For four generations, every male family member had worked for the company and family leaders made up the executive suite. As the company grew and prospered, in 1998, the Burman family handed over the management of business operations to outside professionals. By 2000, Dabur was the market leader with annual revenue of over Rs. 1000 crores. In 2001, Dabur set up sterile cytotoxic facility and made a debut in the highly specialized area of cancer therapy. Dabur was also the first ayurvedic products company to get ISO 9002 certification.

Since 2002, the Burmans organized several family meetings to deliberate on strengthening their governance practices. Transitions were proposed in three areas. 1. ***Family:*** Members realized the need for regular family meetings and improving communication. A family council was formed and constitution was developed. 2. ***Board:*** High-quality, independent members were invited to join the board. As part of this process, board members' performance was evaluated on the *strategic guidance provided*, *monitoring management performance* and *ensuring adherence to corporate governance norms*. 3. ***Management:*** Family members decided not to hold executive positions.

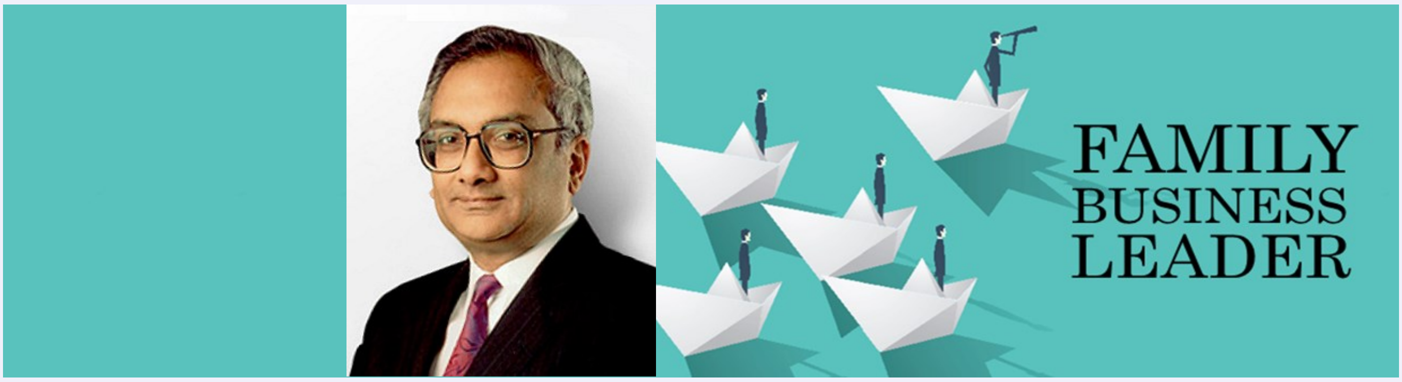
In 2019, Dabur won ICSI national award for excellence in corporate governance. The same year, Amit Burman (the 5th generation leader) became the company chairman. Equipped with MBA from Cambridge University and degree in industrial engineering, Amit is spearheading many growth initiatives at Dabur, which includes diversification of product range in non-Ayurveda segment and expansion of the herbal product range. As it expands, the major challenge for Dabur is to remain focused on its core strength of Ayurveda and maintain its high quality leadership and governance.

Learnings for Family Businesses

- Family firms must establish clear norms of governance for business and family, while adhering to their core values.
- As family businesses grow over generations, they must adapt and evolve with the times.
- Guided by robust governance practices, family businesses must keep exploring organic and inorganic growth opportunities.

Sources: *https://economictimes.indiatimes.com/dabur -india-ltd/infocompanyhistory/companyid-1796.cms*

www.campdenfb.com/article/dabur-india-ltd



Aditya Vikram Birla
(1943 – 1995)

Aditya Vikram Birla was an Indian industrialist born in 1943 in Calcutta to industrialist Basant Kumar and Sarala Birla. He earned a degree in Chemical Engineering at the Massachusetts Institute of Technology after finishing his graduation from St. Xavier's College, Calcutta. He was married to Rajashree and had a daughter Vasavadatta and son Kumar Mangalam Birla.

At the age of 24, he dared to dream of setting up a global business empire. Born in the illustrious Birla family, he did not want to rely on the laurels of his father and grandfather and wanted to create something on his own. In 1965, Aditya Vikram Birla started off with textiles business and his Eastern Spinning Mills became a success.

From 1969 onwards, Aditya Vikram Birla set out to put Indian business on the global stage, 22 years before economic liberalization was formally introduced. He set up 19 overseas companies and put together the building blocks to make Indian business a global force.

His companies earned the respect and admiration of the people, as one of India's finest business houses, and the first India-based international Group. He helped create enormous wealth for the nation, and respect for Indian entrepreneurship in South East Asia.

He became the Chairman of the Birla Group of Companies after the death of his grand-father, Ghanshyam Das Birla, in 1983. Under his stewardship, the group became the world's largest producer of viscose staple fibre, the largest refiner of palm oil, the third-largest producer of insulators and the sixth-largest producer of carbon black.

The more the group grew, the more it gave him a humble sense of happiness. He lived by his values and nurtured the business to be a caring and respectable corporate citizen. He occupied many positions in public life including the Director on the Board of Reserve Bank of India and the Honorary Counsel General of Philippines.

He was a pilot and was known for his interest in badminton. Birla was very caring, balanced and calm human being. He believed that the success of a business was not just in terms of net profit, but also in the difference the organisation made, and how much happiness it created beyond the frontiers of business.

In 1993, he was diagnosed with prostate cancer. Despite getting the best medical treatment, he died on October 1, 1995. At the time of his untimely demise the group revenues had crossed Rs.8,000 crore globally, with assets of over Rs.9,000 crore, comprising 55 benchmark quality plants, an employee strength of 75,000 and a shareholder community of 6,00,000.

Birla won numerous accolades in recognition of his contribution to the industry, to the nation's economy and to society at large. As a unique recognition, a commemorative stamp was released honoring him as India's first global industrialist.

"Shri Birla was a visionary industrialist. He had understood before most others the necessity of taking Indian companies abroad. In India too, his businesses were run with great professionalism. His life is an example that all Indian businessmen can learn from" — Late A. B. Vajpayee, former Prime Minister of India.

"Our g*roup's global character, is rooted in my father's entrepreneurial drive*", Mr. Kumar Mangalam Birla, Chairman of the Aditya Vikram Birla Group of Companies.

Source:

https://www.adityabirla.com/about-us/heritage1

https://web.archive.org/web/20160304194106/ http://www.indiapost.gov.in/PDF/Stamps2013/14-01-2013.pdf

BENCHMARKING
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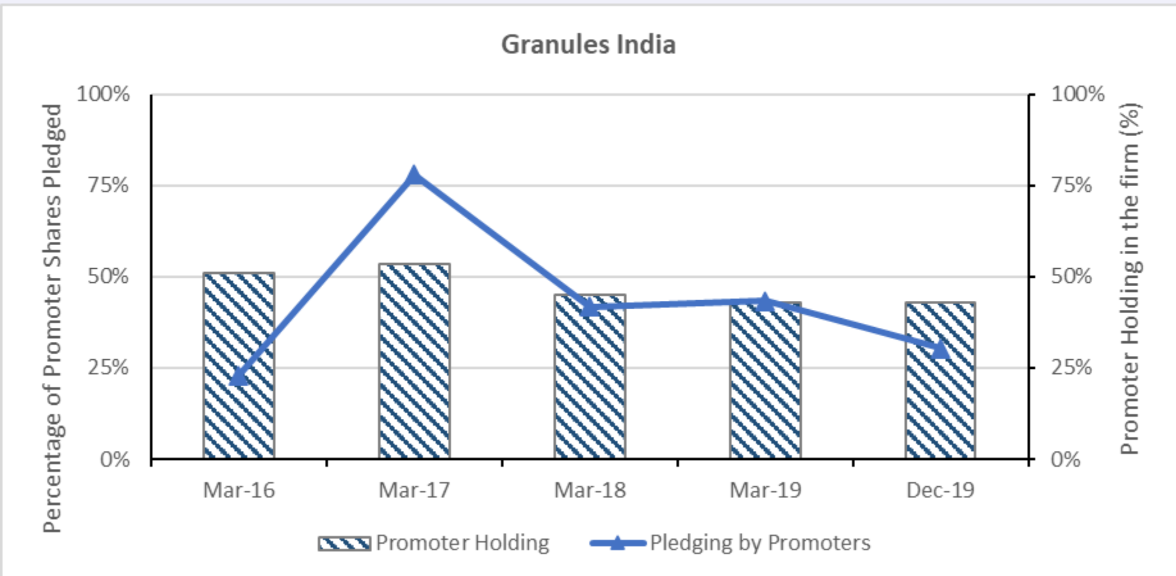
Pledging of shares by promoters is generally seen in a negative light by the markets and investors in a firm. However, pledging of shares can be used by a company to raise capital to fund their strategic initiatives. Granules India is one such example. It is a pharmaceutical firm that manufactures a number of off-patent drugs. It presents itself as a case where promoters of the firm pledged shares to ensure a continuum of growth. The firm decided to invest $84 million in H1 2017 for an increase in capacity and improvement of R&D facilities across both India and the United States.

Despite the concerns around pledging of shares, the Granules India stock continued to be treated optimistically by the market, owing to its strong growth in revenues, positive cash-flows, performance in the US market, and a diversified product mix. However, as per the earnings call transcripts in Q3 FY19, the promoters of the company acknowledged that there were concerns in the market regarding the pledged shares. They committed to making the company pledge free in the next two years. As can be inferred from the figure below, the percentage of shares that were pledged by the promoters, gradually came down. To reduce the size of the promoter pledge, the promoters monetized some of their personal assets and sold a small part of their shareholding in the firm.

Given that the promoter (and the firm) is wary of the threat of loss of control over the firm if the share prices start going down and the promoter is not able to meet the margin calls from the lender, the promoter must prepare a contingency plan to answer margin calls in the case of a stock price decline. A disciplined approach to pledging, as was the case with Granules India, can result in a positive long-term impact on the firm.

Promoter holdings and Pledging by promoters of Granules India (2017 – 19)



Source: Chart made using data from CMIE Prowess by the team of TSCFE

DO YOU KNOW?

Countries with Mandatory Quota for Women on Corporate Boards

Country	Quota	Type of Firm	Compliance Period/Year	Remarks
Finland	50%	SOEs	2016-2019	Many countries started with imposing quotas on the SOEs only, while nudging the other listed companies to have a plan to improve diversity.
Israel	50%	SOEs	2011	
Brazil	40%	SOEs	-	
Austria	35%	SOEs	2018	
Kenya	33%	SOEs	2010	
Greece	33%	SOEs	2000	
Taiwan	33%	SOEs	-	
Colombia	30%	SOEs	2000	
Germany	50%	Listed Companies, SOEs	2018	These countries impose sanctions for non-compliance. Sanctions range from comply or explain to financial penalties to name and shame and unfavourable treatment when applying for government contracts to warnings.
Norway- First country in the world to mandate a quota by law	40%	Listed Companies, SOEs	2006 for SOEs; 2008 for other listed companies	
France	40%	Listed companies, certain large companies, SOEs	2017	
Belgium	33%	Listed Companies, SOEs	2012- SOEs; 2017- large companies; 2019- smaller companies	
Portugal	33%	Listed Companies, SOEs	2020	
Italy	33%	Listed Companies	2011	
Austria	30%	Listed Companies & firms with > 1,000 employees	2018	
Germany	30% non-executive board	105 listed companies	2015	
Hong Kong	Diversity Policy	Listed Companies	2018	
UAE	1 WoB	Listed Companies, SOEs	2012	
Israel	1 WoB	Listed Companies	2011	
Iceland	40%	Any company with more than 50 employees	2010-2013	
Canada-Quebec	50%	SOEs	2011	Few countries do not have a national quota. But certain States or Provinces have made their own laws and policies.
USA-California	1 WoB	Public Companies	2019	
India	1 WoB	Listed Companies (include many listed SOEs)	2014 - 2020	Continuous qualitative improvements to the law.

Notes: *SOE= State Owned Enterprises; WoB= Woman on Board; Diversity Policy= There is no National Quota but the listed companies are required to have a diversity policy in place aimed at achieving greater gender parity and disclose it to the exchange/regulator on a comply-or-explain basis..* ***Sources:*** *1) Data-driven change Women in the boardroom A global perspective, 6th edition, Deloitte; https://www2.deloitte.com/global/en/pages/risk/articles/women-in-the-boardroom-global-perspective.html 2) The CS Gender 3000 in 2019: The changing face of companies, Credit Suisse, Oct 2019; https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/cs-gender-3000-report-2019-201910.html 3) Terjesen, S., Aguilera, R. V. & Lorenz, R. (2015), Legislating a Woman's Seat on the Board: Institutional Factors Driving Gender Quotas for Boards of Directors, Journal of Business Ethics, 128, 233–251 4) Government and stock exchange websites of countries.*

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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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