ISB | Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

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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 newsletter has the following sections:*

- *Summaries of research articles on **Family Business Succession, Performance and 'Tradition-Innovation' Paradox***
- *Summary of a published family business case on **Sudarshan Chemical Industries***
- *Inspirations from the life of **B.K. Birla***
- *Interesting insights on **Characteristics of Long-lasting Companies***
- *Infographic on **Family Business Challenges***

We hope that you will find these interesting.

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

Unearthing and Alleviating Emotions in Family Business Successions

- Alexandra Bertschi-Michel, Nadine Kammerlander, and Vanessa M. Strike

Emotions play a crucial role in family businesses, especially in times of change, like leadership succession. However, despite their integral role, there is little understanding of how emotions are managed during the succession process and how they affect the succession outcome. In this study the authors track an advisor's interactions with five Swiss family firm succession cases for four years. Based on interviews, observations, and archival data the authors analyse the emotions that emerge during the succession process. They examine the role an advisor plays in untangling these emotions and facilitating succession. This summary succinctly presents the study, its findings and implications for family business.

Family Firm Succession: Emotional Challenges and Role Adjustment

Family firm succession is an important but challenging and complex process. The incumbent's resistance to let-go, uncertainty about the firm's future, and interpersonal conflicts among those involved in the process make succession susceptible to intense emotional reactions. These emotions may be expressed verbally or nonverbally and may differ in intensity. Succession process also requires mutual role adjustments. While the incumbent has to let-go and adopt a passive role, the successor has to adopt the active role of the new leader. However, in several cases this role adjustment itself induces negative emotions of uneasiness, fear, and strain, which need to be addressed.

The Role of Advisors During Succession

External advisors facilitate the change processes required during family business succession. They provide objective, expert knowledge with suggestions on tactics and behavioral changes that family firm leaders need to adopt. Through mentoring they help in reducing interpersonal differences between the incumbent and the successor. They improve the sensemaking process among family firm members and infuse critical rethinking with new, outside perspectives. This enables members involved in the succession process to arrive at a more detached judgment of the situation.

The data analyses revealed that advisors undertake four activities during the succession process: *initializing, planning, implementing* and *coaching*. At each stage they **untangle** the incumbent's and successor's negative feelings of anger, fear and sadness. Through active intervention they **alleviate** the members' emotions to feelings of comfort, happiness, hopefulness, and joy. This enhances the incumbent's and successor's satisfaction with the succession process.

Practical Implications

- Family businesses must look for external assistance to manage succession process.
- Advisors help broaden the perspectives, bring objectivity and improve sensemaking.
- Advisors unearth negative emotions and help the leaders to alleviate themselves to positive emotions, which improves their satisfaction with the succession process and its outcome.

Source: *Entrepreneurship Theory and Practice, (2019), DOI: 10.1177/1042258719834016, pp. 1-28.*

ARTICLE SUMMARY

A Typology of Family Firms: An Investigation of Entrepreneurial Orientation and Performance

- Laura J. Stanley, Remedios Hernández-Linares, María Concepción López-Fernández, and Franz W. Kellermanns

Family firm literature acknowledges heterogeneity among family firms on various counts. One contrasting view in literature is that between the entrepreneurial/ innovative firms and conservative firms that are reluctant to change. Another ambiguous link is between entrepreneurial orientation and firm performance. Based on a survey of 684 Spanish and Portuguese family firms, this study attempts to address both these issues. The authors present a typology based on variations in family influence and firm life cycle. Inter-firm differences on these counts result in distinct entrepreneurial orientation and firm performance. This summary briefly describes the study and its implications.

Family Influence and Firm Life Cycle

High degree of firm ownership is associated with the pursuit of family-centered non-economic goals like preservation of socio-emotional wealth. In addition, the presence of a family CEO is a strong indicator of the family's desire to actively shape the firm. Thus, **family ownership** and the presence of a **family CEO** are two significant determinants of family influence on the firm.

As a family firm progresses in its life cycle its governance mechanism and structure evolves. For instance, establishing a **board of directors** is a key developmental milestone for a family firm. Another change that occurs through the life cycle is the change in **firm size**. Size influences a firm's operational scale, administrative complexity, monitoring systems and investments needs. Firm life cycle progression also leads to generational change in management. Succession between the first and later **generations** represents a key milestone in family firms. Thus, these five variables capture the extent of family influence on the firm across its life cycle.

Family Firm Archetypes, Entrepreneurial Orientation and Firm Performance

Based on variations in the extent of family influence and firm life cycle stage, the authors classify family firms into four categories: ***Type 1: Developing Non-family firm*** - low family influence, early stage firm that favours development into a non-family firm, ***Type 2: Waning or Tempered family firm*** - low family influence, later stage firm with diminishing family control, ***Type 3: Young Family Firms*** - high family influence, early stage firm driven by family preferences, ***Type 4: Dynasty*** - high family influence, later stage firms with mature organizational structures.

The authors found that firms with high level of family ownership and a board of directors exhibited highest levels of entrepreneurship orientation (measured using an 18-item scale) and performance (an 8-item scale measure).

Practical Implications

High level of family ownership generates firm-specific entrepreneurial advantages. Further, robust agency controls and an effective board of directors, contribute to improved firm performance. Therefore family firms would benefit by establishing an effective board of directors and professionalizing their governance mechanisms.

Source: *Family Business Review, (2019), Vol. 32, No. 2, pp. 174–194.*

ARTICLE SUMMARY

Managing the Tradition and Innovation Paradox in Family Firms: A Family Imprinting Perspective

- Irmak Erdogan, Emanuela Rondi, and Alfredo De Massis

Tradition is a set of transmitted beliefs and practices, that shapes the identity and activities of a family business and is critical for its sustenance. Tradition may also become a hindrance to change. However, to remain competitive family firms need to change and innovate. Innovation requires breaking old routines and developing new competencies. Therefore, there is an inherent paradox between preserving tradition and innovation. However, existing knowledge about this phenomenon is inadequate. In this study the authors examine eight Turkish family firms and employ family imprinting perspective to find how family firms manage this paradox. This summary presents the key findings and implications of the study.

Tradition and Innovation in Family Firms

In family firms, tradition is transmitted from one generation to the next through imprinting: for instance, by storytelling or through rituals or by physical objects that embody values or symbolize their identity. Family firm members value preservation of tradition to pass on the legacy to later generations. However, tradition may hamper change and interfere with the firm's innovation. Though innovation inputs and outputs have been studied extensively, the activities family firms undertake to innovate and the influence of past generations have not been adequately examined.

The Tradition — Innovation Paradox

Co-existence of family goals, values and tradition along with commercial aspirations of the business create tensions in family firms. These tensions give rise to the *'tradition-innovation paradox,'* which paralyses decision -making. While the family firm aims at keeping its tradition intact, it also aims at making changes to innovate to remain competitive. Managing this paradox is a challenge.

Strategies to Manage the Paradox

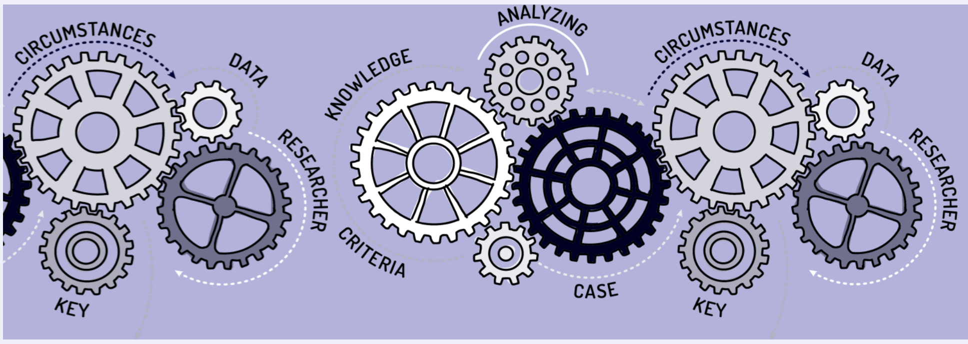
In their approach to innovation the current generation is driven by the imprints made by previous generations. Family firms either aim to **preserve** tradition by memorizing founders, and sustaining values, beliefs and customs, or to **revive** it by tracing and recovering old practices. Similarly, the firms' approaches to innovation may be to ***segregate****:* i.e., preserving iconic products, innovating others, or to ***integrate****:* i.e., innovating the iconic products while retaining their essence.

Juxtaposing these dimensions, the authors identify four strategies to manage the *'tradition -innovation paradox'*: ***1. Protecting Heritage:*** preserving traditional products, while innovating others, ***2. Maintaining Essence:*** preserving key essence while innovating iconic products, ***3. Restoring Legacy:*** reviving tradition as the iconic offering is innovated, and ***4. Embracing Nostalgia:*** reviving tradition and innovating other offerings.

Practical Implications

Family firms must understand the role of family imprinting in managing their 'tradition-innovation paradox.' Family businesses can simultaneously aim to retain tradition while innovating for growth and success. For this, family firms must adopt one of the strategic options presented in this paper. Adopting an appropriate strategy will help it concurrently achieve innovation and retain tradition.

Source: *Entrepreneurship Theory and Practice,(2019),*
DOI: 10.1177/1042258719839712, pp. 1-35.



CASE SUMMARY

Professionalization of Sudarshan Chemical Industries

- Alexander Mathew, Navneet Bhatnagar and Kavil Ramachandran

Sudarshan Chemicals, a leading pigment producer in India with global operations, was comfortably positioned to become one of the top four pigment producers in the world by 2011. A multi-generational family-owned and managed firm, Sudarshan was managed professionally. The founder, Dr. R.J. Rathi, had studied and trained in the United States as a chemical engineer before he started Sudarshan Chemicals in 1951 along with his elder brother. After the initial struggle in developing and marketing the product, the firm was able to taste success by 1958. The company expanded its product offerings, setup new marketing and manufacturing units across the country and expanded operations internationally. By the 1990s, multiple family members with advanced degrees in business management or chemical engineering had joined the business and played key role in the growth of the firm.

Pradeep Rathi, the current vice-chairman and managing director, took over the leadership position in 2003. Sudarshan had established clearly defined policies and governance mechanisms for the family, business and wealth management. Family members' entry, compensation and career progression in the firm was merit-based. The company had a board of directors that comprised both family and non-family professionals. Sudarshan had hired and empowered non-family professional talent to grow the firm. The company had technology-enabled systems and processes to improve productivity and efficiency.

However, the group's sales and profits were stagnating in 2003. Pradeep hired an external consultant and adopted his advice to implement several new initiatives. These measures included – redefine the mission and vision, expand the company's international footprint, increase the family's ownership stake, restructure the firm for better coordination between the divisions, and adopt performance-based compensation structure. The next-generation was encouraged to start entrepreneurial ventures in areas of company's core capabilities. The succession planning was strengthened, and the retirement age was fixed at 65. A family council was formed with a well-defined family constitution.

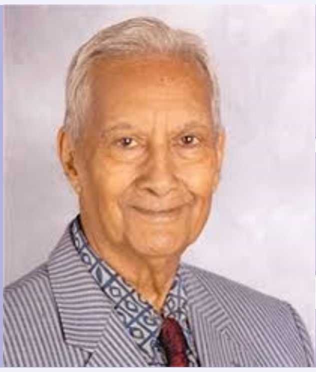
As Pradeep reviewed the impact of all the professionalization initiatives implemented since 2003, he found several areas of improvement – quality of family relationship and governance, clarity on the role of women in business, role of the family members after retirement, non-family members as leaders, and productivity and efficiency.

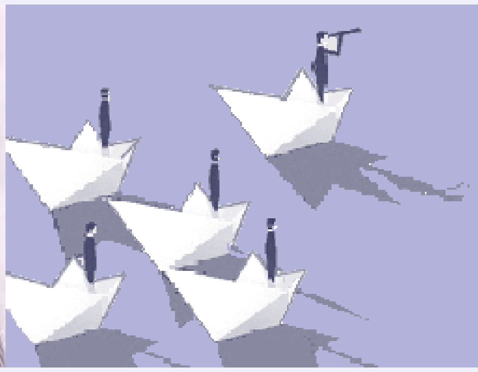
Learnings for Family Businesses

The case showcases the long-term benefits of highly professionalized firms and describes the continuous improvement process for sustained success. Family businesses must:

- Adopt and implement professionalization across all functions, personnel (family/ non-family) and systems (family/ business)
- Identify areas of continuous improvement, take stock and implement or refine the processes as the family and firm grows
- Balance the transition towards a professionally run business while retaining the essence of family culture and values.

Source: *Professionalization of Sudarshan Chemical Industries (2015), Ivey Publishing. Case Authors: Alexander Mathew, Navneet Bhatnagar and Kavil Ramachandran*





FAMILY BUSINESS LEADER

Basant Kumar Birla

(1921-2019)

Born in a Maheshwari Marwari family in Calcutta in 1921, Basant Kumar Birla was the youngest son of businessman, politician and philanthropist Ghanshyam Das Birla and Mahadevi Birla.

At a young age of 13, Basant was told to earn his own pocket money. Thus began his initiation into the world of stock exchanges and two years later, into the world of business. He went to Presidency college, Calcutta, in the morning and learnt about business nitty-gritties in the evening at Kesoram Cotton Mills.

He could not finish college as the college of life beckoned him in the garb of overseas travel with his elder brother. Basant further got trained at Kesoram Cotton Mills like any other staff.

Basant married Sarala Biyani, daughter of a prominent Congress leader who was also close to Mahatma Gandhi, in 1941. Basant and Sarala were married for 74 years when Sarala passed away in 2015. They had three children, Jayashree, Manjushree and Aditya.

Basant and Sarala's only son, Aditya, took the Birla companies under him, Hindalco and Gwalior Rayon and other companies that he established himself to great heights with global footprints. In 1993, Aditya was diagnosed with cancer. He succumbed to the disease in 1995.

While Basant was grieving and trying to come to terms with this loss, he hand held and prepared Kumar Mangalam, Aditya's son, to eventually take over the empire created by Aditya.

In his over eight decades long association with the business world, Basant established many businesses, educational institutions and charitable trusts. The notable amongst them are Century Textiles, Century Enka, Jayshree Tea and Industries, Krishnarpan Charity Trust, and BK Birla Institute of Engineering and Technology.

He focused on industries such as cotton, viscose, polyester and nylon yarns, refractory, paper, shipping, tyre-cord, transparent paper, spun pipe, cement, tea, coffee, cardamom, chemicals, plywood and MDF Board.

Basant planned his succession meticulously and divided his assets amongst his daughters, grandson and other family members. He left behind a ~INR150 bn empire.

He was a patron of music, literature and arts. He had a formidable collection of paintings, could play the violin, authored books and was an avid photographer. He believed in austerity and was a spiritual and religious person.

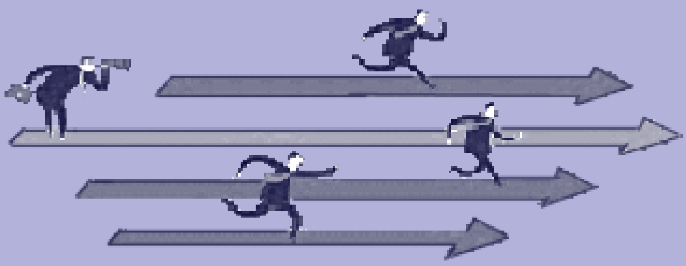
He was a patron to nearly 25 educational trusts and institutes, including the premier engineering college- BITS Pilani.

Source: *https://www.financialexpress.com/industry/meet-bk-birla-the-patriarch-of-birla-group-who-joined-business-at-15/1627441/*

Sehgal, R. "Basant Kumar & Sarala Birla– Life has no full stops", Amaryllis, New Delhi, 2011

https://www.livemint.com/companies/people/bk-birla-an-austere-genius-who-enriched-many-lives-1562176393875.html

https://indianexpress.com/article/who-is/basant-kumar-birla-passes-away-at-98-5813217/



BENCHMARKING

LEARN

FROM THE BEST

Prasad Kumar is a leading Family Business advisor. Speaking from his over four and a half decades of experience in advising businesses and families, Prasad stressed upon the importance of family values in perpetuating the family business, at the 7th Asian invitational conference organized by the Thomas Schmidheiny Centre for Family Enterprise in February 2019. He went on to state the characteristics of long-lasting family businesses.

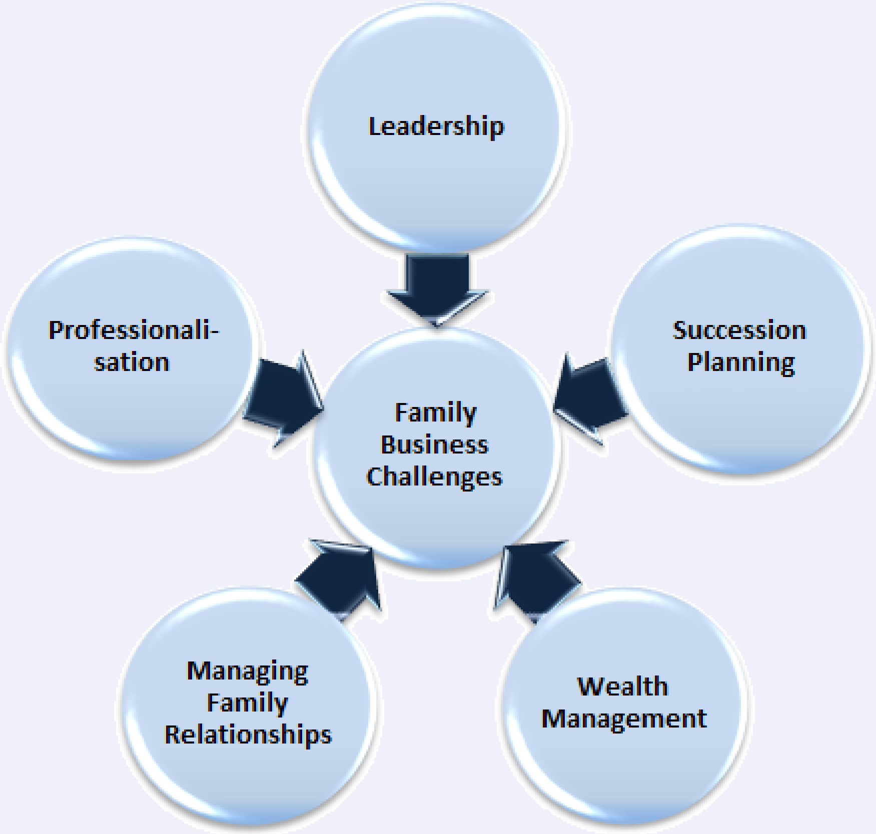
Key characteristics of long-lasting companies

1. Leadership: Progressive principle based and value based leadership provides for and is essential for the longevity of companies and families.
2. Culture – strong sense of identity and persona
3. Entrepreneurial diversification and portfolio renewal
4. Joint Ventures – effective international partnerships
5. Succession and entrepreneurial pipeline of family talent
6. Conservative Financing and frugality
7. Prudent Capital and resource allocation
8. People are a competitive advantage – not pair of hands
9. Continual Improvement and Innovation
10. Contribute substantially to social and national development
11. Cutting edge capability – technology, business models, people
12. Credibility – deep stakeholder partnerships and mutual respect
13. Mobility – key personnel are located in global financial centres
14. Legacy – take pains to embody their legacy
15. In Family Business -“value education and acculturation of children in the family values and traditions, before the age of 12, including storytelling and role modeling“
16. Media – stay below the radar : no profiling, no ego, no press
17. Family Governance- family charters, family councils, process for managing differences, external advisory board / independent directors
18. Family Business -Intergenerational cohesion and continuity

Source: *Prasad Kumar, Family Business, Perpetuating Family Business, Presentation at the Seventh Asian Invitational Conference on Family Business, Indian School of Business, February 2-3, 2019.*

DO YOU KNOW?

Five key areas where family firms face unique challenges are Leadership, Succession Planning, Family Wealth Management, Managing Family Relationships and Professionalisation; this holds true regardless of the firm size, age, geographic location or the family generation that heads them. Indian family firms are in transition mode. While Leadership earlier was autocratic, now it is gradually becoming participative. Succession planning was something almost unheard of among family firms just



about a decade ago. However, many firms have begun to document their succession plans with clear role and responsibilities defined for family members joining the businesses. Wealth management in Indian family businesses largely remains the domain of the family. Many families have begun to take help of professional wealth managers, though a lot of scope for improvement remains in this area. Family business owners have realized the importance of harmonious relationships among family members for achieving business success and are making tangible efforts, like establishing communications forum, to achieve cordial relations among members. The progression towards professionalization is an emerging trend. The shift is gradual but is clearly happening. Business management and Ownership are also being clearly recognized as being two different phenomenon.

These transitions bodes well for India and is a reflection of a nation that is changing for better. The future of Indian family businesses certainly appears to be promising.

Source: *Ramachandran, K. & Bhatnagar, N. "Challenges faced by family businesses in India", Thomas Schmidheiny Centre for Family Enterprise, Indian School of Business, April, 2012*

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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