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 **Opportunity Exploitation, Local Embeddedness of Family Firms,** and **Performance Effects of Family Business Leaders' Metaphors***
- *Summary of a family business case on **Thermax***
- *Inspirations from the life of **Dr. Govindappa Venkataswamy***
- *Interesting insights on **Governance Initiatives of Kuttukaran Group***
- *Infographic on the **Evolution of Indian Standalone v/s Group Family Firms in Post-Liberalisation Era***

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

Entrepreneurial by Design: How Organizational Design Affects Family and Non-family Firms' Opportunity Exploitation

- Alfredo De Massis, Kimberly A. Eddleston, and Paola Rovelli

Opportunity exploitation is central to the entrepreneurship process and family firm sustenance through multiple generations. Though opportunity recognition by family firms is extensively studied, opportunity exploitation is not sufficiently examined. Using survey data from 224 Italian firms, this study probes whether family firms differ from non-family firms in exploiting opportunities and whether this process is affected by the organization design of the top management team (TMT). This summary succinctly presents the study, its findings and implications for family firms.

Family Firms, Opportunity Exploitation and Top Management Team

Exploiting a business opportunity requires willingness to act and risk taking. However, since outcomes are uncertain and family firms want to conserve family wealth, they are risk averse. Hence the authors argue that family firms exploit less business opportunities compared to non-family firms.

Organisational design captures the structural configuration of leadership and governance in a firm. Firms are considered to be a reflection of their TMT. The CEO selects, organizes and leads the TMT. Therefore, the CEO's management style determines the TMT structure. A family firm CEO aims for family control over the business, and is likely to bank on strong personal relationships and informal governance mechanisms.

Therefore, the authors argue that a family firm is likely to adopt a CEO-centric TMT design, unlike the participative TMT design of non-family firms.

TMT Organization and Opportunity Exploitation

TMT is the top strategic decision-making body in a firm. The organisational configuration a TMT adopts, determines the opportunity exploitation decisions and their implementation. A CEO-centric TMT limits the involvement of other members in decision-making, while a participative TMT is likely to explore growth options, evaluate various alternatives and have more informed decision-making.

Therefore, the authors argue that firms with a participative TMT will exploit more opportunities compared to the firms with CEO-centric TMT configuration. Thus, TMT configuration is the organizational design mechanism that explains why family firms exploit fewer growth opportunities compared to their non-family peers.

The statistical data analysis supported all the hypotheses proposed by the authors.

Practical Implications

The study has significant implications for family business:

- Family firms must avoid over-centralization of decision-making and improve internal communication and coordination for exploiting new growth opportunities.
- Family firms must promote the use of formalization and incentives to successfully exploit new business opportunities.
- Family firms need to organize integrated or incentive-based top management teams for effective opportunity exploitation.

Source: *Journal of Management Studies (2020), DOI: 10.1111/joms.12568.*

ARTICLE SUMMARY

Roots to Grow: Family Firms and Local Embeddedness in Rural and Urban Contexts

- Massimo Bau, Francesco Chirico, Daniel Pittino, Mikaela Backman, and Johan Klaesso

The embeddedness — or the deep-rooted connection, of a business within a geographic region is known to influence new venture creation, innovation, and firm growth. However, the link between family firms and their regional economic context has not been examined in detail. In this research, using ten-year observations (i.e., 2004-2013) from a database of over 40,000 Swedish companies, the authors study how local embeddedness affects business growth of family versus non-family firms in rural and urban contexts.

Family Firms, Local Embeddedness and Business Growth

Social relationships, characterized by reciprocity and trust among members, are integral to a family firm and contribute to its unique competitive advantage. Extending beyond the firm, their individual members form similar relationships and commitments with the local community. They disseminate the values and norms of the family firm in local social networks and exchange knowledge and resources with them for mutual benefit.

Compared to their non-family peers, family firms are likely to gain more from local embeddedness because they obtain both the economic and non-economic utilities from these exchanges. For instance, the pursuit of higher business growth not only provides financial gains but also non-financial benefits such as, enhanced family reputation in the society, which contributes to the firm's long-term sustenance in the local community.

Local Embeddedness in Urban Versus Rural Contexts

Compared to large, densely populated urban areas, firm growth is usually lower in rural areas due to fewer economic opportunities, resource constraints and weak infrastructure. Hence, for business growth, firms in rural areas are more dependent on knowledge and resources accessible locally through family and friends. Local human capital, knowledge of the region and its resources, strong social anchoring and trust-based relationships with the community are likely to provide a distinct competitive edge to family firms in rural areas.

Key Findings

Statistical analysis revealed that family firms achieve higher business growth compared to non-family firms. As local embeddedness increases, family firms' business growth increases at a higher rate compared to that of non-family firms. The effect of local embeddedness on business growth is highest among family firms that operate in rural areas.

Practical Implications

The study has the following implications:

- Family firms need to build competitive advantage based on their strength of localized knowledge and resources.
- Family firms can achieve higher business growth when they effectively leverage their personalized, trust-based relationships and strong connect with local community.
- Rural area family firms can improve their business growth prospects by strengthening their linkages with local stakeholders and contributing to local economic development.

Source: *Entrepreneurship Theory and Practice (2019), Vol. 43, No. 2, pp. 360–385.*

ARTICLE SUMMARY

Family Business Leaders’ Metaphors and Firm Performance: Exploring the “Roots” and “Shoots” of Symbolic Meanings

- Alessandra Tognazzo and Donald O. Neubaum

Family business research has not adequately examined how family members with varying interpretations of reality, jointly lead their family firm. In this study, the authors conducted 19 interviews in six family-owned hotels in Italy to examine the link between the family leaders' views of their business and firm performance. This summary briefly describes the study, its key findings and implications.

Root Metaphors and Family Archetypes

In a family business, the leader’s cognition and the family's vision defines the firm. This study used root metaphors to assess how family leaders viewed their firm. Root metaphors are symbolic frames that can help us understand the attitudes and behaviours of individuals. These can be visuals, spoken and written words or gestures.

The authors suggest that based on root metaphors, the symbolic pillars of family business are four family primary archetypes:

1. Matris Munus: It is the maternal/ feminine behaviour personified by mother nature. It represents sacrifice, taking care and warmth. For instance, a leader described his hotel as “*a nest…..ready to welcome people....*”

2. Patris Munus: It is the paternal/ masculine function that keeps a family together. Rules, control and rationality are the main elements of Patris Munus. For instance, a leader said that the hotel is “*not a house….we need processes that are consequential and efficient.”*

3. Non–Matris Munus: It is the refusal or excess of maternal archetype. It includes the denial of importance of relationships and warmth. For instance, one of the leaders considered warmth and relational aspects as *“superfluous.”*

4. Non–Patris Munus: The refusal or excess of the paternal dimension leads to the rejection of law, processes, hierarchy and rationality. Its excess could result in rigidity. For instance a family leader considered “*family legacy as a brake for change.*”

Key Findings

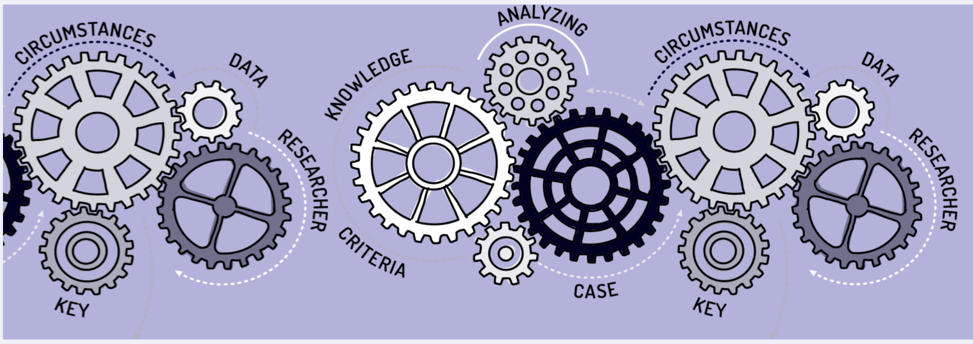
Relationships and ***Innovation*** were used to link root metaphors with firm performance. Four types of family firms emerged. ***1. Matris Anarchy***: these firms had humanized relationships, sentiment-based innovation but low performance, ***2. Patris Bureaucracy***: these firms had planned and controlled relationships and innovation, performed best but were viewed as cold, ***3. Symbiotic System***: in these firms, relationships were enmeshed, innovation was impaired, and performance was the lowest, and ***4. Human Life System***: in these firms relationships were humanized and controlled and innovation was planned and sentimental. These firms registered high performance.

Practical Implications

The study has significant practical implications for family businesses:

- It is crucial for family firms to understand the internal image of the firm which goes far beyond their organisation structure.
- Understanding of family archetypes and analysing them in the context of their firm will help family business leaders identify their firms’ strengths and weaknesses.
- Leaders must explore making a feminine shift and adopt new mechanisms to provide more inclusive meanings to their family business.

Source: *Family Business Review, (2020), pp. 1–22. DOI: 10.1177/0894486520910874.*



CASE SUMMARY

Thermax: Integration of Environmental Sustainability Vision into Corporate Strategy

- Kavil Ramachandran and Yashodhara Basuthakur

Thermax, an energy and environment engineering business was started by A. S. Bhathena, a first generation entrepreneur. The firm was setup in erstwhile, Bombay and later moved to Pune. It manufactured boilers for the hospital industry during 1960s. Environmental sustainability and corporate citizenship were always at the core of Thermax. Bhathena was passionate about social work, equality and community giving. Later, his son-in-law Rohinton Aga joined the firm and cemented the idea of long-term environmental sustainability in the company's vision and strategy.

Addressing the urgent need to reduce carbon footprint and greenhouse emissions, Thermax entered into sustainable forms of energy generation using biomass/waste heat. It was a pioneer in developing "Multitherm" boiler, which used alternate sources of energy (solid fuels/ biomass). Thermax brought high-end technology to India through international collaborations. It introduced environment-friendly technologies such as, the vapour absorption chillers (free of harmful chlorofluoro-carbons) and air pollution control equipment (even before the Air Pollution Control Act came).

After Aga's demise, his wife Anu took up the leadership at Thermax. She continued the focus on sustainability in areas such as, waste water treatment, energy conservation and reduction of greenhouse emissions. Anu professionalized the family business and separated its management and ownership. While the management was handed over to highly capable executives, the family continued to be on the board. The family remained active in keeping alive the culture of sustainability, innovation and entrepreneurship in the firm.

Anu actively took up philanthropy and created the Thermax Foundation to provide education to underprivileged children. She started many initiatives to foster a culture of openness, skill-building and equal opportunities.

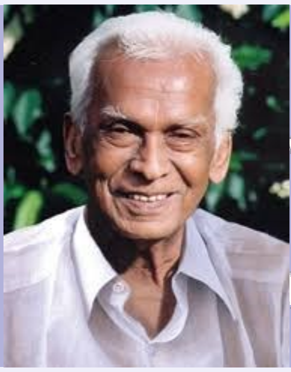
Meher Pudumjee (Anu's daughter), the third generation member now leads Thermax as its non-executive Chairperson. Pheroz Pudumjee, her husband, also serves on the board. They are committed to continuing the proactive environmental sustainability legacy. The company collaborates with the government and other premier institutes in India to pursue green energy initiatives. Thermax has setup plants across the globe. It continues to exceed the stringent regulatory standards of the West, for its products and designs. Thermax, a pioneer in promoting environmental sustainability in India, continues to influence the energy industry to adopt green practices.

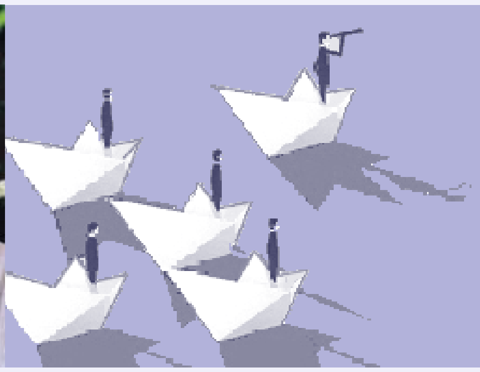
Learnings for Family Businesses

The key takeaways from the case are:

- Adopting proactive environmental sustainability practices to build long-term patient capital is an invaluable capability that can help family businesses gain sustained competitive advantage. For this, family businesses must integrate sustainability objectives into their vision and strategy.
- Family businesses need to collaborate with various stakeholders to attain economic and non-economic goals and work towards becoming a responsible corporate citizen.
- Family businesses need to inculcate values among next-generation members for long-lasting environmental sustainability efforts.

Source: *Ramachandran, K. and Basuthakur, Y. 2020. "The Evolution of a Sustainable Energy Family Business; The Case of Thermax." In Sharma, P. & Sharma, S. Pioneering Sustainable Family Firms' Patient Capital Strategies. Edward Edward Elgar Publishing Inc., Northampton, MA. (forthcoming).*





FAMILY BUSINESS LEADER

DR. GOVINDAPPA VENKATASWAMY (DR. V) (1918 - 2006)

Born into a farming family to Govindappa Naicker and Lakshmi, in Vadamalapuram, Tamil Nadu, Dr. V was the eldest of the five siblings. As a young boy, Dr. V lost three cousins due to pregnancy-related complications and lack of doctors in the village. These incidents disturbed him and that is when he began to dream about becoming a doctor to make a difference. In 1944 he received his medical degree from Stanley Medical College in Madras. He served as a physician in the Indian army but was discharged in 1948 due to rheumatoid arthritis.

This did not prevent the young Dr. V, a follower of the teachings of Mahatma Gandhi, Swami Vivekananda and Sri Aurobindo, to pursue an MS in ophthalmology and dedicate his life to eliminate blindness. Despite a crippling condition that left his fingers twisted and out of shape, he performed over 100,000 successful eye surgeries during his lifetime.

In 1956, he was appointed as the head of Department of Opthamology, at Madurai Medical College and eye surgeon at the Government Erskine Hospital in Madurai. While in service, Dr. V took up the responsibility of heading an initiative of increasing eye care services for villages with the concept of mobile eye camps, started by Tamil Nadu Government in 1960. He was instrumental in introducing a number of innovative programmes to deal with the problem of blindness in India and creation of an ophthalmic assistants training programme.

With the support of Sir John Wilson, founder of the Royal Commonwealth Society for the Blind, Dr. V started India's first residential nutrition rehabilitation Centre in Madurai. They also persuaded the then Prime Minister, Indira Gandhi to launch India's National Programme for Control of Blindness, the first nation-wide programme for blindness prevention in the world.

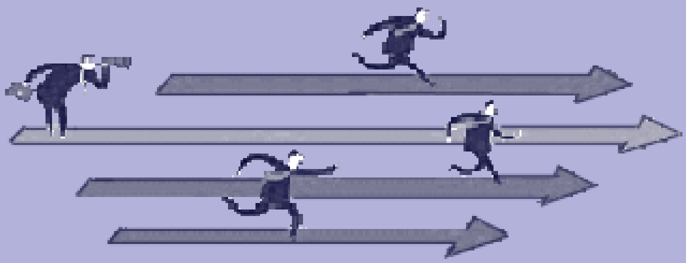
In 1976, upon his retirement at the age of 58, Dr. V founded the Aravind Eye Hospital along with his siblings and their spouses. This 11-bed hospital aimed *"To eliminate needless blindness by providing high quality and compassionate eye care affordable for all."* Today, over 30 members across three generations of Dr. V's family work at Aravind. It has an integrated eye care system: a postgraduate institute, a management training and consulting institute, an ophthalmic manufacturing unit, a research institute and eye banks. 50% of its patients receive services either free of cost or at a steeply subsidized rate, yet Aravind remains financially self sustainable. Since its inception, Aravind has handled more than 56 million outpatient visits and performed more than 6 million surgeries.

His vision lives on through the daily works of hundreds of eye hospitals around the world which he influenced through training, friendship and encouragement. His tireless vision, inspiring leadership, selflessness and humility, shaped the Aravind Eye Care System into all that it is today. He is best known for developing a high quality, high volume, low-cost service delivery model that has restored sight to millions of people.

Dr. V was the recipient of several awards including the Padmashree in 1973, the Helen Keller International Award, and the first International Blindness Prevention Award of the American Academy of Ophthalmology.

Sources:

- *https://aravind.org/our-founder/*
- *https://aravind.org/our-story/*
- *https://en.wikipedia.org/wiki/Govindappa_Venkataswamy*
- *Mehta, P.K. and Shenoy, S (2012), "Infinite Vision", Collins Business, New Delhi.*



BENCHMARKING
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FROM THE BEST

Kuttukaran Group is a Kerala-based family business group that operates several automobile dealerships and trading businesses. These firms are majorly owned by the Kuttukaran family and managed by its second and third generation members. The founder of the group was the legendary entrepreneur, K.P. Paul. Starting from a humble background, he rose to become one of the most successful business tycoons in the country. The group celebrated its 80th anniversary in 2019. Popular Vehicles and Services Limited is the flagship company of the group. Most of the group's revenue comes from the automobile sector.

John, Francis and Naveen Philip (son of Leela Philip, the daughter of K.P. Paul), formed the prime pillars of the business and were the major shareholders in 2019. In order to mitigate the differences in generational outlooks, manage unexpected successions, adapt to gender and societal changes, facilitate retirement planning and foster entrepreneurship, the family signed and adopted the Family Constitution in 2015. This led to the formation of various governance systems such as the Family Business Board, Family Council, Limited Liability Partnership, a Family Trust and Family Fund. Inspired by the entrepreneurial founder, the second generation aims to take the legacy forward by enhancing governance at the group to the next level.

	People	Purpose
Family Council	Francis. K. Paul, John. K. Paul, Naveen Phillip, their spouses, linear decedents/ adopted children after they complete 18 years of age and spouses of lineal decedents.	To develop family bonding among family members and to create business awareness and effective communication amongst them.
Family Business Board	Either 3 or 4 individuals who are board members in any family business entities. Two individuals from out of the family who are experienced in business, and interested in the welfare of the Kuttukaran family. The power to select family members to the Family Business Board shall be vested with the Family council.	The Family Business Board shall be a decision-making body in all business-related matters and an advisory body in all family-related matters.
Limited Liability Partnership	The partners of the LLP may include a corporate body and such members of the Kuttukaran family as nominated by the family council in a manner that represents each branch of the Kuttukaran family.	The purpose of LLP is to hold all the business entities operated and managed under the control of Kuttukaran family from time to time.
Family Trust	The families of Francis, John, and Naveen shall have one trustee each to take part in the management of the trust. Also, there will be two eminent persons from out of the family as trustees to ensure that the trust takes all its decisions in the best interests of the family.	Family Trust by the name "Kuttukaran Family Trust" shall take care of the funding of family activities, family welfare measures as well as philanthropic activities undertaken by the family.
Family Office		The Family Office shall undertake the administration affairs of Family Business Board and Family Council.
Family Fund		The Family fund held in Kuttukaran Family Trust shall provide funds required for the activities of the Family Business Board and the Family Council. It may also include within itself, or through any entity held by it, a seed fund, to meet the funding requirements of new business ventures undertaken by any family member.

Source: *"Managing Change at the Kuttukaran Group" (Bang, N.P., Mantravadi, B. & Ramachandran, K), Case Work in Progress.*

DO YOU KNOW?

In an industry-wise analysis done by the Thomas Schmidheiny Centre for Family Enterprise, we found that there was a significant increase in the number of Indian family firms that were incorporated post the 1991 economic reforms (as was the expectation post the implementation of the government's liberal policies).

Majority of the companies listed around this time were in the services sector and were standalone family firms (SFFs). The SFFs saw a larger percentage change in the movement from manufacturing to services when compared to the Family Business Group Firms (FBGFs) (see the following table).

Family Firms Evolution (FBGFs vs SFFs) – 1991 to 2018

	Total Assets			Market Capitalization			Net Sales		
	1991	**2018**	**CAGR**	**1991**	**2018**	**CAGR**	**1991**	**2018**	**CAGR**
FBGFs									
Manufacturing	529,446 **(72%)**	25,752,001 **(48%)**	**15%**	294,315 **(83%)**	34,148,302 **(55%)**	**19%**	437,933 **(74%)**	15,611,812 **(72%)**	**14%**
Services	202,502 **(28%)**	27,818,288 **(52%)**	**20%**	59,316 **(17%)**	27,580,859 **(45%)**	**26%**	151,398 **(26%)**	6,033,829 **(28%)**	**15%**
Total	731,948	53,570,289		353,632	61,729,161		589,331	21,645,641	
Services (excluding banking & financial services)	128,173	14,798,839	**19%**	32,303	18,786,098	**27%**	93,123	6,019,966	**17%**
SFFs									
Manufacturing	41,348 **(73%)**	4,143,463 **(40%)**	**19%**	10,847 **(72%)**	5,070,013 **(47%)**	**26%**	48,005 **(76%)**	3,430,092 **(67%)**	**17%**
Services	15,246 **(27%)**	6,324,064 **(60%)**	**25%**	4,134 **(28%)**	5,612,633 **(53%)**	**31%**	14,858 **(24%)**	1,726,291 **(33%)**	**19%**
Total	56,594	10,467,527		14,980	10,682,646		62,863	5,156,382	
Services (excluding banking & financial services)	10,772	2,659,178	**23%**	2,511	4,444,623	**32%**	10,199	1,721,702	**21%**

**All figures are in INR Million*

However, while SFFs have grown faster than FBGFs in terms of cumulative average growth rates (CAGR), they still trail the FBGFs in terms of the sheer size of assets and market capitalization in both services and manufacturing. FBGFs have clear advantages of size and scale.

We repeated the analysis without firms from the banking and financial services sector, but our results did not change. The dominance of FBGFs across services remains. FBGFs have clearly re-invented themselves as time has passed to establish their dominance in newer sectors and industries.

Source: *Bang, N.P., Bhatia, N., Ray, S. & Ramachandran, K. "Family Businesses and India's Transition to a Services-Led Economy (1991 – 2018), Thomas Schmidheiny Centre for Family Enterprise, March 2020.*

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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