Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

Issue 47 / April 2018

Welcome!

*I am pleased to share with you the latest issue of our newsletter, which is now renamed as the '**Family Business Briefs**' with enriched contents. Each issue of the Family Business Briefs will have the following sections:*

- *Summaries of research articles with practical implications*
- *Summary of a published family business case with learnings*
- *Inspirations from the life of a prominent family business leader*
- *Infographic on an interesting family business/ phenomenon*
- *Interesting insights from experiences of other family businesses / research study*

For the ease of readers, the newsletter will now be in a single, continuous PDF document format. We hope that this format will be user friendly, especially for the readers using mobile devices.

We hope that you will find the new avatar of our newsletter more informative and enriching.

I encourage you to send your feedback and share suggestions about something interesting and relevant, which you may want us to include in future.

Best regards

Ram

Kavil Ramachandran, PhD
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Learning Stewardship in Family Firms: For Family, by Family, Across the Life Cycle

-Isabelle Le Breton-Miller and Danny Miller

Stewardship is a key characteristic of long-lasting family businesses. Stewards go beyond self-interest and view business as an entity that serves a social purpose. The desire to pass on a healthy business and its reputation to their heirs, drives family business members to be good stewards. Developing stewardship capabilities involves a long learning process, which begins very early in life. In this article, the authors describe the learning experiences that help family business members develop stewardship attitudes and capabilities.

Learning Stewardship in Family

Stewardship learning begins early at home, in family gatherings and in school. Moral values, ethical behaviour, and personal discipline are the fundamental building blocks of stewardship. These are learnt at an early age in the **home and** in **the school**.

Extended family gatherings (like annual summer camps for grandchildren) help the young family members gain interpersonal knowledge and build social and emotional connections among family members. They learn to work together in harmony and to sacrifice for each other - which are key stewardship behaviours. They also learn the family's values, significance of preserving the family's honour and relations with family members, during these early formative years.

During the teen years they begin to learn about the business. This happens through family/ **family council meetings**. They get to know about the business projects and progress. They may also learn through formal education and/or through apprenticeships in an external business organisation.

Learning Stewardship in Business

Stewardship training of a younger family member also continues during later years of his/ her life. This mainly happens in the business setting. Young members may learn about the ownership responsibility as an apprentice on a board committee. The learning continues when the young members become managers in the family business. Another key learning young members get in business is the ability to reflect and gain insight. Managerial roles also train them in the craft of management and stewardship behaviours like, building and preserving business relationships, social capital, and corporate culture.

Practical Implications

Business families can follow the learning roadmap that the authors suggest in building stewardship attitudes and capabilities among young family members. Inculcating values in young family members during their early years and continuous learning in later years will develop stewards in the next generation.

Source: *Academy of Management Learning and Education, (2015), Vol. 14, No. 3, pp. 386-399.*

The CEO Autonomy–Stewardship Behavior Relationship in Family Firms: The Mediating Role of Psychological Ownership

-Bart Henssen, Wim Voordeckers, Frank Lambrechts, and Matti Koiranen

Stewardship theory argues that steward leaders are collectivist, pro-organizational individuals whose main objective is the well-being of the organisation and that of its members. As family businesses have members who are related by kinship, share deep emotional connect, mutual trust and strong identification with the firm, they are more likely to act as stewards. However, the authors posit that stewardship behaviour in a family firm may depend on its CEO’s autonomy. Using survey data from a sample of 111 family firms in Finland, they examine how CEO's autonomy influences steward leadership behaviour in family firms.

CEO Autonomy and Stewardship Behaviour

Since the effective control of a family firm rests with the family, the CEO is perceived to have a lot of freedom to make decisions (though this freedom may not always exist). A steward leader CEO with high levels of autonomy is likely to use that autonomy to maximize organizational benefit and to promote participative decision-making. Therefore, a family firm CEO's autonomy is positively related to stewardship behaviour.

Stewardship Behaviour and Psychological Ownership

High level of autonomy also creates the feeling of possessiveness in the CEO, for e.g. 'my organisation,' 'my target,' 'my job.' Thus, CEO autonomy is likely to lead to individual-oriented psychological ownership. Given the higher level of autonomy, trusted CEOs are also likely to reciprocate with similar behaviours to others, leading to a sense of collective action, for e.g., 'our firm,' 'our mission.' Thus, they will also exhibit a collective-oriented psychological ownership.

The results of the data analysis confirmed that both the individual-oriented and collective-oriented psychological ownership of family business add to the effect of CEO autonomy on his/ her stewardship behaviour.

Practical Implications

In family firms, undue interference by the founder or a predecessor which may curtail the CEO's autonomy, must be refrained from. Multi-generational family firms, especially those going through succession, must be more careful to avoid the founder-shadow effect and ensure that CEO autonomy is maintained. In case of a non-family CEO, dominant family shareholder(s) must refrain from unwanted intrusion. These measures will ensure that the CEO continues to have psychological ownership of the firm and acts as a steward leader.

Source: *Journal of Family Business Strategy, (2014), Vol. 5, No. 3, pp. 312-322.*

Stewardship: A Very Practical Family Business Theory

- Justin B. Craig

Stewardship is integral to the family business. Especially, multi-generational businesses consider ‘stewards’ or ‘baton-holders’ as highly valued members. However, it has been a challenge to identify and measure the constituent dimensions of stewardship. In this article, the author describes a recently developed measure for stewardship climate in the organisation and its usefulness for family firms.

Measuring Stewardship Climate

The constituent dimensions of stewardship are not clearly established in theory. There is no valid and reliable scale to measure the extent of stewardship that is practiced in an organisation. The author theorizes[1] that stewardship has two dimensions: psychological (i.e., individual level) and situational (i.e., organisational).

Based on these two dimensions, a scale that measures the stewardship climate in a family firm has been developed. This ‘stewardship climate’ scale comprises the following attributes:

1. **Psychological or Individual-level attributes:** These assess whether a family business has members who :
   - i. are intrinsically motivated.
   - ii. identify highly with the organisation, and
   - iii. use personal forms of power (like, expert power), rather than positional or designation-based power.
2. **Situational or Organisational level attributes:** These assess whether a family firm has:
   - i. Presence of a collectivist culture rather than individualism.
   - ii. Low power distance between organisational designations, and
   - iii. High involvement orientation, i.e., a culture of involving members in decision-making activities.

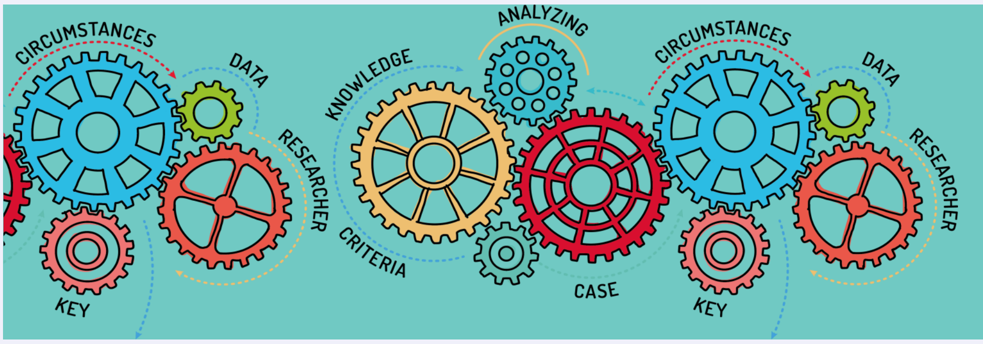
A family firm that practices these behaviours denotes the presence of stewardship in its organisational setup.

Practical Implications

Family firms can develop questions (using bi-polar scales or rating scales) to probe their managers and workers, on the suggested attributes. The results will help the family firms assess the extent to which stewardship is practiced in their organisation. Firms can then devise appropriate policy measures to promote stewardship behaviour.

Source: *The Family Business Consulting Group, 2017. (https://www.thefbcg.com/stewardship-a-very-practical-family-business-theory/ - accessed on March 4, 2018)*

[1]Based on the scholarly article by the author (and other scholars) titled, "Stewardship climate scale: An assessment of reliability and validity", published in Family Business Review (2017), vol. 30, no. 1, pp. 37-60; Authors: Donald O. Neubaum, Christopher H. Thomas, Clay Dibrell, and Justin B. Craig.



CASE SUMMARY

The Unfinished Agenda: Dr. Reddy's Laboratories Ltd

- Nupur Pavan Bang and Kavil Ramachandran

"I want to build a company that'd last 500 years" *Dr. K Anji Reddy, Founder, Dr. Reddy's Laboratories Ltd.*

Dr. K Anji Reddy founded Dr. Reddy's Laboratories Ltd (DRL) in 1984. By 2016, DRL had emerged as one of the largest pharmaceutical companies in India. At the helm of affairs was Dr. Reddy's son-in-law, G V Prasad, who had envisioned the need to professionalize the company early on in line with his father-in-law's clarion call of building a lasting institution. However, with Dr. Reddy's passing away on March 15, 2013- Prasad, who had been with DRL for more than 25 years, believed there remained a lot to be done to fulfill his father-in-law's dreams. He contemplated his own future role in the company and top most on his mind lay the question of who his rightful successor would be.

In the initial years of growth, DRL had been a typical entrepreneur-driven company with a focus on building the business. However, by 1990, when Prasad had joined full-time, the company began efforts to professionalize with family members' redefining their involvement with increased delegation over time. DRL outlined its values of integrity and transparency and built an open culture that would empower and develop its people to take decisions. As a result, not only did the company attract and retain high quality talent but also built a strong leadership bench over the years. Additionally, in 2001, with a view on the long-term, the company overhauled its board to make it independent. Owing to this transformation, the company grew steadily from revenues of INR 900 million in 1990 to INR 160 billion in 2016.

Though DRL had evolved and grown into a professionally-managed well governed organization, Prasad wondered to whom he would pass on the baton to fulfill the dreams of Dr. Reddy. Specifically, he was concerned about the implications of hiring a non-family CEO. Would this person have the same passion as he, a member of the founding family, had? Would his successor make the same long-term bets that would sustain the legacy of DRL?

Learnings for Family Businesses

The case captures the transformational journey of an entrepreneur-driven company into a professionally-managed multinational company that aims to build a lasting organization. Overall, the case emphasizes the importance of:

- Clear vision for the family business which lays the foundation of building a lasting institution
- Professionalization, strong governance structures, systems and processes to build an empowered leadership team
- Succession planning to ensure continuity of the organization's values and culture

Source: *The Unfinished Agenda: Dr. Reddy's Laboratories Ltd. (2017), Case Authors: Nupur Pavan Bang; Kavil Ramachandran - http://www.isb.edu/research/cases/the-unfinished-agenda-dr-reddys-laboratories-ltd*

Jamshetji Nusserwanji Tata (1839-1904)

A visionary, industrialist, nationalist and philanthropist, he played a pivotal role in the development of India.

Jamshetji Tata had four goals in life: setting up an iron and steel company, a world-class learning institution that would tutor Indians in the sciences, a unique hotel and a hydro-electric plant.

The inauguration of Taj Mahal hotel in Mumbai, 1903, was the only one of his dreams that he saw fulfilled in his life time. Though his sons Dorabji and Ratanji built on the foundations laid down by Jamshetji to establish the Tata Iron and Steel Company, India's first power plant, and the Indian Institute of Science (IISc) in Bengaluru.

Today, Tata Steel is the largest privately-owned steelmaker in India, Tata Power is India's largest integrated private power company and IISc is the best institute for higher education in the country. As Jamshetji envisioned, the Taj Mahal hotel is an icon and the 'gateway' to India.

Rightly called the 'Father of modern Indian industry', Jamshetji founded the Tata group in 1868 with ₹21,000 capital. The Tata group is the largest Indian conglomerate now with an aggregate market capitalization of ₹944,057 crores, the most valuable business group in India.

His values of community before profits, welfare of employees and trusteeship still guide the group.

Jamshetji was born in a Parsi family of Zoroastrian priests in Navsari, in the princely state of Baroda (Gujarat). He moved to Mumbai at the age of 14 where his father, Nusserwanji, was a businessman. He studied at the Elphinstone College and was married to Hirabai Daboo.

"*In a free enterprise the community is not just another stakeholder in the business but in fact the very existence of it"* — Jamshetji Tata.

"*No Indian of the present generation had done more for the commerce and industry of India." —Lord Curzon, the viceroy of India, following Tata's demise*

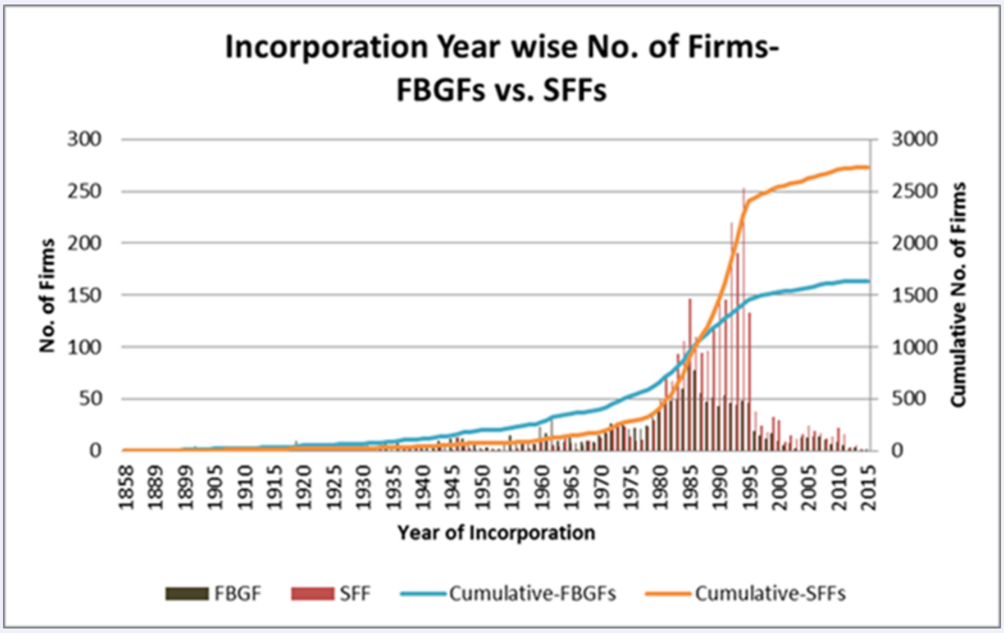
Source*: http://www.tata.com/aboutus/articlesinside/The-giant-who-touched-tomorrow*

The Three-Circle Model of the Family Business System was developed at Harvard Business School by Prof. Renato Tagiuri and Prof. John Davis in 1978. Celebrating the 40 years of the model, we list the principles of high-performing business-owning families as shared by Prof. Denise Kenyon-Rouvinez in her presentation at the sixth Asian Invitational Conference on Family Business, Indian School of Business, February 4-5, 2017.

Long-term success in the business	Long-term continuity of the family	Long-term success in ownership
Vision	Pride	Trust
Entrepreneurial Drive	Mutual Support	Control
Business Skills	Strong Values	the Equal/Unequal concept
Employees	Social Engagement	Voting Rights
Ethics	Fairness	Responsible Ownership
Succession Process	Ability to Handle Conflict	Equity Concentration
Adaptability	Strength in Unity	

***Sources**: https://johndavis.com/three-circle-model-family-business-system/*
Kenyon-Rouvinez, D., Sharing wisdom, Building values- Inspiration from Long-lasting Dynasties and successful family businesses, presentation at the sixth Asian Invitational Conference on Family Business, Indian School of Business, February 4-5, 2017.

The process of liberalization of the Indian economy began by the late 1970s with significant relaxation of import-export regulations, delicensing of various industries, reduced entry barriers and a more effective real exchange rate management. A large number of firms started to get incorporated to take advantage of the changing mindset. In the decade of 1970s, there were 189 standalone family firms (SFFs) that got incorporated. Family business group firms (FBGFs) were the clear early movers with 233 business group affiliated family firms getting incorporated from 1970 to 1979.



As the pace of reforms picked up, more and more SFFs started to take advantage of the changing business landscape through the 1980s. Similarly, when the next wave of more big bang reforms was introduced in financial year 1991 by Pamulaparti Venkata Narasimha Rao, the then Prime Minister of India, and Dr. Manmohan Singh, the Finance Minister, a further wave of firm incorporations was observed. The year 1994 saw the maximum number of companies getting incorporated. The period 1991-1995 accounted for more than a quarter of the companies in our sample of 4,809 listed firms being incorporated.

Maximum number of FBGFs was incorporated in 1985. While the FBGFs did take advantage of the reforms in its early stages, it was the standalone family firms that emerged as the single largest ownership category in terms of number of firms. Only 15 percent of the listed standalone family firms were incorporated prior to 1981. In comparison, 40 percent of the listed business group affiliated family firms were incorporated in the 118 year period in between 1863 to 1980. Close to 73 percent of the listed standalone family firms were incorporated in the period 1981 to 1995. In comparison, only 49 percent of the business group affiliated family firms were incorporated in the period 1981 to 1995.

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.

For further information, please visit www.isb.edu/familybusiness or contact Sushma GNVS at fambiz@isb.edu or +91 40 2318 7189

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