Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

Issue 49 / August 2018

Welcome!

*I have the pleasure to share with you the latest issue of our newsletter, '**Family Business Briefs**.' This issue contains some riveting facts and information about family businesses that you may find interesting. The briefs have been organized into the following sections:*

- *Summaries of research articles on **Family Social Capital and Competitive Advantage of Family Firms***
- *Summary of a published family business case on **Achal Industries***
- *Inspirations from the life of **TVS Iyengar***
- *Interesting insights on **W. J. Towell & Co. LLC***
- *Infographic on **Family Owners' Shareholding in Indian Family Firms***

We hope that you will find these insightful and stimulating.

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

Best regards

Ram

Kavil Ramachandran, PhD
Professor & Executive Director
Thomas Schmidheiny Centre for Family Enterprise
Indian School of Business

How Family Influence, Socioemotional Wealth, and Competitive Conditions Shape New Technology Adoption

- David Souder, Akbar Zaheer, Harry Sapienza, and Rebecca Ranucci

Strategic decision-making in business is primarily driven by economic criteria. However, family firms are known to make decisions not only based on economic rationale but also on non-economic considerations, such as, preserving socio-emotional wealth. In this paper, the authors studied technology adoption decisions made during 1983-1987 by 79 family- and non-family owned cable TV firms in the USA. Their objective was to find whether the pattern of technology adoption differed across family and non-family controlled firms. This summary presents the key findings and implications of the study.

Family Ownership, Technology Adoption and Competitive Advantage

Non-family firms mainly focus on economic returns while family firms are known to be driven by a range of ***socioemotional goals***, such as, continuity of family control, preservation of family and social ties, protection of identity with and emotional attachment to the business. New technology adoption may require large investments, often from external sources. Family firms are likely to be averse to these for fear of loss of control. Hence, family ownership is likely to hinder new technology adoption compared to non-family firms.

Family firms with majority family ownership, are likely to internally resolve the conflicting priorities of economic and socioemotional wealth and quickly arrive at the technology adoption decision. However, family firms with minority family ownership are likely to struggle with these conflicting goals and are prone to delays in strategic decision-making, as a sizeable portion of non-family shareholders are not likely to be affected by the socioemotional considerations.

The authors also argue that non-family firms are likely to have more positive performance effect of technology adoption than family firms (which may transfer the gains to the family). They argue that compared to the economic rationale, the increased level of competition (which poses a survival threat) is more likely to force family firms to adopt technology.

The data analyses confirmed the authors' hypotheses. Most significantly, the level of family ownership control turned out to be the key factor in determining heterogeneity in technology adoption by family firms.

Practical Implications

This paper has important implications for family businesses. Family owners need to recognize that over-emphasis on socioemotional considerations might hinder their decisions with regard to the adoption of new technology by the firm and affect its competitive advantage.

Especially, when family owners have a minority control of the firm, adoption of new technology is more likely to be viewed to adversely affect the family's control. This may delay the strategic decision-making process as the owners fight to preserve their hold over the business. In such situations, comprehensive decision processes that weigh both economic and non-economic outcomes might more effectively convince the minority family-owners to adopt new technology and provide/ retain the firm's competitive advantage.

Source: *Strategic Management Journal, (2017), Vol. 38, No. 9, pp. 1774-1790.*

How Familial Is Family Social Capital? Analyzing Bonding Social Capital in Family and Nonfamily Firms

- Inés Herrero

Family social capital is considered a unique asset and a key source of competitive advantage of a family firm. However, it has been questioned whether non-family firms can reproduce the family social capital and gain competitive advantage parity with family firms. In this article the author examined the familial nature of family social capital by conducting a survey study of 400 Spanish firms. The objective of the study was to ascertain whether family social capital was indeed unique to family firms. This summary succinctly presents the findings and implications of the study.

Firm's Social Capital

Bonding social capital is created when individuals form intense relationships based on commitment, trust, and shared vision and objectives. Such relationships may get formed in both family and non-family firm context. However, family social capital has three dimensions that make it a resource unique to the family firm.

These are: ***(i) Structural dimension:*** network ties between family business members, ***(ii) Relational dimension:*** trust, norms, and reciprocal obligations, and ***(iii) Cognitive dimension:*** shared values, vision and cognitive cohesion. The kinship nature of relationships among family members make those unique and stronger than the relationships among non-family members.

Hence, the author argues that bonding social capital of nonfamily firms is weaker than family social capital among the family members of the family firm (as these are based on kinship relationships).

The Performance Link

The author classified social capital into three categories, i.e., ***social capital created by***: ***(i) family members of family firms (FSC)***, ***(ii) non-family members of family firms (NF-FF)***, and ***(iii) members of non-family firms (NFF)***. Due to the presence of shared vision and objectives, commitment and trust in relationships, the author hypothesized that each of these categories of social capital improves firm performance.

The results of the data analysis confirmed that social capital created among family members (FSC) was greater than NF-FF and NFF. FSC and NFF had a positive effect on firm performance, while NF-FF turned insignificant.

Practical Implications

The study firmly establishes the uniqueness of the family social capital, which family firms enjoy. It is proved to be a distinct source of competitive advantage for the family firms. The non-family firms can only try to imitate the family social capital however, they will not be able to achieve the same effect. At best it would be an imperfect attempt, which is not likely to provide sustainable competitive advantage to the non-family firm.

However, it is important that family firms do not become complacent about it and keep strengthening their family social capital to stay ahead of the competition. Strong family social capital will help them achieve long-term sustenance of the family business.

Source: *Family Business Review, (2018), https://doi.org/10.1177/0894486518784475.*

Strategic Distinctiveness in Family Firms: Firm Institutional Heterogeneity and Configurational Multidimensionality

- Danny Miller, Mario Daniele Amore, Isabelle Le Breton-Miller, Alessandro Minichilli, and Fabio Quarato

Strategy scholars suggest building unique resources and capabilities for distinct competitive advantage. In contrast, Institutional theorists advise firms to achieve legitimacy (through conformity) in the eyes of key stakeholders who provide resources. Attempts have been made to bridge these contrasting concepts of distinctiveness and conformity. However, the authors argue that this debate has failed to take into account the differences in firms' institutional environments and multiple dimensions of strategic distinctiveness. In this article, they probe the dimensions of strategic distinctiveness using the governance and accounting data of 2786 Italian family firms over a twelve-year period (2000-2011). This summary presents their key findings and the implications for family businesses.

Firm Heterogeneity and Institutional Variation

Stakeholders like firms to adhere to a familiar code of conduct. Hence, conformity is an important source of legitimacy. Family firms are known to conform highly to the industry financial norms. However, the degree of conformity practiced by family firms is influenced by the variations in the institutional pressures they face. For instance, the strategies of a publicly traded family firm answerable to ***external investors***, are likely to be more conforming. Private family firms face different institutional pressures like ***family obligations*** and loyalties. Hence, financial norms shaped by pressures from external investors, analysts and regulators are likely to make public family firms more prudent, efficient and conforming to industry financial norms compared to private family firms.

Strategic Multidimensionality, Configuration and Performance

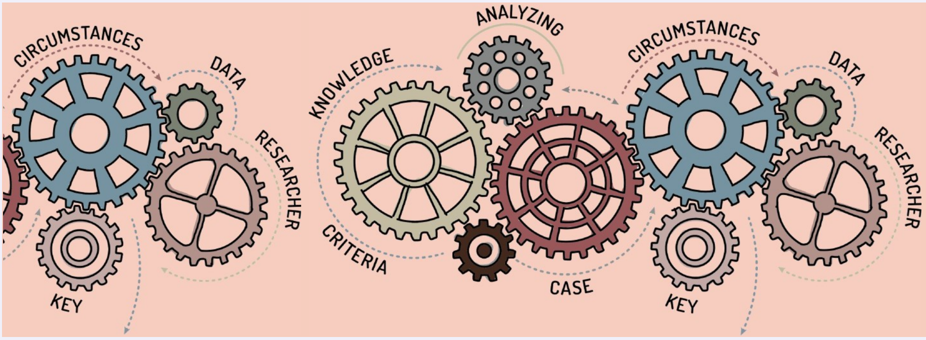
Some distinctive resources and capabilities may generate economic rents for the firm, while deviations from the norms may entail incurring significant costs. Adopting distinctive strategy requires making deviations along multiple dimensions. A public family firm will be penalized for such non-conforming strategic behaviour, thus adversely affecting its financial performance. Hence, strategic conformity to industry financial norms will have a positive relation with firm performance for a public family firm than that of a non-family firm.

The study found that public family firms were more conforming to industry financial norms compared to private family firms. Further, the public family firms had a significant link between conformity and firm performance. On the other hand, private family firms were found to have an inverse U-shaped relationship between conformity and firm performance.

Practical Implications

The study has several implications for family firms. The family firms that are going public need to ensure that they conform to industry norms in their visible strategic behaviour. Private family firms are also likely to benefit more if they conform to the industry norms. In case, private family firms choose to operate at the extreme ends of conformity/ non-conformity, the enormity of challenges would demand that they select a leader from a larger pool than is what is available within the family.

Source: *Journal of Family Business Strategy, (2018), Vol. 9, No. 1, pp. 16-26.*



CASE SUMMARY

Leadership Succession at Achal: A Tough Nut to Crack

- Sivakumar Alur, Kavil Ramchandran and Navneet Bhatnagar

Achal Industries was a 40-year-old proprietary family firm engaged in cashew processing and exports business. It was a labor-intensive industry, dominated by family businesses and private partnerships. Giridhar Prabhu, Achal's second-generation entrepreneur, had been managing the business for about three decades. Plagued by high employee turnover and labor shortage, Giridhar realized that Achal, like many others in the industry, had to move towards greater automation in the next five years. He was 57years old and planned to retire from the business in five years.

Giridhar wanted to keep the business under the family's control. However, he was disappointed to learn that none of his three daughters were interested in running the business. Being in the twilight of his career, Giridhar realized that he did not have the energy to steer Achal through the challenges that automation and professionalization would bring and contemplated his options at hand.

Achal had taken humble roots in 1972, when Sadananda Prabhu, Giridhar's father, had setup a leased cashew processing unit in Mangalore. Giridhar was inducted into the business in 1976, while he was still in college. Business expanded on back of government impetus and with promise of a better future – a new unit was setup in Maharashtra named Achal Cashews Private Limited (ACPL). Cognizant of the intense competition in the industry, Giridhar strove to differentiate his offering while adopting innovations to improve advantages in costs and speed. Exports flourished for Achal. Realizing the demand for organic cashew products in the international market, the Maharashtra unit was solely dedicated to exports. The Mangalore unit, Achal Industries — a sole proprietorship, was one of the few globally recognized, ISO 22000 (Food) certified units. The hands-on approach of Giridhar ensured that the group achieved a sales growth of 26% from 2009-10 to 2013-14.

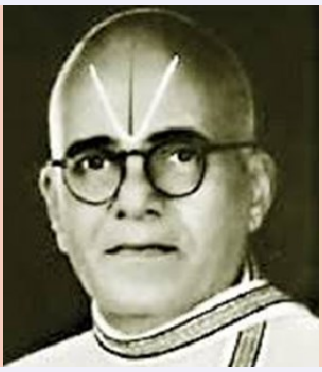
The cashew processing industry was in a state of flux and no family member was willing to take over the reigns at Achal. Giridhar evaluated his options as he searched for answers. Did it make more sense to sell the business? Considering the years of toil, this was a bitter pill for him to swallow. What if he could retain one unit? If so, he wondered whether this would be financially prudent. On the other hand, he also mulled over the option of giving leadership at Achal to a non-family member. Whether this would be a sustainable solution? Giridhar pondered!

Learnings for Family Businesses

The case highlights the challenges of family succession planning, especially when the next generation has aspirations outside of the family business. Overall, the case emphasizes the importance of:

- The need for timely planning and grooming of next generation leaders
- Understanding that the lifecycles of the family and business systems evolve differently and need to be daftly managed
- Being open-minded in exploring multiple succession options, including selling-off the business (if holding on destroys value)

Source: *Leadership Succession at Achal: A Tough Nut to Crack (2015), Case Authors: Sivakumar Alur, Kavil Ramchandran, Navneet Bhatnagar: http://www.isb.edu/research/cases/leadership-succession-achal-tough-nut-crack*



Thiruvengudi Sundaram (TVS) Iyengar (1877-1955)

TVS Iyengar established the T V Sundram Iyengar & Sons in 1911, which is the holding company of the TVS group. The 107 years old TVS Group is India's prominent supplier of automotive components, with over 36 companies in diverse fields, employs around 40,000 people and has revenues of approximately INR 50,000 Crores.

TVS was born in 1877 in Thirukkurungudi, Tirunelveli in the Madras Presidency (Tamil Nadu). He started his career as a lawyer and later worked in the Indian railways and then in a bank. Passionate about doing business, TVS left his job to lay the foundation for the motor transport industry in South India, with the first bus service in Madurai.

TVS was not satisfied with being just a bus fleet operator or in only vehicle servicing business. Rather, he wanted to create an enduring business led by a family of like minded workers and managers united by a set of shared high principles.

During the second world war, to meet with For TVS, his initials stood for Trust, Value and Service. He embodied these values and set an example for all employees to emulate them. These remain the overarching code by which the Group functions.

TVS was married to Lakshmi Ammal and had five sons and three daughters. He proved himself as a forward thinker when he got his daughter T. S. Soundaram, a teenage widow, remarried, under the auspice of Mahatma Gandhi. He was also a patron of the arts and supported the performance of Kaisiki Natakam in the temple at Thirukkurungudi on the night of Kaisiki Ekadasi. It attracted thousands of devotees every year.

He died in April 1955 at his residence in Kodaikanal at the age of 78. He was honoured by the Union Government of India by unveiling busts in bronze and in marble in the city of Madurai, Tamil Nadu on August 7, 1956.

Sources: *https://en.wikipedia.org/wiki/T._V._Sundaram_Iyengar*

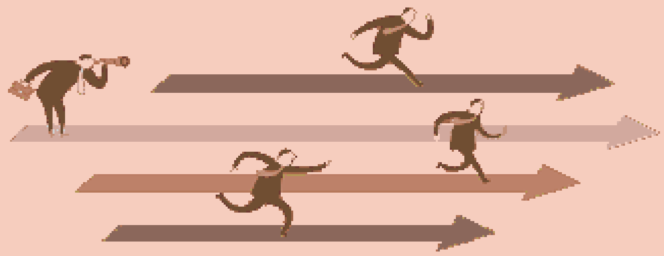
https://www.tvs-e.in/about-us.aspx

https://archive.is/20130131015726/http://www.outlookbusiness.com/print.aspx?articleid=159&editionid=16&catgid=73&subcatgid=490

https://www.thehindu.com/2005/04/29/stories/2005042900170902.htm

https://www.geni.com/people/TV-Sundaram-Iyengar/6000000007197453204

http://www.arangham.com/ritrev/kaisiki/report.html



BENCHMARKING LEARN FROM THE BEST

W. J. Towell & Co. LLC, which was formed in 1866, is considered to be one of the oldest family businesses in the Middle East. A mixture of fourth and fifth generation of family members currently run the groups various businesses. There are more than 140 family members who are direct and indirect stakeholders.

The informal practices followed by WJT family evolved into formal practices over time. It helped five generations of the family to be together in and as one of the most respected business house, with an immense goodwill, in the Middle East.

Assessment of Success Factors through Generations

Success Factor	At the beginning	Before the 90th (year)	Currently	Future
Exchanged respect among all family members	Was great	Was great	Great	Even better
Existence of a professional Administrative and financial team.	Was limited among partners only	Improved	A modern administrative and financial system	Could be developed further
Transparency and Communication	Communication was there but no transparency in the modern sense of the word	Communication with little transparency	Full communication and transparency in the modern sense of the word	Could be developed further
Strategic planning for risk mitigation	Was personal and limited	There was a sort of strategic planning	The company follows the latest financial & Administrative planning	Further efforts to be made in coping with the changes
Giving youth the opportunity to participate in the management of the company	Was there	Was less due to sons being too young	Remained as it is	There are plans for educating and training them

The message passed down the line generation after generation was that “On any issue, Family gets precedence over Business”. The group practiced highest level of business ethics. To WJT Group, a word given has to be kept, whatever the implications (financial or otherwise) be. Written agreements are a mere formality. The family members had clear roles and there was transparency in communication, both formal and informal. The key success factors have enabled the group to continue for more than one and a half century.

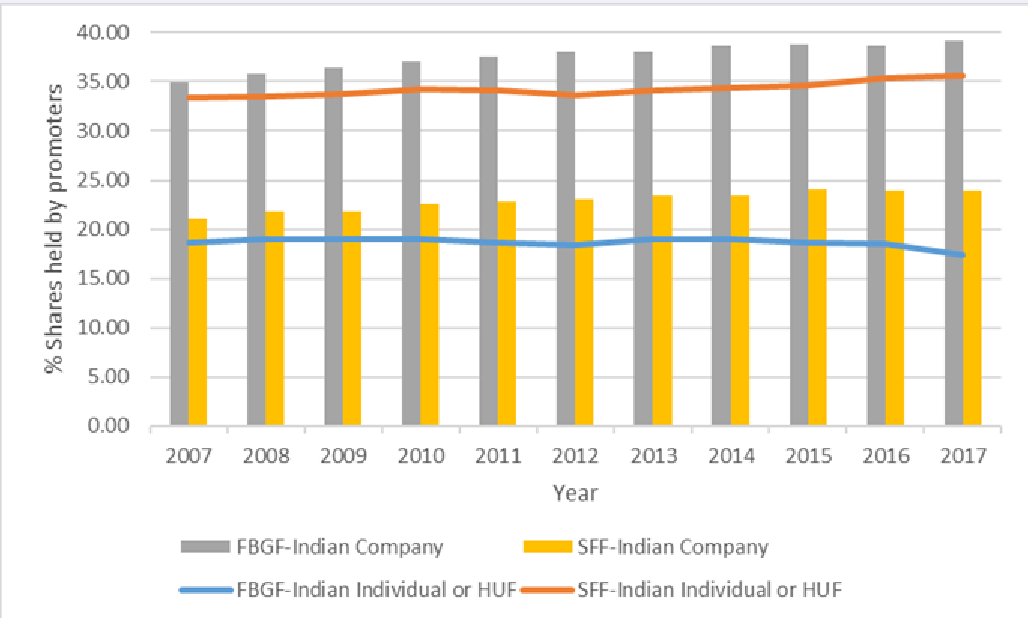
Source: *Sultan, Jamil Ali., Director, WJT Group, Family Business and Sustainability, presentation at the First Asian Invitational Conference on Family Business, Indian School of Business, February, 2008.*

DO YOU KNOW?

Concentrated shareholding by family members, either directly or indirectly, is common among Indian family firms (known as promoter shareholding in the Indian context). In Family Business Group Firms (FBGFs), the preferred mode to hold shares is through other holding companies, while in Standalone Family Firms (SFFs) the family members prefer to hold shares directly as individuals or Hindu Undivided Family (HUF).

Holding companies or trusts that hold shares of all companies on behalf of the family members enable better resource allocation, control, realization of synergies and tax planning within all group level firms and better management of ownership, inheritance and payouts at the family level. It also enables the family to professionalize each of the firm while the family maintains a bird's eye view at the group level.

Promoter Shareholdings through Companies, Individuals or HUFs- FBGF vs SFF



Individuals and HUFs are the largest shareholders in case of standalone firms. SFFs are younger with less complex structures both at the family and the business front. As they grow the complexities of inheritance, succession and growth would force them too to adopt better structures of ownership. Entry of the next generation into the business and more interest in the business by the extended family with better performance and increased scale would point towards a need to streamline ownership and be prepared for future structure, governance and professionalization needs of the firm. Therefore, we see a gradual increase in shareholding through companies even in the case of SFFs.

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

Registered Office & Hyderabad Campus:
Gachibowli, Hyderabad - 500 111, Telangana, India.
Ph: +91 40 2300 7000, Fax: +91 40 2300 7099

Mohali Campus:
Knowledge City, Sector 81, SAS Nagar Mohali - 140 306, Punjab, India.
Ph: +91 172 459 0000
www.isb.edu

Corporate Identity Number: U80100TG1997NPL036631