



Family Business Briefs

Issue 68 / October 2021

Welcome!

I have the pleasure to share with you the next issue of our bimonthly publication, '**Family Business Briefs**.' This issue contains some riveting facts and information about family businesses that you may find interesting. The Briefs has the following sections:

- Summaries of research articles on **Digital Transformation, Organisational Identity Elasticity, and Religiosity in Family Business**
- Summary of a published family business case on **Suprajit Engineering**
- Inspirations from the life of **H P Nanda**
- Interesting insights on **Wealth Creation by Tata Group**
- Information on **Pledging of Shares by Owner Family**

We hope that you will find these insightful and stimulating.

I would also like to remind you about the global study of family businesses we are undertaking in collaboration with the **Successful Transgenerational Entrepreneurship Practices (STEP) Project** (a global consortium of business schools) and **KPMG**. I seek your support to make this study a great success by completing a short survey that would require only 15 minutes of your time. **Survey Link:** https://ausmarketing.qualtrics.com/jfe/form/SV_8oXiqFDbZqjVagC

The survey should be completed by a **family business CEO** or the **most senior family business leader** by **October 31, 2021**. Survey information will be confidential and only used to analyse aggregate trends. If you are interested, we will share the global report on its findings.

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

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ARTICLE SUMMARY

Responding to Digital Transformation by External Corporate Venturing: An Enterprising Family Identity and Communication Patterns Perspective

-Reinhard Prugl and Dinah Isabel Spitzley

Disruptive innovations, such as digital transformation, are most crucial challenges for organisations. To counter these challenges, entrepreneurial efforts in engaging with newly created companies outside firm boundaries become essential. Extant literature does not provide adequate understanding of the effect of family communications and identity on external entrepreneurial activities. Hence, the authors study this relationship using a sample of 254 next generation family members from family firms in Germany.

External Corporate Venturing

Digital transformation requires alliances with multiple partnerships outside the firm. This process is known as **External Corporate Venturing (ECV)**. This is facilitated through activities such as corporate venture capital investments, acquisitions or alliances. Next generation family members play a crucial role in this process as they are responsible for the future development of the firm. However, some family businesses are reluctant to participate in ECV, such as, the mid-sized firms in Germany. To explain this behaviour, the authors study family communication patterns and its two fundamental dimensions of *conformity* and *conversation orientations*.

Conformity Orientation and Family Identity

Conformity Orientation is defined as “*a degree to which families create a climate that stresses homogeneity of attitudes, values and beliefs.*” Families with high conformity index have lower exchange of novel ideas and cognitive diversity within family members. They have higher level of mutual agreement and maintain existing power structures. The

conformity orientation alone does not influence the ECV as a strategic priority. It is channeled through family identification. High level of family identification with high conformity orientation prevents the next generation to take risky decisions such as ECV.

Conversation Orientation and Family Identity

Conversation Orientation is defined as “*the degree to which families create a climate where all family members are encouraged to participate freely in communication about a wide array of topics.*” Conversation orientation sets family identity in next generation family members so that their behavior is in line with the family and the family business. High level of conversation orientation facilitates open discussions within the family and leads to proposals of alternatives for risky decisions.

The results of statistical data analysis indicated that family communication patterns (conformity and conversation orientations) affect ECV as a strategic priority.

Practical Implications

- It is vital for family businesses, especially for their senior generation leaders, to foster a facilitatory culture in which next generation members can freely express themselves.
- Transgenerational business transformation must be encouraged to ensure family firm sustainability in the long-term.
- Balancing family identity and communication patterns enables family firms transformation through external corporate venturing.

Source: *Journal of Management Studies*, (2020), pp. 1-24, Vol:58, No:1



ARTICLE SUMMARY

Family Business or Business Family? Organisational Identity Elasticity and Strategic Responses to Disruptive Innovation

-Jasper Brinkerink, Emanuela Rondi, Carlotta Benedetti and Unai Arzubiaga

“Who are we as an organisation?” depicts the organisational identity of a firm. Organisational identity plays a crucial role in determining the strategy of a family business. However, in extant literature, the exploration of relationship between organisational identity and strategy of the firm in family business context still remains nascent. In order to address this gap, the authors study the role of organisational identity in shaping the strategy of the firm while responding to disruptive innovations.

Organisational Identity Elasticity (OIE) and Family Firm Archetypes

The Organisational Identity Elasticity (OIE) in firms is shaped around two fundamental questions: “*Who we are*” and “*What we do*”. It is defined as “*the tensions that simultaneously stretch, while holding together, social constructions of identity.*” Applying OIE theory to family businesses leads to categorization of firms into either *family business* or *business families*. Family businesses hold an inelastic organisational identity. The dominant coalition strongly relate themselves with what the organisation does, such as, its traditional operations, and craftsmanship. However, business families have a more elastic organisational identity. They play a significant role in catering to actions that define identity. Their family members are more involved in pursuing wealth for the family and fostering transgenerational entrepreneurship.

Framing of Disruptive Innovations

Family businesses with an inelastic organisational identity apply a narrow and local scope for external relevant technological developments. They focus only on those issues that are important to firm’s core

products or activities. Hence, family businesses would frame a potential disruptive innovation later in their growth trajectory compared to a business family.

Family businesses are more likely to perceive disruptive innovations as a threat as they challenge the traditional ways of serving the customers’ needs. However, business families consider it as an opportunity.

Responses to Disruptive Innovations

Family firms that frame a disruptive innovation as a threat earlier will respond slowly compared to those that started the framing at a later stage as they perceive it as an urgency. Contrarily, family firms that frame a disruptive innovation as an opportunity earlier will respond faster. Similarly, the level of innovation adaption in the firms depends on how the firm perceives disruptive innovation (as an opportunity or a threat) and when it starts framing (earlier/later).

The Authors conceptualize how organisational elasticity effects the strategic framing and responses to potential disruptive innovations.

Practical Implications

- Family firms and their leadership need to know different family archetypes and organisational identity elasticity pertaining to each archetype. They should assess how their family business scores on these to understand its impact on innovation.
- Understanding how different archetypes respond to potential disruptive innovations helps family business leaders to shape their strategy in tackling disruptive innovations.

Source: *Journal of Family Business Strategy*, (2020), Vol:11, pp. 1-12.



ARTICLE SUMMARY

What Time May Tell: An Exploratory Study of the Relationships between Religiosity, Temporal Orientation and Goals in Family Business

-Torsten M. Pieper, Ralph I. Williams Jr., Scott C. Manley and Lucy M. Matthews

Religion has a significant bearing in all facets of life, including family businesses. Scholars have examined the effects of religion on management of organisations and leadership. However, the understanding of religion in the family business context is very limited. Hence, authors in this article study the effects of religion on family business goals (short-term and long-term) using a sample of 105 private family businesses in USA.

Religiosity and Family Business Goals

Religion is referred to as “any shared set of beliefs, activities and institutions premised upon faith in supernatural forces”. Family business leaders can integrate their religious values and beliefs into their family business more readily and effectively due to their control and influence in the firm. Therefore, religiosity plays a key role in shaping their strategy and family business goals. These goals are conceived via temporal logic, namely, short-term and long-term goals.

Temporal Perspectives of Family Business Goals

Temporal orientation is crucial in determining human motivations and goal setting. Family business research has already introduced many time-related concepts such as *Long Term Orientation*, and *Transgenerational Entrepreneurship* through which family businesses foresee their future. These temporal goals showcase the dynamic and transformative nature of family business.

Religiosity : Super-ordinate goal

The conflict between goals is imminent when pursuing multiple goals together. The goal prioritization implies trade-off between multiple

goals. However, the authors present religiosity as a super ordinate goal where religiosity is considered as an overarching mission.

They argue that religiosity enables family businesses to simultaneously pursue both short and long term goals. Super ordinate goals (religiosity) determine intermediate (long-term) goals which further actuate subordinate (short term) goals. The *moral code of conduct*, *enhanced individual capacity to exercise self-control*, and *prosocial behavior established by religiosity*, further reduce the conflict between long-term and short-term goals. Hence, the authors hypothesize that religiosity positively effects short-term and long-term orientation.

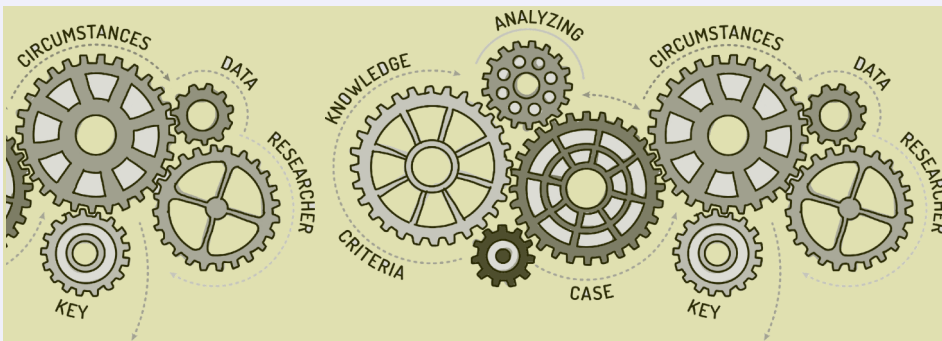
Religion fosters long-term outlook, this enables individuals to renounce small rewards in the short term with anticipation to gain important rewards in the future. Therefore, the authors surmise that religiosity has a stronger positive effect on long-term goal orientation than on the short-term.

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

Practical Implications

- Family businesses need to realize that they can pursue both long-term and short-term goals simultaneously without trading one for another.
- Shared purpose such as religiosity can bind the family together and make them work in harmony towards commonly shared short and long-term goals.

Source: *Journal of Business Ethics*, (2020), Vol:163, pp. 759-773.



CASE SUMMARY

Suprajit Engineering: De-Risking for Future Growth

- Sonia Mehrotra and Kavil Ramachandran

Suprajit Engineering Limited (SEL) is a leading manufacturer of mechanical cables and halogen lamps used in automotive industry. It was established by Ajith Rai on May 24, 1985. After pursuing a masters degree in industrial engineering at Dalhousie University in Canada, Rai moved back to India to pursue his entrepreneurial dreams. SEL has grown multifold since its inception. Currently, it has five wholly-owned subsidiaries and a presence across the world.

Envisioning rapid growth in the Indian automobile industry in mid 1980's, Rai forecasted rise in demand for spare parts manufactured locally. He set up his factory to make mechanical cables in the outskirts of Bengaluru. Later, the business expanded to manufacture other varieties of cables such as, clutch, brake and speedometer cables. TVS motors, their first customer, facilitated their collaboration with TohFon Machine Company (TMC), Taiwan for technology and equipment. Rai focused on marketing while he delegated the production activities to a professional. This helped him expand the customer base.

In 1994, SEL established its second unit to increase its production capacity. SEL made its first acquisition in 2003 by purchasing Shah Concabs Private Limited (SCPL) located in West India. This increased the geographical reach to cater to all customers in India. SEL then entered into a joint venture with CTP Gills cables, a group company of UK multinational Carlco Plc. In 2006, SEL acquired the remaining 50 % stake held by Carlco Plc and later renamed it Suprajit Europe (SE). By 2007, SEL recorded a turnover of INR 2 billion and had multiple units across India.

Rai realized in 2014 that global expansion was the way to grow the company profitably. This required setting up of new plants, joint

ventures and acquisitions. SEL did all that and made strategic acquisitions. Presence in international markets across Europe, Middle East, Africa, and the Americas promised growth and expansion of clientele.

Rai's sons, Akhilesh and Ashutosh (second generation) joined SEL in 2012 and 2014 respectively. Akhilesh handled the strategic management of SEL such as acquisitions and automation, as the Chief Strategy Officer. While, Ashutosh was Head of Suprajit Technology Center (STC), spearheading and enriching the group's engineering and design capabilities. He focused on a range of innovative and mechatronics products.

Despite its organic and inorganic growth, SEL faces numerous challenges. Some of those include, the shift in automotive industry towards electric vehicles which affects the demand for mechanical spare parts. Maintaining stringent quality and product standards is crucial to compete in global markets. SEL also needs to remain cost competitive, as rise in raw material costs could deter its profitability. The global acquisitions and increased exports also pose foreign exchange risks for SEL that must be managed.

Learnings for Family Businesses

- Family businesses must continually keep reinventing themselves as they pass through different phases of growth.
- Family firms should strategize dynamically to manage growth through expansions, acquisitions and internationalization.
- Family businesses must diversify risks across several product categories and markets.

Source: Mehrotra, S. and Ramachandran, K. (2021), *Suprajit Engineering: De-Risking for Future Growth*, ISB-Harvard Case #ISB269.



H P Nanda (1917 - 1999)

Har Prasad Nanda, founder of Escorts Limited, was one of the tallest first generation family business leaders of independent India. Born in Lahore, Nanda fled to India with his family in the aftermath of the partition. Leaving behind a successful passenger transport business called the Nanda Bus Service, he reached Delhi with just Rs 5000 and two cars.

Escorts took shape in Lahore in 1944, before Nanda shifted to Delhi. The company was then called Escorts Agents Limited, which was a franchisee of the American consumer durables firm, Westinghouse. The company took its name from the fact that they would 'escort' goods from the manufacturer to the consumer.

The group's first manufacturing venture was Goetze India. Set up in 1954 with German collaboration, Goetze made piston rings. However, Nanda's major success came with the farm tractor business. First, Nandas became the Indian marketing agents of Minneapolis Moline, followed by Ferguson, URSUS and finally, Ford.

Nanda became a passionate votary of taking Indian agriculture to the next level through farm mechanisation and leaving behind the bullock cart era. Towards this end, he started India's first private institute of farm mechanisation at Azadpur, Old Delhi on 800 acres of land leased from the army.

Manufacturing tractors was the next logical step. The modern day Escorts initially began assembling semi-knocked down tractor kits. Later, it entered into full-fledged manufacturing. From tractor manufacturing, Escorts diversified into drilling and deep wells, marine engines,

Rajdoot motorcycles in tie-up with Yamaha, excavators and even EPBAX equipments. By the end of the 1970's, Escorts had become a Rs 1000 crore group and was counted in the top pecking order of Indian corporates.

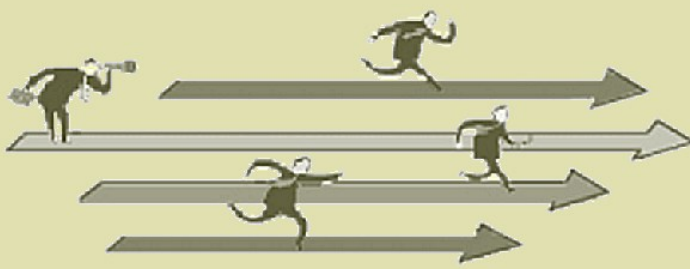
Nanda's biggest battle was to save the Escorts group from a hostile takeover in 1983 from the politically powerful London-based non-resident Indian, Swaraj Paul. Through an indomitable spirit, deft public relations, support from Indian media and the backing of some of India's tallest business leaders at that time like JRD Tata and Keshub Mahindra, Nanda fended off the raider. In the process, he also redefined the role of public financial institutions in Indian corporates. It was a landmark era in Indian industry's history.

Two of his valuable contributions away from the corporate world are the Escorts Employees Ancillaries Ltd and the Escorts Heart Institute and Research Centre. Once, he also ventured into politics and contested the Lok Sabha elections from Faridabad. He could not win the elections, hence re-focused on growing the business.

Nanda passed away in 1999. After his demise his two sons Rajan and Anil Nanda continued to grow the business. Nanda's legacy is now carried forward by his grandson Nikhil Nanda. Nikhil has a vision to grow Escorts into a Rs 10,000 crore business by 2022. That's quite a long way from the days of 1947!

Sources: *H.P. Nanda: India's automotive king, India Today, August, 1982. and Nanda, H.P.(1992). The Days of My Years. Viking.*

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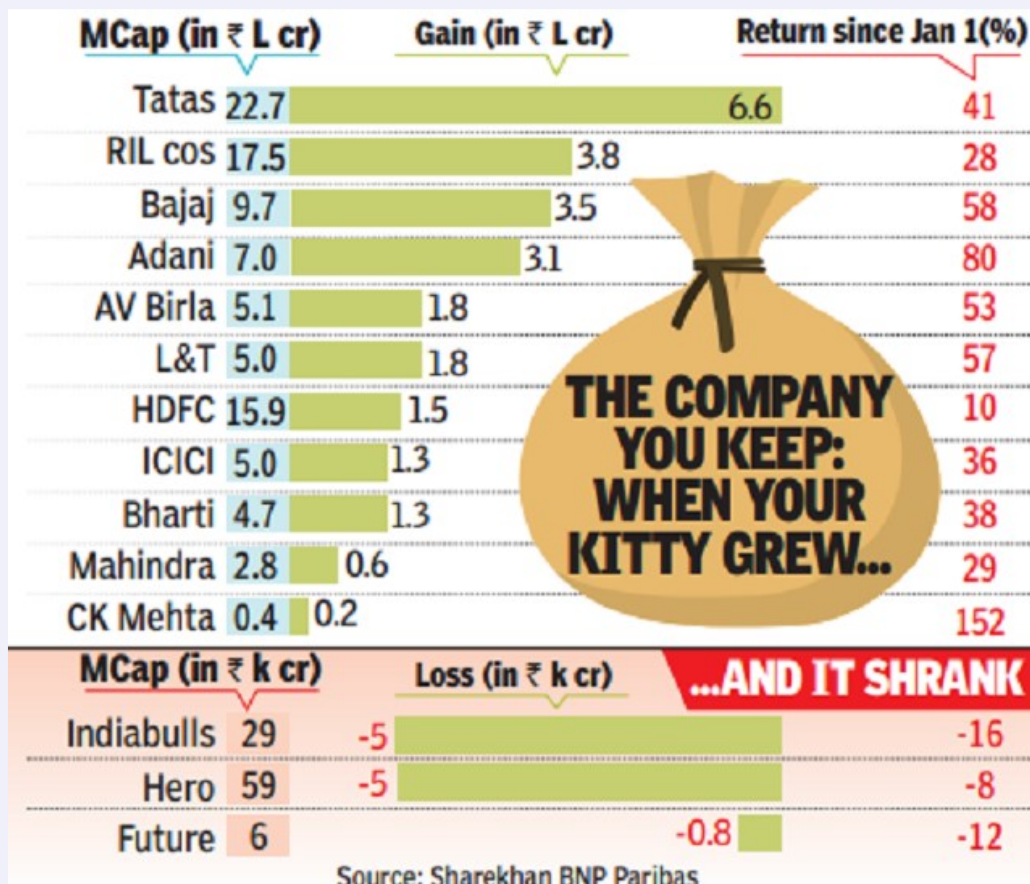


The Tatas Continue to Lead Wealth Creation

The Tata group once again led the way in wealth creation amongst the top business houses in India. That too, by a huge margin (see exhibit below). The legendary family business founded by Jamsetji Tata in 1868, has established a domestic and international reputation that is arguably greater than any other Indian business.

When it comes to the numbers, the Tata group is truly impressive. There are 29 group affiliated companies listed on the Bombay Stock Exchange, with a combined market capitalization of \$242 billion (INR 17.8 trillion) as on March 31, 2021 (and INR 22.7 trillion as on September 25, 2021). It accounted for 8.5 percent of the market capitalization of the Bombay Stock Exchange, had \$103 billion in revenues, and 800,000 employees.

Five core values of *integrity, responsibility, excellence, pioneering* and *unity*, guide the business and growth of Tata companies. The Tata group has made its mark in every major industry in India, including steel, power, automobile, aviation, information technology, telecommunications, financial services, consumer goods, education, and healthcare.



Sources: 1) <https://timesofindia.indiatimes.com/business/india-business/tatas-lead-wealth-creation-among-indias-biz-houses/articleshow/86504658.cms#:~:text=Not%20surprisingly%2C%20India's%20largest%20group,a%20return%20of%20over%2040%25>

2) <http://www.famcap.com/articles/2016/5/13/viewpoint-beyond-the-profit-motive-the-example-of-tata>



DO YOU KNOW?

Pledging puts the shareholding of the pledging shareholder under considerable risk. An unexpected negative event could potentially reduce the stock price of the firm to an extent that a margin call is triggered. This may lead to the possibility of a forced sale of shares by financial institutions along with a stock price slump. In a recent report, we attempt to gauge the potential impact of pledging on control, in terms of shareholding, if the pledged shares of the promoters were to be invoked in entirety, as has happened in various cases in India Inc. Exhibit 1 showcases the shareholding of the promoters in firms where the promoters have pledged their shares. The promoter shareholding for a majority of the firms lies above the 50 percent mark. This implies an ability to exert considerable control over the firm and lend a clear strategic direction as a majority shareholder.

Exhibit 2, showcases the promoter holding of the same companies, as in Exhibit 1, that is not pledged to a financial institution. We show the proportion of the firm that the promoter would continue to own if the promoter were to lose the part of their shareholding that they had pledged. The results indicate a gloomy story. We find that most companies with pledged shares are at the risk of losing the ability of their promoters to exert control on the firm.

Exhibit 1: Promoter Shareholding in Pledged family firms (2020)

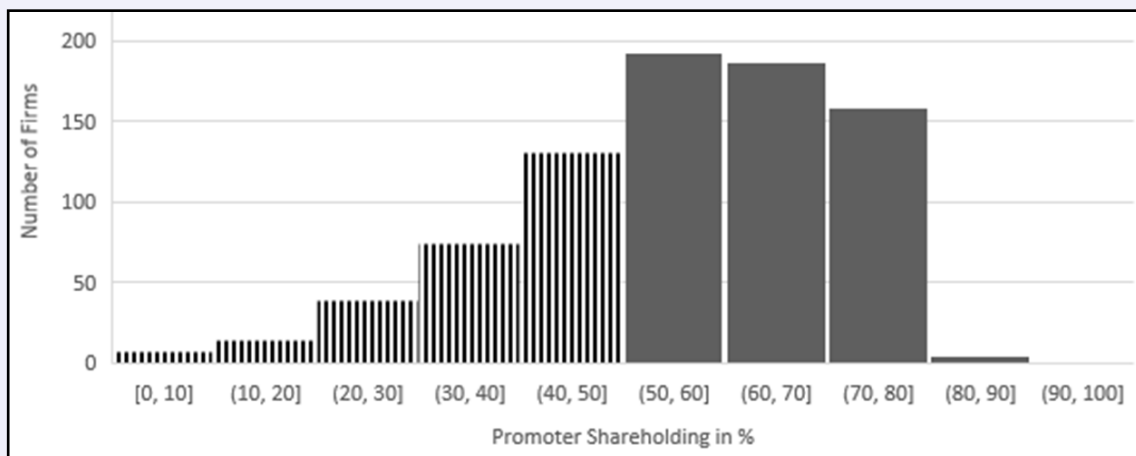
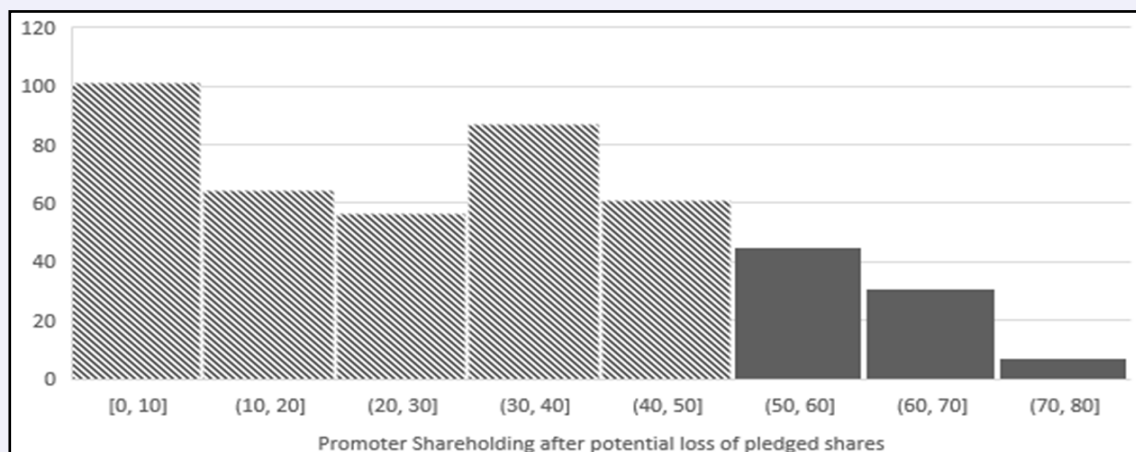


Exhibit 2: Promoter Shareholding after potential loss of pledged shares (2020)



Source: Bang, N.P., Ray, S., Bhatia, N., & Ramachandran, K. (2021), "Share Pledging and its Consequences: A Study of Indian Firms", Thomas Schmidheiny Centre for Family Enterprise, Indian School of Business, No. 007, https://www.isb.edu/content/dam/sites/isb/research-thought-leadership/research-center/tsfce/WP_Share%20pledging_consequences.pdf



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, AMBA 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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