Welcome!

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

- Summaries of research articles with practical implications on Next Generation’s External Venturing Practices, Role Transitions in Multiplex Relationships, and Corporate Political Activity of Family Firms
- Summary of a family business case on Annapurna Studios
- Inspirations from the life of Khwaja Abdul Hamied
- Interesting insights on Malaxmi Group
- Infographic on Women in Family Business: Towards Gender Parity

We hope that you will find these insightful and invigorating.

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

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Family businesses create new ventures to develop a business portfolio and promote transgenerational entrepreneurship. However, there is little understanding of how the next generation members managing a venture that is distant from the family's core business, interact with other family members to advance their venture. This study examined the entrepreneurial journeys of two Mexican family owned businesses for over two decades (1980s to early 2010s) during which their next generation members launched ten ventures. The authors identified distinct patterns of their external venturing practices. This summary briefly describes the study and its implications.

**External Venturing in Family Owned Businesses**

External venturing comprises entrepreneurial activities of owner family members, leading to a new venture outside the existing business. It expands the boundary of family business activities. External venturing promotes trans-generational entrepreneurship, and helps next generation members achieve their career growth ambitions. It also addresses the next generation's need to innovate and drive change. Therefore, it is crucial for next generation members to promote and grow their external ventures.

**Venturing Practices Adopted by Next Generation Members**

The authors observed that next generation members engaged in **five distinct practices** that helped their external venture achieve interconnectedness with or autonomy from the core business. These practices are as follows:

1. **Obtaining Family Approval**: Discussing and aligning the venture idea with the family and obtaining their agreement.
2. **Bypassing Family**: Diverting family attention and using / misusing family trust.
3. **Family Venture Mimicking**: Relating with the family’s venture model and copying its venture creation activities.
4. **Jockeying in Family**: Emulating family elders’ entrepreneurial actions while generating elements of newness, and
5. **Jockeying around Family**: Carving out separate space for the venture by broadening expertise while transferring generic competencies from core business.

**External Venturing Routes Followed**

Combining those practices, next-gen members followed one of these external venturing routes:

- **Imitating the Family Business** by obtaining family approval and mimicking family venture.
- **Surpassing the Family Business** by jockeying in the family, in addition to imitating.
- **Splitting the Family Business** by bypassing and jockeying around the family.

**Practical Implications**

- In external venturing, next generation members may adopt a ‘play it safe’ approach and copy the family’s venture and practices.
- Others may create distinct ventures that are ‘thoughtfully deviating’ or ‘strongly rebelling.’
- Business families must support next generation members in balancing their struggles and venture opportunities. This will minimize friction during external venturing.

Human relationships that span across multiple social and economic settings, are complex in nature. The relation between two family members who are also business partners, is an example of such a multiplex relationship. While some scholars find multiplex relationships more stable and productive, others find those, change-resistant and disruption-prone.

One aspect of multiplex relationships that remains inadequately examined is, how a relationship evolves when individuals undergo a change in role-hierarchy in a single-domain while the hierarchy remains the same in the other domain (as it happens during intergenerational leadership succession in a family business). This research analyzes case studies of intergenerational leadership successions in seven Chinese family firms and examines how the transition unfolds in leader-successor multiplex relationships.

**Role Transitions in Multiplex Relationships**

Multiplex relationships are dyads wherein interactions among the same individuals occur in multiple domains. Role-hierarchies to which individuals get accustomed to, within one domain, are naturally transposed to another domain. For instance, in a family business the father is a leader and the son a ‘subordinate’ in both the family and business. This multiplex relationship between father and son remains stable till the role-hierarchy remains the same in both the family and business domains. However, leadership succession in business changes this role-hierarchy in the business domain, while the roles remain the same in the family context.

The authors found that the leader–successor dyadic relationship experienced stress because the father and son struggled to figure out how to simultaneously treat each other as superior in one domain and ‘subordinate’ in the other domain.

**The Uniplex Third: Enabling Single-domain Role Transitions**

The authors observed that the outgoing business leader was anxious to lose respect in the family, while the successor was anxious of not being able to come into his own as a full-fledged business leader. Mothers were found to play a crucial facilitatory role in business leadership succession. They calmed those anxieties and insecurities by being a trustworthy third party to both the father and son in the family, while remaining non-partisan in business dis-agreements. However, she was found to be effective only when she was not actively involved in the business and was seen as an objective third party. Thus, a uniplex third party can facilitate role change in one domain while maintaining stability in the other.

**Practical Implications**

The study has important implications for business families:

- Women in the family can provide emotional stability to family members involved in role-hierarchy transitions during succession.
- Avoiding partisan positions in business disagreements helps women preserve trust.
- Families need to value that a uniplex third party (like, mother), could create positive synergies between the family and business.

Majority of businesses around the world are family-controlled. Due to the owner family’s desire to control the business and protect socioemotional wealth family firms are known to be managed differently, compared to their non-family peers. However, corporate political activity of family firms (which includes campaign contributions and lobbying) has not been probed adequately. This study examines data from 288 US family firms included in S&P 500, to understand whether family firms differ from non-family firms in their corporate political activities (CPA) and if so, why do family firms differ? This summary presents the study, its findings and practical implications.

Family Firms and CPA
Businesses and governments are dependent on each other. Therefore firms engage in CPA such as, advocacy advertising, lobbying, and constituency building. However, firms that engage in CPA are also prone to social attacks, which are usually inflicted through boycotts, protests and social media campaigns. Social attacks affect reputation of a firm. In contrast to non-family peers, family firms are known for their long-term orientation and safeguarding their family reputation. Hence, the authors suggest that family firms are less likely to engage in political activities.

CPA, CSR and Family Firms
Family firms are also known to undertake substantive CSR activities to enhance their reputation and protect socio-emotional wealth. Substantive CSR activities include community engagement, philanthropy, inclusion and diversity programmes, protecting environment and promoting business ethics. Hence, the authors suggest that family firms which invest in substantive CSR activities are even less likely to engage in corporate political activities.

Large Family Firms and CPA
Large firms are often viewed as strategic targets for social attacks. The larger the firm, the easier it is for the attackers to attract public attention, which maximizes their chances of success. When firms engage in CPA, they build relationships with political entities through lobbying, campaigning etc. These relationships act as an insurance mechanism for the firm against social attacks. As reputation management (for fear of social attacks) drives CPA investments in family firms, large family firms are likely to engage in CPA.

Key Findings
The results of the statistical data analysis reveal that family managers spend less on corporate political activities, especially when they are engaged in substantive CSR activities. However, they engage in CPA considerably, if the firm is larger and becomes a potential target for social attacks.

Practical Implications
- Engaging in political activities can tarnish family firm’s reputation, which can be protected through substantive CSR activities.
- Large family firms need to be quite alert as they can become targets for social attacks.
- Family firms need to weigh the pros and cons of engaging in CPA, and develop effective strategies to tackle social movements.

Annapurna Studios, a movie production facility, was established at Hyderabad in 1975 by Akkineni Nageswara Rao (ANR). He had been a movie actor, producer and philanthropist. ANR had primarily setup Annapurna Studios to pursue the passion for movie-making and not for monetary motives. He envisioned the studio as an iconic and long-lasting institution serving the film Industry. Annapurna studios was strained financially during its initial years. ANR took a bank loan to build its infrastructure. Managing the studio involved high fixed costs and overheads while the returns were low. In order to offset high costs, the studio began to make its own movies.

Venkat, ANR’s elder son, joined his father and became a movie producer. Later, ANR’s younger son, Nagarjuna, debuted as an actor. They appointed Nagarjuna as a member of staff and charged his producers the market rate. This financial model adopted from 1985 to 1990 helped clear debts owed by the Studio. By the late 1990s the studio started to make moderate profits. In 1999, Venkat passed on the management of studios to Nagarjuna.

Nagarjuna took the help of his niece Supriya to manage the studio. She had spent formative years with her grandfather, ANR. Hence, she understood ANR’s passion and vision towards the studio. The COO managed the operations of the studio including floors, facilities, and post production operations to keep it profitable and professional. Nagarjuna and Supriya made crucial decisions regarding content creation. Since 2000, the studio had grown from a small 20-member team to over 100 employees.

In 2011, the Akkineni family also started the Annapurna College of Film and Media (ACFM), within the premises of Annapurna Studios. In 2016, Nagarjuna resigned from his executive position to become the Vice Chairman. This allowed him to focus more on strategic direction and mentoring. He saw the future in TV industry and Technology. He made a personal investment in MAA TV and persuaded them to make programs in Annapurna Studios. The studio had also set up a digital department and invested in visual effects (VFX) technology.

The studio ownership remained within the family until 2008. Then, an entrepreneur Nimmagadda Prasad, joined as a shareholder with 26% stake. Nagarjuna’s two sons and two nephews pursued acting careers. Although, none of Venkat’s children were involved in the film industry, Supriya was engaged fulltime in managing Annapurna Studios.

Nagarjuna’s wife Amala served ACFM as a director. She initiated conversations within the family to define values and legacy of ANR. The family identified the need to develop a strategy to build and sustain ANR’s legacy. Nagarjuna wanted to build Annapurna studios comparable to world class studios. He thought that the younger generations needed to dedicate reasonable time towards the studio. Robust governance mechanism was required in addition to metrics, systems and processes to ensure accountability and profitability.

**Learnings for Family Businesses**

The key takeaways from the case are:

- Professionalization is the key to effectively manage a family business as it grows in size and complexity.
- Clarity on values and legacy is most crucial to keep the family united across generations.
- Family governance mechanisms and succession planning are critical to the long-term sustenance of a family business.

**Source:** Continuing the Legacy of Annapurna Studios (forthcoming ISB-Harvard Case), Nupur P. Bang, Kavil Ramachandran and Kandaswamy Bharathan.
Khwaja Abdul Hamied was born in 1898 to Khwaja Abdul Ali and Masood Jahan Begum in Aligarh. His father was a district court judge, heir to a long line of Nakshbendi reformers, and Masud Jehan Begum, a princess and heir to a lineage that went back to Shah Durrani, the king of Afghanistan. He married Luba Derczanska, a Lithuanian Jewish Socialist.

Hamied was a follower of Mahatma Gandhi, nationalist, freedom fighter, activist in public life, educational administrator, philanthropist, scientist, pioneering industrialist and a true gentleman. He defined himself as an Indian who happened to be a Muslim.

Hamied finished his intermediate course in Science from Agra College. His father’s career necessitated Hamied’s early education in various places. Due to his strong urge for technical education and running an industry of his own, he enrolled himself at the Leather Training School at Madras much against the will of his father. After a year, he was stuck by the fact that he was just getting only practical training and decided to join Science course from Allahabad University and obtained his M.Sc. Later, he completed his PhD in Chemistry from the Berlin University, Germany.

In 1927, after his return from Germany, he started looking out the possibilities of starting his own research institute in chemical technology based on his internship learnings at the chemical plants in Germany. He felt that starting a laboratory in India could prove useful for industrial development and contribute to its growth as a modern nation.

He founded Chemical, Industrial and Pharmaceutical Laboratory (CIPLA) in 1935 with an initial capital of Rs 2 lakhs from a rented bungalow in Bombay Central. Though the company started production in 1937, it faced difficulties in marketing its products as the doctors had no faith in indigenous formulations. The outbreak of the Second World War and the consequent disruption in shipping proved to be a blessing for CIPLA. Doctors and hospitals had to rely on indigenous products which proved to be a match to the European brands in quality.

Hamied served as an honorary professor and a member of the executive council of the Aligarh Muslim University, member of the Senate of Bombay University and was a fellow of the Royal Institute of Chemistry, UK. He was also a member of the Bombay Legislative Council. Hamied also served as Sheriff of Bombay.

He floated the idea and conceptualized the establishment of the Council of Scientific and Industrial Research (CSIR) as an umbrella organization to run a clutch of laboratories, besides starting the National Chemical Laboratory. He was also instrumental in starting two great centres of scientific research, Central Drug Research Institute (CDRI) and Industrial Toxicology Research Centre (ITRC) in Lucknow. He also played an important role in raising the standard of Indian pharmaceutical industry.

Hamied is regarded as the father of indigenous modern pharmaceutical industry of India. His love for the country and science is a model for those who want to develop a scientific temper. CIPLA, the oldest pharma company in India, is today considered one of the most ethical pharma company in India.

Sources:
https://www.cipla.com/about-us/our-history
https://www.milligazette.com/Archives/01102002/0110200257.htm
The Malaxmi Group comprises of several small and medium enterprises (SMEs) in agriculture, irrigation, infrastructure, water management, and construction. Since its inception in 2006, the founder Harish Chandra Prasad, aspired to build a professional organization and hired his team very carefully to ensure a good fit with his vision of focus on quality products and services, and values of building a sustainable business on strong ethical foundations. Rapid growth followed. By end of 2019, the Group’s revenues exceeded $10 million, with 300 plus employees.

However, there was some catching up to do in terms of internal systems and strengthening relationships internally as well as externally. When the Indian government imposed a complete lock down of the country on March 24th, 2020, to contain Covid-19 outbreak, the Malaxmi Group used the lockdown to revisit every assumption of current business practices, set strong systems and processes for the future and pivot the organisation to meet uncertainties of the future. Few proactive measures included the following:

Vigilance and Agility: When stories of the Corona virus epidemic in Wuhan, China reached India in January 2020, the team followed it closely as some of their vendors were based in this region. Immediate efforts were made to look for alternative suppliers within India. By the time the borders were closed, and international travel restricted, an alternate supply chain had been established.

Work from Home Protocols: Anticipating the work from home advisory, Malaxmi decided to implement work from home one week before the Government directives. This helped the team to be equipped with laptops, internet connections and other hardware. When many others were still absorbing the shock of the new work from home reality, a 9:00 am to 7:00 pm ‘work from home’ routine had already been established for the Group and they hit the lockdown running.

Aligning Team Members and Strategy: Teams of employees were assigned specific tasks with an overarching aim to rigorously assess, ideate, innovate and consequently update the current systems and processes to help the Group beat the competition and stay ahead in the game. In addition, taking steps to build long-term trust-based relationships with key internal and external stakeholders was stressed upon. Some of the initiatives taken by the Group to achieve these include:

Process Evaluation and improvements, WHY-WHAT-HOW matrices were prepared for several products and processes, project proposal templates were revamped and standardized, financial statements were analysed closely to identify areas of improvement, technologies to semi-automate several activities in construction and project execution were identified and evaluated, Enterprise Resource Planning software that had been bought 5-6 months earlier, but the implementation was patchy due to lack of time, training and commitment, was now being implemented meticulously.

In addition, special attention was paid to build and retain relationships with all stakeholders during this period. Employees were encouraged to upskill and cross-skill. Guidelines and training to improve quality, increase speed of execution and establish standard operating procedures for future purposes were put in place.

Thus, thoughtful and visionary leadership helped in bringing calm and efficiency in the storm of a global pandemic and found a multi-dimensional opportunity to strengthen organizational processes, systems and relationships, in a crisis.

Indian women are making their mark in business (Kiran Mazumdar Shaw, Nisaba Godrej), politics (Nirmala Sitharaman, Smriti Z Irani), sports (P V Sindhu, Dipika Pallikal), as well as in science (Tessy Thomas, Priyamvada Natarajan) like never before. Yet, gender inequality is the hard fact with women faring poorly in all walks of life, from healthcare to education to economic participation.

Apart from changing mindsets to welcome the involvement of women in businesses, the enforcement of the Companies Act (2013) has ensured greater gender diversity in the boards of listed firms in India. As the immediate impact of this regulation, requiring every listed company to appoint at least one woman director to their board, the percentage of women directors on National Stock Exchange (NSE)- listed firms went up from 5.5% in 2014 to 12.6% in 2015 and 14.3% in 2017 (Exhibit 1).

Diversity is often seen as a way to infuse novelty into the strategic decisions taken by the board. Research has found that gender diverse firms are more sensitive to their stock performance, thereby resulting in better shareholder value.

**Exhibit 1: Percentage of Female Directors – All firms**

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<tr>
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<th>2013</th>
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<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>% Women directors</td>
<td>4.9%</td>
<td>5.5%</td>
<td>12.6%</td>
<td>13.7%</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

*Source: Authors’ calculations based on data from Prime Database*

Governance in family firms is considered to be a black box by many analysts and investors. The independent directors’ role is thought to be more ceremonial in nature. Yet, the quality of the Board of Directors is an important characteristic of a well-governed firm.

Given this perception, we analysed 1,284 NSE listed firms for the three-year period, 2013 to 2017 to find out the specifics of women directors being appointed by family firms. We found that contrary to the general belief, the family firms were quick to meet the requirements of the Act (Exhibit 2).

**Exhibit 2: Percentage of Female Directors – All firms**

<table>
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<tr>
<th>Ownership</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>Non-Family</td>
<td>5.0%</td>
<td>5.8%</td>
<td>10.4%</td>
<td>12.3%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Family</td>
<td>4.9%</td>
<td>5.4%</td>
<td>13.0%</td>
<td>14.0%</td>
<td>14.4%</td>
</tr>
</tbody>
</table>

*Source: Authors’ calculations based on data from Prime Database*

The study revealed that on an average, family firms had a higher percentage of women directors on their boards. Increasing gender diversity will require sincere commitment and cautious implementation plans from companies. While the number of women directors is increasing, there is need to actually empower these women directors by providing them with the tools to perform to their potential through training, exposure and clear and challenging roles. Not least, they need to put in place appropriate gender agnostic performance management systems. While interventions at various levels to promote gender parity provide an impetus, their implementation in spirit is in the hands of the firms and individuals.

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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