Thomas Schmidheiny Centre for Family Enterprise

Family Business Briefs

Issue 53 / April 2019

Welcome!

*I am pleased 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 **Business Families, Family Firm Internationalization and Family Science***
- *Summary of a published family business case on **Merck, Darmstadt***
- *Inspirations from the life of **Lala Shri Ram***
- *Interesting insights on **BVR Mohan Reddy, Executive Chairman, Cyient Limited***
- *Infographic on **Family Togetherness***

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,

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ARTICLE SUMMARY

Beyond the Firm: Business Families as Entrepreneurs

- Isabelle Le Breton-Miller and Danny Miller

Family business literature often characterizes family business owners as conservative and reluctant to innovate. This description may hold true in mature economies, but not so in the rapidly growing emerging economies of Asia and Latin America. Business families in these emerging markets own multiple firms that operate in several industries and countries. They have grown rapidly, made bold acquisitions and alliances, diversified and expanded internationally.

In this paper, the authors explore why business families are one of the most important sources of entrepreneurial initiative and discuss the resulting socio-economic outcomes.

Business Families and Entrepreneurship

Multiple streams of literature describe the role of business families in entrepreneurship. For instance, interpersonal family dynamics may either inhibit or promote entrepreneurship. The socioemotional objectives of maintaining family involvement and control over the firm also influences family entrepreneurship.

Entrepreneurial efforts of a business family go beyond a single firm. Large established business families possess flexible resources that can be leveraged across businesses, industries, countries and generations. Factors that contribute to the business families' entrepreneurial efforts include: the support of proactive human capital, mutual trust, entrepreneurial spirit, relationship network (both inside and outside the business), reputational and community capital. Most importantly, business families can provide patient capital and can quickly form a cohesive configuration of synergistic elements to establish a new venture.

Business Families: Challenges and Opportunities

Some of the challenges business families face include: leadership succession, family conflicts, entrenched leadership, and industry upheavals that pose serious challenges. While marriage, diversification and network opportunities may help the business grow.

The authors argue that business families are likely to thrive in the emerging economies that offer business growth, especially when there are institutional voids and a social class structure. Business families also thrive in traditional societies, ethnic and expatriate communities, and tax havens.

Practical Implications

The paper has significant implications for business families, especially for those operating in the emerging markets. Business families must view themselves in longer time horizons and invest in infrastructure and innovation. They must look for diverse business opportunities and not define themselves from the limited perspective of current businesses.

Source: *Entrepreneurship Theory & Practice, (2018), 42 (4), pp. 527-536.*

ARTICLE SUMMARY

A Missing Link in Family Firms' Internationalization Research: Family Structures

- Jean-Luc Arregle, Michael A. Hitt, and Isabelle Mari

Family business literature presents two views on internationalization of family firms. A facilitative view suggests that family firms internationalize more than non-family firms, while a restrictive view suggests that family firms internationalize less, mainly to avoid risk. The restrictive view dominates this discourse. Emergent research on this issue questions the dominant view and suggests that family businesses can successfully internationalize by adopting a high product-quality model and carving a global niche for themselves. This approach explains the heterogeneity in family firm internationalization.

In this conceptual paper, the authors view heterogeneity in family firm internationalization from the perspective of family structures. They examine the relationships of family structures (based on the typology of family structures in sociology literature), to internationalization of family firms. This summary presents the key arguments made in the article.

Typology of Family Structures

The behaviour and values of family members are influenced by -

(1) ***Vertical relationship*** **–**the relationship between the parents and their children,

(2) ***Horizontal relationship*** - the relationship between siblings, *and*

(3) ***Marriage norms*** such as, choosing the partner within or outside the family group. Based on how they vary on these three dimensions, families can be of seven types. The differences among these family types and their structures, are reflected in their strategic decisions. These differences partially explain the heterogeneity in internationalization of family firms.

Family Structures and Firm Internationalization

The authors suggest that a family firm managed by an authoritarian family has a strong capacity to develop global niche internationalization due to strong family control and continuity. A firm managed by exogamous community family can develop a global niche business on the strength of the family network. However a firm managed by an absolute nuclear family is less likely to be effective in developing such a business model because the family structure weakens overtime.

Family firms vary in their internationalization on the basis of the degree of importance their family structures assign to safe guard operational meritocracy, international educa-tion, formalized internationalization decision processes, performance measurement, and scrutiny of family outsiders. Thus, family structures are key to understanding family firm internationalization.

Practical Implications

Business families need to be cognizant of their family structure when they devise their internationalization strategy. Family firms must aim to create a global niche by adopting high product-quality business model. For this, they need to have a clear strategic focus and the ability to leverage the family business network.

Source: *Journal of International Business Studies, (2019), pp. 1-17, doi.org/10.1057/s41267-019-00213-z.*

ARTICLE SUMMARY

Introducing the Family: A Review of Family Science with Implications for Management Research

- Peter Jaskiewicz, James G. Combs, Kristen K. Shanine and K. Michele Kacmar

Family is the most enduring social group that has a significant impact on human behaviour. Yet, management research has not fully acknowledged and understood the influence of families on entrepreneurs, managers, employees, and firms. Family science is an academic field that examines how family relationships, structures and events influence key individual outcomes such as, personality, emotional well-being, and economic standing. Some family science studies also have significant implications for management research. In this paper, the authors describe seven highly cited family science theories and explain their relevance to family business.

Family Science Theories

Family science theories that the authors describe in the paper are the following:

1. Family Systems Theory suggests family is a hierarchical, interactive, and complex system with rules, membership criteria, and rituals, which the members need to follow.

2. Family Communications Patterns Theory describes how families communicate and affect family outcomes.

3. Family Niche Model of Birth Order and Personality suggests that birth order in the family shapes a member's personality and siblings adopt specialized niches to gain access to parental resources.

4. The Parental Control Theory explains that parenting style - (authoritarian, permissive or authoritative) shapes adult behaviour.

5. Family Development Theory suggests that families undergo seven different life cycle stages and transitions. Families that anticipate changes make smoother transitions.

6. **The ABCX Model of Family Stress** propounds that family outcomes are dependent on how families perceive and deal with a crisis using their existing resources, *and*

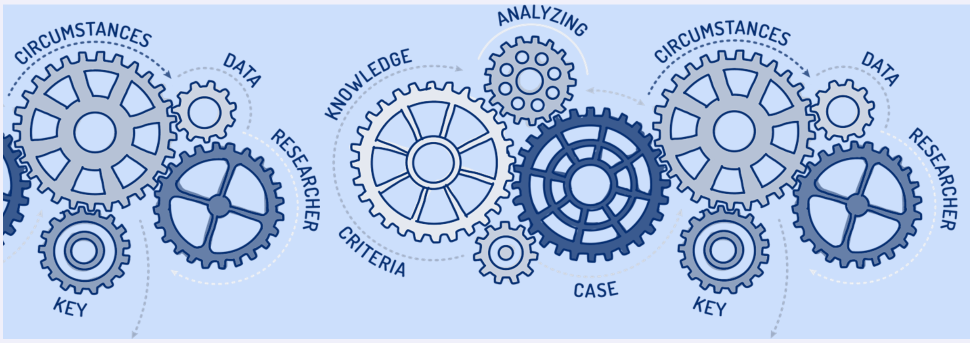
7. The Intergenerational Solidarity Theory suggests that the solidarity between two family members across generations can be measured on six dimensions, which have significant implications for mutual respect, affection and resource transfers.

Practical Implications

Family science theories have significant implications on several aspects of business, especially for family firms. A better understanding of the issues at the work-family interface, helps family firms devise more effective solutions. Family firms can also better understand what drives entrepreneurial career choices and make themselves attractive to next generation members.

Better understanding of how birth order and parental control in the family shapes personalities, attitudes and choices can help the firms arrive at a better job–personality fit. Effective measures based on informed decisions would help family firms achieve intergenerational solidarity.

Source: *Academy of Management Annals, (2017), 11(1), pp. 309-341.*



CASE SUMMARY

Merck, Darmstadt: Sustaining Legacy Beyond 350 Years

- *Navneet Bhatnagar, Kavil Ramachandran, Andrea Calabro and Sougata Ray*

The German company, Merck was globally ranked 17th among large pharmaceuticals and chemicals companies (by sales revenue) in 2016. The 13th generation, family-owned firm, Merck was to celebrate 350 years in business in 2018. Merck was the world's oldest pharmaceutical and chemical company. The Merck family owned 70% shares in the firm. Merck was led by the 11th generation family member, Dr. Frank Stangenberg-Haverkamp, who headed both the family and executive boards. Though the company had withstood various environmental and economic challenges through astute strategic planning and robust corporate and family governance mechanisms, Dr. Frank was facing the next big challenges – succession, strategic planning and transformation, and sustenance.

The company was founded as a pharmacy in 1668 by a German pharmacist. By 1827 it transformed into industry-scale manufacturer of pharmaceuticals and chemicals. However, the global business operations of Merck badly suffered during the World Wars and had to be gradually rebuilt after the second World War. In 1990s, Merck established the board of directors and professionalized. It was listed on the stock exchange, made several strategic acquisitions and expanded in emerging markets. Merck restructured operations into three main lines of business – healthcare, life sciences, performance materials.

The global pharma industry was fragmented with the top 10 players claiming ~41% share. The market was poised to grow at 5% per year. All major companies were investing heavily in R&D and technology. Merck focused on innovation and technology-leadership in niche, high-value product categories. However, it was facing stiff competition and adverse regulatory norms across markets.

In 2011, Merck launched "Fit for 2018" strategic initiatives to build core competencies through acquisition or collaboration in research. It also aimed at streamlining the processes and building synergy across all Merck divisions. The family was only involved in the strategic decision-making and governance. The entry of family into business was based on merit, experience and educational qualification. Merck had a family constitution and robust family and business governance mechanism. It had a family board that safeguarded the family's interest in business. It also had a board of partners that monitored the executive board of Merck.

Dr. Frank has roped in an advisor to help him strategize to ensure long-term sustenance of the family and business. He was to choose and groom his successor (either from within the family or outside) and devise a strategy that could take the Merck legacy forward.

Learnings for Family Businesses

The case highlights the significance of family values, stewardship, and governance for long-term sustenance of a complex family business.

- Continuously adopt strategic initiatives like investing in technology, collaborating with competitors or professionalization to sustain in a rapidly changing turbulent environment.
- As the business and family grow and become complex, there is a need to revisit the plans and revise to ensure the family involvement and engagement along with the company's long-term growth roadmap.

Source: *Merck, Darmstadt: Sustaining Legacy Beyond 350 Years (2018), Case Authors: Navneet Bhatnagar, Kavil Ramachandran, Andrea Calabro and Sougata Ray.*

FAMILY BUSINESS LEADER

Lala Shri Ram

(1884-1963)

Born to Madan Mohan Lall and Chando Devi, Lala Shri Ram was adopted by his widowed aunt at the age of 6. He studied at a municipal school in Bazar Sitaram in Delhi initially and was later sent to Anglo-Sanskrit School at Charkhewalan from where he matriculated in 1900.

He joined the Delhi Cloth & General Mills (DCM) in 1909 in the accounting department. By 1925, the family acquired controlling stake in DCM aided by some brilliant business acumen and ingenious deal. After that, there was no looking back and Lala Shri Ram established the DCM Group that spanned the manufacturing of sewing machines, fans, fertilizers, textiles, sugar, electric motors, etc.

In seeking growth for his enterprises, Sir Shriram scrupulously pursued a policy which had its foundation based on intellectual integrity, devotion to duty, and a liberal humanism directed towards the common welfare of all sections of Indian society. He was a pioneer in policies like provident fund, free housing, schooling and shares for employees

He had said, "*Management in business is essentially a matter of human relations*."

He took lead and brought the entrepreneurs of early 1900s together by forming institutions like CII, FICCI and PHDCCI, which today play a key role in the growth of Modern India. In 1930 at the age of 46 he became president of FICCI. He was one of the seven architects of the Bombay Plan of 1944-45. He was the founder director of the Reserve Bank of India, The British Government bestowed knighthood upon Ram in 1941 and deemed him Sir Shri Ram for his contributions towards the development of society.

In 1920 he founded the Commercial Education Trust and set up several schools and colleges over 40 years including Shri Ram College of Commerce (SRCC) and the Lady Shri Ram College (LSR). He was made a member of the seven-member committee of the Planning Commission that laid the blueprint for technical education in the First Five-Year Plan. In 1955, he joined the planning committee of the Administrative Staff College in Hyderabad and the National Institute of Management in Kolkata.

The DCM Group (Shriram Group) continues their commitment to education through setting up of various schools under the Shri Ram umbrella.

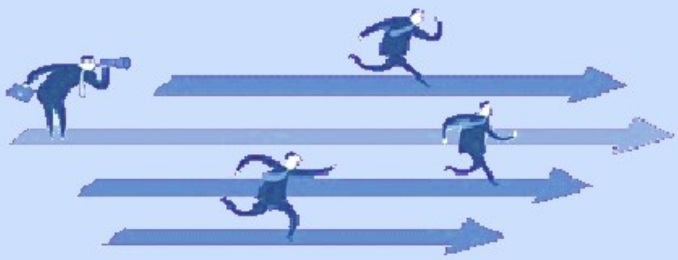
In 1900 Lala Shri Ram got married to Phoolan Devi, the daughter of Bhagwan Dass, a filigree merchant of Dariba Kalan. They had three children, Murli Dhar, Bharat Ram and Charat Ram.

Source: https://www.indiatoday.in/magazine/guest-column/story/19840531-lala-shri-ram-1884-1963-the-merchant-of-delhi-803661-1984-05-31

https://www.dcmshriram.com/our_founder

https://www.srf.com/legacy.html

https://alchetron.com/Lala-Shri-Ram



BENCHMARKING

LEARN

FROM THE BEST

BVR Mohan Reddy, Executive Chairman, Cyient Ltd. is a first generation entrepreneur from a middle class family. A passionate engineer with a vision for designing tomorrow together, he started his business at the age of 40 with four engineers at his home in 1991. They identified a global business challenge, found a solution for it and built a profitable business around it, They scaled up through process, people, technology, tools and training. They identified the right people, recruited them, rewarded, retained and motivated them and shared a part of the wealth created with them.

Life Post-succession– Not Retired: New Roles

- **Education: mentorship, advisory and leadership to various educational institutions like IIT Hyderabad, Board of National Skill Development Corporation, etc.**
- **Industry Associations: Participate and provide leadership to the industry association and institutions like NASSCOM, CII, Administrative Staff College of India, Vizag IT Park**
- **Startups: Involved with T-Hub, Hyderabad Angels. Family Office works with around 20 start-ups**
- **CSR: Adopt-a-School, Digital literacy, Social innovation aligned to Business Innovation**

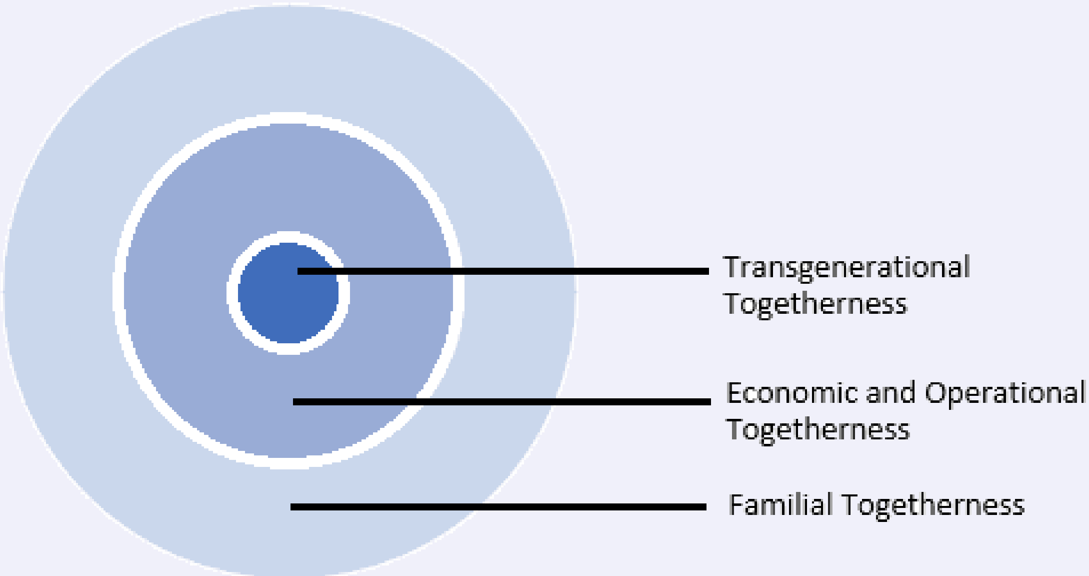
In the year 2014, the board of Cyient unanimously elected Mohan Reddy's son Krishna as his successor. Krishna was well qualified, had experience outside the company, within the company he had worked in several departments starting from junior positions. He was allowed to develop his own thinking and style, but without leaving the emphasis on values and sustainability. He also had a board mentor and a professional mentor to groom him.

However, it is necessary for the incumbent leader to redefine their role when they retire from the company. While grooming of the successor is important, leaving the baton in the hands of the successor is equally important. Hence Mr. Reddy said, "we need to give them space to make decisions/mistakes and learn. I decided to move on and start focusing on my passion. You retire from a role but not from life."

Source: BVR Mohan Reddy, Family Business, Succession Planning, Presentation at the seventh Asian Invitational Conference on Family Business, Indian School of Business, February 2-3, 2019

DO YOU KNOW?

The term ‘togetherness’ has been used quite often in discussions on family business. Togetherness enables families to pool all their material, emotional and intellectual resources for common cause. It brings unity in the family and helps its members develop shared beliefs and vision. Though togetherness is a family phenomenon, it greatly influences the family business as well. Togetherness among family members is not only positive for the family system but also brings tangible and intangible benefits to the business and contributes to its sustainability.



In a research conducted by the Centre, it was found that there are three distinct dimensions of togetherness. First, is the emotional bond among family members and respect for family’s culture and tradition. We label this dimension as ‘Familial Togetherness.’ At the next level, there are issues that relate to coming together of family members with regard to business operations. This is where family togetherness pervades into the business domain. Family members come together to make crucial business decisions on strategy and operations. They commonly arrive at mutually accepted norms on sharing responsibilities and rewards. We term this dimension as ‘Economic and Operational Togetherness.’

The third level of togetherness entails unison among family members on matters of succession, inheritance of family wealth, establishment of new ventures and inducting next generation members in business among other long-term strategic issues. We label this dimension as ‘Transgenerational Togetherness.’ The reducing areas of the concentric circles in the figure above indicate the relative extent of togetherness noticed in the study. Family members within this core group can be said to be together in the truest sense of the word.

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.

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Corporate Identity Number: U80100TG1997NPL036631