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44. A Case Study on Gujarat's New Generations Overcoming the Challenges of Third Generation Company

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ABSTRACT

Professors of management education believe since the third generation is born into prosperity, it isn't groomed well enough to undertake hard work. Besides, the changing complexities of businesses and the environments in which they operate become a major hurdle for the third generation. "In the first generation, you have the patriarch taking all the decisions; the second generation [of brothers and sisters] follows. By that logic, the family and the business are established by the second generation. "The third generation, which typically consists of cousins, does not want to restrict itself just to the family business it wants to do many other things. The research focuses on lesser-known family businesses that have successfully gone beyond the third generation. The research throw light on what some business families have done very different to be successful at this point and still stay together as well.

KEYWORDS

third generation company, family business, delegation.

Introduction:

Throughout history, family businesses have proven to be resilient. Yet succession – even when someone has been waiting in line for years – remains a weak point that often results in failure. Only a few family businesses survive into the third generation, which comes down to a poor succession plan. To break the so-called third-generation curse, families need to think beyond strength and instead focus on choice to create a succession plan that gives everyone a say in their future. According to (Wibowo, 2018) family businesses are companies which have at least two generations involved in production activities and second generation could influence company policy. According to Harms in Santoso & Kristanti (2018) a business can be considered as a family business when it reaches at least the second generation of close relatives and when the second generation has entered the company. It is not surprising that the myth arises that first generation established, second generation developed, and third generation destroyed (Chitania et al., 2014). Ward in (Santosa & Praptiningsih, 2014), said that only 20 percent of family businesses in the United States could survive more than 60 years in the same family. In family business delegation process, leaders must have the knowledge and ability to carry out the process from senior to junior generation. This involves several steps and starts when the founder encourages his children to become part of the business (Wibowo, 2018). Delegation according to Campbell in Wibowo (2018) is a process where someone asks for help or gives a responsibility to others. In addition, according to Hunt in Wibowo (2018), stated that effective delegations within the family company include the following:

1. The first stage: the provision of education by the senior generation to the successor generation where the education is in accordance with the field of family business.
2. Second stage: the senior generation involves prospective successors after taking education. This involvement should start from the smallest or lowest field, not directly providing key positions.
3. Third stage: the senior generation entrusts several things to the prospective successor so that the prospective successor can practice and be more responsible.

According to Stoner in Wibowo (2018), with the delegation from the senior to junior generation, junior generation will gain confidence as they are given responsibility within the business. The senior generation will also benefit, where they will feel helped by the division of responsibilities so that the results will be more accurate from the junior generation. The acceptance of transition and the ability to change for the better lies behind these family-owned firms' resilience, dominance and success.

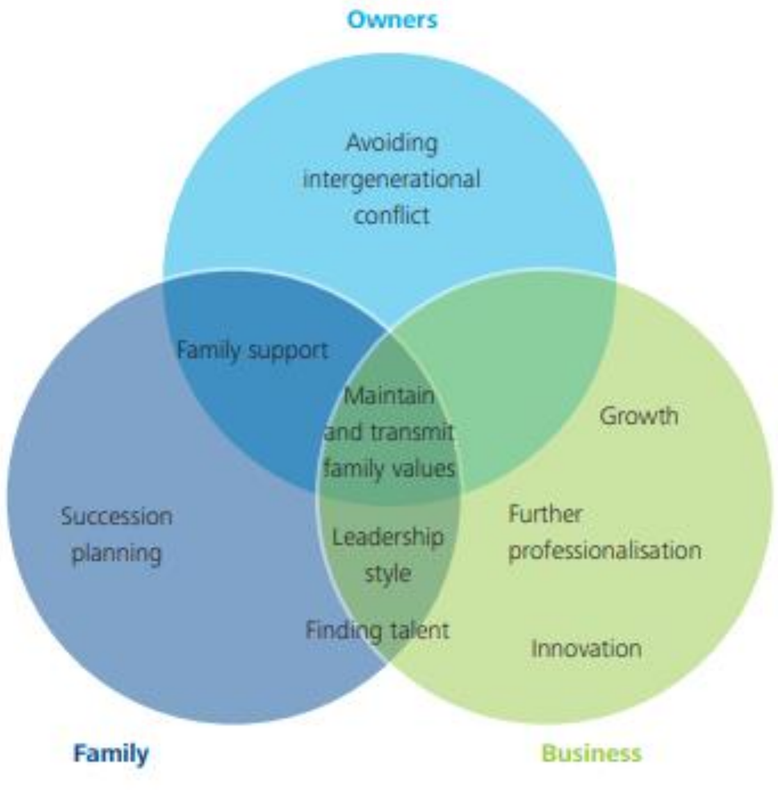
There are numerous stories in India about successful family-owned businesses, where change has pivoted them. Changes that had to be adapted to due to the changing mindsets, changing generations and the changing patterns of consumerism. It is the responsibility of the younger generation joining the family business to offer a fresh pair of eyes. With the country's evolving landscape came new opportunities and challenges, thus changing the game for every generation. But what has remained constant with most family businesses is the core value system.

The next generation's role is that of renewal and to be the voice of the new generation, modern customers and competition. Ward (Ward, J.L.,1987) explains that only 30% of family companies survive in the second generation's administrations and only 10-15% in the third generation's hands. Lambercht and Donckels (Lambercht, J. and R. Donckels 2006) explain that a succession process is a lengthy one, where succession planning becomes a part of this process. Family businesses are found to split up like amoeba as they grow, and very few of them survive beyond three generations, supporting the age old saying, "shirt sleeve to shirt sleeve in three generations" (Carlock and Ward 2001, McCulloch 2004). As discussed by Paisner (1999), developing a sustainable mechanism for business ownership that does not lead to inequitable wealth distribution and avoid amoebic type break up, is also an important area of concern. Paisner's idea of a trust route seems to be good, but needs to be empirically validated. The research focuses on lesser-known family businesses that have successfully gone beyond the third generation. The research throw light on what some business families have done very different to be successful at this point and still stay together as well.

The challenge for next generation:

A new generation of young, highly-motivated and men and women is ready to take over leadership of their family businesses. The longer-term prospects for their company, and the challenges they will face, are high on their agenda. The biggest challenge is to maintain and transmit family values. Family firms need to maintain a balance between business goals (such as growth, innovation and recruiting talented staff) and family goals, such as maintaining family values and protecting the family wealth. They also need to arrange a smooth transition in leadership eventually, from one generation to the next. These goals may sometimes conflict and may be difficult to reconcile with each other. The main challenges facing the next generation of family business leaders are shown in the three circle model, in Figure 1.

Figure 1. Conflicting objectives in family business



(Source: Deloitte)

For the next-generation leaders of family businesses, having their own leadership style and being recognised and accepted as the new leader are seen as the main challenge. In the past family businesses were considered cautious in their approach to growth, but the next generation see expansion of the company as their second main challenge, building further on the achievements of their predecessors. These views are most commonly found in companies where the next leaders are the second or third generation.

Ability versus willingness case studies of some successful third generation companies of Gujarat:

Gujarat is full of family businesses that were founded over 100 years ago, when priorities, approach towards innovation and business models were very different. With the country's evolving landscape came new opportunities and challenges, thus changing the game for every generation. But what has remained constant with most family businesses is the core value system.

Wagh Bakri:

For more than a century, Wagh Bakri has been in the sole business of selling tea. The company dates back to 1892, when first-generation entrepreneur Narandas Desai started it by leasing 500 acres of tea estate in Durban, South Africa, only to come back to India in 1915 after facing racial discrimination. "Today we are the largest family-run packaged tea business in the world," says Parag Desai over a cup of Darjeeling tea. The main operations of the 131-year-old business are managed by Parag, Paras, and Priyam, the fourth and fifth generations of the family. Veterans Rasesh and Piyush, from the third generation, have taken a back seat and mostly look after corporate social responsibility (CSR). After pursuing his master's degree from New York's Long Island University, Parag joined the business in 1995, when it was less than Rs 100 crore. "Our revenue is more than Rs 2,000 crore now." He took charge of expanding the business outside Ahmedabad and introduced the ecommerce platform buytea.com 20 years ago. The brand has a presence across 24 states in India, exports to over 60 countries, and sold 48 million kg of tea last year. It took the approach of expanding slowly and steadily. For instance, after spending a good 10 years in Rajasthan and Madhya Pradesh, the brand moved to Maharashtra and Delhi. The main concern was to test the waters and develop a robust distribution network. "I don't know how good or bad that is, but it has worked for us because our needs are also limited. The business has been growing well," says the 48-year-old executive director. Parag and Paras look after product innovation, growing their brand awareness, ecommerce, and international business. Crediting the earlier generation, Parag acknowledges having had the freedom to run the business and introduce changes. From foraying into newer regions to launching the first tea café, "our decisions were never questioned as long as we took complete accountability for success and failure". The unlisted brand runs over 70 tea lounges and tea worlds across India. The third-largest packaged tea company in India after Tata and HUL, it is also looking to expand in the eastern region. Parag also credits their professionals for running the brand smoothly. "For the last 20 years, we have been a family-owned but professionally run company." Strong value mechanisms, ethics and morality are some of the values carried forward by all the generations till now. "We hope our kids pick up this from where we left it and take it ahead," says Parag.

Vadilal:

Growing up, Aakanksha Gandhi's dinner table conversations only revolved around the ice cream industry and the day-to-day challenges her father faced at work. "It was always my dream to eventually work with the family business," says Gandhi, the fourth generation to have joined the family business, as president-branding and parlours at Vadilal Enterprises. The company dates back to 1907. From a fountain soda shop in Ahmedabad to making traditional kothi-based ice cream (using a hand-operated machine to churn milk with other ingredients), Vadilal is one of the most popular ice cream brands nationally. Ranchod Lal Gandhi set up a small retail outlet in 1926. After its flagship cassata ice cream was introduced in the 1950s, there was no looking back. By the 1970s, Vadilal was a household name, with eight to 10 outlets in Ahmedabad and the third generation; this was when Ramchandra and Lakshman Gandhi had joined the business. By 1989 the company became a listed entity. Since then, the business has grown manifold. After some reported tiffs within the family, the business is being led by Ramchandra's son Rajesh and Lakshman's son Devanshu. The new generation is trying to bring in a lot more innovation while keeping the family's core values intact. Vadilal has two separate entities: Vadilal Industries, which looks at manufacturing, and Vadilal Enterprises, which is in charge of marketing and distribution. Devanshu's daughter Aakanksha joined the business in 2018, and is in charge of marketing and branding efforts nationwide. "Being in a generational family business, there is always an opportunity to add value to the legacy. Since becoming part of the brand, my primary goal has been to ensure continued relevance among the Gen Z and Gen Alpha demographics," she says. The 26-year-old has been spearheading efforts to elevate Vadilal's presence in the ecommerce landscape and has been collaborating with influencers. "All of this has been achieved while maintaining a delicate balance with the company's existing values." A year ago, she spearheaded the launch of a dessert café, Vadilal Now For Ever. "The idea behind this was to connect with the young generation, to build lifelong loyalty," she adds. Even the standalone ice cream parlours, Vadilal Scoop Shops, have expanded to 30 locations across Gujarat, and four locations in Delhi. Vadilal is gearing up for a franchise-based, pan-India launch soon. The manufacturing business clocked in a net revenue of operations of Rs 896 crore, whereas the marketing and distribution business's net revenue was Rs 930 crore in FY23. With a lot more innovation on the marketing and branding side, Aakansha is all geared up to transform Vadilal. But how different is her leadership style? "I don't want to change the core essence of the corporate culture that has been built over the years. But we are encouraging a more democratic style of leadership, allowing more opportunities to engage with team members and value their insights," she says.

Symphony Fabrics:

After studying textile materials technology in the US, Abhishek Shah wanted to return to India to diversify his 80-year-old family textiles business. Given that he studied biomaterials and sustainability, he suggested focussing on sustainable textiles. Along with his father Jigesh Shah, they launched Symphony Fabrics. Around 2017, sustainability wasn't a new concept, but sustainable textiles were still at a relatively nascent stage in the Indian market. "We started R&D for hemp fabrics, and invested more than Rs 40 lakh in it. It was very difficult to run hemp on the looms," says Shah. The existing business has been manufacturing corduroys for massive industry players such as BVM, Arvind, M&S and other export houses for years. The 29-year-old is working closely with his father on introducing newer fabrics, including hemp, bamboo, hemp corduroys and more. The father-son duo has also started catering to many new industries, including medical, technical textiles and tire cord fabrics. But before joining the family business, was there never a thought to set up a startup? Shah says, "Textiles are in my blood. I was always certain of two things: Working in the field of textiles and expanding the family business." 'Quality over quantity' has been a core value in the family, and Shah has ensured he sticks by it.

Earlier the business only catered to large multinationals. “Now, when we produce any of our fabrics, we keep a few extra metres in stock. This allows us to not only cater to MNCs, but also startups and mid-size companies across the globe at a short notice,” says Shah. Earlier the business was very India-focussed. With Shah’s entry, he started focussing on digital marketing, “We started participating in trade shows across the globe, which allowed us to connect with international brands directly. We are working with many of them directly now, without any agent presence… this has helped grow our revenue as well,” he says. This strategy also allows them to offer better prices to customers. “For instance, at a recent trade show in the UK, our competitors were selling hemp fabrics at significantly higher rates, and we were offering better quality and rates,” he adds. This has been a game-changer for the company. Currently, Symphony Fabrics exports to about 14 to 15 countries, across sectors. Being a textile engineer has helped too. “Often customers reach out to us, wanting to custom-make certain fabrics. We ask them to send across a swatch, and then we reverse engineer and create the fabric as per their requirement,” he says. Shah soon plans to launch a new gifting and lifestyle brand called ‘SUMORE’. “We are hoping to sell HEMP-Bamboo bed linens, tote bags, table runners and more—all made using our fabrics—for gifting. Our products will range from Rs 500 to Rs 10,000,” says Shah. Symphony Fabrics is hoping to make the most of the large margins that can be made by selling products directly, while still keeping the B2B business as the core. Apart from diversification plans, the company is investing heavily in adding more machinery to increase their monthly capacity from 200,000 metres a month to 3 lakh metres a month. Going forward, the company hopes to find strategic partners and investors in India and across the globe to expand their offices and presence globally.

Aava Water:

Inside Ahmedabad’s cantonment area in Hansol is a 50-acre campus, where, 63-year-old Behram Mehta points out, “We inaugurated Aava Water in 2005. Every element illustrated on our labels is from this protected ecosystem, which is home to thousands of indigenous flora and fauna.” In the cluttered sector of packaged drinking water in India, Aava claims to offer water in its natural state, without any artificial processes. It is also western India’s first brand to sell natural mineral water that originates in the Aravallis, the world’s oldest mountain range. Aava Water, which is run by two generations, has been focussed on its B2B business and is now aggressively expanding its B2C reach. “When I joined in 2011, we were a completely different outfit, with 90 percent of our sales coming from B2B clients like Jet Airways, Air India, Four Seasons and so on, with a heavy dependence on a few clients,” says Shiroy (33), Behram’s son. After taking a call to change the client mix, 50 percent of the business is now generated from B2C. While Shiroy looks at operations and logistics, his younger sister Avanti (30) wears the hat of brand manager and creative director. When it comes to strategy, legality, and firefighting, Behram takes the lead. “We as a family have divided our duties, which enables growth and synergy. I still supervise quality, taste, testing, laboratories, and manufacturing processes, among other responsibilities,” says Behram. Around 90 percent of the business is in the domestic market, with only 10 percent coming from exports through airlines and flight kitchens. “We see exports playing a significant part in our growth over the next three to four years, beginning January 2024,” says Shiroy. When different generations of the family run a business, there are bound to be clashes of opinions. “Differences are inevitable. But they don’t hold us down in any way. Even if it’s a disagreement, it’s voiced, discussed, and put to an end,” says Avanti, who joined the business in 2019 and is also India’s youngest water sommelier.

Within the natural mineral water space, Aava has been on top, claims Shiroy. The Ahmedabad-based company manufactures, distributes, and sells more than 4 lakh PET and glass bottles a day. The price of Aava Water is higher than other market players', which makes it a premium product. Post-Covid 19, the company has seen an upward growth trajectory and is growing 30 percent year-on-year. The natural mineral water brand is currently valued at Rs 1,000 crore. The brand is now focusing on building a basket of products, which includes sparkling water and some unique beverages, which will give them an entry into the retail segment.

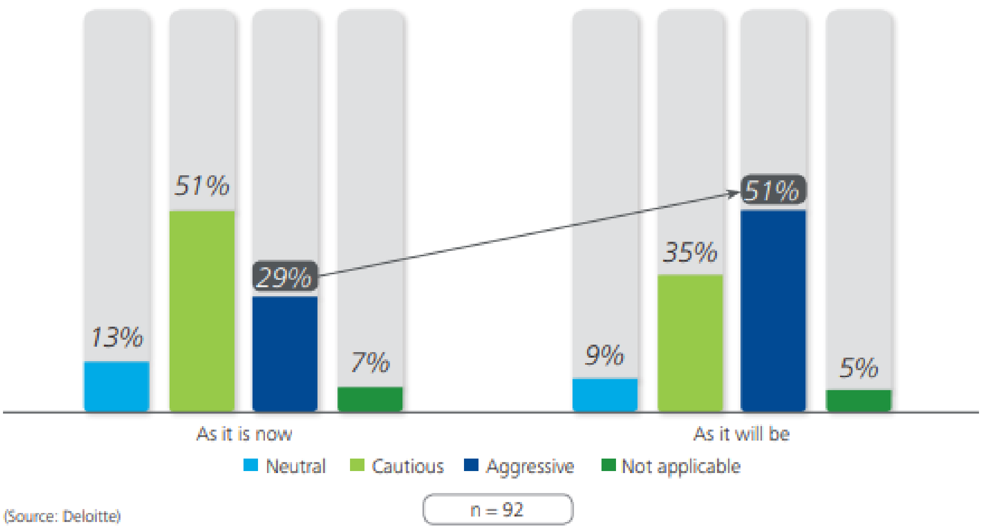
Risk attitude in the family firm, now and in the future:

Just like other companies, family businesses are exposed to various strategic, financial and operational risks. However, they also face risks that relate to the family, arising from matters such as lack of succession planning, divorce, death and family conflict. There is a link between risk-taking and business value. This may lead to risk-averse behaviour in order to preserve the family's wealth. 51 per cent of the next generation will be more willing to take risks.

There is a common view that family businesses are inclined to be risk-averse and unwilling to innovate, even though they have the resources to do so, due to concerns about the possibility of a negative outcome and a reduction in the family's wealth. According to our respondents, their family companies currently tend to avoid risk.

Almost 65 per cent are either risk-averse or risk-neutral, and about one-third are willing to take on some risk. Looking forward, a majority of respondents said that they will be more willing to take risks to improve growth in the business and increase profit, whilst also protecting family interests than the previous generation (see Figure 2).

Figure 2. Risk attitude in the family firm, now and in the future

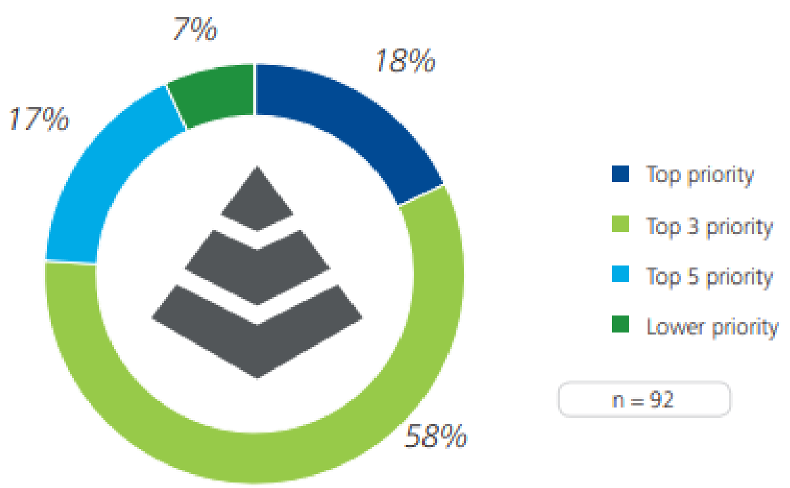


(Source: Deloitte)

Result & Findings:

Innovation in the family business appears to be important to our respondents: for 18 per cent, it is the number one priority, and it is a top three priority for 76 per cent (see Figure 3).

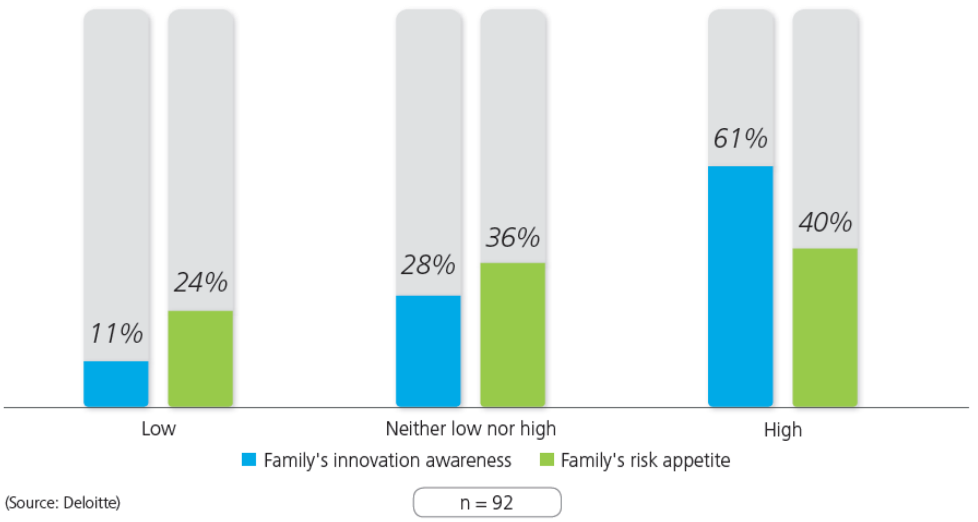
Figure 3. Priority of innovation for next-generation leaders



(Source: Deloitte)

Although 61 per cent of respondents stated that the level of awareness of innovation in their business was quite high, only 40 per cent thought that there was a sufficient risk appetite for innovation among family members. So, for the majority of businesses, the family wants to be innovative but with a limited exposure to risk.

Figure 4. Innovation: family's innovation awareness and risk appetite

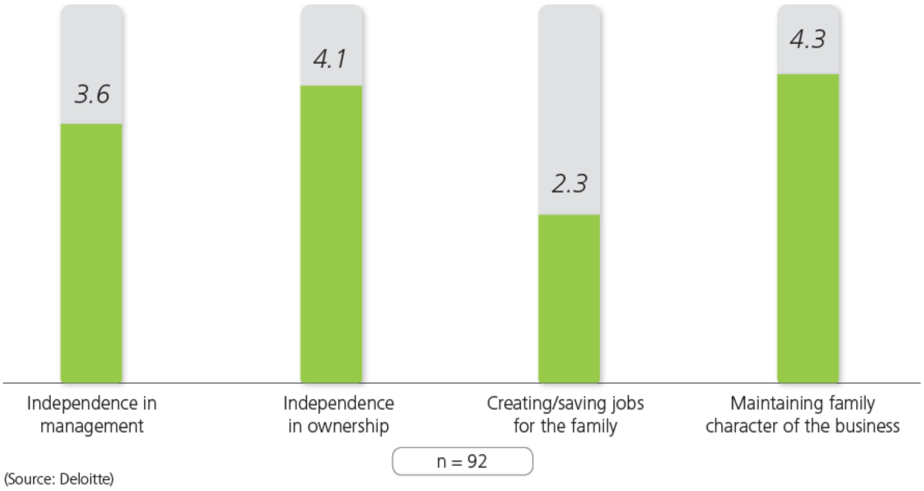


(Source: Deloitte)

Conclusion:

In a certain way, the family business represents the family's values, originated by the company's founder and transmitted down through succeeding generations. Values increase in importance with the passage of time. As families get larger and as the business expands, shared values become more important in binding family members together. Non-financial goals, such as the family character of the business and independence, are extremely important.

Figure 6. Importance of non-economic issues (on a scale of 1 to 5)



(Source: Deloitte)

Creating jobs for family members is not considered so important as this would be inconsistent with the desire to employ individuals who are the most competent.

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