# "Cultural dimension of Indian family firms – impact on successor selection"

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# Cultural dimension of Indian family firms – impact on successor selection

## Abstract

India is one of the fastest growing economies and becoming a key player in the global business arena. The Indian economic landscape is dominated by family firms which range from small corner shops to global diversified conglomerates. A large majority of these firms are fast approaching the critical stage of succession. The way the challenge of executive succession is addressed is influenced by the cultural setting. The older generations are rooted in the traditional cultural norms whereas the younger generations are in closer contact with western values and more permeable to these. This paper uses a game theory approach to analyze the impact that culture has on successor selection in family firms, focusing on the younger generation's cultural alignment with the underlining norms and values of the Indian society. The results emphasize that the younger generation's cultural misalignment can jeopardize intergenerational succession and risk family harmony. The findings highlight the importance of promoting cultural congruence in the family firm.

**Keywords:** culture, family firm, India, game theory, succession, successor selection.
**JEL Classification:** M10, M20, F01.

## Introduction

India is home to a sixth of humanity and is the most diverse country in the world in terms of religion, language, class, ethnicity and ideology (Kapoor, 2004). Since its independence, it has registered improvement in the standard and quality of living resulting in significant increases in life expectancy and health conditions. This progress has been coupled with staggering economic growth and development, making India the fourth largest economy worldwide and home to globally renowned companies in various sectors ranging from pharmaceuticals and steel to information and space technologies (The World Bank, 2015).

The Indian economic landscape is dominated by family firms ranging from small stores to large conglomerates. The importance of family firms is evident by their sheer number, with more than six million SME and various large conglomerates in the hands of family dynasties, such as: Birlas, Tatas, Singhanias, Ambanis and Bajajs. Other than the strong presence of the family firms, their contribution to the economy is essential, exceeding 60% of GDP and more than $50 million in market capitalization. Family firms are undoubtedly the backbone of the Indian economy. A vast majority of the firms are still in the first generation, but fast approaching the succession stage. Succession is a major challenge in family firms (Cabrera-Suárez et al., 2001). The succession process is described as a mutual role adjustment between the founder and the next-generation. It is a multistage and evolutionary course including successor selection, preparation, integration and finally the transfer of power (Handler, 1990). This paper focuses on successor selection phase, given its crucial importance in ensuring intergenerational continuity.

The national culture envelopes the family firm, shaping it and influencing the way decisions are made. Although it has been acknowledged that differences do exist among family firms in different cultural settings, culture has remained widely ignored or understudied, especially in family firms (Zahra and Sharma, 2004). The need to consider the cultural setting is essential for a better understanding of these firms (Chirico and Nordqvist, 2010). India's global importance has begun to attract scholar interest but little research has, so far, shed light on the managerial practices in the Indian context (Singh and Krishnan, 2007). India is becoming one of the key players of the global economic arena so it is imperative to understand the Indian culture and its impact on business, especially on the family firm which remains the most prevalent form of business in India (Collinson and Rugman, 2007). The business management research, especially in family firms, has privileged studies of firms located in America and Europe. We further contribute by extending the field to developing countries and promoting a more global understanding of the family firm as was called for by various authors such as Gupta and Levenburg (2010).

Culture will have impact on the succession process. The reality of successor selection in Indian family firms emphasizes the role that younger generation's cultural alignment plays. Notwithstanding the founder's preference for intergenerational managerial succession, one or more of the children have been unavailable to follow him as CEO of the

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family firm. This was the case for Saurabh Dhoot who, after concluding his engineering degree at Imperial College London, co-founded the technology start-up Nivio as opposed to joining the family business conglomerate consumer electrics group Videocon. Also, Shravin, one of the sons of Sunil Bharti Mittal, has opted to fulfil his own entrepreneurial vision rather than integrate the family business, Bharti Enterprises, a leading global business group present worldwide with an array of diverse interests such as telecom and financial services, agriculture, infrastructure, retail and manufacturing, to name a few. Kavin, Shravin's twin brother, has been inducted as manager, initiating what most view as being his grooming stage to become successor. The elder son of Jitendra Soni, founder of Vishwa Gold and Diamond Traders a SME family firm with offices in Ahmadabad and Surat, concluded his undergraduate in an Ivy League university in the US decided to pursue his career as an Investment Banker in New York. Given his opt-out his younger brother has stepped in and been appointed successor.

To understand the underlining economic rationality of these decisions and to study the strategies on this selection process, we use the strong analytical foundations provided by game theory. This paper deepens the use of game theory in family firms contributing to a better understanding of the impact that the cultural backdrop has on successor selection.

The strategic interactions involved in the successor selection are modelled using game theory. Our model's novelty is the inclusion of the emotional factors. These factors emerge due to the overlapping and interaction between the family and the business dimensions in family firms. These emotional factors influence the founder's behaviors and decision making process (Gómez-Mejía et al., 2001; Klein and Kellermanns, 2008). The main emotional benefit is the firm's continuity through intergenerational executive control and the key emotional costs are related to family conflict. The founder aims to maximize the firm's potential, while promoting intergenerational managerial succession and safeguarding the family's harmony. The importance the founder attributes to these emotional factors varies according to the cultural setting, and this will in turn shape how decisions are made in the firm. In order to study that impact, we present a game in which two siblings, simultaneously, run for the CEO position and then the founder, acting in accordance to the cultural setting, appoints his successor. We analyze three possible scenarios which differ in regards to the children's cultural alignment. For each, the resulting payoffs of the children are ranked and

the successor outcomes, in each scenario, analyzed and compared. The findings highlight the negative impact that children's divergent cultural behaviors and attitudes have on family firm continuity and family harmony. The results show when at least one of the children is culturally aligned then intergenerational succession is secured.

We contribute to the literature by presenting a game theory model which captures various successor outcomes witnessed in the Indian cultural context and emphasizes the role that culture plays.

In practical terms the results suggest that founders, practitioners and consultants working with family firms, need to invest more time and attention in promoting value congruency.

The paper begins with a review of the relevant literature, which is then followed by the presentation of the different scenarios and the subsequent discussion of the successor selection outcomes. We finalize by reflecting on the impact and limitations of our findings, and suggest future avenues of research.

## 1. Culture and family firms

Family firms are the most prevalent form of business organization worldwide. Their uniqueness arises from the interaction and overlap of the business and the family. The firm is embedded in the family which turn is embedded in the national culture, and each contribute in shaping the family firm. There is an interplay between family culture, family business culture and national culture (Chrisman et al., 2002; Le Breton-Miller and Miller, 2009).

The beginning of the family firm is represented by the founder's impact at various levels such as: the mission, the context in which the organization shall operate, the choice of members and the basic functioning of the organization as a whole (Dyer, 1986). Organizational leaders are portrayed as culture creators (Martin, 2002). There is a large consensus amongst researchers of family firms that the founders are key elements in the emergence of culture in the firms (Kets de Vries, 1996). Their dominant role can be witnessed beyond the family firm's earlier years due to their active and long-term roles in management (Denison et al., 2004). The founder of the family firm is the vertex between the family and the business system and plays a central role in both (Sundaramurthy and Kreiner, 2008). It is recognized that the family plays a vital role in enterprises, especially in family firms (Aldrich and Cliff, 2003). The family is one of the most reliable social structures for transmitting cultural values through generations (Gersick et al., 1997) and through the socialization process, the prominent beliefs and norms of the family are transposed to the family firm (Sorenson et al., 2009). This allied to the family firms'

resistance to change (Naldi et al., 2007), the importance of maintaining control (Zellweger et al., 2007), and the long tenures of the founders and CEOs (Anderson et al., 2003) explain the important role that the family's culture plays in establishing and maintaining the family firm's culture.

In analyzing the family firm, it is fundamental to consider not only the micro-context, in which the company is based, but also the wider context, the national culture, which serves as the background and reflects on the organization and its members. Family firms are repositories of the cultural endowments where they are set (Gupta et al., 2009).

The study of national culture is essentially driven by cultural dimensions which cluster countries and cultures based on their similarities. The foundation for quantitative measures of cultural values was first proposed by Klukhon and Strodbeck in 1961. The values they identified have been used as a basis by various researchers including the most well known and frequently used cultural dimensions developed by Hofstede. His cultural dimensions provide some insight on the contrasting attitudes and behaviors across different countries (Hamilton et al., 2008). Table 1 provides a summary of those dimensions.

Table 1. Hofstede's cultural dimensions

| Power distance index | The degree of equality, or inequality, between people in the country's society. |
| --- | --- |
| Individualism | The degree the society reinforces individual or collective, achievement and interpersonal relationships. |
| Masculinity | The degree the society reinforces, or does not reinforce, the traditional masculine work role model of male achievement, control, and power. |
| Uncertainty avoidance index | The level of tolerance for uncertainty and ambiguity within the society |
| Long-term orientation | The degree the society embraces, or does not embrace, long-term devotion to traditional or forward thinking values. |

Adapted from Hofstede, 1994.

After the groundbreaking work of Hofstede a few others have also developed cultural dimensions such as Schwartz (1994) and Smith et al. (1996) and more recently House et al. (2004) with their Global Leadership and Organizational Behavior Effectiveness (GLOBE) research project. However the undeniable fact remains that Hofstede's cultural dimensions are the most used in national cultural analysis (Dahl, 2006).

## 2. Indian culture

India is the world's largest democracy and home to more than a billion people, but beyond the diversity in Indian society, authors on Indian culture have noted there is an underlying unity that persists (Gupta, 2002).

Indian society is quite structured and stratified due to the impact of British rule and the caste system. The caste system is the most known and widely commented upon features of Indian society and although it was outlawed in 1947, its shadow still lingers on the social structure of India today. The caste system limits freedom of choice and reinforces the practice of following in the family's occupation (Shivani et al., 2006).

Despite its combination of rigid social structures and seemingly constraining cultural values, India has become, in recent years, one of the fastest growing economies in the world (Singh and Krishnan, 2007). This growth and development has led to the emergence of a sizeable middle class. The opportunities and job prospects available in the cities and towns has motivated the largest rural-urban migration of this century, with more than 10 million people leaving the countryside. The changes that Indian society is undergoing, with the dislocation from the rural areas to the cities and towns, on the one hand and the growing presence of international firms in India, on the other, has led the younger generations to become more permeable to western values. The Indian work force, one of the largest and youngest in the world, is in closer contact with global values which have been embraced impacting lifestyle, but Indian society still remains deeply entrenched in its cultural background (Pearson and Chatterjee, 1999).

In accordance to Hofstede's cultural dimensions, Indian society is more collectivist subjugating the individual for the wellbeing of the group. The family and social ties are emphasized in detriment of the individual. The GLOBE results reveal India, as part of Southern Asia cluster, with a strong family and humane orientation – a hallmark of its deep community orientation (Gupta et al., 2009). Family is considered the most important value in Indian society followed by continuity of the family business (Hofstede et al., 2002).

India, is defined as a respect culture given the high value it registers in terms of Power Distance (77 compared to the world average of 56.5). This score for India indicates a high level of inequality of power and wealth within the society but this is not necessarily subverted upon the population, who tends to accept it as a cultural norm and karmic outcome. The traditional hierarchical social structure of India, rooted in Hindu beliefs and perpetuated by the caste system, emphasizes respect for elders, teachers and superiors (Budhwar, 2001).

These national values translate both to the firm and the family circle. In the firm, as a result, management is often autocratic and hierarchical (House et al., 2004).

The respect for the elderly and superiors is rooted in the culture and strengthened in the family, as various generations tend to live together. The Indian notion of family is quite extensive including: parents, married sons, their wives and children. The same also extends to include other relatives along the male line of descent, such as the family of the father's brother and father's sister. India is a traditional country and individuals' decisions are expected to be in tune with the family and social structure (Rutten, 2001). The father-son relationship is quite formal and the son rarely openly disagrees with the father (Dutta, 1997).

India scores higher than average on masculinity index, which shows the gender discrimination of the Indian society. This is based on the cultural roles attributed to men and women in society limiting women's access to education and high level jobs (Sinha and Sinha, 1990). In terms of successor choice, the family firms are traditionally passed on to the male members of the family. The leadership role of women in Indian family businesses is relatively limited although they have begun to take on a more active role (Gupta et al., 2009), as is the case of Roshni Nadar, daughter of HCL Technologies founder Shiv Nadar, who was appointed CEO of the group's holding company in 2009. The Godrej group is another example, where Adi Godrej's two daughters, Tanya Dubash and Nisa, both play active roles in the group.

Although the law now allows female members to be named successors this is still not common practice in Indian firms where the primogeniture remains the main form of transfer and the priority is the family and its well being (Rana, 2005).

## 3. Succession in Indian family firms

The uniqueness of the family firm resides in the enmeshment of the family and the business. The family and business spheres overlap, coexist and mutually influence each other, contributing to the family firm's singularity (Taiguri and Davis, 1996). Astrachan and Jaskiewicz (2008) propose that the founder maximizes the total value of the firm which is the sum of the financial and the emotional value. The financial value results from the traditional sum of discounted cash flows whereas the emotional value represents the value created by the singularity of the family firm, resulting from the infiltration of the family dimension in the firm. The emotional value is the sum of emotional benefits net of any emotional costs. The main emotional benefit relates to family firm intergenerational continuity, and the most relevant emotional cost results from father/son conflict and sibling competition (Zellweger and Astrachan, 2008). The significance attributed to the emotional factors depends on the cultural setting. In

Indian culture the family is seen as the centre of social identity and the success of the family firm enhances the family's reputation (Gupta et al., 2009). The family's stability and its wellbeing, on the one hand, and the firm's continuity, on the other, are of fundamental importance. As a result, the emotional factors play a key role in decision making in the family firm.

The younger generation is expected to respect and adhere to the wishes of the senior generations and not doing so will result in turmoil in the family with negative spill over effects in the firm (i.e. high emotional costs). To analyze the impact of the Indian cultural imprint on successor selection in the family firm, we adopt a game theoretic approach. We use the game proposed by Blumentritt et al. (2013) adjusted to include the emotional factors. It is a game with three players: the founder (F), his elder son (E) and his younger son (Y). The children start by simultaneously deciding whether to run or not for the successor position, and subsequently, the founder chooses his successor. We use the rankings of the payoffs obtained from this game for both the sons. The payoffs refer to the benefit that the son has, net of any costs sustained, resulting from the conjunction of his decision with that of his sibling, given the founder's preference to uphold the existing cultural norms. The ranking of the payoffs reflects the order of preference of every strategic outcome for each son. The most preferred is ranked 3 and the least preferred is ranked 1.

The founder, we assume is culturally rooted in the traditional values of Indian culture. In India, the cultural norms dictate that the elder son is appointed successor, contrary to the American context where the most competent candidate is chosen, disregarding age, gender or bloodline (Chrisman et al., 1998).

The Indian founder's priorities are to ensure smooth intergeneration succession by appointing his elder son CEO without causing any tension or conflict in the family, and the children are fully aware of that and factor that when making their decisions. However, as Indian society is changing it is not uncommon for the sons to adopt behaviors and make decisions which might not be in tune with the dominant cultural norms (Mulla and Krishnan, 2006). To analyze the impact of the cultural setting on successor selection we consider three possible scenarios in terms of the children's cultural alignment with the traditional cultural norms:

♦ both children are aligned;
♦ the elder son is misaligned;
♦ and both children are misaligned.[1]

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[1] Given that the Indian culture places the onus on the elder son, the younger son's cultural alignment is important only when the elder does not act in accordance to what is expected of him.

**3.1. Both sons culturally aligned.** We start by considering that both sons do what is expected of them and respect traditional cultural values. In other words, that E prefers to run for the position and Y prefers not to run. However, Y will consider running if he thinks that E will not, as family firm continuity is also a priority. Table 2 shows the payoff matrix in normal form with the rankings for both sons.

Table 2. Both children culturally aligned

| | | Younger | |
|---|---|---|---|
| | | Run | Not run |
| Elder | Run | 2, 1 | 3, 2 |
| | Not run | 1, 3 | 1, 2 |

The pair of values in each cell indicates the ranking for every situation, for the elder and the younger son, respectively. For E, his preferred outcome (ranking 3) is to run for the top position in the family firm when Y does not compete for the position. Y prefers to run when E does not, to ensure that the family firm stays in the family. Y knows that although F would rather appoint E, but when E is unavailable, F wants to ensure intergenerational executive succession and so will appoint Y.

When both sons compete for the position it is a losing battle for Y given the founder's predisposition to appoint E, so Y's least preferred option is to run against his sibling.

**3.2. Elder son culturally misaligned.** The elder son who is not aligned with the traditional values of placing the welfare of the family before his own, has different preferences which translate in different rankings, for each strategic outcome. Consider the situation where his top priority is to pursue his career outside the family firm meaning he is unavailable to assume the successor position. As a result, his preferred option is not to run (ranking 3) and his least favored option is to run against his brother. Table 3 shows the altered rankings for E, Y's rankings are unchanged as it is assumed that he maintains his preferences as expressed in the initial situation.

Table 3. Elder son culturally misaligned

| | | Younger | |
|---|---|---|---|
| | | Run | Not run |
| Elder | Run | 1, 1 | 2, 2 |
| | Not run | 3, 3 | 3, 2 |

**3.3. Both sons culturally misaligned.** For both sons who are culturally misaligned Table 4 shows their rankings. In this case, both sons rank not to run as their best option. Their second best option is to run if their sibling doesn't run and their least preferred scenario is to run against their sibling. The ranking

of the payoffs highlights that although they would both rather pursue their career elsewhere, even at the cost of going against their father, they prefer to safeguard the family from the negative effects that sibling competition can have.

Table 4. Both sons culturally misaligned

| | | Younger | |
|---|---|---|---|
| | | Run | Not run |
| Elder | Run | 1, 1 | 2, 3 |
| | Not run | 3, 2 | 3, 3 |

**3.4. Successor selection.** In our setup both sons decide simultaneously whether or not to run for the CEO position in the family firm and then the father chooses his successor. Each sibling, when making his decision, anticipates the father's decisions and considers his brother's decision making process, knowing that his brother is doing the same. This circular reasoning comes to a conclusion in what is defined as the Nash equilibrium. The Nash equilibrium of this subgame refers to the strategy of each player choosing his best response, when none can improve his payoff by unilaterally changing his strategy, and this is true of all subgames of the game.

The Subgame Perfect (SP) Nash equilibrium when both the sons uphold the cultural norms is Y not run, E run and F appoints E his successor. When both E and Y are culturally aligned with the Indian cultural norms, then firm intergeneration continuity is ensured and family harmony maintained as there is no competition between the brothers nor any tension resulting from going against their father's wishes.

When the elder son prefers to opt for a career outside the family firm, incurring in the emotional cost of going against his father's wishes, his preferred option is to not run, even if that means that the family firm intergenerational continuity is not assured. He is willing to sacrifice family harmony, by opposing his father, as well as risking the family firm's executive control not staying in the family – two fundamental values of Indian culture. Assuming that the younger child acts in accordance to what is expected of him and is available to run for the CEO position, then intergenerational executive succession will be secured.

Finally, when both children are more individualist and less subservient to their father and prefer to pursue their career outside the family firm, this comes at a cost to the family and to the firm. The children choosing to put themselves, rather than the family first gives rise to tension between them and their father which will transpose to the family and jeopardize family harmony. The SP Nash equilibrium in this situation, is for both children not to run, which will mean that family firm's executive control will not remain in the family. From the stance of the family

and the firm this is the worst possible result, damaging family harmony and inhibiting intergenerational managerial succession of the family firm.

The results show that when the children adopt behaviors which are not in line with the cultural norms, this impacts successor selection in the family firm and destabilizes the family due to the tension created in the father/son relationship. Intergenerational succession is secured when at least one of the children is culturally aligned, and acts according to the Indian cultural norms. In practical terms, enhancing cultural alignment will safeguard family harmony and ensure intergenerational executive continuity.

## Conclusion

India is becoming a key player in the global business arena and it is important to understand the role its unique cultural framework plays in the decision making process, especially in family firms which is the dominant form of business in India. This article contributes to a better understanding of the cultural dynamics of rising countries, more specifically of India, one of the biggest, most populated and fastest growing economies of the world.

The influence of culture is recognized and used to interpret differences in businesses worldwide, and family firms are no exception. This article builds on the use of game theory to study family firm succession and contributes to the literature by highlighting the importance that the cultural framework has on successor selection. The results show that the successor outcome will depend on how culturally aligned the children are. When both or at least one son, acts in accordance to what the cultural norms and values of society dictate, then the successor selection outcome will ensure that intergenerational managerial succession is secured and family harmony maintained,

even at the cost of sacrificing the child's dreams and individual ambitions. In the opposite case, when both the children adopt divergent behaviors and attitudes to the dominant cultural norms, there will be father/child tension jeopardizing family harmony, in the family circle and in the business sphere the firm's executive control will not stay in the family.

The results substantiate that the dynamic process of culture creation and management are the essence of leadership and so leadership and culture should be seen as two sides of the same coin, as argued by Schein (2004). In practical terms, the findings illustrate the importance of family firm leaders in promoting cultural diffusion and value congruency in the family, to ensure harmony and firm longevity.

Our study contributes to a more global understanding of the family firm focusing on India, given its growing importance in the international business scene. An opportunity for future research would be to model games with other possible successor outcomes like the possibility of appointing two instead of one successor. In some Indian family firms, the founder has opted for an operational split of the business rather appointing his elder son. This is the case in Lodha Group which announced it will split into two entities. Lodha Group chairman and founder Mangal Prabhat Lodha plans to appoint his elder son, Abhishek, 36, to the helm of the real estate business, while his younger son, Abhinandan, 33, will head a new financial services business. This strategy was also adopted by M.L. Mittal's well known Ispat Group, where the international business was given to his eldest son, Lakshmi Mittal (and has now become Arcelor-Mittal) and the domestic business were left in the hands of the two younger sons Pramod and Vinod Mittal. Another opportunity for future research would be to extend this analysis to other cultural contexts.

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