THE SOUTH EAST ASIAN JOURNAL OF MANAGEMENT

Organizational Model of the Southern Asia Cluster Family Businesses

Vipin Gupta, Nancy M. Levenburg, Lynda Moore,
Jaideep Motwani, and Thomas V. Schwarz

Recently, there has been an increased interest in the family business organization. Traditionally, the ideal typical organizational model was one where the management, governance, and ownership entities are kept separate. This principal agent model has been a subject of public debate in the wake of several corporate scandals. In the family business organization, significant management, governance and ownership is often with the members of a family & its trusted partners. It is common in the US to regulate the management, governance, and ownership roles of the family members by using competitive criteria for the involvement of different members. In Southern Asia cluster (Gupta & Hanges, 2004), on the other hand, it is quite common for the family involvement to be holistic and undivided, where the family collectively owns the shares in the family business. In this work, this organizational model of the Southern Asian family businesses is investigated.

Keywords: *Southern Asia, family business, organizational model*

Introduction

Recently, the principle of separating management, governance, and ownership entities as a criterion for prudent organizational design has come into the spotlight of public debate. The experience of corporate scandals has raised questions about the adequacy of the traditional system of isolating boundaries between the management, governance, and ownership entities. On the other and, family business organizations have proven quite resilient in sustaining their advantages. Family businesses are an important form of organization. 75 percent of 800,000 companies in Australia (Baring, 1992), 76 percent of the top 8,000 companies in the UK (Hayward, 1989), and about 90 percent of all businesses in the US (Pistrui, et al., 2000) are estimated to be family businesses. Similarly, Piramal (2000) estimated 71 percent of market capitalization in India as attributable to family businesses. The family businesses are even more common amongst the privately held corporations in Southern Asia. Family businesses, by their very nature, are characterized by common entities having the charge of management, governance, and ownership. Since the family businesses must deal with the usual inter-personal issues amongst the family members, they tend to rely on specific approaches for regulating the involvement of the family members in the ownership, governance, and management of the family business (Miller and Rice, 1967; Chua, et al., 1999; Astrachan et al., 2002; Klein et al., 2005).

In the US, the families are expected to run the family business primarily based on the business logic. However, in the Southern Asia cluster of nations, it is common to consider at least some family logic, even in the most successful of the family businesses. Bounded use of family logic may in fact be expected by the core constituencies, and endorsed by them. The family logic may include at least some consideration of family's interests, inputs, and preferences in the appointment of the CEO, the management team, and the governance board; at least some consideration of the vision, values, and cultural ethos and practices of the family in the governance and management of the business; and at least some special and preferential consideration of, reliance on, and contribution to the family's resources, including reputation, knowledge, uncertainty reduction, and lower transaction costs (Colli, 2003).

The use of family logic can help family businesses bring more of the family experience to the family business. When the culture fosters the use of family logic, then the family members have greater incentives to develop idiosyncratic and unique experience and learning about the family business, which accrues an incremental value that can be captured only by being a part of the family business and, when the family business is the best opportunity available to the family members in the past, present, and future, then the family is likely to be overwhelmingly engaged in the business, in terms of the successive generations involved, the percentage of family members involved, the active nature of such involvement, and the continuity of the involvement across generations. All these features tend to strengthen a family business.

Additionally, the family business may accrue reputation benefits, such as trustworthiness, if the family members are committed to working together, and such reputation benefits generate incremental value that more than compensates for any better alternative opportunities for the individual family members. Consequently, family members are bonded together, and try to make working together work.

Further, the family businesses that use family logic are able to more naturally extend the boundaries of the family to include the employees and other constituencies relevant to their business, which becomes an integral part of the family life and assets. This helps foster a sense of belongingness to the family business, and a shared interpretation of the cultural practices and priorities of its organization.

Of course, no two family businesses are ever alike. The approaches designed to regulate the family involvement differ substantially by culture (Church, 1993). To understand the culturally sensitive approaches for family involvement, we have undertaken an international project – CASE. CASE stands for Culturally Sensitive Assessment System and Education. Our goal is to understand the distinctive models and modalities of family business in different regional cultures of the world.

In this paper, we review the literature to establish a framework for assessing the culturally sensitive approaches for family involvement. Then, key characteristics of the Southern Asian family business involvement are presented, and the implications of the findings are discussed.

Approaches for Family Involvement

Two streams of research may be identified on the differing nature of family involvement: (1) within particular family businesses over its lifetime, and (2) across different family businesses.

Variations in Family Involvement Within

A number of studies have commented on the changing approaches to family involvement within particular family businesses (Leenders and Waarts, 2003; Moores and Mula, 2000). The approach to family involvement may change over time because of two major factors:

1. *Business dimension*: Business factors such as greater growth, increased size, higher competition, need for external sources of funds, weaker profitability, and greater involvement of professional managers, generally call for the family involvement to become less informal and fluid, and more transparent and structured.

2. *Family dimension*: Family factors such as succession to the next generation and life cycle of the family usually result in substantial shifts in the nature of family involvement. It is difficult for one to say how the approach to family involvement will shift over the successive generations, and over the owner's lifetime. But if one is aware of the macro cultural values and practices for the family business, then the degree of confidence in predicting the changing approach to family involvement can be greater. Let's look at the following example:
Southern Asian Culture :
"To summarize the Southern Asian cluster, its societal culture is one of highly group oriented, male dominated, and hierarchical practices. While the participating managers put high value on their societies becoming more futuristic and performance oriented and less male dominated and hierarchical, they do desire a continuation of strong group collectivism. From a global standpoint also, group oriented human heartedness is the hallmark of this cluster" (Gupta et al., 2002).

Based on the above description of Southern Asia culture, one may predict that :

a) The family businesses in the Southern Asia region might see a greater capability based and planned family involvement.

b) The family businesses in the Southern Asia region might also see greater and more inclusive participation and advancement to leadership of women and younger family members.

Variations in Family Involvement Without

Another set of studies has examined the differing nature of family involvement among firms operating under different conditions (e.g. Dannhaeuser, 1993). For our purposes, the relevant findings are summarized below:

1. Southern Asian family businesses: The dominant form of the Southern Asian family businesses is one owned by the family in an undivided manner (referred to as "Hindu Undivided Family"), without specific shares allocated to the individual family members. Typically, the eldest son develops the most co-specialized knowledge about the family business by virtue of his early involvement and assumes a leadership position. The younger sons and grandsons are encouraged to develop external knowledge through education and to deploy that for co-specialized applications in the business. Increasingly, daughters and daughter-in-laws are also being encouraged to use their external knowledge for specialized applications that can be embedded within the business. The non-family members are expected to work with the family members in the supportive and collaborative roles, and to deepen their own co-specialization with the family business. The breakup is perceived to result in a loss of value inherent in the undivided co-specialized capability of the family business.

2 Non-Southern Asian Family Businesses: Non-Southern Asian family businesses tend to be owned by the family members, who own specific shares in the family business. The incentives for the individual family members to develop cospecialized capability with the family business are therefore muted, and are proportional to their respective shares or expected shares in the family business. Different family members may develop cospecialized interests with specific parts or divisions of the family business. The eldest son, even where preferred as the successor to the leadership, may face credence challenges while managing the entire family business, because of his constrained co-specialization interests and capabilities. The younger sons and grandsons may legitimately claim to have functionally equivalent cospecialized capabilities for specific parts of the family business, and be confident of working with the non-family members to deepen those capabilities in the event of a break-up.

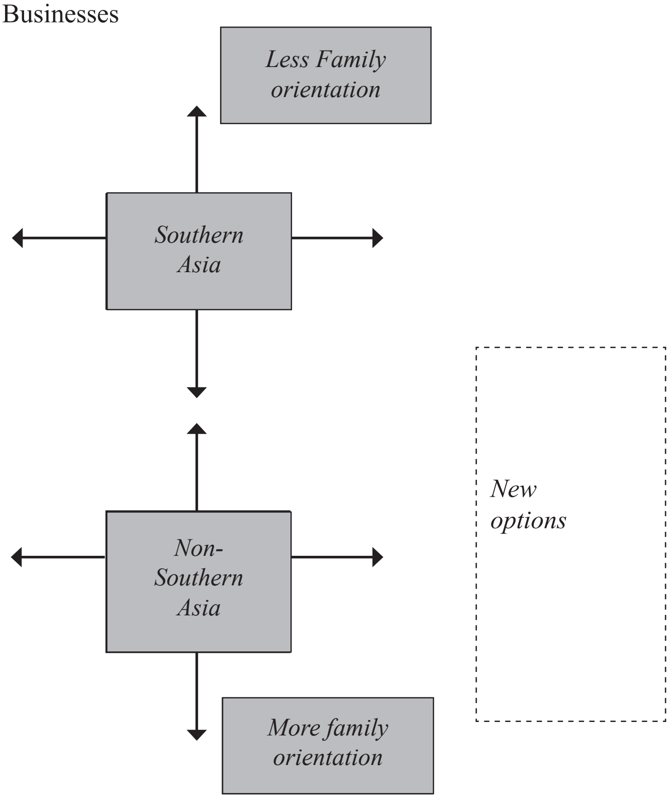
In Southern Asian family businesses, a typical response to growth and increased size and competition is to differentiate the preparation, involvement, and roles of the different family members, such as in terms of preparing women and younger children through better education and giving them mandate to develop non-traditional opportunities. In many non-Southern Asian family businesses, it is more usual to either professionalize the business or engage distant relatives depending on the need and availability.

In both Southern Asian and non-Southern Asian family businesses, growing complexity of the business dimension may be associated with an increase in transparency and structure, and diminished informality and fluidity on an overall basis. Still the reality may differ, because of the differences in intent. Our research indicates that for the Southern Asian ones, increased transparency, structure, and formality usually starts in the new lines and opportunities developed by the younger successors or by the women and professional managers, and is founded in their advanced academic and alternative practices preparation. In the traditional and core areas of the business, the family may still continue to adopt fairly informal and flexible approaches as part of a family oriented culture. In contrast, for the non-Southern Asian ones, transparency, structure and formality is something that is introduced in the core traditional businesses first, while attempts are made to maintain family oriented flexibility for expanding into the new spaces. The contrast is shown below.

Factors Influencing The Nature of Family Involvement

We use a macro and scientifically assessable conceptualization of culture, which includes societal

Figure 1. Family Orientation and New Options in Southern Asia vs. Other Family Businesses



cultural practices and values, as well as socio-techno-economic factors that govern the work-culture. However, many attributes of culture are difficult to measure using scientific parameters. Such attributes are referred to as "emic" (Headland, et al., 1990). Emic attributes are constructs regarded as meaningful and appropriate by the members of the culture under study. For their validation, one usually seeks and relies on the consensus among the members of the culture under study. There are two reasons why emic knowledge may be relevant:

1. *Unique behavioral characteristics:* Family businesses in each culture may evidence unique behavioral characteristics, which may be difficult to interpret reliability and correctly without an insider knowledge.

2. *Common behavioral characteristics:* Sometimes, behavioral charateristics that seemingly appear to be similar across cultures may be products of quite different historical, institutional, and situational forces.

Consider, for instance, the unique tendency of the families in Anglo culture to have a long term vision for the family business, and a desire for that business to have a long life under the family ownership, even if there is no successor within the family interested in succeeding the family business. Many Anglo families allow their children full freedom to choose between joining the family business, and pursuing career elsewhere, even if the business is doing very well. At the same time, they strive to professionalize the family business so that it remains strong, irrespective of the family succession. In contrast, Southern Asian families generally bring up their children to succeed and join the family business, and strive to actively or otherwise persuade them to do so. This difference may be explained by the fact that in Anglo cultures, the family business is not seen as the vehicle to keep the family together; but in Southern Asian cultures, the sought after ideal – though usually not supported by practice - is for the family business to be the space that keeps together all the male children with their parents.

Conversely, consider the low third generation survival rates of family businesses in Anglo as well as Southern Asian cultures. In Anglo cultures, it is common for the first generation to build the business, the second generation to milk or harvest it, and for the third generation to either auction what is left to the highest bidder, or start all over again (Ward, 1987). The failure occurs primarily because of the lack of interest of some family members in the family business, and their desire to be bought out and be independent. In Southern Asian cultures, while the first generation builds the business, the second generation enjoys augmented family resources and superior opportunities for education. At the same time, the second generation faces crisis of confidence of the old timer employees, especially as it seeks to make bolder moves for expanding into new domains. The third generation faces the same challenges, but with the added complexities of managing the extended family relationships, and tends to favor break-up of the family business or partial or total sale to better endowed firms – such as the multinational firms seeking entry in the local markets. In Anglo cultures, lack of family owners' collective interest in the family business is the primary limiter of longevity. But in the Southern Asian cultures, complexity of forging the consensus among the extended family members about the growth options, alongside the divided loyalties of the long serving employees, tends to be a primary force.

To understand the emic approaches for family involvement, CASE did a content analysis of a sample of selected articles in the Southern Asian cluster. These articles, received as part of an open worldwide call for papers to be included in the study, are listed in Table 1. The articles covered five countries – Pakistan, India, Bangladesh, Thailand, and Indonesia. Most articles were based on in-depth case analyses.

Table 1. CASE Sample Articles Description – Southern Asia Cluster

Author(s) / Title of the Paper	**Focus**	**Country**	**Methodology**
Khalid Nadvi "Shifting Ties of Family Businesses: The surgical instrument cluster of Sialkot, Pakistan"	Issues when a regional cluster comprises of family businesses, linked via generations of co-existence and family relations	Pakistan	Qualitative
Gijsbert Oonk "Communal Business families in India, 1850-1947: Three Patterns in the Emergence of Indigenous Industrialists"	Developing community-wide domination of family businesses in specific clusters	India	Historical Case Studies
Mahfuzul Haque & M Kabir Hassan "Diversification model of Family Business Group Growth in Bangladesh"	Corporate strategy for growth in an emerging market	Bangladesh	Statistical analysis for a case company
Brian L. Connelly "Family Business in Indonesia– Competitive Advantage in Merantau"	Issues faced when going abroad in search of wealth	Indonesia	Qualitative
Natenapha Wailerdsak "Kongsii Model of Extended Family Business in Thailand: Ownership Structures for Growth with Control"	Adapting ownership structures to attain growth and retain control	Thail&	Statistical data
Arif Iqbal Rana "Sahaf Model of Family Business – Sohaff Shawls (Pakistan)"	Incentive and equity issues with ownership and profit sharing among family members	Pakistan	Case Study
Wasif M.Khan "Trust Model of Family Business: Professionalization & Growth in Pakistan"	Challenges of professionalizing the family business top management for growth	Pakistan	Case Studies
John L. Ward & Carole Zsolnay "Kartha-based Undivided Family Model – The Murugappa Group, India"	Issues when a family business governance and management is professionalized	India	Case Study
Christine Blondel, Ludo Van der Heyden, Niraj and Thomas "Successor's Dilemma in an Indian Family Firm"	Developing successors, and differences in the aspirations of the successors, when a successor enjoys alternative career options	India	Case Study
Mike Wright, Darshan Bachkaniwala, and Monder Ram "Immigrant Dilemma for Family Business Succession: Gujarati community in the UK"	Succession issues when 2nd generation of migrant families enjoy alternative career options	India	Case Studies

Organizational Model of The Southern Asian Family Businesses

Based on our research, several underlying features of the Southern Asian family business can be inferred. These are summarized below.

1. Undivided Family Ownership: The dominant form of the family business is Hindu Undivided Family System, in which the sons, daughters, and wives own joint and undivided share in the family business. The leader is known as the *karta* (the actor) of the family business. Shared trans-generational ownership generates significant incentives issues, as the members vary in their work/life balance preferences, commitment to family business as their career or as their only work, where to live preferences, their education, their age and experiences, and their aspirations, visions, work style, and communicativeness. Members often continue to work together despite their differences and disagreements, because of social desirability as well as recognition of personal resource and capability limitations.

2. Paternalist leadership: The common model is to transfer the leadership rights to the oldest male successor. The model works well when the oldest male successor is aware of his limitations, and is able to engage the expertise and contributions of the other members as a father figure in the family. When some members are unable or unwilling to contribute in proportion to their share, the father figure role may include buying out the share of those members, or breaking up the business. When those members fail in their independent initiatives, the father figure may still provide some continued financial support to them as a family obligation.

3. Resiliency: The community roots, the concern with the social desirability factor for family reputation, and the limited opportunities for alternative careers, endow substantial resilience to the family businesses. Family businesses cope up with the stresses from the macro environment, competition, and business losses reasonably well, and are able to spring back to life. However, ability of the family businesses to grow on a continuing and sustainable basis is a different matter. The increasing availability of alternative career options, and reducing size of the families and number of children, has made the succession the biggest concern for the family businesses.

4. Succession Planning: The primary concern of the new families is to provide a better future for their children. While the families may prepare their children for taking leadership roles in the family business through higher education locally or internationally, such education is now opening up new opportunities for the children. For these children, working in the corporate sector, emigrating overseas, or setting up an independent business in an emerging sector, is an attractive option. The first generation founder and the second generation siblings are often so occupied in growing and developing the family business, and are concerned with the immaturity of the business systems, that they may not give sufficient decision making rights and leadership learning experiences to the older members of the third generation. The younger members of the third generation, on the other hand, may enjoy better opportunities for education because of the greater affluence of the family business. As a result, significant differences may arise among the members of the third generation. A break up of the business may not occur until after the death of the older generation members, because of the social pressure around family reputation issues put by the latter.

5. Resource mobilization: Resource management is a universal concern of the family businesses. The key constraining resources are monetary (finance), methods (knowledge), and management. Keeping the family resources pooled, through several generations of joint ownership, and educating male family heirs in good academic institutions locally or internationally, is the most common solution.

6. Gender empowerment: The daughters are traditionally not involved in the family business, though the son-in-law and the male spouses of aunts may be involved as a consultant in the family business. The wives are often included as co-owners of the family business, but they tend to have limited involvement; their husbands exercise the decision-making rights as their proxies.

7. Transformative Point: With increased opportunities in the marketplace, the families are being forced to re-examine the traditional model of family business. They are looking for new types of successors, including daughters and daughter-in-laws, not just younger sons. With the break of the joint family system, daughters and daughter-in-laws are being called upon to assume leadership roles. Often, daughters and wives take up the role of developing new business lines, such as technology-based or new sector businesses or distribution channels, which help the family businesses to renew and to effectively compete in a more competitive environment. and, the family businesses are also considering opening the leadership roles to the professional managers, while the family assumes the role of broader policy-making and governance.

8. Community Roots: Family businesses tend to be rooted in specific ethnic communities – they operate together with several other family businesses in specific local clusters (industries in specific regions). The business ties with other family businesses tend to be rather loose and informal, and are underpinned by stronger family ties extending over several generations, because of a dominant custom to marry within one's local ethnic community.

9. Relational approaches: Family businesses tend to develop long term relationships with their employees, suppliers, and customers, backed by their social reputation and localness of ties. As the economies have opened up, they have sought to form partnerships and joint venture arrangements with the international suppliers and customers, to secure new knowledge, resource inputs, and marketing networks.

The overarching characteristic of the Southern Asian family businesses may be summed up as the "Undivided Family Business Model", where various members of the family jointly own the family business through the undivided family, and where the capabilities of the family and of the family members co-evolve around and are co-specialized with that of the family business.

Additional insights can be derived from other published articles. Gupta (2005) observes that until recently, most family businesses in the Southern Asian region were managed using a joint family model, many pursuing an unrelated diversification strategy. Most of the region's industrial enterprises have their roots in trading business communities; they are not just family run but also maintain strong social and business networks within their community. Within India, for instance, in the North, Aggarwal community has been predominant; the Chettiar community in the South; the Parsee, Gujarati Jain, and Muslim Khoja communities in the West; and the Marwari community in the East. For instance, the Palanpuri Jains of western India have commercial diamond operations not just in India, but also in world diamond centers as Tel Aviv, Antwerp, London and New York. They account for about 50 percent of all purchases of rough diamonds in the world, and have taken significant share of the world diamond market from the Orthodox Jews. Kotkin (1992) concludes that Jain diamond merchants rely on family and ethnic ties to bring cohesiveness and trust to the highly scattered, specialized, and risky business, thereby gaining a competitive advantage.

As joint family businesses, the family businesses traditionally engaged in multiple activities – among the top 50 business houses, such as Tatas, Birlas, Singhanias, Modis and Thapars, the number of businesses averaged 18 in the 1990s. This diversified orientation derived from the trading and money-lending roots of the business families. During the British period, the business families obtained contracts to manage diverse activities, such as tea, jute, textiles, cement, and shipping, on behalf of the British. Post-independence, these business families used political contacts to secure licenses for a variety of business activities, with a view to create barriers for the new entrants into the business. More recently, with globalization, they sought to use their large size and reputation in a race to form joint ventures, and beat each other in the number of joint ventures. Most of these joint ventures had little synergies, and ranged from automotive components to fast foods and fashion garments. There were other races also: In a study of 50 top Indian business houses, Freddie Mehta reported that the chairmen's speeches for 1993-94 mentioned starting up a finance company; those for 1994-95 mentioned interest in the power sector; and those for 1995-96 expressed desires to enter telecommunications.

In the face of difficulties, many diversified family businesses are going through the family splits.

The split in the family businesses were rare until 1970. In the 35 years following the 1970, there have been at least 50 splits in major business families in India, including the Birlas, Modis, Sarabhais, Bangurs, Singhanias, Mafatlals, Shrirams, Thapars, Walchands, Goenkas, and Ambanis. A strategic family split entails recognizing the synergies among different business operations, and splitting to make each business group more focused and cohesive. When the families ignore business synergies, and split the assets to serve the family sentiments alone, the independent family businesses are prone to lack critical mass and are forced to spend time and resources on divesting unrelated and unviable businesses.

Das (1999) notes how traditionally the region's family businesses competed on the basis of factor accumulation, using financial, ethnic, and political connections to opportunistically acquire domestic and foreign resources at low costs. Most of the products exported overseas were undifferentiated and vulnerable to competition from lower wage and weak currency countries. During the 1990s, the family businesses sought to move towards technology leadership by forming diverse joint ventures with the foreign multinationals. In most cases, the foreign firm offered the technology or the product, and the region's family firm offered the market access in the form of a distribution network and skills in managing labor and government. However, the family firm typically lacked priority on rapid growth, so that its distribution network, human capital and government contacts were perceived as limiting and weak. The multinational partner then sought to renegotiate the equity, and take a majority stake that dilutes the share of the family firm. To prevent this, many family businesses are now seeking to use their cultural advantage to gain learning from the multinational partner, and to absorb technology and management practices and to upgrade their own, their managers', and their workers' skills. Incorporating the latest technology into their products, they have ventured into value added segments domestically, and gain capability for delivering world-class products.

Discussion

Our research suggests that in the Southern Asian cultures, resource boundaries between the family and the business are only moderately regulated. Though the family resources may be separated from the business resources, the family business is expected to support the living standards of the family, and the family in turn is expected to make sacrifices when the family business needs resource infusion. The family business enjoys an advantage in partnerships with those from the co-ethnic acquaintances circle of the family. These businesses are attractive joint venture partners for the foreign and other firms looking for strategic partnerships to share their technology and brands and extending their market reputation. The outside partnerships help family businesses formalize their resource boundary regulation, and accrue incremental value from the hoarded family resources and capabilities.

Since family business in Southern Asia is usually an undivided asset of the families, the families often use pooled family resources to engage in multiple businesses, each with its own credit worthiness. They are willing to take risk, because the failure of one business is not seen to reflect strongly on the family reputation, if the other businesses continue doing well. The families expect to pass on a portfolio of businesses to their children, though one of them may be considered a flagship business. Successful portfolio of businesses is an important factor building a family's reputation; conversely, reputed families are seen to be trustworthy by the partners, employees, distributors and vendors. The quality of products and services, and a sense of commitment to the grassroots, is a very important basis for the reputation of a family business.

In Southern Asian cultures, the proportionate emphasis on bridging relationships tends to be high. Bridging relationships are ones that extend beyond the network of family's personal relationships. This is a natural result of the specialization of different ethnic groups in different parts of the value chain; moreover, these different groups and the activities performed by them are geographically distributed. The family businesses develop capabilities as network assemblers, who assemble networks penetrating into diverse ethnic communities in different geographical enclaves. Often, the members of the family migrate to different geographies in order to help the family business coordinate dispersed networks. In each of these geographies, they develop family-like committed, engaging, and emphatic relationships with the local community, and thus are able to gain deep roots. Within each ethnic community, there is usually a high degree of similarity in the activities, markets, and lines of business selected by various families. The family businesses thus are able to gain valuable business intelligence through the family's social activities, such as participation in the community events.

The migration and expansion to new businesses and new geographies implies weaker linkages with the core family capability. It is common to find a stronger reliance on professionalism in the newer geographies and newer businesses; these start-up initiatives are usually assigned to the younger family members, daughters, and daughter-in- laws. These family members tend to be less entrenched in the traditional practices of the family business, and are educated in the more modern practices. More interestingly, they are usually closer to their mothers. Thus, family businesses are able to rely on the capabilities of the less powerful members of the family to generate renewal and growth options.

In general, the Southern Asian family businesses empower their professional managers and employees to make operational decisions, and to participate in the strategic decisions though within the family priorities. While the non-family employees may join and advance to senior leadership positions, the highest positions remain in the hands of the family, especially in relation to financial flows. Financial decisions are less transparent, and considerable manipulation may occur to avoid taxes and to avoid showing a rosy picture to the employees and others. The family businesses are increasingly adopting and adapting international practices for improving operational effectiveness. They are considering local and global trends for their strategic decision making, such as regarding the domain of diversification.

In Southern Asian family businesses, the exercise of power by the family members and by the family in ownership, management, and governance tends to be moderately regulated. Joint and undivided ownership makes the exit by any family member from the family business very contentious. Such exits are correlated with acrimony amongst the family members, and chasm in the family relations. To prevent breakups, many family businesses provide investment support for developing new lines of business by lending their reputation, or by diverting resources intended for growth in the flagship business. This may, however, weaken the flagship business, or fragment the brands of the family business, when different family members have their own interpretations of the common brand in their respective lines. Overall, though the family business is not expected to provide for the employment to the members of extended family and friends and acquaintances, one finds that kinship, experience within the family business, and education, are all important criteria defining the perceived management competence. Also, governance is kept with the trusted members of the community, trusted professional managers, and the family members.

In Southern Asian cultures, the inter-generational succession process in family businesses tends to be moderately competitive. The successors are expected to prepare themselves by getting education and by working in the field within the family business – such as in sales, in vendor negotiations, and in partner deals. At least one child, usually the eldest son, is expected to join the family business. The succession may be passed to the younger son, if he demonstrates greater interest in the family business. The predecessors are expected to transfer their knowledge of running the family business to the successors, and to structure the family business in a manner that would accommodate various interested family members. They tend to be engaged in the family business affairs even after the successor is ready, though primarily in an informal advisory role. The succession decision is governed by the health of the predecessor and the expectations of the successors. Healthy predecessors may not pass on the reins, unless there is a real threat of the successor leaving the family business because of the lack of independence.

Gender dynamics is an important issue in the family businesses. Women of the family are beginning to play a more active leadership role in Southern Asian family businesses, though traditionally their role was very limited. Daughters are traditionally given rights to the family estate only if there are no sons. However, they are increasingly being given leadership for developing new business lines, such as involving new technological opportunities.

Wives in family business usually lead the philanthropic activities, involving social and community outreach. They may operate their independent lines of business, separate from that of the family. Mothers of the families in business help to regulate the family conflicts around family business.

As a result of all the above features, in Southern Asian family businesses, the operating culture tends to be moderately resilient. Major changes in the direction of family business can occur at all times, as the family looks for new and alternative opportunities, and responds to the moves of the other family businesses. When needed, partners may be brought in or professional managers hired to allow for the resilient moves. Family businesses are likely to be quite diversified in unrelated areas, making it difficult to effectively compete in all markets. They are also open to the introducing new technologies, which keeps them resilient.

Furthermore, the contextual embedded ness also tends to be moderate. Face-to-face communication characterized by informality and flexibility is favored, over impersonal communication. Family businesses show willingness to extend into new domains, transcending the bonds of their cohesive cultures and of their relationships with their core stakeholders, including family, business, community, business partners, and employees, by extending into new domains. Their core thrust is on developing strong capabilities for customer responsiveness, customization, servicing, and communication.

In summary, the above distinctive features of the Southern Asian family businesses suggest that when a family business has an additional benefit of the family logic, over and above the business logic, then its competitive advantage is reflective of the integrated capabilities of the family and business. The capability of the family becomes co-specialized with that of the business, so that working in the business becomes an attractive opportunity for both the core members of the family (who earn idiosyncratic rents) as well as for the less powerful members (who are able to take a lead on exploiting arbitrate opportunities in new business or new geographies). The gains are also accrued by the non-family members who become part of the family business, because they must develop the relevant capabilities for securing idiosyncratic rents, or discover new opportunities for securing arbitrage rents. In other words, when a family business adapts to the capability of the family, the benefit of the co-specialized business capability accrues to the entire family as well as the individual family members, and the non family employees also benefit from acquiring this co-specialized family business capability, and from further deepening of this co-specialization Overall, the family business is thus able to sustain and deepen its core competencies, while also having the potential for developing dynamic competencies in related emergent domains. The co-specialization of the capabilities of the family and the business, and their exchange and development involving the non family members, is an important distinguishing feature of the family businesses in Southern Asia.

Conclusions

In this article, we underlined the need to study family business, as an organization model which provides a viable alternative to the historical principal-agent model of organization, where there is a separation amongst the management, governance, and ownership entities. In this historical model of organization, governance entities are the agents of ownership entities, who are principals; and management entities are the agents of the governance entities and of the ownership entities. The string of corporate scandals in many nations highlights how the management entities seek to maximize their own benefits, by misrepresenting the value of their activities to the ownership entities. We noted that the approaches to family involvement in family businesses are not necessarily the same worldwide; culture plays an important role. Though, over their life cycle, family businesses – like all businesses – increasingly regulate the involvement of all members, including the family members, the families in the US are particularly open to regulate the involvement of family members to facilitate growth. In Chinese firms, on the other hand, it is quite common for the family businesses to seek to regulate the involvement of others, i.e. those in the lower-level and peripheral relationships, and to give preference to those who are willing to sacrifice and be loyal to the family. In Southern Asia, the family businesses are more likely to seek differentiating the preparation, involvement, and roles of the different family members, such as in terms of preparing women and younger children through better education and giving them mandate to develop non-traditional opportunities.

We identified several distinctive features of the organizational model of the Southern Asian family businesses, and highlighted how the model uses family logic to deepen core competencies and to renew and discover dynamic competencies.

Family businesses may have another distinctive advantage in the form of their superior access and exploitation of the community intellectual properties. Family businesses tend to be repositories of the unique and distinctive cultural endowments of their communities, enabling the members of the family and the community to take power and leadership positions beyond the local boundaries, extending nationally and globally. They are an important form of business, usually characterized by dedicated social and psychological capital, long time horizon, low information and transaction costs, high spontaneity and agility, robust values and character, leadership roles for women in family, and entrepreneurial motivation. They bring and have potential to bring considerable richness to the families, communities, and nations. Since the institution of family is very closely intertwined with that of culture, and is in fact the founding building bloc of societal culture, it is important to use a culture-sensitive lens while assessing family businesses, and while seeking to develop strategies and resolve challenges facing family businesses. In this work, we have examined the organizational foundations of the family business advantage, and the role of culture. We recommend future research for examining the technological foundations of the family business advantage, and the role of culture.

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About the Authors

Vipin Gupta (*Gupta05@gmail.com*) is Roslyn Solomon Jaffe Chair Professor of Strategy at Simmons College, Boston. He earned his Ph.D. in management from the Wharton School, and received a gold medal in the post-graduate program at IIM Ahmedabad. He received the Japan Foundation fellowship for research at the University of Tokyo on his dissertation "A Dynamic Model of Technological Growth: Diffusion of Japanese Investment Networks Overseas." As a Principal of the GLOBE (Global Leadership and Organizational Behavior Effectiveness) Program, he also co-edited seminal GLOBE book "Cultures, Leadership and Organizations—The GLOBE Study of 62 Societies" (Sage USA, 2004). He is the author of a leading strategy textbook in India (Prentice Hall of India, 2007), has co-edited two books on strategy in emerging markets – Creating Performing Organizations (Sage, 2003) and Transformative Organizations (Sage India, 2004), and has lead edited eleven books on family business in different cultural regions of the world (ICFAI Press, 2007).

Nancy Levenburg is Associate Professor in the Department of Management at Grand Valley State University, Grand Rapids, Michigan, USA. She was named the "Research Advocate of the Year" for the State of Michigan in 2003 by the US Small Business Administration, and has been twice honored as a GVSU Family Owned Business Institute Research Scholar. Her research interests include small businesses, family businesses, and strategic planning in service organizations.

Lynda L Moore is Associate Professor at School of Management, Simmons College, Boston, USA. She is a 2007 Fulbright scholar to the United Arab Emirates where she will study women business leaders. For more than 25 years, Moore has dedicated her teaching and research to the advancement and leadership of women and the management of diversity in organizations. Moore was the founding consultant and Acting Director of the Radcliffe Public Policy Institute at Harvard University. Her book, "Not As Far As You Think", played an important role in the evolution of the women in management theory. She is the recipient of three Coleman foundation grants, to write cases on the successful leadership of minority women-owned business.

Jaideep Motwani is Chair and Professor of Management at the Seidman College of Business, Grand Valley State University, Grand Rapids, Michigan, USA. He received his Ph.D. degree in Operations Management from University of North Texas. He has published more than 150 articles in prestigious journals. He also serves on the Editorial Board of 12 prestigious national and international journals. He has also served on the Family Business Institute's Advisory Board from 2001 to 2006 and has been the recipient of the Family Business Scholar Award.

Thomas V Schwarz is currently Director of the Family Owned Business Institute and the Center for Entrepreneurship at Grand Valley State University in Grand Rapids, Michigan, USA. Earlier, Tom served as Chief Operating Officer and Treasurer for a local family business and as an entrepreneur/owner of several other family firms. Tom previously served on the Body of Knowledge Committee of the Family Firm Institute and was the founding co-editor of the organization's publication, Family Firm Practitioner. Tom has consulted with numerous firms and universities worldwide, most recently in Greece at the Athens University of Economics and Business. He received his doctorate in finance from Florida State University in 1984.