

The Third Generation in a Family Business – How should it Grow?

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Introduction

A case study is an excellent example of vicarious learning in action because students learn and adopt new behaviour by observing and listening to others, and imitating and modelling others' behaviour (Albert Bandura's social learning theory, 1995). It uses the problem-based learning method where students, in teams, learn by solving real but unstructured problems.

The authors chose the case study method because it enables the students to assume the role of the protagonist, i.e. the key decision maker in the case, and then, propose problems and solutions in class. Their open discussions urge them to probe beyond the case details, consider what-if situations and their effects, and exchange different perspectives with their classmates. These discussions will thus enlighten students about entrepreneurial behaviour and concerns and family business management issues of growth and change.

This case is important to management students and their teachers because it addresses two distinct disciplines of study in business education, viz., family business in relation to product, growth, location, human resources, management decisions, and leadership and change management. If management students are exposed to the reality described in the case, it will complement their theoretical foundations. Their discussions of the case problems and their possible solutions under the guidance of the teacher will sharpen their minds and prepare them for their careers ahead. This case is important to management students because they would see management decisions and practices in action to produce business value. Thus, this case will benefit management students who aspire to become entrepreneurs, students who wish to understand and discuss change business management problems and solutions, and management teachers to guide their students in family business and to manage change in the family businesses.

Therefore, the authors profiled a business family for the case because its owner offered vital information about his entrepreneurial history and family business operations, and explained his myriad problems and aspirations for growth. The authors' understanding was further enhanced by the interviews with the owner, visit to his units and detailed discussion with his employees.

¹The authors gratefully acknowledge the critical observations and suggestions made by Dr. Meghna Aggarwal, Assistant Professor, University of Delhi, Delhi, India, in this case.

Literature Review

The family business is a commercial organisation owned and managed by a family acting as the dominant coalition that shapes and pursues the business vision of the family (Chua, Chrisman, & Sharma, 1999). The family members' use their ability, discretion and willingness to allocate the firm's resources to pursue their vision (Massis, Kotlar, Chua, & Chrisman, 2014). They are possessive about their firm; therefore, tend to exercise selfish control over its strategic assets, and to overrule their employees' decisions. They extend their ownership and management control over the firm across more than one generation.

Successful family businesses exhibit behaviour such as values (which aligns and unites them), vision (which drives their decisions), involvement (showing open communications), cohesion (provides mutual understanding and united resilience against change), and governance (good practices based on ethical and shared foundations) (Claudio, Sunny, Ritter, & Rene, 2019).

Family businesses are more resilient over long periods and can survive economic downturns and recessions than others. They are frugal with their expenditure and usually spend less than their earnings, borrow less than others, focus on creating value, pursue fewer large projects and investments than others, unless under competitive pressures (Kachaner, Stalk, & Bloch, 2019).

A transition is a major event and period in the life of the family business. It produces business changes in the product profile, manufacturing technology and processes, expansion, divestment, entry into new territory, or a management role for the next generation. It succeeds only if the family relationships show trust (openness, fairness, consistency, communications, shared values and honesty) and affability (mutual respect and accommodation between family members, absence of rivalry) (Morris, Williams, Allen, & Avila, 1997). Sibling rivalry and unaligned values and goals are other signs of family relationships that obstruct growth (Ward, 1997). Growth may be obstructed due to the owners' inaction or disinterest, and market conditions such as product maturity, technological obsolescence, and competition.

A business must change its behaviour and other aspects of its operations to gain a sustainable and competitive edge in its business territory. While change initiatives may depend on the managers' competencies and the owners' determination, change success would be shaped by risks and uncertainties, allocated resources, business vision and direction, work roles and emotional energy that drives actions (Parry, Kirsch, Carey, & Shaw, 2013).

Innovation has been a vital element in every entrepreneurship effort and its connection to the market (Shane, 2012). Entrepreneurship is the process where resources are recombined so that the entrepreneur can exploit market opportunities as the business goal. This resource recombination is novel and unique and enables the entrepreneur to develop business ideas that become his 'social constructions' or market perspectives.

Often, organisations need to adopt new direction, vision, structure and culture to become more competitive and survive and succeed in an ever-changing business environment (By, 2005). The change management process may consist of small and incremental steps, or may be large and discontinuous. It may or may not have (in case of crisis) the full support of the stakeholders. It may not always succeed despite extensive planning and control, due to internal strife and lack of alignment.

Strategic performance is affected by volatility, uncertainty, complexity and ambiguity (VUCA) of the environment (Bennett & Lemoine, 2014). Every environment offers opportunity, but only if the situation is well understood and if its results are predictable by its change managers. Agility can confront volatility, more information can dispel uncertainty, restructuring and restatement can simplify complex issues, and experimentation can reduce ambiguity. Before business resources are allocated to the appropriate decisions, if the VUCA conditions are identified, they can be resolved as part of the strategic plan. One of the most popular change management models was proposed by Kotter (1996), where his 8-step process laid strong emphasis on creating and communicating the vision for the change, leadership and control for the change process.

The family is a nurturing force behind the entrepreneur's journey. It gives him both financial and emotional support that is required for his lifelong vocation of 'long hours and high stress' (Dyer & Handler, 1994). Therefore, its cohesion and commitment to the entrepreneur act as powerful support in difficult times such as change or succession.

Congruence with Theories and Research

The case describes a family business and its environment. It concludes with a list of the owner's perceptions of his problems and challenges in business. As the third-generation owner of his family, he has aspirations for his son's forthcoming entry into the business and is seen to be perpetuating the business first started by his grandfather (Massis, Kotlar, Chua, & Chrisman, 2014). As the dominant entity in the family, he has been willing to expand his production units and the product range. He has eagerly taken decisions and has led the initiatives for growth and change in his business (Chua, Chrisman, & Sharma, 1999). Having joined the business at a very young age, he has shown deep involvement for the business the control of which will shift to the family's fourth-generation soon. The family shows the right mix of entrepreneurial behaviour such as vision, cohesion, open communication, trust, and mutual understanding (Claudio, Sunny, Ritter, & Rene, 2019). Lasting more than seven decades, the business and its family has shown resilience, created value with a range of products, and built a reputation in its industry and town (Kachaner, Stalk, & Bloch, 2019). The united family has trusted the dominant leader for the operations and forthcoming change (Morris, Williams, Allen, & Avila, 1997). The students will find that the business is poised for growth, has strong family support and has no sibling problems. They can now explore and identify the market conditions for change and other constraints (Ward, 1997) and debate the forces and risks that may endanger their change efforts (Parry, Kirsch, Carey, & Shaw, 2013). They can use the VUCA model to assess the situation and to predict the possible results (Bennett & Lemoine, 2014). At the micro level, the business must use innovation to confront the changing environment and to gain an unbeatable edge over its competitors (Shane, 2012). In contrast, at the macro level, all big changes need a plan and the commitment from the business stakeholders and leadership (Kotter, 1996). Efforts to bring about change and its results may be stressful: therefore, the business leader needs the unwavering support of the family during the challenging change management period (Dyer & Handler, 1994).

Suggestions for the Study

Management teachers should use the case to complement their lectures and syllabus in family business and change management. They must prepare a gist of the case after a rigorous reading of papers in contemporary problems and practices. They must be ready with some scenarios of proposals for solutions and their results. To facilitate discussions, they may create teams of four students each to discuss the case, with a specific role assigned to each student in the team.

The teachers may treat this case in two separate sessions. In the first session, the students should identify, assess and prioritise the entrepreneur's problems. In the next session, they should offer and explain detailed proposals to resolve the problems. The discussions in both the sections should connect research, regulations, processes, and contemporary practices. The learning objective for the students should be to acquire a conceptual view of the problems and the ability to design and assess solutions.

The students must read this case and prepare notes for both sessions. At the end of both sessions, each team must submit a summary of the classroom discussions to the teacher. These summaries may be assessed in terms of rubrics designed by the teachers and be evaluated as marks and grades.

Conclusion

The case covers two distinct disciplines, viz., family business and change management. It narrates the growth and problems of a third-generation family business. Although the Sahni Bakery was a successful pioneer in its segment, its owner wants to grow the business but does not know how to. He sees some problems such as his customers' changing food habits, labour attrition, and product wastage in the bakery. He has not delegated most functions but oversees most operations, minutely. He does not know how to respond to competition in the form of new foods and new bakers. He would need to induct his son into the business soon. These are some perspectives offered by this case to the management students for classroom discussion.

Overview

Inderjit Singh Sahni (Inderjit henceforth), the third-generation owner of Sahni Bakery (Bakery henceforth) in Patiala (Punjab), sensed both problems and growth ahead. With tenacity, patience, and persistence, he and his father had grown the family business to an unassailably competitive position in this town. His next attempt to grow would invite problems that may be more complex than ever before. A larger volume of business would need systems and formal management practices that he was unaware of. He was eager for change, but how should he prepare for uncertainty, delays and failures?

History of Patiala

Patiala is the fourth largest city and the administrative capital of Patiala district of Punjab state (an area of more than 50,000 square km), India. It lies at the South Eastern boundary of Punjab with Haryana State on its border (Fig. 1). On its North Western boundary, it faces Pakistan.



Fig. 1: Map of Punjab state shows Patiala city in Patiala district on its South-East border.

Patiala was founded by a Sidhu Jat chief in 1763, who later went on to establish the royal dynasty of the Patiala State. According to Government reports, 60% of its population of 0.6 million (30 million in Punjab) are males, about 57% follow Hinduism and 40% follow Sikhism. Although a small city, it is well-known for many iconic goods unique to the region: a headgear called Patiala Shahi turban, a tasselled tag for braiding hair called paranda, a type of female trousers called Patiala salwar, a type of footwear called the Patiala jutti, and a measure of liquor called the Patiala peg. Its literacy rate of over 85% exceeds the national average of 75% and is well supported by its three Universities and seven reputed colleges in the city. Its economic significance can be gauged from the presence of large government companies and units like National Institute of Sports, Punjab State Power Corporation, Punjab State Transmission Corporation, and Punjab Pollution Control Board, the national highway, NH-7 and age-old businesses such as the Bakery.

The Beginning

The Bakery has a 70-year history across two countries and three generations of the founder's family. The family's first bakery was established by Inderjit's grandfather, Hari Chand Sahni, in Neela Dulla, a village of Pakistan and was lost during the creation of Pakistan in 1947. Soon thereafter, Inderjit's father, Sujan Singh Sahni set up another bakery in the same year at Lahori Gate in the old Patiala city. Punjab is the granary of India; therefore, the Bakery never lacked agricultural inputs such as wheat flour, sugar, oils and milk. Across the years, the Bakery earned an enviable reputation by producing a variety of cakes, rusks, other bakery products, and sweets. Today, it is one of the oldest and most trusted bakeries in Patiala. It is a familiar sign of small business success in the city, and he may very well be a symbol of business acumen for others to emulate.

Growth Milestones

Inderjit's passion for business took roots early. In 1981, barely 15 years of age, he dropped out of school and joined his father in the Lahori Gate bakery, which had a sales store by then. Since then, his drive for business led him to add three more units. In 2008, he installed his second bakery and sweets unit in Focal Point in the heart of the industrial area of Patiala (Fig. 2).



Fig. 2: A large oven in the Bakery at Focal Point, Patiala

In August 2013, he opened his first restaurant with a sales store in Rajpura, 30 km from Patiala, and in November 2019, he established his second restaurant with sales store in Nabha, 24 km from Patiala. Two years ago, the Focal Point unit added a sales store to serve factory workers in the area. Early this year, the oldest unit acquired an adjacent property, where the third restaurant would open for operations by the end of 2019. By early 2020, Inderjit will have two bakery and sweet producing units, three restaurants, and four sales stores in four locations.

Human Resources

Inderjit has one master chef and five chefs for his restaurants and baking units. The manufacturing, packing and shipping processes are simple but new workers need constant supervision to ensure hygiene and consistent product quality. Inderjit has had no problem in finding and hiring unskilled youth who were available aplenty in nearby villages. Together, the four units have 70-75 workers, of whom 35 workers are full-time employees while the rest are young temps. The temps are provided dormitories for their stay, but uncertain of themselves, most of them leave after just a few months at work.

Product Range

The Bakery makes and sells cakes, 15 types of sweets, 80 types of chocolates, 60 kinds of flowers, and 35 types of biscuits in standalone, combos, gift baskets and bouquets. The prices range from INR 50 (US\$ 0.70) to INR 4,200 (US\$ 60). Almost 350 types of cakes such as chocolate, butterscotch, vanilla and black forest are available. Their bakery products and sweets include bread, rusk, biscuits, fruit cake, birthday cakes, pastries, patties, and flavoured milk. Some of the popular items are pista biscuits, desi ghee atta biscuits, khazoor biscuits, and jeera cookies. The Bakery's finest product is the rusk, available in five flavours and three pack sizes, which Inderjit claims to be their flagship product.

Customers, Marketing and Revenues

Three of his units were situated in prime locations, and therefore, enjoyed walk-in customers whose feedback about the products was regularly collected at all locations on a five-point Likert scale. Recognising that many of his customers were internet savvy, <https://sahnisbakery.in> made its presence in 2016. However, despite the online display of its products in colour, most customers preferred to visit their outlets to eat and buy their products in person. Thanks to their strong relationship with the retail customers across seven decades, Inderjit did not need to make any serious attempt to seek institutional and other bulk sales.

Although the restaurants were not distinctive for their foods or culinary experience, they attracted customers easily due to location and reputation. The restaurant seemed to be an extension of the bakery business and generated one-fifth of the Bakery's revenues. The sales stores sold own products as well as other brands of chocolates and soft drinks and accounted for one-tenth of the revenues.

Management functions

Inderjit oversaw and directed almost every decision and action in the business, indicating the absence of any formal hierarchy. His close supervision demonstrated his passion for his business, but also tied him down to mundane operations. He was supported by older employees in charge of the key functions such as procurement, baking, packing, shipping, distribution, and accounting. His proximity to the nitty-gritties ensured product quality, waste reduction, timely deliveries, and superior customer satisfaction. Despite his attention to the daily operations, he remained acutely aware of strategic imperatives such as growth, opportunity, investments, regulations, and changing customer expectations.

The competition in Patiala

Although the Bakery has its loyal customers, it has nominal competition from at least ten other bakeries of similar size, including a few within its business territory. Not only do they offer a wider selection of foods but some of them have better reach through online restaurant aggregators like Zomato and Swiggy. The younger restaurants offered better ambience and global choices in foods. Although such competition was not dangerous at this stage, new entrants were aggressive with their innovation and had the potential to suck away the Bakery's younger customers.

What is the way forward?

Inderjit was clear about his assessment of the present and about his aspirations of the future. 'We were badly affected by the GST regime and demonetization regulations. The regime pushed up our costs but market forces did not allow us to raise our prices. Unable to recover our incremental costs, our margins took a hit and our profits fell sharply. Due to and after the demonetization, we lost many buyers whose earnings came from cash-based transactions. During this recent recession, our sales have fallen by 40% from our peak figures. Therefore, we must re-organise our business to use innovative and better practices to drive growth and consistent profits. But how?' Inderjit explained some impediments in the operations and profitability of his Bakery:

1. We have regular customers due to our product quality and reputation for consistency. But bread is becoming less attractive to eaters. I am worried that health consciousness and fitness will hurt the demand for our baked foods. We tried to, but our attempts to make our buyers use bread as a staple food did not succeed. Therefore, we need to produce new foods but do not know what to produce.
2. Our customers are easily affected by food quality as well as the hygiene of the bakery and in the restaurant. It is not easy to comply with regulations due to the multiplicity of controls. How do we make our restaurants more attractive? How do we convince our customers that our foods are safe?
3. The world is changing fast, with our youth being exposed to new foods and tastes from global markets. In what foods should we invest today to sustain our competitiveness in the market? How do we forecast the tastes of the youth so that we receive their attention?
4. We produce a lot of waste from ends cut from cakes, stale foods, and slow-moving products. How do we reduce such waste? Presently, this waste is offered to owners to feed their dogs, cattle and other animals.
5. As a small business, we have few controls. Our decisions have been spontaneous with little need for formal management practices. How can we organise ourselves for growth and profitability?
6. Our young workers have great capacity for hard work but do not stay with us after some time. With no prior work experience or exposure to industrial practices, they appear to have little or no interest in baking as a profession. Skilled bakers, pastry chefs and confectioners are not easily available. Culinary graduates avoid us because our customs do not appear to be modern. How can we attract experts and use their expertise? How can we make the bakery career in our organisation an interesting and worthwhile experience for our workers? If we could do that, their attrition levels would fall and our performance would improve.'

'In two years, my son will graduate with a degree in culinary arts and sciences, and join me in this business. Before his return, we should begin to change. We are one of the best bakers in Patiala. We have adequate land and the resources for any expansion. We are eager for action, but don't know what to do.'

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