Professor Jagdish Sheth, on consumers and their psychology, what they want, and how businesses can listen in.

# SUPPLY CHAINS SHOULD BE VISIBLE TO CUSTOMERS AND SHAREHOLDERS

Prerna Raturi

Professor Jagdish Sheth is a renowned scholar and internationally recognised thought leader. Last November, he was selected by the American Marketing Association's Consumer Behaviour Special Interest Group (CBSIG) as recipient of the CBSIG Lifetime Achievement Award. The award acknowledges the accomplishments of a consumer behaviour scholar who has made significant and long-standing contributions to the field of consumer research.

Professor Sheth has published more than 300 research papers and more than 30 books on various disciplines and topics. His insights on global competition, strategic thinking, geopolitics, and emerging markets are considered revolutionary. As a thought leader, Professor Sheth has made hundreds of presentations to business leaders, academic scholars, and public policymakers from around the world. He is frequently quoted and interviewed by Fortune, Financial Times, The Economic Times, The New York Times, and The Wall Street Journal. He is also a regular guest and frequent commenter for major news networks: BBC, CNBC India, and CNN. Professor Sheth's timely advice aids business leaders, and policymakers looking to develop long-term strategies for positioning for the future. In an interview, Professor Sheth talks about a gamut of subjects – from consumer psychology, the difference between China and India, the importance of a chief supply chain officer, and about his latest book on the cultural differences between the North and South regarding punctuality, individualism, social distance or territorialism (turf), and the role of women in society. Edited excerpts:

*One of your first works was on consumer psychology and how marketers can capitalise on it. In the past decade, have consumers changed their buying behaviour? Has their psychology for consuming products and services changed?*

There are three ways in which the psychology of consumers has transformed significantly. First, consumers are more and more time-driven and are looking for convenience and personalisation. No one likes to be held hostage by time and place. Therefore, shopping, searching, buying and consuming are more continuous than discrete.

The biggest outsourcing now takes place at home. The next generation does not know how to cook, clean and take care of children. All of these activities are outsourced. We are making less at home and buying more. What happened to pickles and papad, is happening to chapati and dal.

Second, families are living more like roommates. I call this the rise of the roommate family. A family today does not have the time to eat together. Each member is connecting with their outside world through social media instead of engaging in a conversation with the family members. This change is due to the growth of the internet and mobile devices.

Finally, since the liberalisation of trade, consumers have choices of brands and products that were not accessible or affordable in the past. Today, through ecommerce, I can virtually shop the world without visiting the country.

*Your 2008 book Chindia Rising talked about how global economies will benefit from China and India re-emerging as business and economic powers. A lot of water has flown under the bridge since. Your views?*

Since 2008, the speed with which economic, social, and political changes – both in China and India – have taken place is unprecedented. China is now the largest consumer market for virtually every product or service, and India is the second-largest market. This ranges from smartphones to appliances to TVs to packaged goods. China is now the largest market for luxury brands in the world, including automobiles.

Competitively, China has moved ahead faster than expected, especially in globalising its state enterprises. Many of the top three global competitors are now Chinese corporations. This includes Lenovo in personal computers, Huawei in telecom infrastructure, and Haier in appliances. It is also true in basic industries such as steel, cement, aluminium and chemicals.

On the other hand, India has been slow in globalising its corporations in both public and private sectors. I think India needs to globalise its public sector enterprises and lead the private sector. It is doable as well.

The biggest change has been political. Both China and India have new political leaders who are determined to make both nations globally recognised and reckoned with. Secondly, China has decided that a peaceful rise of China is not enough to gain global recognition as a superpower. It has embarked on a strong military expansion, especially in the Pacific Region. This has resulted in new geopolitical and military alliance between India, Japan and the United States, with Australia and ASEAN countries likely to join the alliance.

The world focus will gradually shift from the Middle East to Asia.

*You are one of the most active management gurus when it comes to advisory and consulting. From your experience, where do Indian companies fall short when it comes to achieving greatness?*

There are three key issues. First, many Indian companies are still ethnocentric and either unable, or unwilling to have a global mindset. This means global benchmarks for standards, quality processes and practices. Second, Indian enterprises are still family owned and, therefore, do not have the governance structure comparable to other multinationals, especially with respect to ownership and management. Often, the professional management believes that they report to the owner (chairman) and not to the board. Similarly, succession planning in many Indian enterprises is to ensure that the founder's children will inherit and manage the business. Consequently, the professional CEOs often do not have an "ownership" mindset.

Finally, except for a handful of enterprises, Indian corporations think of domestic diversification and make entrepreneurial investments and diversify too soon at the expense of the core business and often lose the core business to global competitors.

I believe that the real corporate assets of the nation are the public sector enterprises. If they are allowed and empowered, they can become good competitors, both domestically and globally. This has been true for Chinese state enterprises and also many British enterprises such as the Heathrow Airport, British Airways and British Telecom.

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*On the outside, marketing seems like the most glamorous and aggressive vertical in the business world. Everyone calls supply chain & logistics the backbone of a business, and yet it remains in the background. Do you think companies need to highlight it more?*

Yes, supply chain is not as visible externally as it should be to the customers and the shareholders. It also needs to be positioned as strategic and not just operational competence. The best way to do this is by creating a position of chief supply chain officer (CSCO) who is responsible for both procurement as well as internal operations.

The CSCO should be elevated to the board as an executive director and be a part of the top management team. Also, supplier relations are key to competitive advantage because more than 60% to 70% of the final assembly cost is procurement. The factory or internal operations add only 30% of the value. In the personal computer industry, the internal value-add (labour, capital and management overhead) is only 11%. Of the total, 89% is procurement.

*As you know, India now has a law for its companies to contribute 2% of its profits towards corporate social responsibility. And yet, enough isn't happening when it comes to giving back to the society. How can this change come about?*

Actually, a lot is happening, but it is not visible because it is more internal than external. This includes employee training and employee wellbeing. Secondly, many larger corporations are establishing their own foundations and education institutions. Finally, some medium-size companies are contributing to well-established charities such as Akshaya Patra, Pratham and Habitat for Humanity.

I am also pleased that in addition to Azim Premji, the Mittal family will contribute about Rs 7,000 crore to the Bharti Foundation and provide free education to low-income families.

*Could you please mention some interesting research/consulting you are currently doing, or a new book/paper that you are working on?*

My latest research is on how North-South climate differences between the arctic, the temperate and the tropical climates determine what we eat, what we wear and how we dwell (food, clothing and shelter). It also provides a theory of why cultures vary with respect to punctuality, space, friendship, and collectivism vs individualism. The title of the book is Genes, Climate and Consumption Culture: Connecting the Dots. It is published by Emerald Publishing. It is available on Amazon.

# ALL FOR ONE, ONE FOR ALL

Family businesses make for nearly 80% of companies worldwide and are the largest source of long-term employment in most countries. What makes them flourish and what makes them flounder?

Prerna Raturi

When it's all in the family, it's good news, says research. According to Credit Suisse Research Institute's (CSRI) "CS Family 1000" 2017 report, India has 108 publicly-listed family-owned businesses (FOBs). That puts it at number three, behind China, which has 167, and the US, with 121 such companies. In terms of average market capitalisation, India stands fifth with $6.5 billion in the Asia-Pacific region (barring Japan), and at number 22 globally. FOBs in India are far older, too; 60% of Indian companies surveyed in the study were in the third generation, while only 30% of Chinese companies had achieved the same feat. More than half of the Indian and Chinese family businesses that Credit Suisse surveyed generate revenues in excess of $500 million, with the majority of these businesses located across information technology, industrial and financial sectors. Family businesses make for nearly 80% of companies worldwide and are the largest source of long-term employment in most countries.

That FOBs are successful not only in India but the world over is no coincidence or stroke of good luck. There are several reasons why they work. When businesses are run by family members, personal capital and name is at stake. So, naturally, personal interest is far higher. Family members don't shy away from investing their own savings, foregoing salaries, and burning the midnight oil during tough times. Experts point out to several advantages that FOBs have over non-family owned businesses. Some of them are:

### Passion and dedication

Since it is one's own, family business brings in a lot more passion and dedication into it, be it with following the company's vision, strategy, targets, work ethics, and earnest commitment to make it work.

### Creative and proactive

Since the buck stops with the person running the show, there is a greater degree of thinking out-of-the-box and coming up with creative solutions to problems. This also hones their risk-taking abilities, something that plays a crucial role in breaking the mould and becoming more successful. This goes hand-in-hand with proactive action since the structure in FOBs is more hierarchical.

### Trust

There is a great degree of reliance within the company since it is family members and blood relations running an organisation. Hidden agendas and conspiracy theories have little or no room here.

### Industry insights

By the time second generation entrepreneurs are at the helm of things, an organisation has a good understanding of the market and competition. Also, the new office-bearers have their elders to advice them when it comes to overcoming challenges.

### Foresight and long-term planning

FOBs don't just plan for the coming financial year, but have a long-term vision for the company. This helps them strategise better and chase the goal with single-minded focus.

## The Problem Areas

If everything is all right with the FOB world, why then are most credible management schools running special post-graduate courses and executive programmes for family businesses?

That is because not only do these enterprises have their unique strengths, they have a unique set of dynamics, too. Ergo, challenges which are typical to these companies, in addition to the usual ones. As world-renowned management guru Jagdish Sheth has remarked in the interview (See Leaders) for the current issue of Fasttrack, "Indian enterprises are still family owned and, therefore, do not have the governance structure comparable to other multinationals, especially with respect to ownership and management. Often, the professional management believes that they report to the owner (chairman) and not to the board. Similarly, succession planning in many Indian enterprises is to ensure that the founder's children will inherit and manage the business. Consequently, the professional CEOs often do not have an 'ownership' mindset."

It's not just governance issues. There are other challenges that are unique to a family-owned business. Which is why a number of such enterprises fail. According to a paper published in the Harvard Business Review, only 30% of family-owned organisations last into a second generation, 12% remain viable into a third, and 3% operate into the fourth generation or beyond. The paper published these findings based on claims made by Family Business Institute, a professional services firm. "Even those that do continue often see their value decline significantly when power changes hands at the top. Joseph Fan, a professor at the Chinese University of Hong Kong, tracked the market performance of 217 family-run firms in Taiwan, Hong Kong and Singapore; he found that on an average their shares dropped almost 60% in the eight years surrounding a change of CEO."

Here's a look at some of the challenges that may be unique to a family run business:

### Family conflict

Like they say, your biggest strength can also be your greatest weakness. Cracks in relationships in the family can shatter business dreams and lead to conflict and quarrels. Case in point: After the death of Dhirubhai Ambani, Reliance was divided between his two sons Mukesh and Anil after an acrimonious dispute.

### Lack of structure

While an informal structure usually spreads across the organisation, making it more family-like and friendlier, it can also give rise to governance problems and less professionalism at workplaces.

### Nepotism

This one is an age-old grouse – that heads in family businesses give control to their family members even when they don't deserve it. Not only do others in the company find it difficult to accept that power, often, undeserving candidates may do more harm than good. At other times, family members are coerced into joining the business even when they don't want to.

### Tunnel vision

With family members running the business, there is often a lack of objectivity and companies suffer from tunnel vision, which can be overcome by welcoming more professionals having a say as influencers.

### Conservative attitude

Family businesses may be more proactive in leading change, but that can also mean that elders resist the same change when it comes to reforms suggested by the younger generation.

### Succession planning

Passing the baton is crucial to the survival and success of FOBs, but it isn't half as planned as it should be. To be fair to Indian businesses, a number of enterprises are now looking into the matter seriously and are putting processes in place for the same. Some are now even seeking external help from consultancies for succession planning.

## Seeking Help

According to a 2016 report by PwC (PricewaterhouseCoopers) India, the issues that FOBs need to address include:

- Acquire the right mix of talent, technology, and innovation to stay ahead of their competitors.
- Need to devote more time and resources on entrepreneurship and innovations in existing operations.
- Redefine their strategies and goals from time to time, and considering whether the strategies they are pursuing will be relevant five years from now.
- Cross-verify and check whether they are competent enough to grow their market share by penetrating into new markets, and even creating new ones.
- Examine their domestic performance thoroughly along with benchmarking with a peer group before taking steps to go global so that when it happens, they are fully prepared to have successful forays in international markets.

There are numerous consultancies that are working in the field of FOBs and have expertise in addressing their unique challenges and shortcomings. These consultancies partner with FOBs to address issues such as vision & strategy development, governance, organisation structure, succession planning, leadership development, reward strategies, and so on. In other words, family businesses are and should be open to seeking outside expert help to play on their strengths and address their weak areas.

## The Emami saga

Started by two friends Radhe Shyam Agarwal and Radhe Shyam Goenka, Emami has interests in FMCG, retail, healthcare, realty, art, cement, edible oils, biodiesel, writing instruments and solar power. With over 25,000 employees, the group's turnover is Rs 12,000 crore, with market valuation of around Rs 50,000 crore. The duo's partnership of so many decades has also meant their children are actively heading top roles in the company.

What has made the partnership last for so long? Tolerance, the policy of giving and not taking, managing one's ego, and supporting each other, among other things. The two septuagenarians have also made sure their children walk the straight and narrow path when it comes to ethics of the company, and family values that have stood both Agarwal and Goenka in good stead. The two patriarchs ensure there is equality among all, and differences of opinion are sorted out through communication, no matter how loud it gets.

On the practical side, both families have equal holdings in each Emami venture. There is also a business council that is made of family members who are promoters, senior management, and consultants. The family council also has a strict code of conduct for all family members.

## Dabur did it differently

Way back in the 1990s, Dabur Ltd was one of the oldest family managed businesses in India. Not second nor third, the company was being managed by the fifth generation of the Burman family. At that time, it was a Rs 100 crore company and things were looking up. And yet, the family decided to relinquish all professional roles in the company for the sake of a brighter and bigger future for Dabur, attract the best talent, and to ensure the family stayed intact. The advice was given by McKinsey & Co – an advice the family members accepted.

At present, only the chairman and the vice chairman's posts are given to Burman family members, although the family still owns 60% of the shares. A family constitution was also formed, which spelled out rules in black and white regarding the family's responsibilities towards Dabur's myriad business concerns. There is also the family council, which is made up of all male family members above 25 years of age.

Today, the 133-year-old Dabur India Ltd is one of India's leading FMCG companies, with revenues of over Rs 7,680 crore and market capitalisation of over Rs 61,500 crore. The company has a portfolio of over 250 herbal Ayurvedic products.

## Learning lessons

### Top 10 courses in family and business entrepreneurship

1. **Indian School of Business**
   Management Programme for Family Business
2. **Indian Institute of Management Bangalore**
   Management Programme for Entrepreneurs and Family Business
3. **SP Jain Institute of Management and Research**
   PG Programme in Family Managed Business
4. **SP Jain School of Global Management**
   Global Family Managed Business
5. **Institute of Management, Nirma University**
   MBA (Family Business and Entrepreneurship)
6. **NMIMS School of Business Management**
   Master of Business Administration (Entrepreneurship & Family Business)
7. **Entrepreneurship Development Institute of India**
   PG Diploma in Management (Business Entrepreneurship)
8. **Amity University**
   MBA in Family Business Management
9. **Hindustan University, Chennai**
   MBA in Family Business and Entrepreneurship
10. **Universal Business School, Mumbai**
    PGP in Family Managed Business