

# Entrepreneurship strategy and success factor of Family Business Entrepreneurs: Case study from Tamil Nadu.

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## ABSTRACT

The objective of the study is to find out the growth and success of family business entrepreneurs in Tamil Nadu, who initially started their business as small traders and over a period of time they made the same as a large-scale business group. The family business entrepreneurs are the one, which was wholly owned by the family members for at least two to three generations. Almost two- thirds of India's national income is contributed by the family business enterprise. When it comes to Tamil Nadu it is the family business enterprises contributed more to the economy than any other activity. In this case study we have evaluated three companies, which are successfully running their business as third or fourth generation business. This case study explored different stages of development of business and bottlenecks faced during the course of sustaining in the family business. The present study also discuss about their development strategies adapted on diversification and sustenance in the market. As such the present study has adopted case study methodology.

**Keywords:** Family business, entrepreneurs, strategies, and diversification.

## Conceptualisation

The term family business is defined as "Two or more family members influence the direction of the business through the exercise of management roles, kinship ties or ownership right" (Tagiuri and Davis 1996). This definition can further enlarged as firm of any size, is a family business, if: "(a) the majority of decision-making rights are in the possession of the natural person(s) who established the firm or in the possession of the natural person(s) who has/have acquired the share capital of the firm or in the possession of their spouses, parents, child or children's direct heirs; (b) the majority of decision-making rights are indirect or direct; and (c) at least one representative of the family or kin is formally involved in the governance of the firm. Listed companies may meet the definition of a family business, if the person who founded the company or has acquired the share capital of the company, or their family or descendants, due to their share capital, hold 25 per cent of decision making rights. The definition also includes family businesses that have not yet completed the first generation transfer. It also includes sole proprietors and self-employed if a legal entity exists that can be transferred to the next generation (European Union 2009). The selected cases incorporate one or more of these concepts. Hence, they have been selected for the study.

## Statement of the Problem

Family business is a new field of research in the entrepreneurship studies, which has a less number of contributions in India as well as in Tamil Nadu. A number of research studies were conducted on well established organisations like Tata, Ambani, Wipro, HCL, Mahindra and Mahindra but we have a limited number of studies from Tamil Nadu state. Hence, this study is need of the hour. Because, these selected companies play a significant role in Indian market and the economic development of the state. Thus, we have taken three business families from Tamil Nadu. The research issues addressed in this paper are:

- i) what motivated the family business entrepreneurs to become successful entrepreneurs?
- ii) how do they transformed themselves from a traders into well established family business entrepreneurs?
- iii) how do they sustain their enterprises for generations in business and succession? and
- iv) what type of strategies they follow in re-investment and diversification of business activity?

## Objectives of the Study

- i) To trace out the origin and growth of selected family business entrepreneurs in Tamil Nadu;
- ii) to study the transformation process from small traders to family business entrepreneurs; and
- iii) to understand the strategy followed in succession, diversification and re-investment pattern among the selected family business in Tamil Nadu.

## Materials and Methods

Case study method was followed. For this case study we have chosen three well established family businesses namely, Chettinad group of companies, PSG group of companies and TTK group of companies on the basis of their performance and sustenance. Even though there are other well established group of companies in Tamil Nadu (Sun group, Ramco, TVS, India cements etc.), however, we have chosen only three firms owing to some unique characteristics of the selected business, namely the year of establishment, re-investment, succession and diversification of business in the state.

## Analysis and Discussion

### Case I: Chettinad Groups of Companies

Chettinad Groups traces its origin from the Satappa Ramanatha Muttaiya Chettiar (SRM) family in the late 1850s. A well known financier and also landlord entered into rice trade also had close relationship in South East Asian countries. The S.R.M Chettiar had three sons named Chidambaram Chettiar, Ramaswami Chettiar and Annamalai Chettiar. After their graduation the second and third sons of S.R.M Chettiar have joined their family business and with their level of education they made themselves more contributed towards family business.

Being family inheritance and also in traditional practice in finance they played a major role in establishing banking activities in Tamil Nadu, namely Indian Bank, (1907) and Indian Overseas Bank (1937). With their expertise and experience gained from their 'Bank of Chettiar', their operations spread over along Southeast Asia region. Annamalai Chettiar also headed the imperial bank of India (present State Bank of India 1921) during British period, become one of the prominent person to emerge from the family business. Annamalai Chettiar who was crowned as the Raja of Chettinad family called as 'Nagarathar' in Tamil Nadu and called as 'Raja Sir'. Annamalai Chettair. By this second generation the group developed themselves in education, philanthropy and linguistic contribution and banking.

By 1921 Annamalai Chettair started an educational institute in his name (Annamalai University), which is one of the leading private university in south India. After the demise of Annamalai Chettair his three sons came into family business namely M. A. Muthiah Chettiar, M. A. Ramanathan Chettiar and M. A. Chidambaram Chettiar. M. A. Chidambaram Chettair founded Indian Overseas Bank (IOB 1937) in order to serve overseas trade and transactions of overseas customers in India. As they were experts in finance they diversified their financial investment and entered into various sector other than education and banking, with their incorporation of Chettinad group of Companies. In 1961 the Chettinad Cement Corporation Limited was established as there was more demand during the period. They added a fertilizer company (SPIC 1969) to their group as collaboration with Government of Tamil Nadu.

In addition, the Chettinad Group Company is also engaged in production of fused silica, silica and purity quartz grits. Further, Chettinad Quartz Products Pvt. Ltd., is a 100 per cent export oriented unit. It's a leader in Quartz manufacturer and exporter of wide range of fused silica products. It manufactures fused silica with in-house research and dedicated state of the art technology. The company has vast quartz resources to its credit, which can cater to the manufacturing needs for another twenty years.

Chettinad MB-F Hi Silica Limited — a Joint Venture company with Morimura Brothers, Japan and Fukushima Yogyo also of Japan, was established in 1991, started its manufacturing activity in 1993. The company belongs to Chettinad group of companies. The business group had ventured and diversified in varying fields including manufacturing (Cement, Silica, Quartz, Grits), services (Construction, Transport, Steel Fabrication, Ship Management and Stevedoring, Clearing & Forwarding),

trading (Power Generation, Plantation, Farms, Logistics), education (Chettinad College of Engineering and Technology, Chettinad University, Chettinad Medical College and Hospital, Chettinad Dental College and Research Institute) besides, sports, literature, art and music. Now they are one of the leaders in market in some of the fields.

### Case II: PSG Group of Companies

In 1920s three Naidu cotton trading families in Coimbatore were involved in spinning mills business. The first was PSG family, which was established by Peelamedu Samanaidu Govindaswamy Naidu (PSG). He had a successful career as a cultivator and dealer in cotton before setting up Sri Renga Villas Mill in his home village, just outside the Coimbatore town in 1921-22. PSG was the only person to raise an amount of Rs.1.1million in 1921-22 for establishing cotton mill, however, the other two cotton traders in the same community (RK Mills raised Rs 0.8 million in 1923 and Lakshmi Mills raised 0.6 million in 1929) could not raise that amount. The second was the family of V. Rangaswami Naidu, a cotton trader who built M/s. Radhakrishna Mills, with the family name as RK group. The third was the family of G. Kuppuswamy Naidu, whose family came from Papanackalpalayam, a nearby village of Coimbatore and floated Lakshmi Mills.

These Naidu mills raised their capital in a similar way namely, they sold the shares privately to their close relatives and to the circle of kin's friends, and business contacts. Generally, the families accounted for a significant portion of the capital and the entire share issued was spread over fewer than fifty persons. The three Naidu Company started in 1920 was more successful. They diversified in the same way that was beneficially interlinked to their original textile interest. They overcome problems in management by manipulating ties of kins and caste. Both the Lakshmi Mills and PSG group expanded throughout the 1920's and 1930's, but PSG was quickly scale off the mark after the World War II.

The Founder P.S. Govindaswamy Naidu, the pioneer of the group died in 1926 after four years of the establishment of the first Mill. He had four sons to take the succession after him, which gave them good growth in their family business. Between 1926 after post death of PSG and succession infused in the PSG group, the four brothers started a charity in the name of 'PSG and Sons' with an endowment of Rs. 2, 01,116/-. With their first startup an educational institution in 1921 named Sarvajana School and the trust started a high school in the same name. In 1926 it laid a foundation stone for PSG industrial training institute, which manufactured metal parts for factory construction and expanded to prime movers, lathes, small machine tools, and later they added a bleaching and printing work in the weaving centre at Erode.

Besides these major undertaking, the leading families did not prevent the leakage of skilled labour from its industry, but often encouraged and even lent capital to some of the workshop enterprises. This development not only provided many ancillary services for their local mills but also helped to lay foundation notably for irrigation pumps, which made Coimbatore into to a most varied industrial town of the south India. During the World War II (1939) the war technicians selected PSG polytechnic as their training centre.

By 1941 the PSG institute manufactured the first indigenous electric motor, which gave them a breakthrough in diversification of their industrial space into different sector. They made Coimbatore as a hub to manufacture small agriculture based pumping motors, which boosted the production and helped the farmers in irrigation. By 1947 PSG group established PSG College of Arts and Science, one of the premier institutions in Tamil Nadu for higher education. In 1951 PSG College of Technology was established. Manufactured India's first variable speed electric motor (1958) and they proved themselves as the pioneer in that sector of manufacturing. The PSG group of companies too played a major role in social welfare through opening of rural health centre in Vedapatti. Meanwhile PSG received a president award for PSG Industrial Institute and College of Technology for import substitution of the generalised electro-mechanical energy converter. Moving forward in 1972 they established Metallurgy and foundry division in Nellabur, also established a Medical Science and Research Institute (1985) and an urban health centre (1993). In 1995 they had diversified production and started a training centre for jute in association with UNDP. Till now they are the leader in their segment of business and able to transform the business into a successful family enterprise.

### Case III: Thiruvallur Thattai Krishnamachari (TTK) Group Companies

Thiruvallur Thattai Krishnamachari (TTK) started his career as an accountant in a firm, and served in the same organisation for seven years without any pay. Born to a 'Brahmin' community high court judge, who expected him (TTK) to follow his footpath, but avoided fathers counseling but entered into Government service for a brief time before entering into business. In 1921 TTK joined with AR. Duraisamy Iyengar firm in Madras (Presently called as Chennai) to learn agency trade from a man who represents the biggest industrial names at the time (like Lever's and Beecham's of UK). At his fifth years of services, his mentor Duraisamy Iyengar falls on ill and died in 1928. From then on with the confidence and the faiths had with Lever and Beechams gave an opportunity to TTK to take over the business. In the same year, TTK started his own agency in the name of TT Krishnamachari and Company. From then he changed the way of doing business by rather only booking orders and sending to the manufactures and started warehousing and distribution network. He handled new techniques in selling and showed a great salesmanship.

In 1937 after a decade of his self launch to business, TTK become restless and entered towards local politics. Because it was the time the freedom fight was in high aggressive stage. With his dedicated involvement in politics made him as the drafting committee member of Indian Constitution, which helped him to develop a good relationship with Nehru, the then Prime Minister of India. As he was unable to take part in business, his elder son TT Narasimhan (TTN) took over as the successor of the TTK and the Company. Unfortunately by 1940 Lever decided to sell its product without intermediate, which gave them a big blow to TTN, but Beechams and Cadbury agency remained with them. Luckily in same time the TTK and company came into contact

with an American company, which is managed by Seymour. The first product was Ponds face cream and 150 more to follow. The TTK and Company were well in position with the distribution of Westclox alarm, Kellogg's flakes, Schaeffer Pen, Aqua Velva after shave lotion etc.,

During 1953 the last American who headed the Indian office in Bombay (Mumbai) left the Seymour. After eleven years of working in TTK and Company TT Narasimhan become the MD of L.D Seymour and Company. From here TTK entered into its first manufacturing by a small setup near Bangalore, an ink manufacturing with the product name of Waterman's Ink. Then they entered into a dairy engineering and components manufacturing with the collaboration from Germans, Denmark and Holland dairy plants. Besides, the company erected more plants in Trivandrum, Gaya, Bhavnagar, Ambala and Hyderabad. Meanwhile, they came into collaboration with UK based Prestige group Ltd., for pressure cooker, which had a larger market in Indian households. With the special order from the Government of India to produce two thousand cookers per month they speed up their production. At this time TTK introduced his youngest brother TT Vasu into the management. He was good in implementing strategic projects of TTK and Company. Later, in 1958 they started a Pharma company - Orient Pharma (P) Ltd., (Now TTK Healthcare unit), to manufacture Woodward's Grape Water, a UK product for infants.

In 1963 it signed an agreement with London Rubber Company to manufacture Condom product in India with 51 and 49 per cent share. It got an order of 15 million units per year from the government of India for condom production in the brand name of 'NIRODH' in 1971. From here it becomes a group company and entered into hosiery (underwear) with the founding of TT investment and trades (1969) in Tanjavur in a brand name 'TANTEX'. In 1970 when the group of companies faced a management and cash crisis TT Jagannathan, the elder son of TT Narasimhan and the Padma was absorbed as MD of parent Company. Thereafter, TT Ranganathan has also joined the family business. This new management team gave a new spirit to the company and made it as one of the leading and successful family managed business company from Tamil Nadu.

Today, the TTK group spans thirty product categories with seven group companies and a turnover that cross thirty billion rupees. The group company products reach every continent of the world. The group has revenues of over US\$ 450 million with a presence across India and several international markets. The group has joint ventures with global corporations such as SSL International, who are the makers of Durex condoms and Dr. Scholl's foot care products. The group is also associated with several charitable and social organisations, such as the TTK Voluntary Blood Bank, the T.T. Ranganathan Clinical Research Foundation (a hospital for alcohol and drug addiction) and TTK Schools for the underprivileged. TTK Protective Devices Limited (formerly TTK - LIG), TTK Prestige Ltd., are the flagship company of the group.

### **Inference learned from the selected Cases**

From the selected cases we can clearly infer that all the three group companies were from a various profession and entered into business at crucial situation. The Chettinad groups were basically financiers turned to bankers further into cement and fertilizers in Tamil Nadu. The PSG is yet another family business developed from traditional cotton trading to the level of bringing agricultural revolution (producing pumping motor), training, education, extension and health care sectors. The TTK says a different story, grown from agency trade to warehousing, distribution network and later entered into manufacturing. From the three cases we can very well infer that the conducive business environment, family support in strategic decision making and reinvestment strengthened the survival of the business. Further, all of them has social obligation and helped the society also to grow along with their growth and development.

The cases further exhibits that they were small traders in specific area of business. By the time they started the business the economic policy were favourable and suitable besides their involvement in Indian politics. All these factors had motivated them to establish large scale industries and make their presence in South India with strong foothold. In addition an active participation of grandfather, father, son, grandson, siblings and other family members in business decision making also helped them to enlarge their business at international market.

These cases clearly indicated that their investments were well tabled and planned in diversified field of business and in various strategic units. This strategy of investment gave an upper hand and comfort zone level on all establishments. Apart from their investment and diversification the important part in family business is succession. In normal situation, the elder son of the family will be the successor. Here the business does not have any bottleneck in this process because of their traditional way, which they followed till now. It also follows the strategy of equal opportunity for all family members participation in business decision making.

### **Conclusion and Policy Implications**

From the above discussion and inferences we can conclude that there is a possibility for entrepreneurs to grow in any small trade or business if they have family involvement in their business. Beyond this they also follow some family business strategy for re-investment, succession and business diversification for their sustainable development and growth. There are few things which can be taken for future research studies, like personal leadership, mentoring family values, family business ethics, involvement of women in family business, contributions towards employment generation and social responsibility. To conclude the cases selected had clearly shows that there was a development of few families from small traders to generationally established family business firms in Tamil Nadu.

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