CHAPTER 3: HYPOTHESIS DEVELOPMENT & RESEARCH METHODOLOGY

HYPOTHESIS DEVELOPMENT

Adaptation for survival and growth in the highly volatile and perpetually changing order of business in the world is continuously creating immense pressure for retention of one business model, “The Family Business”. Unfortunately these businesses were closely held, not widely published, facts presented to the society are distorted, and mediation and intervention was based on trust. Hence, research is fragmented, and non-cumulative, and business owners were disappointed when guidance was sought. There was, and there is a lack of a creative theoretical model.

On the other side, it is also true to say that there cannot be one theory which suits all such businesses, because there is no one family business model which suits all. The inherent culture, generation expectation, systems, adherence to values in the next generation, loss of the business interest, diversity of the firms, create barriers for the creation of models or theories.

However, there can be an attempt for a common theory of a family firm, which can at least allow the concept of the family business to be understood, the processes well designed, and knowledge well defined, with the mapping of knowledge transfer. When attempting to evolve such a theory there will be certain basic common inputs, there will be a reflection of the past, which can be called antecedents and through it certain consequences shall result, which can evolve the hypothesis formation.

Inputs

a. That “Family” and “Business” are two separate connotations, and need to be studied separately to understand family business
b. That the Family Business starts from an Entrepreneurial idea
c. Family Business is a sustainable business
d. That lack of knowledge and lack of transfer of knowledge may make it unsustainable
e. Managing and grooming a family business is complex, and needs to be well understood
f. That familiarity and knowledge of the business cannot be taken for granted and needs to be developed
g. There are three constituents of the Family Business:
   1. An Individual
   2. An Institution
   3. An Idea or Context

All the three need to be well understood and integrated; into the business. Only then is the Family Business sustainable enough to last through the generations.
ANTECEDENT

1. The entrepreneur sets out to implement his idea
2. He has developed a vision around it
3. He has also developed some knowledge around it. He is still searching for more
4. There is apprehension whether the idea shall convert into a family business format and would go through several generations
5. There is no certainty of sustainability of the business

CONSEQUENCE

1. Over a period of time, the business matures and envelopes members of the family
2. There is a process of knowledge creation and transmission of both tacit and explicit knowledge
3. Such knowledge creation and transmission along with performance improves the chance of sustainability

NULL HYPOTHESIS

1. Knowledge creation, development and transfer is not critical for sustainability of the business through generations
2. Knowledge does not help a simple idea to be transferred into a large business format to take it to a different dimension
3. Family Business does not have a process of transferring knowledge
4. Hence Knowledge has no role in supporting a sustainable Family Business

FORMATION OF HYPOTHESIS

1. Knowledge creation, development and transfer is critical for sustainability of the business through generations
2. Knowledge will help a simple idea to be transferred into a large business format and taken to a different dimension
3. Family Business has a process of transferring knowledge
4. Knowledge has a role in supporting sustainable family business.

There were several more, which were intriguing and raised questions on the sustainability of these business institutions. There is an age old theory which still prevails:

1. The first generation is the entrepreneur created the business on an average level, the second generation has seen him manage. The third generation felt the success of the entrepreneurship.
2. The second generation wishes to sustain the business with remodeling. His problem is that he does not clearly take the first generation along and if he does, is very impatient. The seed is sown for a different look.
3. The third generation has seen the past and is seeing the present and the society is influencing him for a different future. He has to be held. The business does not do it.

(Pramodita Sharma, 2000; Chuan, 2000)
The theory is strongly linked to the existing society values and the extended family concept with shared values. Sensitivity to cultural adherence, strong bonding to the business, acceptance of remodeling by the first generation entrepreneur, hand holding, staged mentoring are several areas linked to its success. The essentials of these in the Indian and Asian models of the family business are very strong and have strong correlation to their success and failures.

The trend of the family business has also shifted with the technological revolution. There was a time when traditions evolved a business need and the family took care of it. As a matter of fact the entire village belonged to a particular sect and hence was known for a particular business. There are still numerous examples where you can link the village to the surname of the family or the individual and you can forecast their family business. The skill was passed on from generation to generation, (Tomaselli and Melin)

There is also the realization that some of the businesses may not be competitive because technology has surpassed their abilities and to maintain their living, either the families have broken up or dispersed or have allowed the next generation to evolve their own business requirements. The bonds have disappeared. In many instances this has led to an erosion of the family business, especially where it was linked to specific competencies. This has disrupted and uprooted several generations. They have also sold their land and belongings under the garb of development. Many of the age old competencies which was genome based are disappearing. Where ever possible resistance has taken an extremist route, (Technology And Family Business, Potzouris 2002)

The study of family business is challenging, to say the least. This line of inquiry is interdisciplinary in nature, involving different fields from international competition, business strategy to genetics. To master these challenges associated with studying disparate topics like these one not only requires a broad education but also extensive experience and a disciplined way of thinking. Much of the international research has been rooted in Greece, Cyprus, and Germany and to some extent Australia and many of the famous authors and books have come from these geographies.

Family enterprises in spite of the technological revolution, irrespective of the scale of operation, legal form, industrial activity, and level of socio political and market development have been the backbone of corporate life across nations, remaining a cornerstone of socio economic development. They have been for the most part enduring institutions and their importance parallels socio economic cultural advances, technological advances and the so called new market order associated with globalization, (Corbetta and Montemerlo)

It is true to say that there was never a consensus on what constitutes a family business. Adoption of methodologies was not supported by theories, survey design lacked the robustness, and lack of data disrupted cross sectional and time series analysis, (Brockhaus, 1994). Early research focused on phenomenological problems rather than systematically exploring and advancing theoretical paradigms. It was more succession oriented, related structures, business governance and performance oriented. It failed to identify important variables and their inter relationships leading to a sound theoretical conceptualization. There are now series of developments, some of which are given below.
1. Evolution of the Family Firm Institute (FFI)
2. Formation of the Family Business Network International (FBN)
3. A group of academicians forming the International Family Enterprise Research Academy (IFERA)
4. Inclusion of the Family Business Review Journal as a social citation index by Thomson ISI
5. Linkage of Entrepreneurship behaviour to Family Business and theorizing the research in Journal of Business Venturing and The Enterprise Theory and Practice Journal
6. Several research scholars Poutziouris, 2000; Corbetta and Montemerlo, 2001; Koiranen and Karlson, 2002; Steir, 2003; Tomaselli and Melin, 2004; Pramodita Sharma, 1999: have developed theories and models.

Indian Family businesses have seen more of conflict resolution and succession planning interventions, and little of theorizing research. Several scholars like Jaideep Motwani, S Gurumurthy, Dr N. H. Athreya have intervened as trust based consultants to resolve disputes but have not contributed very notably to the research. Jaideep (1998) has created as part of his operational research initiative and developed mathematical models to validate family business firms.

One needs to continuously develop balanced family business entrepreneurship frameworks where new standards of research are achieved in order to strengthen theories related to family controlled firms. Another imperative calls for alternative research models incorporating sources of competitive advantage and dynamic capabilities of family firms namely familiness and family influence.

Aristotle (400 BC) has said that family is the association established by nature for the supply of people’s everyday wants. This reflects the dual and interrelated nature of family business.

As the field is gaining momentum, it is important to pause momentarily to capture its evolution with an aim to preserve its legacy and to provide a common historical basis of the past. The study of the Family Business lies at the convergence of several fields including anthropology, family therapy, family studies, organization studies, sociology, psychology, etc. Hence any attempt to look at the existing nature of family business needs evolutionary research to arrive at the here and now of it. The Family Business studies have now become a legitimate field of study. The amount of research in Canada, Spain, South Africa, Sweden, and USA indicates widespread appeal for family business studies by young scholars. This is a good sign.

Theory is an efficient tool that guides the development of knowledge because it helps making connections among observed phenomenon, thereby helping build a conceptual framework that stimulates understanding (Sutton & Straw, 1995). It aids in building connections between the work at hand and preexisting research, thus making use of cumulative knowledge to reveal a range of alternatives for effective action (Lindblom & Cohen, 1979: Moore, 1962). There is nothing as practical as a good theory, (Kurt Lewin, 1945). The attempt is to build sufficient enthusiasm to commence research into this specific institution called family business, which will proliferate its growth and contribute to the economic well being.
The importance of establishing clear definitions of family firms cannot be denied. This helps in developing cumulative knowledge. There have been numerous attempts in establishing the definition from voting rights concept to power impact, culture impact and experience impact. Somewhere it has also gone around ownership, leadership and membership differentiations. Wortman (1994) says “no one really knows what the entire field is really like or what its boundaries are or should be”. There is need for meta analysis of this research stream to establish its niche and identity in the field of organization studies.

There are several levels to be studied when one attempts to study Family Business.

1. Individual Level
   a. Founder level
   b. Next generation level
   c. Women
   d. Non family employees
2. Inter personal group level
   a. Nature and type of contractual agreements
   b. Sources of conflicts
   c. Management strategies
   d. Intergenerational transitions
3. Organizational level
   a. Resources
   b. Survivability
   c. Governance structures
   d. Patience
   e. Trust
4. Societal/environmental level
   a. Economic Importance
   b. Tax implications and fiscal impact
   c. Population ecology
5. Inter generation level
   a. Knowledge realization
   b. Knowledge assimilation
   c. Knowledge transfer
   d. Knowledge retention
   e. Knowledge implementation
There is an apparent lack of knowledge in the system of this institution. The response is reactive to a stimulus and has no depth of application. There is a model to study which is captured below:

![Family Firm Model Diagram](image)

**FIGURE 3-1: FAMILY FIRM MODEL**

This research should start creating a base for usable knowledge to allow proliferation of this institution called the "Family Firm". This should also allow several education initiatives to be initiated in this field to allow generations to realize the importance of this institution and also to motivate them to assign themselves to it. This research should also throw light on the current direction and take care that in the future efforts are made in a desirable manner so that the wheel of understanding family business moves expeditiously. This research is more about stock taking of the existing knowledge of family business studies.

**RESEARCH DESIGN AND SETTING**

1. This study was exploratory in nature
2. The study intended to look at different locations of the country
3. The study also wanted to look at the organized and unorganized sector
4. The study wanted to look at manufacturing/services/distribution, differently if possible
5. The study wanted to look across generations to examine knowledge transfer
6. The study wanted to look at multiple families in a cluster to evolve success of knowledge creation and transfer
7. The main objective in this study was largely exploratory in nature and not to test the validity of any theory. Hence case study method was selected for this study. This method allows a comprehensive understanding of the Family Business.

An inductive, multiple-case research design (Eisenhardt, 1989b) was used. Multiple cases permit a replication logic through which cases are treated as experiments, allowing for scope of replication of the same result or constructing results under theoretically predictive causes, (Yin, 1994). This process typically yields more robust, generalisable theory than single cases, (Eisenhardt & Graebner, 2007). For example, this expansive approach includes specified boundaries, sphere of influence, (Pfeffer & Salancik, 1978), organization members' cognitive mind-set (Tripsas & Gavetti, 2000), and governance of activities, (Williamson, 1991). Examples of boundary decisions are acquiring new technology, handing over realm of the business to a successor, taking diversification decisions etc. The sources of the data were family members and partners who own and manage the business and their successors. The other internal sources were the employees working in the workshops. Archives were
collected from published case studies, newspaper reports, and informal interviews with the people of the locality, competitors and business partners.

As discussed by Nonaka et al., (2000), socialization, externalization, combination and internalization help in creating intellectual capital (see, figure 3-2). Nahapiet and Ghoshal (1998) perceived intellectual capital as being a combination of individual and social, explicit and tacit knowledge facilitated through exchange and combination.

![Figure 3-2: Model for Creation of Intellectual Capital, Ghoshal et al.](image)

The individual explicit knowledge is education, which helps in understanding of the various business processes in the businesses like production, operations, finance, marketing and human resource processes, as well as, experiences gained through on-the-job training within the family firm. In the brass manufacturing sector of Moradabad, for example, there is almost non-existence of any formal training. The individual tactical knowledge is gained from the family through interaction, narratives etc., Astrachan et al. (2002) suggested that the inter-generational experience transfer follows an exponential continuum with the highest value of experience transfer taking place in the first generation to the second generation. In fact up to forty percent knowledge transfer takes place during this stage. The social explicit and tacit knowledge are created through externalization and socialization. The explicit knowledge comprises of information related to government rules and regulation, about the industry, export-import policies and new technology involved in the business. The tacit knowledge comprises of narratives about experiences, innovations adapted etc. The externalization process in this business takes place through trade fairs conducted by the Export Promotion Board in the different parts of the State, through which the firm owners are able to sell their products and interact with domestic and international customers. Customer insight helps them understand product demands, improve quality and innovate. Socialization takes place through discussion at social parties, the firm owners own social circles like membership of clubs, religious organizations and social or political organizations. Internalization of knowledge takes place depending upon self-efficacy and motivation of the enterprise owners or managers, emotional involvement in the business and reciprocal trust. Knowledge creation by the firm owner can be in the form of either incremental or radical innovation.

This period was sufficiently distant to allow longitudinal patterns to emerge and yet sufficiently recent to allow accurate, detailed data collection at the time of our study.
JUSTIFICATION FOR THE RESEARCH METHODOLOGY

Papers that build theory from case studies are considered interesting research (Bartunek, Rynes & Ireland, 2006) and are among the most highly cited pieces (e.g., Eisenhardt, 1989a; Gersick, 1988), with high impact.

Building theory from case studies is a research strategy that involves using one or more cases to create theoretical constructs, propositions and/or midrange theory from case-based, empirical evidence (Eisenhardt, 1989b).

Case studies are rich, empirical descriptions of particular instances of a phenomenon that are typically based on a variety of data sources (Yin, 1994). Case studies emphasize the rich, real-world context in which the phenomena occur.

Moreover, since it is the theory-building approach that is deeply embedded in rich empirical data, building theory from cases is likely to produce theory that is accurate, interesting, and testable. Thus, it is a natural complement to mainstream deductive research, (Eisenhardt & Graebner, 2007).

There is no existing theory that offers feasible answers. Conflicting theories are not enough. Research in Knowledge Management in Family Business does not exist in notable terms and also demonstrates that the existing research either does not address the research question at all, or does so in a way that is inadequate or likely to be untrue.

It is important to realize that any noteworthy research in Family Business including the definition thereof is of recent origin and hence there is need to build a theory to verify the hypothesis. The cases built up are an effective way to do this. Also, theory building from case studies is an increasingly popular and relevant research strategy that forms the basis of a dis-proportionately large number of influential studies.

In an evolving theoretical model where sufficient research has not been encouraged or reviewed, and data is not available sufficiently, multiple investigation on the qualitative front is needed. Case studies are inevitably a good source of theory building. The richness that comes from anecdotes and uncovering of all relationships in hard data is possible from interpretation of this soft data, (Mintberg, 1997).

Justification of the selection of the Three Family Business case:

- **Brass Manufacturing**
- **Betel Leaf**
- **Herbal Sector**

There was a need to get three conditions satisfied to have comparable data:

1. There was a need to look at multiple generations in a cluster
2. There was a need to look at multiple families in the generations
3. The business needed to have different periods of evolvement
4. The business must represent both the organized and unorganized sector
5. Where multiple families was not possible, we needed three generations of family business evolvement
The need to look at sustainability compels such a selection even further, since levels and degrees of sustainability across various time periods and across generations can be reviewed.

We required qualitative data to be assimilated from cases developed across the business in a cluster with several interactions.

A single family interaction with a single idea on a non competitive platform and without examining several generations could not establish the proof of knowledge creation and transfer.

**TOOLS OF THE STUDY**

- An interview guide was utilized for each of the cluster families which had a clearly demarcated start up phase, consolidation phase and growth phase.
- The interview guide had 5 sections. Section 1 focused on the family, family values, family constitution, and generational transition.
- Section 2 of the interview guide focused on the start up phase of the business; idea, resources, family support setting up of operations and management of revenue.
- Section 3 largely focused on the transition of the business, scale, and the role and process of knowledge transfer, and knowledge development.
- Section 4 dealt with sustainability of the business through generations, growth and vision for the future and the knowledge requirements for the same.
- Section 5 focused on success factors for the sustainability of the business through generations.
- Secondary data analysis was undertaken to gather information, substantiate about the knowledge, knowledge transfer processes, status of business verticals.