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Supply chain management capability of small and medium sized family businesses in India: A multiple case study approach

Jayanth Jayaram [a,*], Mita Dixit [b], Jaideep Motwani [c]

[a] Department of Management Science, Moore School of Business, University of South Carolina, Columbia, SC, United States
[b] Equations Marketing Consultants, Mumbai, India
[c] Seidman College of Business, Grand Valley State University, 401 West Fulton, Suite 409C, Grand Rapids, MI 49504, United States

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ABSTRACT

Supply chain management has emerged as a vital capability of operational excellence for companies in India, which is currently one of the fastest growing emerging economies. Indian business is dominated by small and medium sized enterprises (SME). With a smaller size, narrow span of operations, and scarce resources, these businesses tend to be less advanced in their supply chain management (SCM) capabilities compared to large organizations. SMEs are predominantly owned and managed by families. Owners make strategic decisions, control and manage operations and therefore their attitude towards growth, risk appetite, and level of professionalism has a huge impact on the business. This research attempts to explore the relationships that "family-business" characteristics has on supply chain management capabilities of small and medium sized family businesses (SMFBs) in the Indian context. Our research framework is based on the interaction of two independent disciplines of research which makes a hermeneutic interpretative studies approach an appropriate lens to examine the intersection of family business and supply chain management. We use a within-case interpretive analysis of six manufacturing companies in diverse sectors to identify key constructs in the domain of "family-business" and "supply-chain management". We then analyze the level of these constructs through across-case interpretive analyses. Finally, we use the pattern of across-case analyses to develop a set of propositions that link the relationships between the constructs of family business and supply chain management capabilities. Implications of these propositions for theory building and managerial practice are offered.

1. Introduction

India as one of the fastest growing economies is transitioning into the next phase of the growth cycle. According to Ernst & Young's India attractiveness survey (2012), India leads the world ranking in the shared services domain and is also rapidly emerging as a preferred location for manufacturing for many foreign corporations (Ernst & Young, 2012). It is estimated that by the year 2020, India will be among the world's top three destinations for manufacturing. Despite this enormous long-term growth opportunity, there are challenges with respect to its supply chain management (SCM) performance. Specifically Indian companies are increasingly recognizing the strategic contribution that suppliers bring to firms and yet are lacking in supply chain performance in the areas of cost, quality, time, delivery, and flexibility (Jayaram and Avittathur, 2012; Industry Week, 2009).

Gupta (2012) points to the importance of looking beyond multinational corporations (MNCs) to specifically examine emerging market multinational corporations (EMNCs). In particular, he talks about investigating the influence of Indian overseas family businesses (OFB) on the Indian economy. Panjwani et al. (2008) estimate that about 85 percent of businesses in the European Union and 90 percent of US businesses are family controlled. Worldwide family businesses account for approximately 75 percent of the top 100 companies. Like their counterpart developed economies, Indian businesses are predominantly family owned. They account for 85 percent of the economy in terms of national output and value addition. A majority of these businesses are in the small and medium sized family business (SMFB) segment. Ward (2000) estimates that there are about 6 million registered firms in India, most of them being family businesses having an average net worth of less than USD 500,000. Many progressive and large family groups have revisited their strategic intent and operational efficiencies to compete in a global environment (Sampath, 2001). However, SMFBs have been slow in responding to global market challenges, adopting new technologies, and gaining a competitive edge via flexibility. With the trend towards

* Corresponding author. Tel.: +1 803 777 5976.
E-mail addresses: jayaram@moore.sc.edu (J. Jayaram), mitadixit@gmail.com (M. Dixit), MotwaniJ@gvsu.edu (J. Motwani).

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increased outsourcing, a renewed focus on SCM as a strategy has become vital to success. Thakkar et al. (2012b) argue that SCM has been considered an effective strategy for integrating suppliers and customers with the objective of improving responsiveness and flexibility of manufacturing organizations. Large, organized companies have the resources and ability to manage interlinked supply chain networks (Blome and Schoenherr, 2011). In contrast, SMFBs have not developed SCM capabilities to match this capability for global competition.

Research on SCM and family business has both received significant attention from researchers lately. Despite the dual importance of SMFBs in the Indian economy and SCM as a strategic weapon, research combining these disciplines is sparse. Unlike non-family owned companies, in the case of SMFBs, the family has ownership of the business and a desire to grow the business though close controls. This ownership structure affects corporate governance, strategic decision making and performance of the companies. Therefore, the core objective of this research is to identify which characteristics of family businesses influence effective SCM capabilities of the business?

To address this research objective, we pursue a qualitative hermeneutic interpretive studies approach based on data from six SMFBs in the Indian manufacturing sector. In absence of a single definition of family business, we use the theoretical anchor of most propounded definition of family business by Donnelly (1964) and develop criteria that justify our sample selection. The paper proceeds as follows: In Section 2, we review the literature relating to both family business and SCM disciplines, identify the research gap, and then discuss the mode of development of our research framework. In Section 3, we describe the methodology used for purposive selection of cases, hermeneutic qualitative data collection approach. Section 4 describes how key constructs were selected from within-case analyses and how these were used for across-case analyses leading to development of our theoretical framework. Section 5 uses the theoretical framework and ensuing propositions to isolate thematic insights that emerge from this framework. The paper offers specific implications of our findings on theory development and on managerial practice. Specifically, we seek to contribute to the literature by linking key family business constructs that influence enhancement of supply chain capabilities for SMFBs in India.

2. Literature review and research framework

There is a consensus among family business researchers that the family firm is a combination of the family system along with the entrepreneurial behavior of its members (Stewart and Hitt, 2010). It is the interaction between these two elements that shape the basic characteristics of a family business (Davis, 1983). However, there has been a wide diversity of definitions of family firms in categories such as ownership and management, generational transfer, and other conditions. Therefore, researchers have emphasized the need to define the criteria of a family business in accordance with the purpose and overall context of the intent of the research study. (Astrachan et al., 2002; Wortman, 1994).

In family businesses, the owners play the role of managers as they recognize that their family firm's survival depends on their ability to enter new markets, revitalize existing operations to create new businesses and enhance competitiveness of the business (Ward, 1987). Past empirical research supports a positive relationship between the owner-managers' motivation for growth and ensuing actual business growth (Kolvereid and Bullvag, 1996). Similarly, beliefs in the possible consequences of growth influence their overall attitude toward growth (Wiklund et al., 2003). Therefore the firm's performance and productivity depends on the attitude and capabilities of its owner-managers. Family-controlled businesses take a long term orientation in making strategic investments to develop sustainable capabilities of the business (Le Breton-Miller and Miller, 2006), and due to their higher independence, they pursue more risk-taking strategies, resulting in out-performing non-family firms (Nguyen, 2011). Similarly, researchers posit that by professionalizing their management and governance bodies, family businesses can operate more effectively (Stewart and Hitt, 2012). Although not directly, Kansal (2012) indirectly examined the role of professional management in a sample of 252 SMFBs in India by looking at how succession and retirement planning can be done in a systematic and professional fashion. Family-owned firms are badly managed if run by family members compared with similar family-owned firms run by external CEOs (Bloom et al., 2012). Sindhuja (2009) compared the performance indicators of a family managed firm against a non-family managed firm belonging to the same industry and found that a professionally managed non-family business can create value to its shareholders. These examples point to the importance of professional management in family firms.

SCM can improve the performance of the firm by integrating key business processes from end users through suppliers and vendors by providing products, services, and information that add value to customers (Othman and Ghani, 2008; Sahay et al., 2003). It is an integration of all activities associated with the flow of goods from raw material stage through end users, as well as the associated information flows both up and down the supply chain. The success of SCM as a system depends on companies that can develop specific capabilities and competitiveness such as the ability to develop a trusting relationship with its suppliers, seek total supply chain coordination, enhance communication to reduce uncertainty and inventory levels, ensure on-time delivery of high quality goods and services at a reasonable cost, and the involvement of the right business partners (Acharyulu and Shekbar, 2012; Monczka et al., 2011).

Although SCM can be a strategic tool, it also poses challenges to businesses. A major challenge is the coordination across a multi-location manufacturing network and coping with increasingly complex demands of customers (McKinsey Quarterly, 2010). In India, large companies as well as SMFBs suffer from uncertainty in supply lead times, quality issues and non-responsive firms in the supply base. Information system (IS) capability and advanced Information technology (IT) infrastructure can be an important tool in improving SCM capability (Sahay et al., 2003). IS capability is emerging as a significant characteristic of supply chain strategy. The use of IS dramatically reduces the interaction and transaction costs and has an impact on procurement, logistics, vendor relationship management, and customer relationship management (Fasanghari et al., 2008; Industry Week, 2009). Prabhakar (2010) reports on the GLOBE study which was conducted across 62 nations worldwide to study the leadership behaviors of top leaders across the globe and attempts to find out the key leader behaviors that are vital to family businesses. Similarly, Gunasekaran et al. (2011) tested a framework that used key factors and enablers to determine the resilience and competitiveness of SMEs. These studies portray a need to understand the unique characteristics that typify family run businesses.

The theoretical foundation for the given study rests on the literature that focuses on the unique characteristics of family businesses in which the family's influence impacts strategic decisions and business competencies in the area of SCM capabilities of the firm. As there is a fair amount of consensus in the notion that research on SCM and family businesses is reasonably mature, our research framework is based on hermeneutic interpretive studies of field phenomena (Verganti and Öberg, 2013). This is in contrast to the popular grounded theory approach which