

A study on factors affecting succession planning in small and medium scale Indian family business

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Abstract: Today, various factors determine the successor in a family business. Succession planning in family business is a tough and a critical challenge. Succession planning in family business is influenced by various factors. This paper attempts to study the effect of various personal and strategic factors on small and medium scale Indian family business in the succession planning process. It is important to understand the effect of these factors while selecting the successor as it may eventually determine the success or failure of the family business. The study uses a case research method which focuses on the companies from the manufacturing sector and the service sector in the small and medium enterprise category. The study focuses on cases from the succession planning of various companies and it helps to understand how succession planning in those firms is affected by various factors. Data is collected from the head of the family business in both the manufacturing and the service sector. The sample consists of detailed discussion with the owners of eight family businesses to understand various personal and strategic factors affecting succession planning across India.

Keywords: Succession planning, Family business, Small and medium scale enterprises, Successor, Personal factors, Strategic factors.

1. Introduction

In India, the major part of businesses is in the control of the families. From various small stores to large conglomerates we have the business that is run by the family in India. Many of the biggest known companies in India that include the Ambani, Birla and Tata are all family governed business. Entrepreneurship has been encouraged a lot and this has resulted in the formation of a lot of family business in India. . Family businesses help to promote the economic and social development and also provide for the creation of wealth around the world [1]. With so much importance given to family business in India, it has become very important to carefully select the successor to ensure the growth and success in the family business. Family businesses understand the importance of succession planning to ensure continuity of their business [2]. For most family businesses, determining who would be the successor is the toughest and most critical challenge they face. For each family, there may be different needs due to the size of the family, size of the business or gender preferences that determines the successor of the business. [11]



2. Literature Review

2.1. Family business

A Family business is the company or firm where the family has ownership of the major part of the stock and has complete control over all aspects in the firm. [3].

Family business can be defined as a firm which is owned, controlled and operated by the members of a particular family, there will be non-family members also employed into the business. It is a company in which there is strong influence of the family in the day to day running of the business [4].

2.2. Succession Planning

Succession planning in family business is a tough and a critical challenge that a firm may face while transferring the business successfully to the next generation. Today, succession in family business is an issue that is given maximum importance by family businesses [5]. Considering the various missions of the family businesses possibly succession planning and advancing the business to the following generations is the most significant one [6], and so it can be believed that proper succession planning is a requirement for a business to survive or sustain [7], [8], [9], [10].

2.3. Indian Family business

In India, the system of joint families has been prevalent and this has also ensured that the family business concept has been prevalent and successful, especially among the people from the 'Vaishya' community who have traditionally been in business. The sociological factors that are prevalent in India replicate the bond between families and businesses. Working together in a family business also deepens the relationship between families and the business is usually divided among the businessman's children, who in turn diversify and expand the family business. [1].

2.4. Small and Medium scale enterprises

The Ministry of Micro Small and Medium Enterprises of India (MSME) has different definitions for small and medium enterprises based on the sector they operate in. The below table explains the differentiation.

Sector	Category	Minimum Investment in Plant & Machinery (INR)	Maximum Investment in Plant & Machinery (INR)
Manufacturing	Small	>25 Lacs	<=5 Crores
	Medium	>5 Crores	<=10 Crores
Service	Small	>10 Lacs	<=2 Crores
	Medium	>2 Crores	<=10 Crores

2.5. Influencing factors of succession planning

Quite often it is observed that son is the legal heir of family businesses. Even in the practical world while you see that female successors possess more financial resources, the business owners by default chose male heirs for their businesses [11]. The Key personal attributes and deliverables are assumed to be present in the male heirs than female heirs. Negligence of knowledge has been emphasised. The key to a successful succession plan is for the successors to be equipped with sufficient knowledge to run the business. [12]. If a family business founder follows a religion, it will affect both the individual's life and the firm's behaviour. Using nationwide family firm survey data from Chinese family firms, it was understood that the family firm founders religiosity is conducive to their succession intention. [13]. The transfer of the family business to the successors an important strategic challenge for the family. The tax effect makes the process of family succession difficult with an important strategic decision to make keeping the tax laws in consideration during family succession [14]

3. Need for study

This study will help us understand the various personal factors affecting succession planning in small and medium scale family business.

This study will also help us understand the various strategic factors affecting succession planning in small and medium scale family business.

4. Research question

What are the various factors that affect the succession planning decision of selecting the successor in small and medium scale family business?

5. Objective

To study and understand the various factors influencing succession planning in small and medium scale Indian family business.

6. Methodology

An amalgamation of Primary research and Secondary research has been used in this research. As the word denotes – Secondary research is done through secondary (non-direct) resources. This involves literature gathering from various sources like the internet, books, case studies and understanding the concept of Family Business in India. Primary research involves research from Primary (direct) resources. Multiple interviews were conducted with the owners of various family businesses and the insights obtained were recorded as cases. The study of these cases helped provide an in-depth analysis of the subject in a real-life scenario.

Case study is a particular approach for qualitative research that provides for an in-depth analysis of an existing occurrence within its real-life perspective [15].

6.1 Sample Details:

The sample includes eight Indian family businesses from both the manufacturing sector and the service sector that are into business for more than a decade.

7. Analysis

7.1 Case 1

This organization was incorporated in the year 1994 and is engaged in construction, property and real estate development business. This organization has successfully completed many big commercial projects including housing projects. This organization had diversified its business into manufacturing of plastic components like bottles and jars in the year 2008. This organization has its headquarters in central Coimbatore.

In the case of selecting the successor of the business while succession planning, the CEO feels that would certainly look for skills in the prospective successor that would fill the gap of skills that the organization may lack. The CEO also feels that the preparedness of the prospective successor to handle management tasks is a key factor and also the prospective successor must be knowledgeable and well qualified. The CEO would not consider gender and religious beliefs while choosing the prospective successor. The CEO would not have a particular time period for the successor to learn the business but he feels that it would be a natural thing to have the successor train for a duration so that the DNA of the organization will get imbibed in to the prospective successor. The CEO tells that neither the economic conditions nor the industry type will influence him on his succession planning decision.

7.2 Case 2

This company was founded in 1991 and was involved in the manufacturing of food products. Initially the company was involved in the manufacturing of waffles and then diversified into various varieties of biscuits and snacks with major sales coming in the form of the different flavours of biscuits. This organisation has its headquarters in Pollachi.

While selecting the successor of the business, the CEO would want the prospective successor to have the necessary skills and be capable enough to manage such a big company and be involved in all the departments of the company with abilities to manage all the departments with efficiency. The CEO in this company feels that practical knowledge and understanding of the market is more important than qualifications. The CEO also feels that he would prefer the prospective successor to be male. The CEO feels that his prospective successor should take a sufficient time of three years to learn the business well. In addition to these factors, the prospective successor's personality and attitude would be a crucial factor. The CEO would like the prospective successor to be motivated and achieve big goals in life.

7.3 Case 3

This company was established in the year 1989 and is engaged in the manufacturing of silk sarees. This company has its headquarters in Salem. The company initially started as a retail outlet dealing with silk sarees and slowly expanded its business into manufacturing their own products. The company today has a portfolio of several silk products.

While selecting the successor of the business, the CEO would look for skills in designing, creativity and ability to develop unique products that would stand out. The CEO feels that good management abilities are a must to succeed in a business and that his successor should be well qualified. In this business it was necessary for the prospective successor to have a well-defined role since it is a textile mill. [16] [17] The CEO states that the gender of the prospective successor would influence his decision as he wants a male to succeed him but religious and family beliefs would not be considered by him. The CEO would want a learning period of two to three years for the prospective successor to learn the business. The CEO believes that the size of the business would influence his decision as with larger size comes more responsibilities. The CEO also believes that in this competitive industry someone with a creative mindset would be preferred. Also according to the CEO the decision making ability of the prospective successor would be a determinant factor.

7.4 Case 4

This business was established in 1995 and it is engaged in the trading of various hardware products and power tools for individuals and industries. This firm has its headquarters in Coimbatore. This company initially started trading with only basic tools and then expanded its business slowly into a large portfolio of power tools and hardware products.

While selecting the successor, the CEO states the he would look at the leadership skills in his prospective successor as he feels that the leadership of the prospective successor can determine the outcome of the business. Also good managerial abilities would be required. Good knowledge about the industry and the products is required in the prospective successor. The CEO also tells that his family beliefs may be a major factor in determining the prospective successor of the business. The CEO would want the prospective successor to learn for a time period of two years to understand how the market works and how to deal with its competitors.

7.5 Case 5

This company was founded in 1994 and is engaged in the trading and distribution of electrical components to local retailers and neighbouring states. This company has its headquarters in Coimbatore. This firm initially started with the trading of wires and pipes and then slowly grew to become one of the leading suppliers of electrical components.

While being asked about choosing the prospective successor, the CEO tells that the business generally stays in the family and is handed over to the children when they grow up. Customer relationship is a major element in their business and the prospective successor must be good at it. The most viable candidate would be the one who has the most experience. However others with less experience would be involved in the start up of a smaller business or would be engaged in various other supervision activities. The CEO feels that knowledge would be pivotal and would also grow with experience. Qualifications would not be given too much importance. The gender or religious beliefs would have no impact on his decision to choose the prospective successor. The CEO believes that the type of industries and the economic condition do not matter as for the CEO only experience in the firm matters.

7.6 Case 6

This company was started in 1997 as an event management company and it was engaged in providing services of managing events for various occasions. This company has its headquarters in Bangalore and has successfully conducted a large number of events ranging from small gatherings to large industrial events.

While selecting the successor, the CEO feels that in this industry, the prospective successor must have excellent customer relationship skills as that is the most important part in this business. The CEO states that more than qualifications, knowledge matters the most. The CEO feels that a time period of three to four years would be a suitable time period to learn the business. The CEO believes in gender equality and the gender would not influence his decision in the succession planning decision. The CEO wants the prospective successor to be capable enough to adapt to the changing economic conditions. In addition to all these factors, the CEO wants the prospective successor to be dedicated and to be passionate and interested in this field.

7.7 Case 7

This organization was incorporated in 1985 and is engaged in the insurance and mutual funds advisories. The firm has its headquarters in Chennai. This company was initially started as a financial advisory company and then later expanded into Insurance and mutual funds advisors.

While selecting the prospective successors, the CEO feels that skills like sales, customer relationship management, time management and communication skills are very important. The CEO would look for good managerial qualities in the prospective successor as he feels that it would be necessary to assign work to multiple employees and make sure it doesn't affect the client satisfaction. For the CEO, qualifications do not matter but industry related knowledge is required. Gender and religious beliefs do not influence the decision of the CEO because he feels that gender and religious beliefs do not run the business. The CEO would want his prospective successor to learn the business for a time period of two years. When asked about the influence of the type of industry and the economic condition in the industry, the CEO said that the person who is better at understanding macroeconomic trends and predicting future returns would be more likely to suggest better products for the clients and thus be a suitable successor.

7.8 Case 8

This company was founded in the year 1992 and is involved in the manufacturing and distribution of glass and plywood. This company has its headquarters in Coimbatore. Initially the company was started as a glass trading organization. Today it has expanded into the manufacturing and distribution of glass and plywood.

While selecting the successor, the CEO feels that the prospective successor should have good managerial skills and leadership skills as both go hand in hand. The CEO feels the successor should be well qualified and knowledge is something that can always be gained. The CEO would want the prospective successor to learn the business for three to four years before the prospective successor would take over the business. Gender and religious beliefs do not have an influence on the CEO. The CEO tells that the type of industry and the economic condition would have an influence on his decision to choose the prospective successor as understanding the products and competitor in this industry is vital for the sustenance of the business.

8. Summary and Conclusion

To summarize, it can be seen from the above analysis of the various factors affecting succession planning that include personal factors like the skill set of the prospective successor, the management abilities, the gender, knowledge, qualifications, religious and family beliefs, and strategic factors like the economic conditions, the type of industry and the size of the business all have a vital role to play in determining who would succeed the business. These factors also give us insights as to what the owners expect in their successors.

Family businesses play a pivotal role in our country as the majority of the businesses are conducted by families. The major challenge that they face is to choose a suitable successor to ensure the growth and sustenance of the business. From the above analysis of the various Indian family businesses it can be

seen that people take both personal factors as well as strategic factors into consideration as they need to choose a successor that would ensure the growth and sustenance of the business. Also from the analysis it can be seen that gender is not an important factor for most of the firms. But most of the firms have given importance to the skill set, knowledge and the experience of the prospective successor. Additionally leadership and understanding of the business has also been a decisive factor for the prospective successor. The religiosity of families influenced the decision in choosing the prospective successor. [13] Also as seen in many cases above the economic condition and the type of industry are also factors that would influence the decision of succession planning in the small and medium scale Indian family business.

9. Implications for future research

Further studies can be done taking the prospective successor's view of succession planning and the factors that influence the prospective successor to succeed the business.

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