

STRUCTURAL WORKING TOWARDS SUCCESSFUL SUCCESSION PLANNING IN INDIAN FAMILY BUSINESSES

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Abstract : It will be the endeavour of the researcher to understand and address the theoretical and empirical contributions in the field of Succession Planning in Family businesses, and the gaps pertaining to research, literature review etc. It will be studied in depth, reviewed and critically examined with the aim of taking the current research forward. The purpose of this research is to make use of Survey research methods and by selecting a number of different family businesses in India, understand the various types of succession processes and the effectiveness in each such scenario. With previous literature and theories of succession planning as a base – this study aims to envisage an effective model of succession along with factors that affect succession in the family firms of India.

IndexTerms - Successful succession Planning, Indian Family Business.

I. INTRODUCTION

Planning of Succession in family businesses is a delicate process and it is imperative that the owners need to keep in mind the longevity and legacy that they will leave in the business. The owners of family businesses need to be clear and understand that the generation which should take over the mantle from them will not do it automatically and it will not be a case of taking things for granted. There is always a possibility that the next generation may not want to follow the footsteps of their forefathers. The future generation may be wary of following into the family businesses or they are not prepared enough professionally to inherit the responsibility of operating the firm. The passion and goal of business leaders is to ensure continuity of their legacy and have the baton passed on successfully to the next generation. It is by means of clear and unambiguous communication, very clear intentions, coupled with strong relational bonds, and proving the efficiency and effectiveness of next generation leaders, the family businesses can ensure loyalty from all including their non-family employees. This will ensure a smooth transition and will enhance nonfamily identification with both the family and the business which in turn will create a more productive and, satisfied workforce that propels the firm for years to come.

II. IMPACT OF FAMILY-OWNED BUSINESS

There are two distinct dimensions in the study of family businesses; the family and the business and these are defined as family centred and business centred respectively (McCann et al., 2001). These are mutually entwined, since the business dimensions involves strategies, that is primarily affected by the family values and the company's vision. This can prove to be either an advantage or a disadvantage for the company, especially if the aims and values of the firm are not aligned with the market expectations. Dyer (2003) emphasizes that typically the intentions of many a family is to target the overall improvement, in contrast to non-family companies which lay emphasis on revenue, growth and yield. A business with extensively family-oriented goals can face difficulties and respond quickly to the market expectations, thus giving rise to sustainability issues. The business run by the family has a distinct advantage over non-family businesses, in terms of capital, loyalty, dedication, credibility etc. Adams et al. (2002) state that "family firms are uniquely positioned to provide the 'right' direction to the increasingly scam-ridden modern corporate world. The word 'right' has ambiguity around its usage. This can be represented to mean the ethical or proper way of conducting business". The various positive outcomes pertaining to family businesses include the family members dedication, their ability to ensure success, trust and binding act towards the company etc. There is supporting literature that the complexity and the organizational problems are directly related to the relationship between the family and the management of the firm (Davis and Taiguri, 1992). Astrachan and Kolenko (1994), in particular, demonstrate that this relationship can create volatility with employee selection, appraisal, compensation, and personal development.

III. FAMILY-OWNED BUSINESSES IN INDIA

The joint-family system has been in vogue in India from time immemorial. Hence the family business has survived through generations. Since the dividing line between family and business was blurred there was a deepening of relationship between members of family and the business. The business sphere in India is largely made up of family-owned companies, public enterprises, and professionally managed private sector companies. Family owned firms contribute to about 55% of the Indian GDP (Nerine Advisory Services, 2012). "Credit Suisse Research Institute's latest publication, CS Family 2018, features India in the third position, behind China and the US, for the highest number of publicly-listed family owned companies, with 111 firms and a market capitalisation of \$839bn" (Credit Suisse, 2018). This indicated a rise in the number of family-owned businesses from 107 in 2017. Credit Suisse classified family businesses on the basis of two factors "direct shareholding by founders or descendants is at least 20%, and voting rights held by the founders or descendants are at least 20%. The survey looks at 1,015 family-owned companies around the world with a minimum market capitalisation of \$250 million". According to this measure, over half of the top 100 companies of the Bombay Stock Exchange are family-controlled. The report further states that among the non-Japanese Asian groups, India generates a) a 13.9 per cent annual average share-price return, the highest absolute-cash flow return on investment, and b) the second lowest absolute share price, since 2006 on average.

IV. CHALLENGES FACING SUCCESSION PLANNING

The main criticism of Succession Planning is that there has been little effort to use existing theory to develop a comprehensive model of succession planning in family-owned businesses (Le Breton-Miller et al., 2004).

For example, Longenecker and Schoen (1978) propose a model for parent-child succession in the leadership of the family-owned firm that involves a long-term, diachronic process of socialization through seven stages, beginning in childhood. Rosenblatt et al. (1985) argue that a prerequisite for a smooth succession is the ability and willingness of family members to take in criticism in the right sense of the term and without hurting the relationship and make sure that nobody is hurt.

In India, the majority of the family business sector consist of boards and management teams that are still family-controlled. According to R Seshasayee, Managing Director of Ashok Leyland Limited, "Separation of ownership and management in family businesses is still the exception rather than the rule. In order to make this transition, forward-looking companies will need to continue to prove that such a separation contributes to shareholder value and is a successful model for the family itself. Only then will we find companies following suit" (Stuart, 2010, p.8). A study which focussed on comparative analysis of important attributes pertaining to successor in India and Canada, it was found integrity and commitment were most important and family relationships, blood and ability to get along with family members was higher in India. (Sharma & Rao, 2000).

V. PURPOSE OF RESEARCH STUDY

Purpose of this study was to understand the relationship between the Large, Medium and Small family-owned businesses and the process of succession planning. We also aim to explore the impact of the succession process on these firms using results from a questionnaire filled by the participants.

VI. OBJECTIVES AND RESEARCH QUESTIONS

The nature of the questions in this Research clearly spells out the various aspects of the processes in the types of Organisations that were studied. By segregating the businesses into small, medium and large, we can see the effect of the process on each section of the family-owned firms. The research had 395 respondents, and the break up being 65 in the large business, 120 in the Medium business and 210 in the small business categories. The questions were done with notes from Steven Perrett

The criteria for choosing the population sample included the following assumptions:

- The company *must* be family-owned, i.e. the members of the family must hold the top management positions)
- They *must* have completed the succession planning process at least once.

All the participants in our study were further split into three categories depending on the size of their firm – small, medium and large. This sample was defined by the personnel of the Organisation and as clearly stated by the interviewee.

- Small companies were identified as those with employee strength of 10 - 50, and the number of years in business between 15 – 55 years.
- Medium companies were identified as those with employee strength of 51 - 100 and the number of years in business between 20 - 75 years.
- Large companies were identified as those with strength of 300 - 1000 employees and the number of years in business between 40 – 120 years.

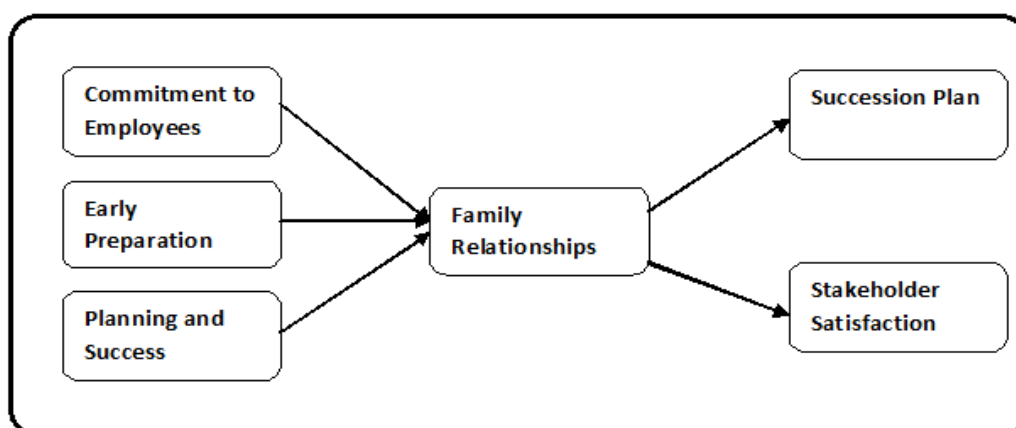


Fig 1 Research Framework

Providing queries to the interviewee prior to the meeting hemeworlped them to be prepared and get familiarised. Some company documents relevant to Succession planning were shared with me to understand the concept better, from their perspective. The family business data to be analysed were an accumulation of documentation which gave a good insight into their working. There were subsequent meetings with some of them (whomsoever agreed to take them) via phone or mail

The questionnaire had a total of 31 statements and was split into eight sections. Each section was designed to capture specific pointers to the planning of succession ranging from commitment to employees to stakeholder satisfaction upon the creation of a succession plan. Listed below in Table 1 are the factors under each of the five sections (dimensions). Each of the factor and its dimension have loading co-efficient that indicate how strongly it influences the primary variable. Loadings that are closer to 1 or -1, would mean that has a strong hold on the variable. Further loadings around the 0 range indicate how this factor would have a

weak hold on the variable. A typical value of loading is higher than 0.7 which shows a strong relationship between the factor and the variable.

Table 1 Dimensions and Factors

Dimensions/ Factors	Item	Factor Loading	Dimension Loading
Commitment to Employees	Employees were kept posted during the process of succession	0.87	0.78
	Employees were kept abreast of the process of succession	0.76	
	Demonstrated commitment of Leadership during the succession planning process.	0.82	
Early Preparation	Succession process had planning in place prior to succession.	0.90	0.84
	Succession planning process were discussed during meetings.	0.88	
	Early planning for succession leads to successful transition.	0.74	
Planning and Success	Positive impact was felt regarding the planning of succession	0.86	0.79
	Overall, the process of succession was successful.	0.75	
	The Succession plan which entailed Leadership went off smoothly	0.84	
Family Relationships	Effective communication was maintained within family members during the process	0.91	0.89
	Relationship among family members improved or remained the same after succession	0.89	
Stakeholder Satisfaction	The Organisation needs are at the forefront of succession planning.	0.85	0.87
	Employee turnover improved after succession	0.88	
	Vendor relationships improved after succession	0.90	
	Customer relationships improved after succession	0.89	
Succession Plan	The plan spelt out successors selection criteria.	0.87	0.81
	The plan also included external candidates apart from the family.	0.79	
	The plan encompassed clear governance guidelines.	0.90	
	The succession plan included transition of leadership	0.88	

	The plan clearly required a time span to be defined	0.84	
	The need to have a developmental plan for the successor.	0.78	

- The dimensions of the family owned business Commitment to Employees (0.78), Early Preparation (0.84), Planning and Success (0.79), Family Relationships (0.89), Stakeholder Satisfaction (0.87) and Succession Plan (0.81) all have values over 0.7 and close to 1, hence have strong influence on the succession-planning process.
- The factor (within each dimension) loadings of the dimension Commitment to Employees ranges from 0.76 to 0.87, Early Preparation ranges from 0.74 to 0.90, of Family Relationships ranges from 0.89 to 0.91, of Planning and Success ranges from 0.75 to 0.86, of Stakeholder Satisfaction ranges from 0.85 to 0.90 and of Succession Plan ranges from 0.78 to 0.90. These ranges all show a strong loading on its construct.

VII. CONCLUSION

From the analysis it is found that the Large companies have a good structure to work on and it is more organized in terms of planning for succession. Since the Large family business also has a big family to contend with, it is imperative to have more consultation and agreements to arrive at an all agreeing solution.

In the case of medium companies, the decisions are taken by the Owner to a large extent and gets the same ratified by the family. In the case of small companies it is the owner who had started the business and is always ahead of the curve on account of his native intelligence by means of scanning and deciphering the economic environment. With the Indian economy on the periphery of take off stage, a proper and successful transition of succession can lead to phenomenal growth and higher productivity

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