

# DOES EARLY PREPARATION AND FAMILY RELATIONSHIP LEAD TO SUCCESSFUL SUCCESSION IN FAMILY-OWNED BUSINESS?

<sup>1</sup>Sampath Dorairajan, <sup>2</sup>Peeyush Bangur

<sup>1</sup>Research Scholar, <sup>2</sup>Associate Professor,  
<sup>1</sup>Banasthali University, Jaipur, Rajasthan.

**Abstract :** An important element in Family owned Businesses is succession planning and it requires a thorough and quality understanding. It has become a concern that would elicit evaluation from various angles and thoughts including family, management of the business, and the different stakeholders. Recent indications suggest that the succession planning process in family companies is augmented by the ability of the existing ownership to allow the successor to be assigned, work on the agreement within family and acceptance of roles of individuals. There are varied opinions about the importance of each other's role. This makes it obvious for the need to align all the perspectives about the stakeholders' insight in the family firm.

**IndexTerms - family business, family relationship, succession planning.**

## I. INTRODUCTION

The operational demands of efficiently managing a family business can take a toll, but it's imperative that the leaders handling the business take the requisite time and energy to understand and study the need to assess the relevance and the intricacies of planning succession in a company. It is likely to cause much damage if proper steps are not taken to put to practice the tenets of succession planning or the failure to take cognizance to do a proper and systematic succession planning can be significant. The technological changes sweeping the world may bring in lots of changes in thought process in the coming years and there will be a paradigm shift. The survival of a business, and the preservation of the wealth built over the years, to a large extent depends on being ahead of the curve with respect to changes through a proper strategic succession planning. It is seen that in family businesses, a good succession plan can drive growth and help the owner set the stage for retirement. A proper planning of succession in family run businesses will have the advantage to maintain a harmonious relationship in the family. There is an imperative need to address the broad range of various subjects that owners of businesses need to concentrate to enable an orderly transition of management and ownership which will be beneficial to the organisation and help in the economic climate of the country.

## II. LITERATURE REVIEW

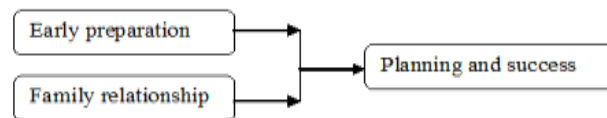
### II.1 Definition of Family Business

Family businesses are witnessing a growing interest today, among researchers and investors. This is due to recent developments that have demonstrated that family firms consistently outperform their counterparts across all measurements, including their ability to generate jobs and shareholder value creation (Sharma et al., 2001). Family owners are flexible and are able to make quicker decisions. They help in stability and ensuing planning in a defined manner. There are many definitions of family businesses that have been coined by researchers. Some of the older definitions include Handler's (1989), a firm that was managed (and owned) by a single or multiple members of a family, Taiguri and Davis (1996), who provided a more comprehensive interpretation where family firms are defined as an "organization where two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights". The Organizations nowadays have myriad structures within them to operate. "Business groups not only include firms that connect each other through intercorporate shareholdings, but also the ownership structure is pyramidal, in the sense that an individual or family may control a listed firm which in turn holds controlling stake of a few more firms, which again have a controlling stake holding of a few other firms and so on. And this pyramidal structure gives rise to distinct ownership relations, cash flows and voting rights" Gonenc et al (2007).

## III. METHOD

The process of research came on account of a curiosity to relate with the surroundings and understand the nuances of it. This can be achieved using the tools of experience and reasoning which is available. Experience and authoritative sources beyond the immediate circle can also be used. These are rich and major sources of hypothesis, and as they arise out of understanding the basics, it will draw us to conclude events and understand the intricacies. It is on account of this, that any research hypothesis which uses experience and authority is considered unscientific. Scientific understanding is the core essence of Research and this can be either experimental or deducible. Research can be considered to be the method to arrive at truth since it does not leave anything to chance. Nicholas Walliman defines it as, "an activity that involves finding out, in a more or less systematic way, things you did not know" (Walliman, 2011, p.7). Questionnaire for research study was created by the researcher, with helpful notes from J Ponto (2015) and Steven Perret (2016) using the Likert-type Scale for documenting the responses.

Conceptual Framework



#### IV. DATA ANALYSIS AND RESULT

The study has classified the family owned business as 'Large', 'Medium' and 'Small'. Out of the 395 respondent industries, 65 (16.5%) belong to the classification 'Large' industry, 120 (30.4%) belong to the industry classification 'Medium' and 210 (53.2%) of the respondent industry belong to the classification 'Small'.

**Table 1 showing the industry type wise written succession plan was prepared before the succession process.**

Industry Type	Completed Succession		Cumulative Percent
	Yes	No	
Large	65	0	65
	100%	0%	100%
Medium	91	29	120
	75.8%	24.2%	100%
Small	44	166	210
	20.9%	79.1%	100%
Total	200	195	395
	50.6%	49.6%	100%

The above table explains industry type wise written succession plan was prepared before the succession process was completed or not completed. Out of the 395 industry respondents, 200 (50.6%) of the industry respondents' succession plan was completed and 195 (49.6%) of the industry respondents' succession plan was not completed. Out of the 65 industry type large, 65 (100 %) of the large industry respondents' succession plan was completed and 0 (0%) of the industry respondents' succession plan was not completed. Out of the 120 industry type medium, 91 (75.8 %) of the medium industry respondents' succession plan was completed and 29 (24.2%) of the industry respondents' succession plan was not completed. Out of the 210 industry type small, 44 (20.9 %) of the small industry respondents' succession plan was completed and 166 (79.1%) of the industry respondents' succession plan was not completed.

#### Respondents' relationship between the age of the family business and the dimensions of successful succession of the business

**(A) Null hypothesis  $H_0$ :** There is no significant relationship between respondents' age of the family business in the large industry type category and the dimensions of the family owned business succession.

To find the relationship between the respondents' age of the family business and among the dimensions of the study, an ANOVA statistical test was executed.

**Table 2 ANOVA between age of the family-owned business in the Large industry type category and the dimensions of the family-owned business success.**

Industry Type: LARGE						
Dimensions	FOB Age group				ANOVA (F Value)	Sig (Degrees of Freedom)
	40-60	61-80	81-120	Total		
Early Preparation	3.11	3.16	3.45	3.06	35.540	.000* (2,62)
Planning and Success	3.05	3.18	3.50	3.15	29.544	.002* (2,62)
Family Relationship	3.08	3.11	3.43	3.54	17.335	.000* (2,62)

There is a significant relationship exist between dimension Early Preparation, Family Relationships and Planning and Success and the respondents age of the family business. The mean value of 3.11, 3.05 and 3.08 for age of family business group L-40 - 60, 3.16, 3.18 and 3.11 for age of family business group L-61 – 80, and 3.45, 3.50 and 3.43 for age of family business group L-81 – 120, 3.06, 3.15 and 3.54 for the total is observed for the dimensions Early Preparation, Planning and Success and Family Relationships . The p value less than 1% implies that there is a significant difference between all the dimensions and age of the family business in the large industry type category.

**(B) Null hypothesis H<sub>0</sub>:** There is no significant relationship between respondents' age of the family business in the medium industry type category and the dimensions of the family owned business succession.

To find the relationship between the respondents' age of the family business and among the dimensions of the study, an ANOVA statistical test was executed.

**Table 3 ANOVA between age of the family owned business in the medium industry type category and the dimensions of the family owned business success.**

Industry Type: MEDIUM						
Dimensions	FOB Age group				ANOVA (F Value)	Sig (Degrees of Freedom)
	20-35	36-50	51-75	Total		
Early Preparation	3.11	3.14	3.26	3.14	15.740	.000* (2,62)
Planning and Success	3.01	3.30	3.24	3.26	21.624	.000* (2,62)
Family Relationship	3.18	3.42	3.73	3.41	27.351	.000* (2,62)

There is a significant relationship exist between dimension Early Preparation, Family Relationships and Planning and Success and the respondents age of the family business. The mean value of 3.11, 3.01 and 3.18 for age of family business group 20 - 35, 3.14, 3.30 and 3.42 for age of family business group 36 – 50, and 3.26, 3.24 and 3.73 for age of family business group 51 – 75, 3.14, 3.26 and 3.41 for the total is observed for the dimensions Early Preparation, Planning and Success and Family Relationships respectively . The p value less than 1% implies that there is a significant difference between all the dimensions and age of the family business in the medium industry type category.

**(C) Null hypothesis H<sub>0</sub>:** There is no significant relationship between respondents' age of the family business in the small industry type category and the dimensions of the family owned business succession.

To find the relationship between the respondents' age of the family business and among the dimensions of the study, an ANOVA statistical test was executed.

**Table 4 ANOVA between age of the family owned business in the small industry type category and the dimensions of the family owned business success.**

Industry Type: SMALL						
Dimensions	FOB Age group				ANOVA (F Value)	Sig (Degrees of Freedom)
	15-25	26-35	36-55	Total		
Early Preparation	3.34	3.22	3.52	3.36	25.570	.000* (2,62)
Planning and Success	3.15	3.28	3.47	3.25	39.524	.000* (2,62)
Family Relationship	3.38	3.56	3.43	3.41	14.325	.000* (2,62)

There is a significant relationship exist between dimension Early Preparation, Family Relationships and Planning and Success and the age of the family business. The mean value of 3.34, 3.15 and 3.38 for age of family business group 15 - 25, 3.22, 3.28 and 3.56 for age of family business group 26 – 35, and 3.52, 3.47 and 3.43 for age of family business group 36 – 55, 3.36, 3.25 and 3.41 for the total is observed for the dimensions Early Preparation, Planning and Success and Family Relationships respectively. The p value less than 1% implies that there is a significant difference between all the dimensions and age of the family business in the small industry type category.

## V. CONCLUSION

The current study analyses the influence of the early preparation, and family relationship for the family owned business succession plan. For the purposes of the study, the family owned businesses are classified into three categories, large, medium and small. It is seen that early preparation and family relationship is a requirement for a good and successful succession of the family owned businesses. Generally, the large family owned businesses have a better succession plans compared with that of the medium and small family owned businesses.

## VI. REFERENCES

- [1] Handler, W.C. (1989). Managing the family firm succession process: The next generation family member's experience. Doctoral dissertation. School of Management: Boston University.
- [2] Gonenc, Halit, Kan, Ozgur B. and Karadagli, Ece. 2007. Business Groups and Internal Capital Markets, *Emerging Markets Finance and Trade*, 43, issue 2, p. 63-81.
- [3] Perret, Steven. (2016), Succession in Family Owned Businesses: The Influence of Succession Planning and Demographic Characteristics on Succession Success
- [4] Ponto, J. Understanding and Evaluating Survey Research, Published online 2015 Mar 1. Retrieved from <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4601897/>
- [5] Sharma, P., Chrisman, J.J., Pablo, A.L. and Chua, J.H. 2001. Determinants of initial satisfaction with the succession process in family firms: A conceptual model. *Entrepreneurship Theory and Practice*, 25(3), pp.17-36. Vancouver.
- [6] Tagiuri, R. and Davis, J. 1996. Bivalent Attributes of the Family Firm. *Family Business Review*, 9(2), pp.199-208.
- [7] Walliman, N., 2011. *Your research project: Designing and planning your work*. Sage Publications.