

# A STUDY ON SUCCESSION PLANNING ON TEXTILE FAMILY BUSINESS IN SURAT

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## **Abstract**

Succession planning plays a vital role in Family business because there a lot of uncertainty and confusion can arise from the assumptions that when family dynamics mix with business operations. Most of the small & medium businesses did not carry out succession planning as they think succession planning was not important. The main problem was that family business owners regard succession planning as simply a question of informally handing over the business from one generation to the next. In India, family relations play a vital role in succession planning and there may be a chance for a loophole in planning. In this paper, qualitative and quantitative data was used to find out the co-relation between owner's perception and succession planning.

**Keyword:** Business culture, Family business, Succession planning, Successor, Textile industry.

## **Introduction**

Textiles are created from fibres and threads from natural or artificial materials. Textile includes threads, cords, nets, and a lot more. Textile fibres are made into fabrics using different methods like weaving, knitting, and felting. The Surat textile industry has gone through quite a few setbacks as well. Most of the traders have a fixed group of clients, with whom they trade. Most of the business is done on a credit basis. According to the Federation of Surat Textile Traders Association, the industry suffered a loss of Rs. 200 crores in the year 2004-05 on account of frauds by customers. The industry suffered a huge loss in the floods of 2006 as well. Around 40000 textile shops were damaged in Surat in these floods and the total loss was reported to be at Rs.10 crore per day. However, the city has always been quick to rise from these setbacks.

## **CHALLENGES FACED**

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in Surat in these floods and the total loss was reported to be at Rs.10 crore per day. However, the city has always been quick to rise from these setbacks.

## **WHY CONFLICTS ARISES IN FAMILY BUSINESS**

Conflict arises because as we know that family businesses may include numerous combinations of family members in various business roles, including husbands and wives, parents and children, extended families, and multiple generations playing the roles of stockholders, board members, working partners, advisors, and employees. Conflicts often arise due to the overlap of these roles. The ways in which individuals typically communicate within a family, for example, may be inappropriate in business situations

The Covid-19 crisis has prompted various family business leaders to think about and evaluate their plans for the future, with questions of succession planning and next generation engagement coming to the fore at a growing pace.

## **IMPORTANCE OF SUCCESSION PLANNING IN FAMILY BUSINESS**

Most family-owned businesses across the world desire a successful continuity of their business from one generation to the next. This, however, is easier said than done because statistics prove that 70% of family-owned businesses globally are sold before the second generation gets a chance to take over and only 10% of family businesses survive till the third generation. The transition of a business from one generation to the next is usually an arduous process, but it can be planned for, well in advance, and executed in an orderly fashion through the process of succession planning. Succession planning has taken centre stage in multigenerational planning in the last few years amongst HNIs and UHNWIs.

## **LITERATURE REVIEW**

According to Mahmoud Ahmadour Daryani, Mehdi Samizadeh, and Mahdi Tajeddin in their paper on “family factors and the creation of family businesses in developing countries: a case study of Iran's oil and textile industries” published in African Journal of Business Management. The main aim was to examine the effect that family factors (family relationships, family goals, family resources, family vision, family size and family tensions) have on the creation of family businesses. Major finding was that families and family business with combination of distinctive and unique human resources, financial resources, social support and educational and cultural areas are the best and most powerful factor to support the current entrepreneurial activities and create new business. (July 2010)

According to Rima Bizri in her paper on “succession in the family business: drivers and pathways” published in International Journal of Entrepreneurial Behavior & Research. The main aim was to succession process represents one of the most critical events in the family business lifecycle. The purpose of this study was to explore this process while focusing first on the drivers behind the choice of successor and, second, on the impact of this choice on the entrepreneurial behavior of the siblings. It came to know that the three dimensions of social capital were found to have a profound influence on the succession decision with much focus on familial stewardship as an emerging cognitive driving force. When “familial stewardship” is shared by incumbent and sibling, it strengthens the latter’s chances of being chosen as successor. (March 2016)

According to Britta Boyd, Susanne Royer, Rong Pei, Xiaolei Zhang in their paper on “knowledge transfer in family business successions” published in Journal of Islamic Marketing. The main aim was to link the competitive advantage realization in family businesses to the success of transferring strategically valuable knowledge in different business environments to the next generation. It was found out that different successions for two long-lived family firms are illustrated in a systematic fashion: based on the theoretical elements suggested both cases are described to get insights into the usefulness of the theoretical reasoning developed (April 2015)

## **RESEARCH GAP**

Research paper also describe the evolutionary complex life cycle patterns of family business is one of the fundamental challenges that researchers of family business field but it have little impact on the heir of the family business. Research papers try to draws management’s attention to specific family-related resources and capabilities within the company and, just as importantly, those that need to be cultivated to achieve strategic objectives. The study also suggests that the complex process of succession might be informed by the understanding of the importance of the nature and extent of participation in the family business over time. An understanding of the interface between entrepreneur and family business stories could bring to understanding this complex dynamic.

## **RESEARCH METHODOLOGY**

### **1. Problem Statement**

Research problem statement was that textile family owned business was not running business sustainable and there was lack of formal succession planning. Family business owners regard succession planning as simply a question of informally handing over the business from one generation to the next. Another main problem of family owned business was next generations had lack of family value, culture and determination to work.

### **2. Objectives of the study**

1. To find out the factor that hinders the succession of family business.
2. To highlight the major difficulties encountered during the crucial process of family succession.

### **3. Research design**

Research has been undertaken by using **Descriptive research design**.

### **4. Data Collection Method:**

**Secondary:** Secondary data was used for using facts and figure and some reference taken various research paper, social networking sites, blogs, news paper articles have been use for references.

**Primary:** In research the primary data collection was used because the data had to be collected by observing and asking to Owners of family business, Survey method has been done by using Open Ended, Close Ended and

Dichotomous. The instrument used was structured undisguised questionnaire in Google form and personal interview from various textile family business owners has been used.

## 5. Sampling Method:

- a. **Population or Universe** : All textile family business owners in Surat
- b. **Sampling Frame** : Surat local business Telephone directory
- c. **Sample Size** : 125 Samples
- d. **Sampling Techniques** : Convenience non-probability sampling method and snow-ball non-probability sampling method has been used for selecting samples.

## 6. Data analysis

Frequency, cross tabulation using Chi square test and T-test used by using SPSS (Statistical package for social science) software has been used for analyzing the data. Various graph and Tables were used for analyzing the data.

## 7. Limitation of The study

1. The data reliability and credibility can as per the situation as well as information was restricted by the owners of family business.
2. The collection of data through survey method may bias upto some extend because the respondent may have social desirability and Perceived anonymity.
3. Analyses were based on cross-sectional data, limiting the ability to draw causal inference. Additionally, data were self-reported and collected through offline survey

## 8. Scope of the study

Study on the succession of family business will help others to identify the loophole of family business and help to overcome the challenges faced textile family business in past. The research paper provides a various facts and figure that may help family owners to form strategy to capture more market share and help to compete with their rivalry firms.

**DATA ANALYSIS****Respondents Profile****Table 1 Gender**

	Frequency	Percent
Male	86	68.8
Female	39	31.2
Total	125	100.0

**Table 2 Age**

	Frequency	Percent
21 – 30	2	1.6
31-40	31	24.8
41 – 50	85	68.0
Above 50	7	5.6
Total	125	100.0

**Table 3: Education**

	Frequency	Percent
HSC	8	6.4
Graduate	84	67.2
Post graduate	23	18.4
PH.D	10	8.0
Total	125	100.0

**Table 4: Sector**

	Frequency	Percent
Manufacturing	29	23.2
Retail	49	39.2
Trading	47	37.6
Total	125	100.0

Table 5: Legal status

	Frequency	Percent
Family-Owned	29	23.2
Public Limited	27	21.6
Private Limited	13	10.4
Sole Business	27	21.6
Partnership	18	14.4
Manufacturing	11	8.8
Total	125	100.0

### Q1: Does Non – family members are allowed to control or participate in family business?

Table 6: Frequency test

Variables	Frequency	Percent
Yes	21	16.8
No	95	76.0
Somewhat	9	7.2
Total	125	100.0

Interpretation: From the above figures the researcher came to that 76% of family business doesn't allow any non family member to control or participate in family business because there may be a chance that confidential data may be leaked out or non – family member may take full control over business, where 17% agree that they allow non family member to control or participate in family business due to lack of skill in family member or business is opened for diversified culture/values.

### Q2: Is important to have a succession plan in family businesses

Table 7: Cross tabulation between education and importance of succession planning in family business

					Total
		Yes	No	Maybe	
	HSC	0	2	6	8
	Graduate	20	26	38	84
	Post graduate	5	6	12	23
	PH.D	1	2	7	10
Total		26	36	63	125

**Table 8: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.284 <sup>a</sup>	6	.508
Likelihood Ratio	6.905	6	.330
Linear-by-Linear Association	.181	1	.671
N of Valid Cases	125		

**H0: There is no significance difference between education and importance of succession planning in family business**

**H1: There is significance difference between education and importance of succession planning in family business**

Observation: Null hypotheses had been accepted and researcher can say that there is no significance difference between education and importance of succession planning in family business

Interpretation: From the above tables the researcher came to know that 51% were confused that a succession plan is important or not for the family businesses due to insufficient knowledge of succession planning.

**Q3: How efficient organization is presently conducting succession planning**

**Table 9: Cross tabulation between sector and organization conducting succession planning**

						Total
		Very well	Adequately	Average	Inadequately	
	Manufacturing	10	3	10	0	23
	Retail	13	22	12	2	49
	Trading	8	25	12	2	47
	Service	4	2	0	0	6
Total		35	52	34	4	125

**Table 10: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	18.750 <sup>a</sup>	9	.027
Likelihood Ratio	21.634	9	.010
Linear-by-Linear Association	.071	1	.790
N of Valid Cases	125		



**H0: There is no significance difference between sector and organization conducting succession planning.**

**H1: There is significance difference between sector and organization conducting succession planning**

Observation: Null hypotheses had been rejected and researcher can say that there is no significance difference between sector and organization conducting succession planning

Interpretation: From the above figure the researcher found out that,41% of the organization is adequately conducting succession planning and only 4% of an organization is inadequately conducting succession planning. Most of the organizations are taking initiative to conduct succession planning.

**Q4: What are the challenges which resist against the successful planning for succession in family-owned businesses?**

**Table 11: T test**

	N	Mean	Std. Deviation	Std. Error Mean
Focusing exclusively on the executive level	125	2.90	.850	.076
Relying on only one successor per role	125	1.69	.766	.069
Failing to update the succession plan regularly	125	1.84	.712	.064
Lack of trust in family member for successor	125	2.72	.839	.075
Difficulty in understanding the business culture for succession	125	2.74	.960	.086

**H0: There is no significance difference sample mean and population**

**H1: There is significance difference sample mean and population**

**Table 12: One-Sample Test**

	Test Value = 2					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
[Relying on only one successor per role	-4.552	124	.000	-.312	-.45	-.18
Failing to update the succession plan regularly	-2.514	124	.013	-.160	-.29	-.03



Observation: Null hypothesis had been rejected, it means there is no significance difference sample mean and population.

Interpretation: From the above table the researcher state that, most of the family business were dependent on the single successor for the business and were also fail to update there succession plan at regularly interval of family business.

**Table 13: One-Sample Test**

	Test Value = 3					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Focusing exclusively on the executive level	-1.368	124	.174	-.104	-.25	.05
Lack of trust in family member for successor	-3.733	124	.000	-.280	-.43	-.13
Difficulty in understanding the business culture for succession	-3.074	124	.003	-.264	-.43	-.09

Observation: Null hypothesis had been rejected, it means there is no significance difference sample mean and population.

Interpretation: From the above table the researcher analyze that, focusing exclusively on the executive level was the major challenge the resist against successful planning followed by difficulty in understanding the business culture for succession in the family business.

## **MAJOR FINDINGS**

1. It was found out that 77% businesses were running from past 6 – 10 year and they have done succession planning in very effective way.
2. Majority of family business never join or to participate their children below 24 years, as because they think of that children should their education after that they can be involved in business.
3. 62% of the family business allows their daughter and/or wife to handle the business.
4. Only 17 % of owners of family business allow outsider to handle or can control the family business, whereas 76% of business head don't allow any non family member to handle or control their family business.
5. In findings, it came to know that 29% of family business doesn't feel important for doing succession planning, whereas 50 % where confused that succession planning should be important or not.
6. 41% of the organization is adequately conducting succession planning and only 4% of an organization is inadequately conducting succession planning.

## CONCLUSION

According to a research conducted by Wilmington Trust it was found out that 58% of small family business do not conduct any succession planning that created a threat for the survival of the business. The various factors that hinder succession in family business were focusing exclusively on the executive level, relying on only one successor per role, failing to update the succession plan regularly, lack of trust in family member for successor, difficulty in understanding the business culture for succession. These factors were very critical if it not reviews r solved business may face server problem or may lead to liquidation of business. Major difficulty encounter while in process of succession planning was lack of communication and insufficient knowledge to the owners of family business about succession planning. Many family businesses don't even think that succession planning is important for the business. Inter personal were getting disturb during the process of succession planning which may lead to conflict among family members as Non-family members were not allow to join or control family business that restrict new method, skill, thing, value & belief to enter into the business. However succession planning is quite important for business as new heir should be capable to handle the business quite far better way as new modern environment required significant change into the management system as well asto maintain the founder philosophy in the business

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