

# Study on succession planning practices in small and medium scale Indian family businesses for sustenance

Avinash S Nair  
CB.BU.P2MBA15024

Mentor- Dr. R G Priyadarshini, Amrita School of Business.



## Introduction

Businesses enterprises- both small as well as large play a vital role in the economical as well as social development of a nation (Wheeler and Mc Kague, 2002).

The promotion of entrepreneurship has led to the rise of many family businesses in the country. Family businesses drive the social and economic development and wealth creation around the world (Panjwani, Aggarwal and Dhameja, 2008). Family businesses have always contributed towards nation building with significant creation of wealth. They also have an overall impact on the development of a nation and they contribute more than half of the GDP, employment and market capitalization.

Succession planning has always been a challenge for most of the organizations. Organizations do need talent to grow in the market and sustain in the business that they are into. Family firms have always stressed on the importance of succession planning to ensure the sustenance of business (Brockhaus 2004; Morris 1997; ward 1987, 2000). Certain research also says that succession planning is the most important topic that requires the attention of the firm's leadership (Motwani, 2006).

## Objective

To study and understand the process of succession planning in small and medium scale family business.

## Research Methodology

STAGE 1	LITERATURE REVIEW
STAGE 2	STRUCTURED IDI WITH CEOs
STAGE 3	CONSTRUCTING THE CASES

## Need for the Study

1. This study will help us to understand the process followed by small and medium scale family business, the challenges that are faced while planning for the succession and the competencies they look forward to while succession planning.
2. The study will also help to understand how the sustenance of the family business is affected if proper succession planning is not done.

## Research Question

1. What are the perspectives that family business consider during succession planning?
2. What are the distinguishing succession planning practices that family businesses in the small and medium scale industries use?

## Sample Details

- Number of companies considered for the study is 3.
- The companies have been chosen as per the definition of the small and medium enterprises specified by the Ministry of MSMEs.
- The selected companies have witnessed succession planning at least once.
- The companies have been into the business at least for a decade.

## Limitations of the study

The study is a case study which is limited to the three samples which has been considered for the case.

## Results and Findings

- Companies always look forward to a male successor in India.
- The successor is involved into the business prior to succession planning.
- Family businesses always prefer to have an insider as successor.
- The incumbent's interest in stepping down was less.
- Process of Knowledge sharing, mentoring and shared leadership is what companies have mainly used in succession planning.

## Analysis

### Case 1

Established on	1967
Current Generation	2 <sup>nd</sup>
Year of Succession	1994
No. of Employees	500
Gender of the Incumbent	Male
Gender of the successor	Male
Reason for Succession	Death of the Incumbent
Process used for Succession	-Knowledge Sharing - Mentoring -Shared Leadership
Involvement of siblings in the Business	Yes (1)
Was the Successor prepared for Succession?	Yes
Will the Organization look forward to an outsider as its successor?	No
Rating of interest of the Successor to take up the succession (on a scale of 5)	4
How is the successor selected?	The male head of the family becomes the successor.
In case of absence of a successor	The business goes to the closest relative.
Interest of the incumbent for succession (on a scale of 5)	4
Who would be the next successor?	Sibling
Transition brought in by the successor	Business Expansion.

### Case 2

Established on	1974
Current Generation	2 <sup>nd</sup>
Year of Succession	1999
No. of Employees	600
Gender of the Incumbent	Male
Gender of the successor	Male
Reason for Succession	Death of the incumbent
Process used for Succession	-Knowledge Sharing - Mentoring -Shared Leadership -Formal Education
Involvement of siblings in the Business	No
Was the Successor prepared for Succession?	Yes
Will the Organization look forward to an outsider as its successor?	No
Rating of interest of the Successor to take up the succession (on a scale of 5)	4
How is the successor selected?	The male head of the family becomes the successor.
In case of absence of a successor	There has been no thought about it.
Interest of the incumbent for succession (on a scale of 5)	4
Who would be the next successor?	Son
Transition brought in by the successor	Getting into Retail business

### Case 3

Established on	1984
Current Generation	2 <sup>nd</sup>
Year of Succession	2016
No. of Employees	400
Gender of the Incumbent	Male
Gender of the successor	Male
Reason for Succession	Incapability of the incumbent to manage business due to ailment
Process used for Succession	-Knowledge Sharing - Mentoring -Shared Leadership
Involvement of siblings in the Business	Yes (2)
Was the Successor prepared for Succession?	Yes
Will the Organization look forward to an outsider as its successor?	No
Rating of interest of the Successor to take up the succession (on a scale of 5)	4
How is the successor selected?	The male head of the family becomes the successor.
In case of absence of a successor	There has not been any thought about it.
Interest of the incumbent for succession (on a scale of 5)	4
Who would be the next successor?	Sibling
Transition brought in by the successor	NIL

## Family Business

Family business can be defined as a company which is owned, controlled and operated by the members of a particular family, there will be non-family members also employed into the business. Another definition is as a company in which there is strong influence of the family in the day to day running of the business (Dutta, 1997).

## Succession Planning

Succession Planning is the process by means of which leadership position is transferred from one family member to another.

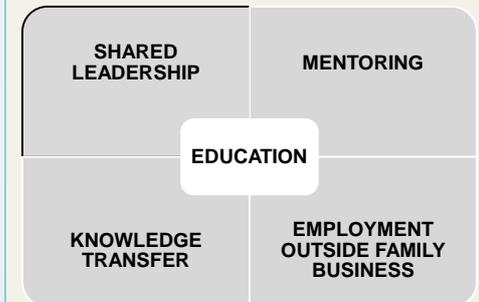
The challenges that firms face during succession planning are as follows:-

- Finding the right successor for the business.
- Interest of the successor to take up the business.
- Interest of the incumbent to step down.

## Small and Medium Scale Enterprises

	MANUFACTURING	SERVICE
SMALL	Investment in plant and machinery- 25 lakhs to 5 Crore.	Investment in plant and machinery- 10 lakhs to 2 crore.
MEDIUM	Investment in plant and machinery- 5 Crore to 10 Crore.	Investment in plant and machinery- 2 Crore to 5 Crore.

## Methods adopted for succession



## Factors Considered for analysis

