



EMOTIONAL AND FAMILY INFLUENCES IN SUCCESSION PLANNING OF FAMILY OWNED BUSINESSES WITH RESPECT TO SMES

Shikha Bhardwaj

Assistant Professor, AIMT, Greater Noida.

Voice of Research

Vol. 3, Issue 1,

June 2014

ISSN 2277-7733

Abstract

Succession planning is an integral part of every business but how many houses actually realize this questionable. In India, even the big business houses are comfortable in discussing these matters in board meetings. Business in India is more like a property where one individual owns and further passed on to family member only. In recent past there has been tremendous change in our patterns of succession planning. Thus this article throws some light on these issues of succession planning in family owned businesses in India. The data have been collected from different Small and Medium Enterprises in automotive component Industry. The samples have been chosen out of family owned businesses (FOBs) only. The data have been collected from Delhi and National capital region of India. The data was collected from Chairman, Managing Director, Executive Director and Board members of the enterprises. The data is collected in two forms through Face to face interview with four basic questions. Further the data has been represented by content analysis of the respondents.

Keywords: *Emotions, Succession planning, Family and Stress.*

Succession Planning has been an issue of concern for most of the business houses in India and abroad. Succession planning has been used to describe a wide variety of activities involving the planning for key transitions in leadership within organizations. The practice has been around since at least the beginning of recorded history in one form or another; its strongest (or, at least, its best documented) roots are in situations where power transitions routinely took place within family networks—for example, royal families and family-owned business empires. In more recent years, succession planning has been practiced more routinely and systematically in a large number of larger organizations (Rioux & Bernthal, 1999) and at levels far below the senior leadership. As in any organizational situation in which jobs or promotions are at stake, succession planning often becomes a highly politicized process, and the use of outside consultants is often sought. Beyond the value of having an objective third party involved, consultants can provide a systematic approach to succession planning, which will hopefully make the process more efficient and effective for the client organizations. There are a host of psychological and social considerations in developing a succession plan. Among them are what to do with the newfound time afforded after the implementation of a succession plan that brings retirement. Another is that how you will feel about the possible loss of status and whether you will miss the rewards of accomplishments. (Russ Jones, 2003). Except for a few cases of failures, many Indian family businesses have seen more than two or three generations and more so in the case of Coimbatore region (K Dr. R Nandagopal, Ms.V.Thilakam Nagaraj, 2008). Family as a social institution is one of the oldest surviving (Goode, 1982), but only in recent years family business, an important arm of it started receiving academic attention. After a detailed review of the existing literature, Zahra

and Sharma (2004) concluded that family business research has a long way to go from the present fragmented and descriptive state. The country has a rich history and tradition of strong family ties and family businesses have long been a part of the Indian culture. Indian family businesses, thus, provide an interesting setting to understand the impact of management succession on firm value. However, it is only in recent years that efforts have been made to undertake serious empirical research in this emerging young discipline. The relationship between family businesses and various aspects of succession has not been investigated much. Researchers have argued that determinants of a successful succession can range from the subsequent financial performance of the firm after succession, the satisfaction of various stakeholders with the succession performance, to the ultimate viability or the survival of the firm (Miller, Steier and Miller, 2003).

Although with latest trends seen in succession planning, a lot of FOBs are going of non family member as successor. But in a report by Bain & Co., almost 70% of top management hesitate to discuss issue related to succession planning in any board meeting. Thus a need arises, to understand the process of succession planning in reference of Industrial/ Organisation Psychology (I/O) way.

Literature Review

There are a number of researches, surveys and studies conducted in this topic. The studies have been conducted in varied dimensions and also across various sectors of the industry. Here are some of the studies that were conducted by researchers across the globe on “Succession Planning”. Literature review is basically collection of literature or past records on a particular topic. It serves as the foundation for further studies. This is basically a preamble of any thesis. Thus it includes a through effort



to capture or collect the entire related document or researches done in past. The Literature is collected with the intention of having a holistic as well as integrated approach towards Succession Planning.

On the basis of various papers it is evident that succession planning is most of the times not very well planned by the companies. Despite of the fact the top management understands the importance of the succession planning; they don't make a technical procedure of going through. Most of the papers also reveal that succession planning is basically a part of human resource management. Thus the company should identify a suitable talent, develop, retain and then position at right place. Most of the paper collected also explains one or other succession model, which may be followed by companies. But one common point among all the papers is that succession planning is only possible with the support and commitment of top management. Most of the researches in this topic are still very confidential and critical. Thus most of the researchers have done it qualitative, because planners avoid themselves from converting it into black and white. On the basis of papers read, we can very well identify that succession planning is not a comfortable zone of top management to discuss and put it into documents.

From various literatures, it is evident that succession planning is a strategic issue for organisation's success and survival. Although the papers had a widespread range of various issues like complexity of company, size of the company, interim CEO, environment to outside/inside approach. But out of all the papers one commonality is that an organization's succession can be calculated from its financial performance. It is also visible that despite of understanding the criticality of the issue, the companies don't plan it. Second most important finding is that, even today companies prefer insider or in-house successor rather than outsider.

On the basis of data available, it is visible that succession planning is an important concern for most of the companies across the world. One of the common factors is almost all the paper is that the researchers have connected succession planning with financial performance. Although many studies have proven it also that it is not the real indicator; yet it is treated. The researchers across the globe are doing research on this topic but none of the companies really declare their succession plan. With the data, it is evident that companies do prepare a contingency plan but a strategic one. Moreover, a more point is that females are treated as an option as successors. Many factors like leadership, diversity, planning, successor's characteristics and company's size were also considered.

We can very well identify that India too is focusing on Succession Planning. It is there but neither in right forms nor in rights same. Indian firm seems to be more reactive

towards succession plans than proactive. In fact most of the studies reveal lack of focus in leadership. Also most of the paper discusses a lot of challenges of in Family owned business due to Family factor coming in business. Also it is visible that the studies are more for large companies unlike other countries. Thus there is shortage of data of succession planning in SMEs. Succession Planning requires a lot of exercise but Indian companies are still not prepared, in fact most of them think it as natural process passing the charge to their son/ heir apparent. In fact in India very rare researches have been done on SMEs especially in Automotive component Industry.

Most of the paper represents the practices followed by best of the companies. In fact a lot of papers have connected succession planning with leadership. But one of the most important aspects which were highlighted in few papers is the emotion. There are evidences which prove that emotional quotient holds due weight age in succession planning. These papers have created a lot of question as to how emotions are linked with selecting the right candidate and to extend they are correct.

After almost referring to 150 paper including surveys, research paper, articles etc. It is been observed that most of the Family businesses do have an emotional inclination towards their business but this area is neither documented nor researched. A family business floats between two important eco systems of family and business, thus to strike out a balance is quite difficult in most of the cases.

Research Problem

With the Literature review, the gap between planning and execution is clearly reflected. It is also seen that most of the family businesses face interference from family members. Thus there seems to some psychological and emotional side of succession planning. Most of the studies are focusing on patterns and practices of succession planning in Family owned business. But none of them is capturing the dynamics with which it is planned or floats. This leads to a research problem of understanding few key issues or research questions like:

Why do family businesses prefer family members over non family members?

Is selection of family members is an outcome of emotional and psychological stress?

Does the family and social value system of India, hits the decision making of next successors?

Why do companies in India, still hesitate to discuss Succession Planning in Board rooms and Family?

Research Objective

The objective of the study is to identify the existence of Emotional Influence (EI) and Family Interference (FI) in Succession Planning with special reference to Family Owned Small and Medium Enterprises of India.



Research Methodology

The research design is exploratory. The data collected is primary in nature. The information is collected through face to face interview with structured questions. The sample is judgmental. The information is from 15 Director, Managing Director and CEOs of SMEs. Out of the total sample, 50% of them are from small enterprise and rest 50% from medium enterprise. The scope of study is extended to Auto Component Manufacturing units in Delhi & National Capital Region (NCR) of India. The data collected is qualitative in nature. Thus it is further analysed through content analysis. In content Analysis, relational analysis approach has been applied with semantic mode of finding similar words or texts or responses. Semantic mode is created with coding and structuring linguistic units presented by each respondent.

Information about Respondents

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises are - (a) Enterprises engaged in the manufacture or production, processing or preservation of goods and (b) Enterprises engaged in providing or rendering of services.

But for the above mentioned objective only category (a) applies and hence as specified below:

A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

Family	Family Configuration	Which family member was interviewed? N=15	Type of Business	How many successions have been done?	Family Influence over addressing succession issues.
1	3 adult Children 4 grand children	Father, Son	Shafts and gears	Two	Extensive
2	2 adult children 1 grand child	Father, HR head	Tubular parts & accessories	Two	Limited
3	3 adult children 5 grand children	Father, Son	Fabricated tubular parts	None	Extensive
4	2 adult children 1 grand child	Father, HR head	Frame body & stocket	Two	Limited
5	1 adult child 1 grand child	Son	Fabricated tubular parts	One	Moderate
6	2 adult children 2 grand children	Father, Son	Aluminium die casting	None	Extensive
7	2 adult children 1 grand child	Father	Brakeshoe	None	Limited
8	1 adult child	Father	CED coating	None	Limited
9	2 adult child	Father, Son	CED solution	None	Limited
10	1 adult child	Father	Machine tools	None	Moderate

The interview tool included several questions categories: 1) Background Information; 2) Presence of HRM function; 3) Succession planning decision; 4) Succession planning process; 5) General information about Family response post succession. The interview lasting from 60-90 minutes, were recorded.

Data Collection

The data is collected through face to face interview from various respondents. The questions were asked in a snowball effect. Hence the comfort level of the respondent was kept in mind as the issue of succession Planning is quite critical to the owners. The data analysis approach involved working inductively from specific points in the data (eg there response to family influence in decision making of successors) while simultaneously working deductively from larger body of contextualizing the study. The recorded data is analysed line by line and compared to draw conclusions. Once the initial analysis was complete, all important lines were coded, categorised and collapsed into major themes that reflect various influences present in the succession planning of family owned business. For each primary theme, data excerpted to provide examples of Emotional influence in the succession planning issues of the Family Businesses.

Findings

The themes in this section were identified as key factors related to family dynamics and emotions that influence the succession planning in small and medium FOB.

Formal policies for succession planning

Most of the respondents feel that the business will naturally be transferred to their heir. In case of siblings, elder one will get the right first and then to younger. Only one respondent felt that there is a need to put policies of succession planning to assure the continuity of leadership even in crisis and also seems to be working towards the same. The following comments were made by the head of the organisation, which are generally passive and indirect, most of them.

One has to be futuristic in approach towards running a business. So rather than taking abrupt decision at eleventh hour, it should be well planned.

Sooner or later any business which survives more than one generation, has to go ahead with planning more efficiently. And succession is one of the major decisions.

We are in this age of unpredictability in terms of social, business, political and economic changes. Thus at least in-houses planning can be done appropriately to behave proactively towards change.

We still hesitate to discuss it in board rooms due to simple reason that succession planning is a very critical and



confidential issue. Moreover, ours is a very closed and small business.

Succession planning is a mere formality in FOBs and thus there is no such requirement of raising a discussion in board rooms or writing policies. They are only addressed when successors is decided, only to orient people with upcoming change.

Interference of family members in decision

Most of the Family businesses struggle between two ecosystems namely Family and Society. Thus both the ecosystems interfere with each other constantly. Practically it is very difficult to separate these two ecosystems. Most of them stay in tune to Family as well as Social value with the business. Most of them agreed that there is interference from family members in decision of successor, probably because family is a stakeholder in such businesses.

Preference of family member as successor over non family member

Head of the organisation generally feel that it is a natural transfer of control and ownership to their children. Almost all of them prefer Family members over Non family member due to multiple reasons like trust, risk, sustainability, goodwill etc. Few comments referring to same

It minimises the risk, since you know your family and moreover in case of contingency a family members will always favour the organisation not his self interest unlike non family members.

Since I have got this business naturally from my father, my son will continue the tradition.

Any family business has a lot of stake holding from the family members and thus even though one may prefer non family members but due to unwanted influence, you have to choose family member.

We don't discuss these issues in board room with the simple logic that succession is applicable to family members only then why unnecessary create a confusion.

Emotional influence in selecting successor

Most of the respondent realise that choosing successor among family is naturally a sign of emotional influence. Although they also confessed that it restricts their choice at times. The response of few respondents is

A family business is an amalgamation of two big components namely family and business. Thus one needs to maintain balance between the two. Hence the selection of successor is an outcome of emotional influence.

In any family business, family holds maximum stake and so it becomes essential to adjust and accommodate the

emotion and psychological pressure/ stress which comes from family.

Selection of the successor is purely on the basis of potential and competency of the individual, because if it is not done wisely then the turnaround in negative direction can also come.

Family and social values hit the decision

In India, family and social values dominate most of the decision and succession planning is no different. The responses were a mix of agreement and disagreement on the issue. But certainly it was visible that in India businesses are more emotionally run instead of professionally. Most of the decisions in Indian context are individual driven rather than process driven. The comments of the respondents

A SME is always leadership centric and thus the decision making tends to be more inclined towards the thinking of the leader. If leader is balanced, everything else will fall in its own place otherwise it will be disastrous. So are we.

In FOBs, everything is not in black and white. There are so many grey shades within the organisation. The system of succession planning is purely on the basis of certain influences.

Most of the FOBs realise the importance of having proper policies and procedure for succession planning but because of undue interference from family members, they generally don't do. In fact most of them also feel that it should be planned only when the family is huge with large numbers of siblings. Otherwise in case of small family, this process is so natural to be carried forward to the next one.

Discussion

There is a lot of difference in succession planning of Small and Medium Enterprises. Small enterprises are generally in first generation and hence they feel secure by passing succession to their family members. Almost all the enterprises revealed that all SMEs are focusing on sustainability in first generation, they expand in second generation and they diversify in third generation.

The family has complex structure then the business should be divided amongst all. And if the family is simple then let it be handled by professionals. There is a huge difference between small and medium enterprise. Medium enterprises are generally in second and third generation. Hence they are open to experiment and pass succession to non family members/professionals also. Small Enterprises are still struggling to find their space and balance between two eco systems namely family and business. Medium Enterprises are relatively stable and settled. Most of the Small enterprises feel that by passing their succession to



family members minimize risk in the future. Since they have limited finances also. Thus they emphasize on selecting a family member as successor.

Most of the SMEs understand the importance of succession planning and also feel that there should be a formal policy. But unfortunately almost none of them have it. Although with the changing times they started formalizing it and will put it on paper soon, before they face real trouble. Both Small as well as Medium enterprises identify succession planning as an integral part of strategic management but in reality there is no formal policy for this.

Accordingly, emotions are an integral part of one's personality and thus they agree that nevertheless emotions are there but the decision has to be a balance of all. Although almost every organization stated different reasons for succession planning but majority of them expressed expansion, sustainability, talent management and owner's age as a few dominant reasons.

Research limitations and Implication for future research

There are two limitations to the study reported here. First, due to a small group, the findings cannot be generalised to a large population with measurable confidence. Second, the interview method used in the study provided respondents' data on few issues only. Although the findings provide an insight into groups of similar characteristics on succession planning. But it can be further studied with diverse groups.

Further study can be done on major issues like sibling rivalry, communication, financial matters and many more as an antecedent in succession planning.

References

"A family feud that is threatening Asia's energy needs," Bangkok Post Opinion (e-paper), 31/08/2009, www.bangkokpost.com

According to the Third Census of India's Micro, Small and Medium Enterprises, there were more than 10 million (1,05,21,190) units in this sector.

Anirudha Dutta and Anupam Dutta, "Family Fortunes: Behind the Public Face of Business", CLSA Asia Pacific

Anand Saxena, "Behavioural Choices for Successful Entrepreneurship in the WTO Era," Paper presented at National Seminar on WTO and Entrepreneurship Development, V.B.S. Purvanchal University, Jaunpur

Andrew N. Garman and Jeremy Glawe, Succession Planning, Rush University Medical Center

Ali A., Chen T.Y., Radhakrishnan S. (2007): Corporate disclosures by *Accounting and Economics*, vol. 44, p. 238-286.

Benchmarking Organizational Leadership, *Effective Executive*, October 2006.

Business Legends, New Delhi: Viking, 1998 by the same author and Dwijendra Tripathi, "Change and Continuity," Seminar, 482, 1999.

Ciensi J. (2009): *The Ice-Cream King of Poland*, in "Financial Times" Djankov S., La Porta R., Lopez-de-Silanes F., Shleifer A. (2008): The law and economic dealing, in *Journal of Financial Economics* 88.

Chua, J. H., Chrisman, J. J., & Sharma, P. (2003). Succession and non-succession concerns of family firms and agency relationship with non-family managers. *Family Business Review*, 16(2), 89-108.

Corbetta, G. & Salvato, C. A. (2004). The board of directors in family firms: One size fits all? *Family Business Review*, 17 (2), 119-134.

Daily, C. M. & Dollinger, M. J. (1993). Alternative methodologies for identifying family-versus non-family managed businesses. *Journal of Small Business Management*

Davis, J. H., Schoorman, F. D., Mayer, R. C., & Tan, H. H. (2000). The trusted general manager and business unit performance: Empirical evidence of a competitive advantage. *Strategic Management Journal*, 21(5), 563

Dubois D. and Rothwell W., Competency-based human resource management, Davis- BlacPublishing, CA, 2004.

Ernesto Poza, Family Business, Mason, Ohio: Thomson Southwestern, 2004, pp. 27-33.

Family Business Feuds and Succession Planning in India, *HRM Review*, June 2008

Fox, Nilakant, and Hamilton, "Managing succession in family-owned businesses," *International Small Business Journal*, Vol. 15, No. 1, 1996, p. 15.

GenNext Leaders, *Business Today*, December 17, 2006

Gurcharan Das, "A small matter of the ego," *The Times of India* (e-newspaper), 12/12/2004, www.timesofindia.indiatimes.com,

Jess Chua, James Chrisman, and Pramodita Sharma, "Succession and non-succession concerns of family firms and agency relationship with non-family managers," *Family Business Review* Vol.16, No. 2, 2003, pp. 101-02.

- Jim Grote, "Conflicting generations: A new theory of family business rivalry," *Family Business Review*, Vol. 16, No. 2, 2003, p. 113.
- John Ward and Christina Dolan, "Defining and Describing Family Business Ownership Configurations," *Family Business Review* Vol. 11, No. 4, 1998, pp. 305-310.
- K. Ramachandran, *Indian Family Businesses: Their Survival Beyond Three Generations*, Working Paper, Indian School of Business, Hyderabad, India, 2005.
- K. Ramachandran and Rachna Jha, "Governance in Family-Controlled Businesses- A Conceptual Discussion," Working Paper, , Hyderabad: Indian School of Business, October 2007.
- Lansberg, Ivan. (1999) *Succeeding Generations: Realizing the Dream of Families in Business*. Boston: Harvard Business School Press., 1999, p.6.
- Leadership Succession Planning: A focus on midlevel managers, The Council for Excellence Government, September 2004.
- Markets Special Report, September 2008. The Indian business houses covered in the study are Agarwals (Vedanta Group), Ambani (Reliance Group), Bajaj (Bajaj Auto), Chandra (Essel Group), Mittal (Bharti Group), Premji (Wipro Group), Singh (DLF Group), Tata (Tata Group).
- Meijaard J, Uhlaner LM, *Bedrijfsoverdrachten in Nederland: pilotstudie kosten,baten en determinanten van success*, EIM: Zoetermeer, 2005, Cited in *Family Business Research: A Literature Review*, wms-soros.mngt. waikato.ac.nz, p. 10.'Social capital' refers to the trust and cooperation among people. Where people trust each other and cooperate there is high social capital. Family and community networks are said to have high social capital. See, "Indian Business Families," gurcharandas.org
- Nathaniel H. Leff, "Industrial Organization and Entrepreneurship in the Developing Countries: The Economic Groups," *Economic Development and Cultural Change*, 26 (4), 1978, pp. 661-675.
- P. O. Bjuggren, and Sund, L.-G. (2001), "Strategic decision-making in intergenerational successions of small- and medium-size family-owned businesses", *Family Business Review*, Vol. 14 No. 1, pp. 11-23.
- Ramani V. V., *Succession Planning Insights and Experiences*, 1ed. ICFAI Universit Press Hyderabad, 2005
- R. A. Sharma, *Strategic Management in Indian Companies*, (Report on Major Research Project Supported by the UGC), New Delhi: Department of Commerce, University of Delhi South Campus, November 1993, p.6. It would not be out of place to mention that the conflict between the two has been referred to as "shadow boxing" for one up-man ship by the Hon'ble Supreme Court of India.
- Rajesh Jain, *Chains That Liberate: Governance of Family Firms*, New Delhi, Macmillan India Ltd., 2006, p.56.
- Reliance gas dispute like war between 2 nations: SC," *Deccan Chronicle* (e-Paper), October 20, 2009, deccanchronicle.com .
- Rothwell W., *Effective succession management: Building winning systems for identifying and developing key talent*. 2nd ed., The Center for Organizational Research, 2004.
- Rothwell W., *Effective succession planning: Ensuring leadership continuity and building talent from within*. 2nd ed. Amacom, New York, 2001.
- Succession Planning-A Resurrection, *HRM Review*, June 2008.
- Succession Management – Lead the Tomorrow's Leaders, *HRM Review*, April 2008.
- Social Entrepreneurship, Leadership and Succession planning, *Effective Executive*, October 2006.
- Succession Planning Insights from History, *Effective Executive*, December 2005
- Sue Birley, Dennis Ng, and Andrew Godfrey, (1999) 'The Family and the Business', *Long Range Planning* Vol. 32, No. 6, p. 598.
- Sunil Mukhopadhyaya, "We have always been like that- Feuds are part and parcel of Kolkata-based Marwari businessmen," *Financial Express* (E-Newspaper), 26/06/2005, www.financialexpress.com
- Surajit Mazumdar, "The Analysis of Business Groups Some Observations with reference to India," Working Paper No. 2008/11, Institute for Studies in Industrial Development (ISID), December 2008.
- Top 5 CEO Challenges: 2008, *4 Ps Business and Marketing*, 4 January-17 January, 2008.
- Vijay Marisetty, K Ramachandran and Rachna Jha, "Wealth Effects of Family Succession: A Case of Indian Family Business Groups," Working Paper, Thomas Schmidheiny Chair of Family Business & Wealth Management, Indian School of Business, Hyderabad, India, 2008.