

A STUDY OF SUCCESSION IN INDIAN FAMILY OWNED ENTERPRISES

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A STUDY OF SUCCESSION IN INDIAN FAMILY OWNED ENTERPRISES

By

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CERTIFICATE

This is to certify that the thesis entitled “**A Study of Succession in Indian Family Owned Enterprises**” being submitted by Mr. Nalin Jain to the Indian Institute of Technology Delhi for the award of the degree of **Doctor of Philosophy (Ph.D.)** is a record of bonafide research work carried out by him. He has worked under my guidance and supervision and has fulfilled all the requirements for the submission of the thesis, which has attained the standard required for a Ph.D. degree of the Institute. The results presented in the thesis have not been submitted elsewhere for the award of any degree or diploma.

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ABSTRACT

Family owned business enterprises (FOBEs) are the most common form of economic organization. The majority of FOBEs are micro, small or medium sized enterprises (MSM-FOBEs). The MSM-FOBE, is normally, owned and managed by a single owner-manager or partners and members of their family. The almost absolute dependence of the MSM-FOBE on the owner-managers, for management, is one of the reasons for only 30% of MSM-FOBEs surviving to the second generation and 17% to the third generation of the founder. 30% of the MSM-FOBE closures are due to failure of business succession (management transition between two generations).

Business succession in FOBEs comprises of management leadership succession and ownership succession. Succession of management leadership, between the incumbent and successors, is more critical for the continuity of the FOBE and is the focus of this study. The study aims to develop a conceptual model of business succession. Business succession is a process comprising of three chronological phases based on the extent of involvement of the successors in the business. These are the preparatory phase before successors get fully involved (pre-entry phase), phase of active involvement (post-entry phase) and phase of takeover of management by successors (transfer phase). A pointed yet comprehensive literature review and an exploratory study are used to develop three conceptual models of the business succession process in Indian MSM-FOBEs. Twenty six hypotheses on prevalent succession practices are derived during the development of the models. The pre-entry phase of business succession planning comprises of, awareness of succession, preparation of succession plans, selection of successors and their grooming. The research assesses the awareness and importance of business succession planning issues, studies the prevalent processes of successor selection and successor grooming and examines prevalent practices on timing of events of the transfer phase in Indian MSM-FOBEs. The extent of perceived difficulty during succession, due to problem situations is also analyzed.

Based on owner-manager interviews in the first stage exploratory study, a survey questionnaire is developed for the second stage descriptive study. The survey is administered among MSM-FOBE owner-mangers of Delhi NCR and Northern India through personal contact. The usable data from 364 responses is subjected to the uni-variate, bi-variate and multivariate analysis. The findings on extent of prevalence of

business succession practices and on opinions of owner-managers on succession are analyzed. The influence of chosen MSM-FOBE variables (sector of activity, manpower and managerial-role manpower) and owner-manager variables (education level and the inheritance status) is examined. Some of the findings are presented.

Manufacturing MSM-FOBEs are more proactive on almost all business succession practices as compared to service/trading MSM-FOBEs. Size of the MSM-FOBE (indicated by manpower or managerial-role manpower or both), influences most business succession practices. Education level and inheritance status of the owner-manager influence only a few succession practices. Most succession awareness and planning issues are quite important to most important. A conceptual model of importance of succession planning based on three constructs is developed.

Owner-managers prefer successors from family and selecting a relative from outside is less to moderately prevalent. Dividing the business among all sons is more prevalent than dividing it among daughters and sons. Owner-managers mostly choose successors on their own or involve their spouse. The involvement of family members in successor selection is moderately prevalent and of outsiders less prevalent. Practice of successor grooming is normally intensive or modest and is through a systematically designed process. Partial involvement of successors in business is preferred after completion of education, while active involvement is preferred after work experience outside the family business. Grooming daughters as successors, if no sons are available is moderately prevalent to quite prevalent.

About 20% of the owner-managers do not intend to transfer the management of the MSM-FOBE. A model to predict the intention of owner-manager to transfer the MSM-FOBE leadership is evolved using ten variables. The most prevalent incumbent age range is 70-79 years for reducing active involvement and 80-89 years for enterprise leadership transfer. Owner-managers perceive higher difficulty in business succession, when there are two partners, business is declining fast and there is no son.

The study, a first overview of the succession practices in Indian MSM-FOBEs, yields many significant and actionable findings for all stakeholders. Focused initiatives and activities by Ministry of MSME bodies as well as by business, social and family business institutions are recommended on the basis of the findings.

CONTENTS

Certificate	i
Acknowledgements	ii
Abstract	iii-iv
Contents	v-vii
List of Exhibits	viii
List of Tables	ix-xi
List of Abbreviations	xii
Chapter 1: Introduction and Scope of Study	1-27
1.1 An Overview of Family Owned Business Enterprises (FOBEs)	
1.2 Economic Contribution of MSMEs	
1.3 Business Succession Process in FOBEs	
1.4 Business Succession Issues in Large Indian FOBEs	
1.5 Business Succession Issues in Indian MSM-FOBEs	
1.6 Purpose and Scope of the Study	
1.7 Theoretical Background	
1.8 Chapter Plan	
Chapter 2: Literature Review	28-82
2.1 Contemporary Family Business Research	
2.2 The Business Succession Process in FOBEs	
2.3 Factors Influencing Business Succession	
2.4 Business Succession Planning	
2.5 Transfer of Enterprise Leadership	
2.6 Effectiveness and Quality of the Business Succession Process	
2.7 Business Succession in FOBEs in Asian region	
2.8 Business Succession in FOBEs in Europe	
2.9 Gaps in the Literature	
2.10 Concluding Remarks	
Chapter 3: Objectives and Methodology	83-106
3.1 Objectives of the Study	
3.2 Hypotheses	
3.3 Research Design	
3.4 Data Collection and Analysis	
3.5 Sample Profile	

Chapter 4: Conceptual Model of Business Succession in Indian MSM-FOBEs	107-126
4.1 Unplanned Business Succession	
4.2 Planned Business Succession: Owner-Managers Willing to Transfer Management Leadership	
4.3 Conceptual Model of Business Succession	
4.4 Concluding Remarks	
Chapter 5: Business Succession Planning: Importance	127-179
5.1 Awareness of Business Succession	
5.2 Planning for Succession	
5.3 Successor-Selection	
5.4 Successor Grooming	
5.5 Conceptual Model of Importance of Business Succession Planning	
5.6 Concluding Remarks	
Chapter 6: Successor Selection Process and Practices	180-225
6.1 Successor Selection from Within the Family	
6.2 Successor Selection from Outside the Family	
6.3 Division of Ownership among Heirs	
6.4 Involvement of Family Members in Business Decisions	
6.5 Involvement in Successor Selection	
6.6 Concluding Remarks	
Chapter 7: Successor Grooming Practices	226-263
7.1 Extent of Successor Grooming	
7.2 Quality of Successor Grooming	
7.3 Timing of Successor Grooming	
7.4 Grooming Daughter as Successors	
7.5 Concluding Remarks	
Chapter 8: Enterprise Leadership Transfer	264-288
8.1 Intention to Transfer Leadership	
8.2 Transfer Practices in Manufacturing Enterprises	
8.3 Transfer Practices in Service/Trading Enterprises	
8.4 Concluding Remarks	

Chapter 9: Problems in Succession	289-314
9.1 Multiple Ownership of the Current Business	
9.2 Abnormal Business Growth or Decline Situations	
9.3 Family Composition Situations	
9.4 Daughters as Claimants of Business	
9.5 Owner-Successor Age Difference	
9.6 Concluding Remarks	
Chapter 10: Conclusions and Recommendations	315-337
10.1 Conclusions	
10.2 Theoretical Implications	
10.3 Recommendations	
10.4 Limitations of the Study	
10.5 Research Contribution	
10.6 Scope for Further Research	
Select Bibliography	338-359
Annexure I: Questionnaire for MSM-FOBE Owner-managers	360-363
Annexure II: Factor Analysis	364-369
Annexure III: Discriminant Analysis	370-387
Brief Curriculum Vitae	388

LIST OF EXHIBITS

Exhibit No.	Title	Page No.
1.1	Phases and Activities of the Business Succession Process	16
4.1	Conceptual Model of Unplanned Business Succession in Indian MSM-FOBEs	110
4.2	Conceptual Model of Planned Business Succession in Indian MSM-FOBEs	113
4.3	Conceptual Model of Business Succession in Indian MSM-FOBEs	125
5.1.	A Conceptual Model of Importance of Business Succession Planning in Indian MSM-FOBEs	175
8.1	A Predictive Model on Intention of Owner-Managers to Transfer Management of the MSM-FOBE to Successors through Planned Succession	274

LIST OF TABLES

Table	Title	Page
1.1	Operational Advantages and Disadvantages of FOBES	5
1.2	Definition of Micro, Small and Medium Enterprises in India by Investment in Plant and Machinery (in millions of Rs) and their % (As per 2006-07 Census)	11
3.1	Profile of Respondent Owner-managers (N = 364)	104
3.2	Profile of MSM-FOBES (N = 364)	106
5.1	Importance of Awareness of Inevitability of Business Succession to Respondent Owner-Managers	129
5.2	Importance of Awareness of Consequences of Unplanned Business Succession to Respondent Owner-managers	134
5.3	Importance of Awareness of Process of Business Succession to Respondent Owner-managers	139
5.4	Importance of Understanding of Business Succession Process to Respondent Owner-managers	144
5.5	Importance of Succession Plans for Business Succession to Respondent Owner-managers	148
5.6	Importance of Process of choosing business successors to Respondent Owner-managers	152
5.7	Importance of Choice of Appropriate Successor to Respondent Owner-managers	157
5.8	Importance of Choice of Successor as Per Family Traditions to Respondent Owner-managers	161
5.9	Importance of Choice of Successor with the Consent of Family Members to Respondent Owner-managers	164
5.10	Importance of Successor Grooming Through a Well Designed Process to Respondent Owner-managers	169
5.11	Factors and Factor Loadings for Business Succession Planning Issues Important to Indian MSM-FOBE Owner-Managers (N = 364)	174
5.12	Findings of Hypotheses tested on Importance of Succession Planning	177
6.1	Prevalence of Choosing Only Son as Business Successor	183
6.2	Prevalence of Choosing Eldest Son as Business Successor if there are two or more Sons of Owners	187
6.3	Prevalence of Choosing All Sons Involved in Business as Joint Business Successors	188

Table	Title	Page
6.4	Prevalence of Choosing a Relative from Outside the Family as Successor if no Successor is Found From the Family	193
6.5	Prevalence of Selling off the Business of the MSM-FOBE if no Successor is found from the Family	194
6.6	Prevalence of Dividing the Business Ownership among All Sons Only Even if there is at Least One Daughter	201
6.7	Prevalence of Dividing the Business Ownership among All Sons and Daughters	202
6.8	Frequency and Percentage Distribution of Other Major Decision Makers in Indian MSM-FOBEs apart from the Respondent Owner-Manager	207
6.9	Prevalence of Owners Choosing Successors on their Own	210
6.10	Prevalence of Owners and Their Spouses Choosing Successors of the Business	213
6.11	Prevalence of Owners and Other Close Family Members Choosing Successors of the MSM-FOBE	217
6.12	Prevalence of Involvement of Outsiders in Successor Selection	221
6.13	Findings of Hypotheses Tested on Successor Selection Process and Practices	223
7.1	Prevalence of Intensive Successor Grooming	229
7.2	Prevalence of Modest Successor Grooming	233
7.3	Absence of Successor Grooming	236
7.4	Prevalence of Grooming Successors through a Systematically Planned Process	240
7.5	Agreement of Owner-Managers to Timing of Initiating Successor Grooming	246
7.6	Prevalence of Successors Getting Partially Involved in Business	250
7.7	Agreement of MSM-FOBE Owner-Managers to Active Involvement of Successors in Business	252
7.8	Prevalence of Daughters Being Groomed As Successors If No Sons Are Available as Successors in Manufacturing MSM-FOBEs	256
7.9	Prevalence of Daughters Being Groomed as Successors if there are No Sons Available as Successors in Service/Trading MSM-FOBEs	259
7.10	Findings of Hypotheses tested on Successor Grooming Practices	262
8.1	Age-Range at which Incumbent Owner-Managers Intend to Transfer the Leadership of the MSM-FOBE to Their Successors	267

Table	Title	Page
8.2	Predictor (Independent) Variables Used In the Discriminant Analysis	269
8.3	Canonical Discriminant Function Unstandardized Coefficients of Predictor Variables for Dependent Function It	272
8.4	Value of Discriminant Function for It at Group Centroids	273
8.5	Classification Results of Discriminant Analysis for I_1 (N=364)	273
8.6	Prevalence of Incumbent Owner-Managers Reducing their Involvement in Manufacturing MSM- FObEs	279
8.7	Prevalence of Incumbent owner-managers Transferring Leadership Of Manufacturing MSM- FObEs To Successors	281
8.8	Prevalence of Incumbent Owner-Managers Reducing their Involvement in Service/Trading MSM- FObEs	283
8.9	Prevalence of Incumbent owner-managers Transferring Leadership of Service/Trading MSM- FObEs to Successors	285
8.10	Findings of Hypotheses tested on Transfer of Leadership Practices	287
9.1	Perceived Difficulty by Owner-Managers during Business Succession in MSM-FObEs with Two or More Siblings as Current Owners	291
9.2	Perceived Difficulty by Owner-Managers during Business Succession in MSM-FObEs When Current Owners are Two or More Non-Family Partners	292
9.3	Perceived Difficulty by Owner-Managers during Business Succession in MSM-FObEs when the Business of MSM-FObE is Declining Abnormally Fast	295
9.4	Perceived Difficulty by Owner-Managers during Business Succession in MSM-FObEs when the Business of MSM-FObE is Growing Abnormally Fast	296
9.5	Perceived Difficulty by Owner-Managers during Business Succession in MSM-FObEs when Owners do not have Sons	303
9.6	Perceived Difficulty by Owner-Managers during Family Business Succession when Daughters Become Claimants to Business	306
9.7	Perceived Difficulty by Owner-Managers during Business Succession in MSM-FObEs When the Age Difference between the Incumbent Owner and Successor is abnormally high	309
9.8	: Perceived Difficulty by Owner-Managers during Business Succession in MSM-FObEs When the Age Difference between the Incumbent Owner and Successor is Abnormally Low	310
9.9	Findings of Hypotheses tested on Perceived Difficulty in Business Succession by Owner-Managers	313

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
CA	Chartered Accountant
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
CII-FBN	The Confederation of Indian Industry-Family Business Network
DC (MSME)	Development Commissioner (Micro, Small and Medium Enterprises)
DIC	District Industries Centre
ESE	Entrepreneurial Self Efficacy
EDI	Entrepreneurship Development Institute
EU-27	European Union (27 countries)
FBN	Family Business Network
FFI	Family Firm Institute
FICCI-CMSME	The Federation of Indian Chambers of Commerce and Industry-Confederation of Micro, Small and Medium Enterprises
FOBE	Family Owned Business Enterprise
FOBEs	Family Owned Business Enterprises
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GNP	Gross National Product
ICAI	Institute of Chartered Accountants of India
MD	Managing Director
MSMEDIs	Micro, Small and Medium Enterprises Development Institutes
MSM-FOBE	Micro, Small and Medium Family Owned Business Enterprise
MSM-FOBEs	Micro, Small and Medium Family Owned Business Enterprises
MSME-TIs	Micro, Small and Medium Enterprises Training Institutes
NIESBUD	National Institute of Entrepreneurship and Small Business Development
NS	Not Significant
Ph.D.	Doctor of Philosophy
SD	Standard Deviation
TEA	Total Entrepreneurial Activity
UK	United Kingdom
US, USA	United States of America
vs.	Versus