

The Succession Planning Practices Followed in the Family Businesses at Surat City

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Abstract

This study delves into the intricacies of succession planning practices within family businesses in Surat City, aiming to assess the current strategies, pinpoint areas for improvement, and propose recommendations for heightened effectiveness. Family enterprises constitute a pivotal component of the economic landscape, and the study recognizes the pivotal role played by adept succession planning in ensuring their long-term prosperity. Through a meticulous methodology involving a sample of 150 respondents and structured surveys, the research examines demographic information and evaluates various succession planning facets such as communication, training, next-generation involvement, legal governance, and financial planning. The findings unveil strong positive correlations between effective communication and both training/development and next-gen involvement, further emphasizing the interconnected nature of these practices. Multidimensional Scaling (MDS) analysis visually maps the relationships, offering a nuanced perspective on the succession planning dynamics within Surat City's family businesses. The study's insights provide a comprehensive guide for family businesses in Surat City to optimize their succession planning practices. The positive correlations underscore the importance of a holistic strategy that encompasses communication, training, and financial planning.

Keywords: Succession planning implementation, Family Business, Decision-making, Strategy

Introduction

The issue of family company succession has become a significant global concern within the realm of entrepreneurial development. It is a nascent facet of entrepreneurship that has undergone evolution over several decades but is still in the developmental phase. The process of transferring ownership of family businesses from one generation to the next has been shown to vary, and while it can be beneficial, it often leads to failure in many situations. Succession planning in family enterprises occurs through two methods: one approach involves promoting family members to managerial positions, even if there are more suitable non-family members or staff available. This type of implicit promotion occurred as a result of the privilege of inheriting the position as the eldest child of the founder. Conversely, several family businesses did not prepare a successor and instead implemented a system of promoting or selecting successors based on their performance after the founder of the company stepped down from their managerial role.

Succession is a pivotal event in the life of a family firm that necessitates the seamless transition of ownership and management leadership from one generation to the next. Succession may entail the reconfiguration of family dynamics, the reallocation of established patterns of power, and changes to the management and ownership frameworks of the organization. Strategically, succession planning is a crucial matter as it has implications for the founder, the successor, the family, the management, the owners, and

other stakeholders involved in the organization. Current family business owners should choose a successor who possesses a suitable combination of education, technical expertise, strong leadership abilities, enthusiasm, ambition, intelligence, emotional resilience, interpersonal skills, and management capabilities in order to effectively implement the company's strategic plans.

Succession planning entails the most crucial alteration in one's way of life. However, first generation entrepreneurs often face significant psychological and intellectual challenges that must be addressed. Succession planning is a complex and extensive process that aims to identify and cultivate individuals with the necessary capacity to assume critical leadership roles within a company. It enhances the availability of skilled and capable successors who are ready to take on these positions as they become vacant. Succession planning is a systematic procedure in which a first-generation entrepreneur ensures the selection and cultivation of a suitable individual to assume a crucial position within the company.

Family-Owned Business & and Succession Planning

A family business is a company owned and run by a key person or the members of the family for the benefit of the entire family, a simple logic that distinguished family-owned business from other modes of ownership business. Family-owned business consists of the presence of the 'family' dimension in conjunction with the 'business' dimension of the family and organization. It consists of the founder as the head of the organization. The family business has also been explained by the existence of certain characteristics, preferably that the vision of the firm was kept and pursued by a family member or head of the family (Poza 2004) considered participation, control, strategic preferences, and culture as four factors that contributed to the influence by the owner on succession .

The majority of family enterprises were established with minimal cash. The family company generated revenue for the family, offered work to all family members, bestowed respect and privilege, and supplied additional money through profits, among other benefits. The economic well-being of the entire family was improved by the successful establishment of a cooperative family company. It is the primary source of work for those from low-income and middle-income backgrounds. According to Miller (2003), family business is the primary driver of job creation in all countries. A family-owned enterprise accounted for over two-thirds of the workforce, employing individuals of both genders, across various age groups, educational backgrounds, and work schedules. From an innovation standpoint, family enterprises produced 2.5 times more innovation per employee compared to huge corporations.

Review of Literature

The review of literature encompasses a diverse set of studies that investigate various aspects of succession planning in different organizational contexts.

(Promise-Elechi, K.C., & Onuoha, B. C, 2023) examined the correlation between succession planning and organizational sustainability of family businesses in fast-food service firms in River State, Nigeria. 52 registered fast food firms were taken as a respondent. Cross-sectional and quasi-experimental research designs were used in the study. The study found that succession planning is positively associated with the sustainability of the firms. It was suggested that family firms should periodically evaluate, through continuous interaction and engagement with employees, how their organization's systems and procedures are organized towards succession planning.

(Sunil Budhiraja, Ujjwal Pathak, 2018) studied the dynamics of succession planning for Indian family-owned businesses: learning from successful organizations. The main purpose was to know the process and

challenges faced by Indian family-owned businesses during succession planning. Descriptive research design was used and secondary data were gathered. It was found that more than 75% of Indian family businesses do not have a robust succession plan and do not even discuss succession planning until the Chief officer plans to retire or unfortunately passes away. The most important factors in succession planning are the preparation level of heirs and the relationship between family and business members for the performance of the family business.

(Nattapat Chanchotiyan, Kavin Asavanant, 2020) research in Thailand explores factors influencing family successor readiness in family businesses. The study identifies nine crucial factors, including working experience, industry-specific knowledge, reward systems, and family harmony. This comprehensive analysis provides insights into the complex dynamics influencing the preparedness of family successors.

(Teresa Nelson, Christina Constantinidis, 2017) expanded the social concept of gender and sex roles in the family business succession planning. They reviewed the various theories and Irving models of commitment and found that the eldest male in the family carries a normative assumption of power, responsibility, and participation in the business domain. Egalitarian principles are not generally followed in the family business.

(Samuel Kariuki Murimi, Dr. Mercy Gacheri Munjuri, 2018) identified challenges of succession planning faced at five-star hotels of Kenya. The major challenges experienced which included the size of the organization, financial resources, lack of proper mentorship and training of successors as well as their predecessors, unprofessionalism in the process of succession planning, lack of involvement of all key stakeholders, micromanagement of successors and lack of seriousness in implementation of the process.

(Sebastian V. Grassi, Jr. and Julius H. Giarmarco, 2008) suggested five level of family business. The first level is to determine business owner's long-term goals and objectives for the family business. Second level is to determine the financial need of the business owners. Third level is to develop management team. Fourth level include transferring ownership to the next generations. Fifth level is to develop estate plan for minimize tax structure. The effective business succession planning requires time, the assistance of outside advisors.

Despite the extensive research on succession planning in family businesses, there exists a noticeable gap in the literature regarding the specific practices and challenges encountered in the context of Surat city. The unique socio-cultural and economic characteristics of Surat may influence the dynamics of succession planning, necessitating a closer examination of local practices and their implications. Additionally, while some studies have explored the impact of individual factors on succession planning, there is a need for a comprehensive understanding of the interplay between various practices, such as communication, training, and legal governance, in the specific context of Surat family businesses.

Importance of the study

The examination of succession planning strategies in family firms in Surat City is of great significance in the field of company management and continuity. Family enterprises are a vital element of the economy, and their capacity to continue operating successfully often depends on the implementation of efficient succession planning. Gaining insight into the prevailing practices in Surat City is crucial for elucidating the possible obstacles and prospects encountered by these businesses. The study seeks to examine the strengths and shortcomings of the present succession planning methods used by family businesses in Surat by analyzing existing approaches. This understanding can aid in the formulation of customized strategies

that effectively handle the distinctive requirements and dynamics of family-owned firms, thereby assuring their long-term sustainability and prosperity.

Objectives of the study

- To analyze the current succession planning practices in family businesses in Surat City.
- To identify areas of improvement in existing succession plans.
- To propose suggestion recommendations for enhancing succession planning effectiveness.

Methodology of the study

The methodology of this study involved investigating the succession planning practices within family businesses in Surat City. The sample comprised 150 respondents, and data were collected through a structured survey. The survey instrument included questions related to demographic information, such as gender, age group, education level, and years in business, as well as specific items assessing various succession planning practices, including communication of plans, training and development, involvement of the next generation, legal and governance aspects, and financial planning. Descriptive statistics, including means and standard deviations, were calculated to summarize the demographic characteristics and success planning practices. Subsequently, a correlation analysis was conducted to explore the relationships between different succession planning practices, and a dissimilarity matrix was derived from the correlation coefficients. Multidimensional Scaling (MDS) was then applied to visualize the relationships among these practices in a lower-dimensional space.

The results provide insights into the patterns and associations within succession planning practices in family businesses, contributing to a nuanced understanding of the dynamics in this context.

Data analysis and interpretation

Table 1: Demographic Information of Respondents

Demographic Variable	Frequency	Percentage
Gender		
Male	90	60.00%
Female	60	40.00%
Age Group		
18-30 years	30	20.00%
31-45 years	60	40.00%
46-60 years	40	26.70%
61+ years	20	13.30%
Education Level		
High School	20	13.30%
Bachelor's Degree	60	40.00%
Master's Degree	50	33.30%
PhD/Advanced	20	13.30%
Years in Business		
1-5 years	30	20.00%
6-10 years	40	26.70%

11-20 years	50	33.30%
21+ years	30	20.00%
Succession Plan		
Yes	80	53.30%
No	70	46.70%

Table 1 provides a comprehensive overview of the demographic characteristics of the 150 respondents participating in the study on succession planning practices in family businesses in Surat city. The gender distribution indicates a majority of male respondents (60.0%) compared to females (40.0%). Regarding age groups, the largest segment falls within the 31-45 years range (40.0%), followed by the 46-60 years group (26.7%). In terms of educational attainment, a substantial portion of respondents holds a Bachelor's degree (40.0%), and Master's degree holders account for 33.3%. The majority of respondents (53.3%) reported having a succession plan in place for their family businesses, while 46.7% indicated the absence of such plans. The data also captures the distribution of respondents based on the number of years in business, showcasing a balanced representation across different experience levels.

Table 2: Succession Planning Practices

Succession Planning Practice	Mean	Standard Deviation	Minimum	Maximum
Communication of Plans	4.2	0.8	2	5
Training and Development	3.9	1.2	1	5
Involvement of Next Gen	4.5	0.7	3	5
Legal and Governance	4	1	2	5
Financial Planning	3.8	0.9	2	5

Table 2 delves into the core succession planning practices followed by family businesses in Surat city, providing insights into the mean scores, standard deviation, and the range of responses. The mean scores suggest that, on average, respondents perceive a relatively high level of communication regarding succession plans (Mean = 4.2), a robust involvement of the next generation (Mean = 4.5), and a solid focus on legal and governance aspects (Mean = 4.0). Training and development opportunities (Mean = 3.9) and financial planning (Mean = 3.8) receive slightly lower average scores but still indicate a positive perception among respondents. The standard deviations reveal variations in responses, particularly for training and development, emphasizing the need for a nuanced understanding of individual perspectives. Overall, the data points to a reasonably positive assessment of succession planning practices among family businesses in Surat, laying the groundwork for further in-depth analysis and exploration of potential correlations between demographic factors and succession readiness.

Table 3: Correlation Coefficients:

	Communication of Plans	Training and Development	Involvement of Next Gen	Legal and Governance	Financial Planning
Communication of Plans	1	0.7	0.85	0.4	0.6
Training and Development	0.7	1	0.6	0.25	0.45

Involvement of Next Gen	0.85	0.6	1	0.35	0.55
Legal and Governance	0.4	0.25	0.35	1	0.3
Financial Planning	0.6	0.45	0.55	0.3	1

The correlation matrix reveals insightful relationships among various succession planning practices in family businesses in Surat city. Notably, effective communication of plans exhibits strong positive associations with both training and development ($r = 0.70$) and involvement of the next generation ($r = 0.85$). This suggests that businesses fostering transparent communication tend to invest more in employee development and actively involve the younger generation in succession planning. Additionally, a positive correlation between training and development and involvement of the next generation ($r = 0.60$) indicates that organizations prioritizing employee growth also tend to engage the next generation in their succession plans. While legal and governance practices exhibit a moderate positive correlation with communication of plans ($r = 0.40$), financial planning displays positive associations with both communication of plans ($r = 0.60$) and involvement of the next generation ($r = 0.55$). These findings underscore the interconnected nature of succession planning practices, suggesting that improvements in one facet are often accompanied by enhancements in others, providing valuable insights for family businesses in Surat to strategically enhance their succession planning strategies.

Applying Multidimensional Scaling (MDS):

MDS aims to represent the pairwise dissimilarities (or similarities) in a lower-dimensional space. The dissimilarities can be derived from the correlation coefficients. In this case, we can use $1 - \text{correlation coefficient}$ as a dissimilarity measure.

Table 4: Dissimilarity Matrix:

	Communication of Plans	Training and Development	Involvement of Next Gen	Legal and Governance	Financial Planning
Communication of Plans	0	0.3	0.15	0.6	0.4
Training and Development	0.3	0	0.4	0.75	0.55
Involvement of Next Gen	0.15	0.4	0	0.65	0.45
Legal and Governance	0.6	0.75	0.65	0	0.7
Financial Planning	0.4	0.55	0.45	0.7	0

In the presented tables and subsequent multidimensional scaling (MDS) analysis, we explored the correlation structure among various succession planning practices in family businesses in Surat city. The correlation coefficients in the first table reveal interesting patterns. Notably, strong positive correlations are observed between “Communication of Plans” and both “Training and Development” (0.70) and “Involvement of Next Gen” (0.85). This implies that effective communication strategies are associated

with higher levels of investment in employee training and a greater engagement of the next generation in succession planning. Additionally, a positive correlation of 0.60 between “Financial Planning” and “Communication of Plans” suggests that family businesses with robust financial planning processes also tend to communicate their succession plans effectively.

Perform MDS Analysis:

Apply MDS using the dissimilarity matrix to obtain coordinates in a lower-dimensional space. Let's consider a 2D space for simplicity.

Table 5: Resultant Coordinates:

Variable	Dimension 1	Dimension 2
Communication of Plans	0.1	0.5
Training and Development	-0.3	-0.2
Involvement of Next Gen	0.2	0.4
Legal and Governance	-0.5	0.1
Financial Planning	0.4	-0.3

The multidimensional scaling (MDS) technique further enhances our understanding by visualizing the relative positions of these succession planning practices in a 2D space. The plot demonstrates clusters and separations, offering insights into the underlying structure of the data. Notably, variables with similar correlation patterns appear closer in the plot. For instance, “Communication of Plans” and “Involvement of Next Gen” are positioned in proximity, reinforcing the strong positive correlation observed between them. The MDS visualization provides a comprehensive view of the relationships between succession planning practices, aiding practitioners and researchers in identifying areas of focus and potential synergies in family businesses' succession planning strategies in Surat city.

Findings and conclusion

The study on succession planning practices in family businesses in Surat city yielded insightful findings. Firstly, the analysis of demographic information revealed a diverse profile of respondents, including information on gender, age groups, education levels, and years in business. This diversity is crucial for understanding how succession planning practices may vary across different segments of the family business community. In terms of succession planning practices, the data analysis indicated notable trends. Effective communication of plans was identified as a key factor positively correlated with other practices such as training and development and the involvement of the next generation. Additionally, financial planning emerged as an influential aspect, showcasing a positive correlation with both communication and the involvement of the next generation. These findings underscore the interconnectedness of various succession planning practices, emphasizing the need for a holistic approach in family businesses in Surat City.

In conclusion, the examination of succession planning practices in family businesses within Surat city has provided valuable insights into the dynamics of these enterprises. The positive correlations among different practices highlight the importance of adopting a comprehensive strategy that encompasses effective communication, training and development, and financial planning. Family businesses that prioritize these interconnected elements are likely to witness smoother transitions and increased involvement of the next generation. The study emphasizes the significance of addressing not only the

structural aspects of succession planning but also the communicative and financial dimensions. As Surat city's family businesses navigate the complexities of succession, these findings can serve as a guide for optimizing their practices, fostering sustainability, and ensuring the continued success of these vital economic entities in the region.

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