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SUCCESSION PLANNING IN A FAMILY RUN BUSINESS

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Succession Planning In a Family Run Business

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Abstract – Succession is the most complex and turning point in the life span of a family business, because it not only involves money, it involves relations and emotions. The succession planning involves three situations, depending upon number of successors. Based on his experience, the author lists how to plan, succession in a family business.

Keywords: Business, Planning, Succession Family

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INTRODUCTION

A family run business is a business, whose effective control is handed over to next generation, by the founder.

In an effort to more clearly define family business Chua, Chrisman and Sharma conducted a comprehensive review of family business literature and defined the family firm is “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by a member of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Gulzar, M. Awais & Wang Zongjun, 2010). This definition is founded in the behaviour as the essence of family business. This definition is re-affirmed by De Massis, Chua and Chrisman (2008) in their work on intra-family business succession. More recently Gulzar, M. Awais & Wang Zongjun, 2010 have acknowledged that there is not one commonly accepted definition of the family firm or business, but that some criteria for differentiation are emerging, including the existence of identity, intention for succession and noneconomic goals in the family business [Yuan Ding, Hua Zhang, Junxi Zhang (2008)].

A common theme that has predominantly been studied by researchers since 1988 is the issue of succession from one generation to the next (Gupta, R. K). Succession has been identified as a dominant strategic issue (Gupta, R. K). Gupta, R. K, suggests that one of the major megatrends in family business research is that generational transition is replacing succession planning, reflecting the understanding that succession planning in the family business context has more dimensions than in non-family business succession. Other investigators have agreed that research in family business succession is not only

important (Lussier, Robert N. & Sonfield, Mathew C. 2004), but has the potential for expanding our understanding of strategic and management issues beyond the context of family business to business succession in general (Lussier, Robert N. & Sonfield, Mathew C. , 2004).

The succession planning involves various situations. The combinations of heirs may be as under:-

- i. No heir
- ii. One heir-male or female
- iii. More than one heir.
- iv. No Heir

Where the founder has no heir of his own, he may plan to retire from the top post after certain age and appoint successor in his life time. The successor may or may not be from the family or may be a professional, who understands the complexities of the business. The successor may be appointed by the owner of the business himself or he may form a panel to select a successor.

In the Indian context, process of selection of successor for Ratan Tata, of house of Tata is still fresh in our minds. The Tata group has been run by a family member since 1868. In 2011, Ratan Tata declared that he would step down as chairman of the Tata group in December, 2012, when he would be 75 years. As we know that Ratan Tata is a bachelor and does not have an heir.

To identify the successor of Ratan Tata, the Board of Tata Sons Ltd., formed a selection Committee, comprising of five members, including an external member. As per the press release, the Committee formulated criteria for identifying the most suitable

candidate, taking in account the global nature and complexity of the group business. (*The Times of India 3rd September, 2010*) The chosen one is Cyrus Pallonji Mistry, an Irish national, youngest son of construction baron Pallonji Shapoorji Mistry. Before his appointment as successor to Ratan Tata, Cyrus Mistry is Managing Director of Shapoorji Pallonji & Co., which is part of ` 15,000.00 crores Shapoorji Pallonji group. The family is single largest shareholder in Tata Sons, with stake of 18%.

This was a simple case, where the family business is being run on professional lines and business owner, did not cling to the management. Succession in such cases appears very simple and uncomplicated. Change of parameters will complicate the whole issue.

➤ ONE HEIR- MALE/FEMALE

Succession is again simple and uncomplicated where the family has one heir, either male or female. The succession becomes natural and uncomplicated, where the lone heir is groomed to take over the reins of business. Mr. Kumar Manglam Birla is an example of taking over reins, successfully after his father, Mr. Aditya Vikram Birla was diagnosed cancer.

However the problem comes in, when the only heir is not interested in the family business and take-up job, which is not in family business.

Mr. Rohan Narayyan Murthy, son of chairman emeritus, Infosys Technology Ltd.,

Mr. N. Narayyan Murthy is example of such a case. Mr. Rohan has not joined the family firm and Mr. K.V. Kamath was appointed successor of Mr. N. Narayyan Murthy (*The Times of India 24th September, 2010*)

Of late Mr. N. Narayan Murthy has come to Infosys Technology Ltd., and also come with him is his son, Rohan.

➤ MORE THAN ONE HEIR

The succession, in a case where more than one heir exists and are interested in the in the family business, succession becomes complex and often leads to disintegration of business. History of family businesses, in India and world over is replete with such cases, where businesses either ceased to exist or suffered irreparable damages.

Bigger the amount of assets, louder are the dispute chores.

The case of Rupert Murdoch, Australian born billionaire is very interesting. Consider his empire. His satellites deliver TV programmes in five continents, publishes one hundreds seventy five newspapers owns Twentieth Century Fox Studio, Fox Network. He has cable network and thirty five TV stations. The list

goes on. The estimated net worth of News Corporation alone, in 2005 was \$ 6.10 Billion.

He has six children from his three wives. Two of his sons and a daughter from the second wife are fighting over the terms of the Trust, which holds 28.5 % of the News Corporation. With phone tapping scam in Great Briton, the claim and counter claims are flying and entry and exit from the race are news every day. The winner of the battle is yet being announced.

The discussion on the family business succession planning will be incomplete, if we do not discuss the family feud of Ambani Brothers. Dhiru Bhai Ambani died in July 2002, survived by, in addition to his wife Kokilaben, two sons Mukesh and Anil and two daughters Neena and Deepti. Dhiru Bhai, however did not leave behind any will, specifying his wish as to which child will get which business. The raging battle for the huge wealth was seen by the whole world. Strange but true! The man who became a refinery controller from a petrol pump attendant, the man who controlled the Indian Stock Exchanges in the year 1982, was not there to control his fighting sons.

The matter was resolved, officially, in the year 2005, by K.V. Kamath, the Managing Director of ICICI Bank. (*The Financial Express May 17, 2005*). The rivalry however continued for a long, as is evident from the court battles for natural gas and related matters, was finally settled recently, in the year 2011, with cancellation of no compete agreement between the brothers.

The other recipients of gallantry medals in the battles of succession are Bajaj- the two wheeler giant, The Hindu- Leading Newspaper of the east, K. K. Modi's Godfry Philips, Mafat Lal group and Appolo Hospital of Dr. Pratap Ready.

REVIEW OF LITERATURE:

The problem of succession is not localized, but is contagious and is spreading very fast. In neighboring China, the business owners are facing a different kind of succession problem. The Government in China has enforced one child per family policy in view of population explosion. The new generation, having enough money of their parents are not interested to join the business and are rather opting for jobs in industries which are different from the one owned by their parents. With very little options available for succession to own family members, the Chinese entrepreneurs are selling their businesses to either local or others and transferring their money outside China. (*The Economic Times, 24th August, 2011*) Planning for Succession Of the situations listed above it appears that to have a smooth switchover from one generation to other, the best situation in a family business point of view is, having a single heir. This avoids lot of unwanted conflicts and pillows fights among family members. But situations are not always as smooth as we wish. Since family driven businesses

have a different ethos and management culture as compared to multinationals, public sector and non-family driven businesses, outside professional are generally misfit in the organizational hierarchy [Miller, Danny and Lebreton Miller, Isabel (2005)]. This happens because young sons or other family members of the entrepreneurs join the business without any formal training or education and start interfering into the day to day work without having experience. In these situations, the professional's managers react in not very kind way and generally leave such organizations.

For an effective and painless succession, following steps have proved to be very effective [Sane, Vivek S. (2005)]:-

- a. The succession planning has to be started at least eight to ten years before the actual event.
- b. To be a success, the discussion must start at the dinner table, with the whole family.
- c. The Indian mythological rule that the eldest son runs the show has to be given go by and strength of each member is to be recognized.
- d. The founder member has to clearly identify the role of each member and duties are to be assigned to the members accordingly.
- e. The mostly followed rule, everyone gets an equal share in the property, should also be given go by and shares are to be decided based on interest in the business and share of responsibility shouldered by each member be sole criteria of transferring ownership.
- f. Another factor, which is very important for a successful succession is, training of the successor with the founder member. To be successful, the successor must spend one to two years with the founder member, to understand the intricacies of the business process and decision making process.

We have a live example of Cyrus Pallonji Mistry, who has been chosen as a successor to Ratan Tata, and is under training of Mr. Tata for about a year.

g. It is also very important that the entrepreneur avails the expert advice of the various professional in the field of transfer of business, such as lawyer, chartered accountants etc.

Importance of succession planning in family owned business:

Succession is one of the biggest issues for family businesses and frequently where things can fall apart. More than 30 percent of all family-owned businesses survive into the second generation. After that, the numbers start to fall. Only 12 percent will still be viable into the third generation, and a mere 3 percent of all family businesses make it into the fourth generation and beyond. Succession planning for any business is critical. The selection of a successor is more often than not a driver of subsequent profitability and in a family-owned firm is unquestionably an important piece of a business and family culture. Family business owners not only share their financial wealth but also their values surrounding their wealth with subsequent generations. Success is a high- stakes proposition. However, succession planning for a family business owner can feel like a Gordian Knot. Navigation of this decision can be fraught with danger for families who are high achievers and productive performers, but whose family ties may be strained to the breaking point. Choosing one successor among several can bring to the surface tensions and fractures that have not been detectable for years. On the other hand, succession can be the crowning achievement for an entrepreneurial business owner—a time when she or he can share his or her success with a son or daughter or children.

CONCLUSION:

In this paper we found that succession is the most complex and turning point in the life span of a family business, because it not only involves money, it involves relations and emotions, besides no one wants to discuss or plan his death and age with his heirs or in certain cases heirs do not want to discuss retirement or death of their father with him. The history is any indicator, power or ownership transition is always a difficult and most of the time, it will hurt. The entrepreneurs always wish to pass on the control to one of their family members as fear of betrayal is always lurking in their minds. The most popular saying among the entrepreneurs is 'blood runs thicker than water'. Unplanned or a succession plan which is not a viable one sees shares prices tumbling down. While 90 percent of businesses in the U.S. are family-owned, only about 30 percent of family businesses survive the transition from first generation to second, and about 15 percent make it to the third generation.

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