

## **“The Study of Succession Planning in the Family-Owned Manufacturing Firms of Gokul Shirgaon and Shiroli MIDC in Kolhapur District.”**

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**Abstract:** The family business is the backbone of the economy. The expert states that nearly 85% of businesses across all sectors of the economy are owned, managed, and controlled by family members working together in the industry. These businesses contribute the most to the country's GDP. It is a well-proven and accepted fact that family-owned businesses can't succeed in terms of succession. The succession is a challenging process. It is observed that only 50% of 2nd-generation, 12% of 3rd-generation, and 4% of 4th-generation family businesses survive. Thus, succession planning involves many challenges. Therefore, needs to be executed very keenly. In this regard, the owner must observe clarity in transferring business operations to the next generation.

**Keywords:** Family Business, Transfer of Business, Succession Planning, Clarity of Ownership.

### **Introduction**

The small-scale sector plays a pivotal role in the country's economic development. Specifically, manufacturing firms operating in micro, small, and medium units have made significant contributions to GDP growth, employment generation, resource mobilisation, and the development of manufacturing hubs across the country. The maximum number of business firms in this category is small business houses, which are owned and controlled by family members. They are generally known for being family-owned manufacturing businesses. Generation after generation, these firms conduct the business. In the first generation, one or more family members start the business. When the next generation becomes capable of taking over business responsibilities, they will handle them. If this transformation is carried out to establish proper policies within family members in a predetermined, systematic manner, then it is termed “Succession Planning.” In many family-owned business firms, succession planning is not done systematically.

At the national and international levels, Kolhapur is well known for its industrial development. 4 MIDCs and 9 Industrial Estates are established and are providing a foundational basis for Kolhapur manufacturing industries. The manufacturing industries mainly produce castings, machining, all types of industrial fabrication, auto components, machinery parts for sugar industries, chappal industries, Jaggery industries, silver ornaments and idols, etc. Most of these industries are family-owned and controlled. The industrial base in Kolhapur was the result of the planned efforts of the then Princely Ruler, Rajashree Chhatrapati Shahu Maharaj. Many of the industrial units established in those days have now progressed to the 3rd generation of ownership. Many of the manufacturing units which were established in the 1980s have now reached the 2<sup>nd</sup> generation of ownership.

Considering this fact, the researcher has opted for “The Study of Succession Planning In the Family-Owned Manufacturing Firms of Gokul Shirgaon and Shiroli MIDC in Kolhapur District.”

### **Review of Literature**

- 1. Noel M. Tichy (2014)** (Tichy, 2014) : The book titled as “Succession” written by Noel M. Tichy: In the book the writer very lucidly reveals his deep analytical study of the process of transformation of leadership from one generation to another generation. He addresses various technical, political, and cultural issues relating to

succession planning. The writer studies succession planning and leadership transformation in corporate organisations such as Ford, DuPont, and JCPenney. The book provides a detailed explanation of the role of the Board, the role of the existing CEO, the HR practices followed in the organisation, and the dilemma of inside versus outside successors. The book also examines family business organisations' succession planning, using examples such as TATAs, S.C. Jonson and Son, etc. The book also covers organisations such as non-profits and farming. The book also provides a plan to transition leadership to the next generation. The book also emphasises the 360-degree feedback mechanism. The writer has provided a perfect guiding mechanism for succession planning. *However, the book is written explicitly in the context of Western culture. The research gap is that the book doesn't take into account the functional aspects of management and their impact on business succession. This is a research gap.*

2. **Tarun Engineer (2016)** (Engineer, 2016) In the book entitled "Ambani & Ambani", the writer describes the rise and growth of Reliance Corporation as a family business. The book describes Dhirubhai Ambani's contribution as that of a pioneering entrepreneur. It describes the progress of the Reliance Empire, its handling of critics, its expansions, its social services, its succession planning through Mukesh and Anil Ambani, their daily routines, their contributions to the Indian economy, etc. *The research gap is that the book does not examine the causes of a family split. This is the research gap*

3. Stephen P. Miller (2014) (StephenP.Miller, 2014) In the research article titled "Next-generation leadership development in family businesses: the critical roles of shared vision and family climate," the researcher has commented that the lack of survival of family businesses is due to shared vision and the unquestioned, self-declared authority of the earlier generation. In the research article, the researcher has also accounted for leadership transformation, open communication, cognitive cohesion, intergenerational authority, work engagement, and leadership effectiveness. The researcher states that it implies that family business owners must develop a favourable family climate for a successful family business. However, the implementation of values in family business is the research gap.

4. Elissa Ann Rogers (Rogers, 2023) In the research article titled as 'Family Business Leadership Succession' the researcher has accounted for reasons for succession, characteristics necessary for leadership, succession process and resistance, and external help required for successful succession. The research is completed through a qualitative multi-case study analysis. It puts forward that there should be early succession planning; succession planning is indispensable. There is a need for such research in the Indian context. *This is the research gap.*

5. Gary M. Williamson (Williamson, 2021) In the research project report titled 'Family- Owned Business Leader Succession Planning Strategies,' the researcher has presented the facts on family business leader succession planning strategies. In this research, the researcher has accounted for the frailty of succession planning. The researcher uses an analysis of multiple case studies to evaluate the problems of family-owned businesses. The study is both qualitative and quantitative. The researcher also mentions intergenerational as well as interfamily succession strategies. The researcher also accounts for sibling rivalry in the FOB. The researcher has conducted a semi-structured interview to collect data. *However, the research has limited data collection, making generalisation of the conclusion difficult. This is a research gap.*

6. **Kavil Ramachandran (2015)** (Ramchandran, 2015) In the book entitled "The Ten Commandments of Family Business the writer Kavil Ramachandran shared his broad experience regarding the management of family business. The author presents ten guiding principles that serve as applied and perceptive tools for successfully managing family businesses. These commandments are supported by various stories, case studies, and conceptual models, offering a comprehensive and panoramic understanding of family ownership and its unique challenges.

The author introduces the notion of family business and emphasises the first commandment—communication and trust-building. He explains different communication techniques appropriate to varied situations, highlighting their

role in minimising communication gaps among family members. The second commandment focuses on the importance of professionalising the family business, while the third stresses the preservation and practice of core family values. The fourth commandment addresses the complexities associated with ownership and related challenges. The fifth and sixth commandments deal with retirement and succession planning, underscoring their critical role in business continuity. The seventh commandment highlights the need to foster entrepreneurial capabilities to sustain long-term growth. The eighth discusses the formulation of long-term business strategies, followed by the ninth, which explains the significance of family philanthropy in business. The final commandment centres on compassionate leadership as a key element of effective family business management. Written in the Indian context, the book offers a valuable and detailed discussion of the complexities of family-owned and family-managed enterprises. *However, the book does not adequately address the legal framework governing succession planning in India. Additionally, it lacks the explanation of the leadership transformation process and does not sufficiently explore ways to manage emotional conflicts that often arise in succession planning. These areas present opportunities for further research and analysis. This is the research gap.*

### Research Methodology

#### 5.1 Sources of Data Collection

##### 5.1.1 Primary Data: -

The research paper is based on primary data collected via a questionnaire. The data were collected from 310 family business owners working in the manufacturing sector of Gokul Shirgaon and Shiroli MIDCs. The sample was selected using the snowball sampling method. This is because there is no registration process for family businesses to be identified as such. Therefore, the researcher has chosen samples from references.

5.1.2 Secondary data was collected from books, periodicals, journals, and the internet—websites, etc.

#### 5.2 Method of data collection

The primary data were collected using a questionnaire from 310 owners of industrial units. The snowball sampling method was used for sample selection.

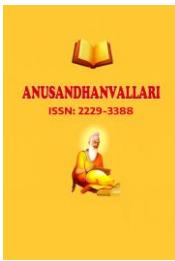
### Analysis of Data

**Table No. 1: Clarity of Transfer of Business to Next Generation**

Sr. No.	Particulars	Frequency	Percentage
1	Strongly Disagree	1	0.3
2	Disagree	1	0.3
3	Neutral	47	15.2
4	Agree	56	18.1
5	Strongly Agree	205	66.1
6	Total	310	100

(Source: Field Work)

Table No. 1 presents the analysis of the clarity of the inheritance of Ownership of the business into the next generation of Family Members. *Transferring ownership is a complicated issue in any family business. If the business is micro, small, or medium-sized and the family is large, the risk of succession is also higher. These complications may lead to family disputes. If the conflicts are not resolved, then the family business may be*



*required to shut down. Therefore, to study succession planning, the researcher has opted to examine the variable Clarity of Transfer of Business to Next Generation.*

Out of 310 sample respondent owners, 205, i.e., 66.1% of respondents, strongly agree; 18.1% agree. 15.2% respondents have become neutral, and only 0.3% respondents disagree and strongly disagree, respectively.

#### **Interpretation:**

It can be inferred that more than two-thirds of family business owners in micro, small, and medium-sized businesses report having clarity about transferring ownership of their businesses to the next generation. They claim that they have involved their next-generation family members in the business. However, there is a difference between managerial inheritance and ownership inheritance. In the personal interaction, it was revealed that many owners don't create the documentary clarity of the inheritance. Some business owners expressed that they have started training the next generation to lead the business.

#### **Conclusion:**

It can be concluded that family business owners are aware of succession planning. They are interested in taking the existing business to the next generation. They are also interested in generating business leadership among the next generation of family businesses. But these owners don't formalise the inheritance process. They also don't distinguish between the managerial inheritance and the ownership inheritance.

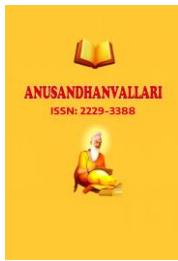
#### **Suggestion:**

To execute the succession plan effectively, there is a need for clarity on transferring the business to the next generation. The owner(s) should consider the number of family members capable of leading the business. They should assess the available skills, values, attitude, and mindset of subsequent family members. They should clearly understand the capacity of next-generation family members to hold the specific business responsibility. Accordingly, the owners' family should plan for which functional aspect of the business would be handled by which family member(s). There must be clarity in handling all business responsibilities. If no professional skill sets are available among the family members, the business family can hire an outside expert in the relevant domain. Thus, succession planning can be executed.

- 8.1 Confirm clarity on the transfer of business ownership and leadership to the next generation.
- 8.2 Recognise the number of family members who are willing and capable of leading the business.
- 8.3 Assess the skills, values, attitudes, and mindset of next-generation family members.
- 8.4 Evaluate the capacity of each family member to take on specific business responsibilities.
- 8.5 Assign functional roles and responsibilities clearly among eligible family members.
- 8.6 Ensure all key business functions are covered with well-defined accountability.
- 8.7 Involve external professionals or experts where required skills are not available within the family.

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