A Study on Succession Planning, Prospective Successor Selection, Transfer of Idiosyncratic Firm Knowledge in Family Owned Businesses of Hyderabad

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Abstract
This study seeks to gain a better understanding of how the succession planning is undertaken in family owned businesses, most preferred qualities in the prospective successor and the transfer of tacit idiosyncratic firm knowledge from one generation to the next generation. The fact that family businesses contribution to the Indian economy is highly significant as well as the fact that most of the family businesses do not survive beyond three generations makes the study important. This study was conducted by distributing a quantitative survey containing numerous close ended questions to the family business owners, potential successors and successors. The survey asked respondents to explain how succession planning takes place in their firm, the most preferred qualities in the prospective successor and the mode of transfer of tacit idiosyncratic firm knowledge from one generation to another. The survey results provided insight into many important factors of succession planning such as the prospective successor being chosen with consensus of the all the family members, the process of succession being well communicated in the business and possessing leadership values is the most preferred quality sought in a successor. Learning by observing is the most preferred mode of transfer of tacit knowledge from one generation to another.

Keywords: Succession planning, Successor assessment, Tacit idiosyncratic firm knowledge, Family owned business

Introduction
Family owned businesses are the backbone of the economies of the world. They generate up to 90 percent of the Gross Domestic Product worldwide, creating 50 percent to 80 percent of the world’s jobs. Family owned businesses account for 70% to 95% of all the entities around the world (Family Firm Institute, 2016). 66 percent of businesses in USA are family owned which amount to 64 percent of the USA’s GDP (Astrachan and Shanker, 2003). Family businesses account for 70 percent of employment in the European Union (Balshaw, 2004). An Australian research showed 90 percent of all the businesses are family businesses, contributing 55 percent of GDP (Van Beveren & Wise, 2003). 90 percent of businesses in India are family businesses and account for the vast majority of national output and employment as against the global average of 80 percent. Two out of every three listed companies in India are family owned. Family businesses are characterized by the percentage of ownership, involvement of more than one generation and perpetual control of the business in the family (Astrachen and Shanker, 2003).
According to the Credit Suisse Research Institute’s (CSRI) latest CS Family 1000 report, China, the US and India are the top three countries in the world with family owned businesses. According to Birley (1991), not many family businesses survive beyond first generation. According to a Credit Suisse report, Indian family businesses are more mature with 60 percent of them in their third generation compared to just 30 percent of Chinese family businesses into third generation. The startling reality is that family businesses face many sustainability challenges. Every year owners of businesses approach retirement age and transition of ownership and management becomes a major concern to the sustainability of the business.

Studies have shown that a typical family business exists for a three generation life cycle and that only 10 percent of family business reaches the third generation. Rags to rags in three generations (Ward, 2004) or “shirt sleeves to shirt sleeves” (Balshaw, 2004) are the comments used to describe this phenomenon. In the terms of key concerns and challenges, Chinese family owned companies rank succession planning as their least important issue and do not envisage a reduction in ownership. On the other hand, challenges seen as most prominent in India include succession planning, followed by greater competition and talent retention.

Succession Planning

According to Sharma, et al., (2003), “Succession planning is the deliberate and formal process that facilitates the transfer of management control from one family member to another”. Business Succession Planning (BSP) is basically transfer of business that results from the owner’s wishing to retire or to leave the business for some other reason.

Tacit Idiosyncratic Knowledge

Knowledge is of two types- explicit and implicit. Explicit knowledge is very easy to share as it is placed on record or converted into policies. Knowledge that is not explicit or the knowledge one has which the person themselves aren’t aware is implicit or tacit knowledge (Polanyi, 1966) and sharing of tacit knowledge is more of a challenge. Family business success is often credited to the founder of the firm, apart from following regular managerial processes needed for success of the firm, business decisions are taken based on intuition, gut feeling (Barbosa, et al., 2008) embodied in the founders tacit knowledge. Transfer of this knowledge is critical to the ongoing success of the firm and the nature of the knowledge is primarily tacit. Explicit knowledge is easier to articulate and transfer but tacit knowledge is rooted in the customers, processes and values which seem difficulty to codify. This idiosyncratic knowledge is firm specific and is held tacitly. Both tacit and explicit knowledge held by the family firm and its generational transfer is vital for the success of the succession. It would be interesting to learn how the knowledge is transferred from the founder to the successor.

Attributes of the Prospective Successor

Chrisman et al. (1988) identified thirty desirables attributes divided into six categories: successor’s relationship with the incumbent, relationships with family members, family standing, competence, personality traits and current involvement in the family business. Among the thirty attributes, a study revealed integrity and commitment to the business as most important (Chrisman et al., 1998) and out of the highest 15 attributes ranked only five are business skills and the rest are social, interpersonal skills, self confidence and trust from family members. According to Rostowski (2006) the competencies required by successors are knowledge, skills, talents, styles of action, personality, professed principles and interests.

The aim of this paper is to examine the succession planning measures, assessment of prospective successor undertaken and sharing of tacit idiosyncratic firm knowledge of select family owned businesses of Hyderabad city. According to Martin, et al., (2002), Successful Succession leads to business longevity and continuity. However, in family owned businesses the choice of the successor starts from their progeny and is governed by emotions rather than rationality. If the succession proves to be successful, the legacy and the unconventional business tactics are carried on in future generations (Bjuggren & Sund, 2001). The tricks of conducting the business, the accuracy and conviction are passed...
on to the successors enabling them to help create resources and competencies to upcoming future generations. (Ram & Jones, 2002).

The secret of the longevity of succession in the family owned business is the sharing of tacit idiosyncratic knowledge which is vital for enhancing and continuing the founder’s entrepreneurial vision and value system (Ibrahim, et al., 2003).

The paper has tried to explore the family owned businesses in Hyderabad in relation to the succession planning, successor selection and most preferred mode of sharing of tacit idiosyncratic knowledge to their successors.

Review of Literature
Succession Planning

Family Businesses are lifeline of world’s economies. Family owned businesses account to $5.9 Trillion of USA’s GDP (Astrachan & Shanker, 2003), 70 percent of employment in the European Union (Balshaw, 2004), 55 percent of GDP in Australia (Van Beveren and Wise, 2003). Therefore, it is very important for a succession to be successful for the long term prosperity of the countries and the global economy. Successions affect the incumbent, the successor, the family itself, the employees, the managers, the owners and other stakeholders. A failed succession will have a far reaching impact not only for the family involved but also for other stakeholders. Successful successions provide a competitive advantage over non-family businesses (Cabrera-Suarez, 2001) and are performed with greater passion and intensity than non-family businesses. Non-family businesses measure their success based on growth and subsequent profits, family owned businesses measure success based on growth and the extent to which the family business meets the needs of the family (Van Beveren, 2005). The main factors of successful succession according to Venter et al (2003) are willingness of the successor, owner-mangers financial security post succession, financial security post succession, external preparation of the successor, relationship between the owner-manager and the successor, harmony of relationship within the family, trust in the abilities and intentions of the successor.

Successor Attributes
Ibrahim et al. (2004) found leadership traits and skills, capacity to lead and influence others and ability to make independent decisions, ability to motivate, communicate and resolve conflict effectively, management skills and competencies, commitment, motivation and respect to family and non-family members are important successor attributes.

Tacit Knowledge Transfer Methods in Family Owned Businesses

According to Nonaka and Takeuchi (1995), Bracci and Vagnoni (2011), observation and continuous use and reuse is the pattern proposed for the transfer of tacit knowledge between individuals in family businesses. Observing, tracking the predecessor’s work practices, learning-by-doing (Bracci & Vagnoni, 2011; Cabrera-Suarez et al, 2001) observing the predecessor at work, getting involved in daily operations (Letonja and Duh, 2015) are some ways of transfer of tacit knowledge from the predecessor to the successor. Sabri, et al., (2014) propose storytelling, mentor-mentee method and detailed written instruction as effective modes of knowledge transfer in family firms.

Need for the Study and Research Gap

According to a survey conducted under the umbrella of STEP (Successful Trans-generational Entrepreneurship Practices) Project by 48 universities surveying across 33 countries, covering 1800 family businesses, found that more than half of the global family CEOs do not have a formal retirement plan and 70 percent of global family businesses do not have a formal succession plan. According to a survey conducted in India by Thomas Schmidheiny Centre for Family Enterprise, it was found that most of the Indian family businesses were incorporated in the late 1980s and 1990s when economic reforms were introduced and the business founders are at the brink of the retirement without any formal succession plan.1 In another survey of 106 family businesses in the year 2018 conducted by PwC India Family

1 https://economictimes.indiatimes.com/news/company/corporate-trends/most-family-businesses-in-india-have-no-planned-succession-survey/articleshow/71940464.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
Business, a study of business structure was found that 56 percent have one dominant owner and 27 percent have siblings as owners. As per another survey conducted by PwC India Family Business Survey (2019), family business leaders in India were asked to rank their key challenges over the next two years, where 70 percent of the respondents opined digital technology and innovation as key challenges. However, only 15 percent of those surveyed thought succession in the family as a key challenge. This comes as a surprise given that only 16 percent of family businesses make it to the fourth generation and the fact that only 21 percent of Indian family businesses have a full-bodied and documented succession plan and most of the families have extended number of members in a family business with different interests, differing ambitions and dissimilar thought processes. Therefore, a proactive plan to tackle the challenges of succession keeping the generational outlook in mind will go a long way in perpetuating family businesses. Hence, it would be very important to know to whether family businesses in Hyderabad region undertake succession planning, what are the preferred successor attributes and how is the tacit idiosyncratic knowledge passed on from one generation to another. As there is no literature available pointing to such study conducted in the Hyderabad region, can be considered as a research gap.

**Objective**

To study how the succession planning measures are undertaken by the family owned businesses, factors contributing the assessment of prospective successor, the most preferred mode of sharing the tacit idiosyncratic firm knowledge of the select family businesses in Hyderabad region.

**Research Design**

The data was randomly collected from 48 select family businesses operating in the city of Hyderabad.

These businesses included trading, pharmaceutical, textile manufacturing and textile trading, plastic manufacturing, automobile show rooms, real estate, jeweler stores and service sectors. In total 200 questionnaires were administered through Google forms and received 57 forms. 9 incomplete forms were discarded and 48 questionnaires filled by owner-manager, successor or potential successor.

The reliability of the constructs was assessed through the examination of Cronbach alpha, which is the most common way of testing the reliability of multi-item measures (Cronbach, 1951). Reliability values that is greater than 0.70 are recommended (Nunnally, 1978).

| Questionnaire | Items | No. of Items | Cronbach’s Alpha |
|---------------|-------|--------------|------------------|
| Succession Planning | 10 | 0.881 |
| Assessment of Prospective Successor | 13 | 0.944 |

**Table 1: Reliability Statistics for Consumers**

**Data Analysis and Findings**

**Table 2: Socio-Demographic Characteristics of the Respondents**

| Characteristic      | Count | %  |
|---------------------|-------|----|
| Gender              |       |    |
| Female              | 4     | 9% |
| Male                | 44    | 91%|
| Age                 |       |    |
| Less than 45        | 40    | 83%|
| 46 to 60            | 4     | 9% |
| Greater than 60     | 4     | 9% |
| Nature of Business  |       |    |
| Sole Proprietor     | 36    | 75%|
| Partnership         | 12    | 25%|
| Type of Business    |       |    |
| Trading             | 10    | 20.8%|
| Medical             | 2     | 4.2%|
| Textile             | 8     | 16.6%|
| Plastic             | 2     | 4% |
| Automobile          | 2     | 4% |
| Manufacturing       | 15    | 31%|
| Real Estate         | 3     | 6% |
The Socio-Demographic Characteristics of the Respondents are placed in the Table 2. 9 percent were female respondents and 91 percent were male respondents. 44.83 percent of the respondents were less than 45 years, 9 percent were between 46 and 60 and 9 percent were above 60 years. 83 percent family firms had forty and less employees working in their firms, 4 percent firms had between 101 and 150 employees working, 6 percent had between 151 and 200 employees working and 6 percent had more than 200 employees working in their firms. 75 percent of the firms were sole proprietor firms, whereas, 25 percent firms were partnership firms. 10.4 percent of the firms were over 40 years old, 16.7 percent of the firms were around 30 years.

Table 3: Presence of a Succession Plan

| Succession Plan Present | Yes | No |
|-------------------------|-----|----|
| Yes                     | 15  | 33 |
| No                      | 33  | 69 |

Table 3 indicates that 31 percent of the respondents stated that a succession plan was present, while 69 percent of the respondents responded in negative.
Table 4: Respondents Feedback on Succession Planning

| Code | Statement                                                                 | Strongly Agree | Agree | Disagree | Strongly Disagree |
|------|---------------------------------------------------------------------------|----------------|-------|----------|-------------------|
| 1a   | Explicit Succession Criteria have been developed for identifying the best successor | 17%            | 29%   | 48%      | 6%                |
| 1b   | Explicit efforts have been made to train me for my future role in the family business | 23%            | 44%   | 27%      | 6%                |
| 1c   | Explicit attention has been given to familiarize me with the employees of the family business prior to Succession | 21%            | 38%   | 35%      | 6%                |
| 1d   | The decision about who the Successor (s) will be, has been clearly communicated to key stakeholders | 19%            | 23%   | 44%      | 14%               |
| 1e   | A proper process has been followed to identify a suitable successor(s) for the family business | 25%            | 38%   | 33%      | 4%                |
| 1f   | The process of Succession is well communicated in business                | 31%            | 46%   | 21%      | 2%                |
| 1g   | The decision of who the Successor would be is /was taken on Consensus of all family members | 35%            | 44%   | 15%      | 6%                |
| 1h   | Explicit decisions are made about how ownership of our business would be distributed after the Successor takes over | 21%            | 38%   | 40%      | 2%                |
| 1i   | There is written understanding of the roles and responsibilities of the outgoing President in the business once leadership is transformed to the Successor | 8%             | 31%   | 52%      | 8%                |
| 1j   | There is an understanding of what the business strategy will be after leadership is transferred to the Successor | 25%            | 35%   | 35%      | 4%                |

As per the findings of Table 4, 17 percent of the respondents stated about an explicit succession criteria developed for identifying the best successor, whereas 48 percent disagreed. 23 percent of the respondents agreed to have been trained for the future role in the family business, while 27 percent disagreed. 21 percent stated that explicit attention was given towards training for future role, while 35 percent disagreed. Only 19 percent answered in affirmative that a successor was communicated with the stakeholders while 44 percent stated that who the successor will be has not been communicated with the stakeholders. 25 percent of the respondents stated that a successor has been identified by a formal process while 33 percent disagreed. 31 percent of the respondents agreed that the process of succession is communicated in the business, while 21 percent disagreed on the same. 35 percent of the respondents agreed that the choice of the successor is based on the consensus of all the family members, while 15 percent disagreed on the same. Only 8 percent of the respondents stated that the roles and responsibilities of the outgoing President are written, while 52 percent responded in negative.

Figure 3: Respondent’s feedback on Assessment of Prospective Successor

Table 5: Respondent’s feedback on Assessment of Prospective Successor

| Code | Statement                  | Strongly Agree | Agree | Disagree | Strongly Disagree |
|------|----------------------------|----------------|-------|----------|-------------------|
| 2a   | Related Education          | 29.2%          | 47.9% | 14.6%    | 8.4%              |
| 2b   | Relevant experience        | 43.8%          | 29.2% | 22.9%    | 4.2%              |
| 2c   | Commitment to family Business | 43.8%      | 35.4% | 16.7%    | 18.8%             |
| 2d   | Communication ability      | 47.9%          | 35.4% | 14.6%    | 2.1%              |
As per table 5 respondents were asked what are the most preferred qualities or competencies required in a prospective successor. 59 percent of the respondents strongly agreed that leadership values are the most qualities a prospective successor should possess, followed by acceptance of customers or suppliers with 54 percent; communication ability was voted by 47 percent of the respondents, having good relations with employees by 45 percent, experience in doing business, commitment to family business and management style were preferred by 43 percent.

Figure 4: Respondent’s feedback on Transfer of Tacit Idiosyncratic Knowledge

Table 6 throws light on how tacit idiosyncratic knowledge is transferred from the owner manager to the prospective successor. 77 percent of the respondents stated that learning by observing is the most preferred medium of transfer of knowledge. The children are made to take part in the business at a very young age to assist the owner manager in the day to day functioning of the business. The objective is to observe the nuances of the business and get conditioned from the young age. 64 percent of the respondents opined that practicing the business is most effective mode to learn the conduct of the business, while 58 percent felt that understanding the external environment i.e., being vigilant to the changes taking place in the macro environment will help in being early adapters leading to being innovative which is essential for the survival of the business. Listening (56 percent) and the knowhow of the knowledge related to internal operations and processes at 54 percent was considered vital. Watching (54 percent) followed by doing (50 percent) was considered modes of transfer of business knowledge from the owner manager to the prospective successor.
Findings

- The study found that only 31 percent of the family businesses had a succession plan in place, while 69 percent did not have one.
- The consensus of family members is important for the successor to be selected.
- It is found that once successor is chosen, the information is shared with all the stakeholders of the business.
- Explicit efforts are undertaken to train the successor for their future role in the business.
- Observing followed by practicing, understanding the dynamics of the environment, knowledge about the business functioning, listening are the most successful mode for the transfer of tacit idiosyncratic knowledge from one generation down to another.
- Forty two percent of respondents agreed that values are highly crucial tacit knowledge to be possessed by successive successors.

Conclusion

Succession planning is an essential and crucial part of business survival. This study and the review of literature has shown that undertaking and documenting the succession plan, appropriate selection of prospective successor and sharing the tacit knowledge from the owner manager to the successor goes a long way in the longevity of any family owned business.

Limitations of the Study

The sample for the current study does not in any way be representative of the larger population of India, and a larger sample size would have further strengthened the results.

Scope for Further Research

The responses of the respondents i.e., owner-managers, potential successors and successors might undergo a change in future. Research of family businesses in other regions or states can also be conducted to know their practices and opinions.

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