

Indian Family-Owned Businesses and Its Ownership Transitional

Dr. C. R. Senthilnathan, Dr. V. Hemanth kumar

*Professor, Dept. of Management Studies, Sri Sairam Institute of Technology, Chennai, India.

**Professor, Dept. of Management Studies, Sri Sairam Engineering College, Chennai, India.

Abstract:

One of the main issues in the Indian family owned business is the selection of its successor in case of the necessity arises due to the existing owner retires or his or her demise. Many studies suggest that the main factor for a successful transfer of the business ownership is that the family should have a clear plan in transfer of business. So the current study explores the factors of a good succession plan and identifies that family members' involvement and successor's competency are the factors which contributes to a smooth transition of a family owned business through a clear and good succession plan.

Keywords: Family owned business, successor's competency, family members' involvement, succession plan

Introduction

Oldest form of Indian businesses were owned and controlled only by the family members. In India, a typical Indian family owned business is defined as a business in which more than one family member is responsible for the operation of the business. The family, as a whole controls the full business and has the complete ownership of the business. Globally India stand in the third position in number of family owned business with a net value of \$ 839 bn (Economics Times, Sept 14,2018).

Normally, a family owned business will involve more than one family member. Each of them might be involved in various activities (roles and responsibilities) in the business. Often conflicts among the family members arise due to intersecting roles and responsibilities. The small conflicts among the family members might have an adverse impact on the business. In such a situation an outside advisor is required to plan the succession for the family business. The transfer of the business ownership will be smooth and perfect only when there is a well structured plan on transition. The transfer should happen over a time period during which the successor is given more and more responsibility and the final take over should happen at the appropriate time.

A structured transfer planning is very essential for a family business than to other types of business. As family business is the only asset for the family, it is very crucial to have a clear transfer plan. There might arise more conflicts between family members' ideology and the business goals. To patch up these conflicts a good plan is to be formulated.

A typical and ideal plan will align these conflicts and create an environment for a smooth transfer of the business. Succession Planning is an ongoing process, which requires a good planning and a complete in depth preparation so that the transition of business ownership happens smoothly to the future successive generations. A complete feasible succession plan though pave way for a smooth ownership transition, but it is inevitable to face challenges and conflicts among the family members. Further, without

a good succession plan the business would face high risk and a ruptured relationship among family members.

Literature Review

Family owned business succession is a very crucial juncture of the family business and succession lead to rejuvenate their family business (Habbershon, 2003). In a family owned business normally the business transfer happens from the older generation to the younger generation by giving proper training for the benefit of the survival of the family business (Sirmon, 2003). In the transfer of ownership in the family owned business there are two factors they are family members' satisfaction and assessment of the successor (Handler, 1989; Pramodita, 2001). In a family owned business, maintaining a smooth family relationship is very important and most of the times family members gives the higher importance to family legacy and the business (File et al., 1994; Tagiuri and Davis, 1992).

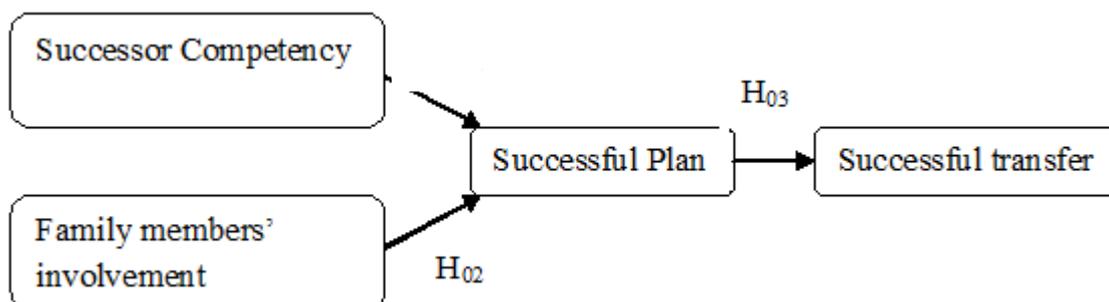
Methodology

A structured questionnaire was used for the collection of data from the family owned businesses. 13 items are listed in the questionnaire in a 5 scale likert scale. The questionnaire is mailed to 180 owners of the family owned business. Out of these 180, only 132 owners have participated in this current study. The respondents include all types and different sizes of family owned businesses. After checking the questionnaires, the reliability of the tool was determined by using Cronbach's alpha method and coefficient alpha (α) was found to be 0.91 showing high reliability.

Table 1 - Family owned business statistics

Details		Frequency
Number of family members in the business	< 3	82
	3 to 6	38
	Above 6	13
Age of family business	>25 years	58
	10 - 25	56
	Less than 10 years	18

The main factors for the development of a good succession plan are the family members' involvement in framing the plan and the nominated family successor's competency.



A fair and unbiased evaluation of potential strengths and weaknesses, which are the major components of a successor's competency, is done and also all the stakeholders involved in the transfer process are involved in the evaluation process and receive both the good points and negative points of the prospect successors. In fact, a poorly educated family member becoming a successor for a family business lead to a risk in performance of the business. Hence, merit and talent are pre-requisite skills for a good and smooth transfer of family business and so it is the important to evaluate the prospect successor competency. Only those family members who are active in the business are eligible for ownership (Anderson, 2003).

H₀₁: Successor's competency has as association with successful plan for transfer of ownership in a family owned business.

Many studies (Maury,2005; Sciascia,2008), explored the family members' involvement in the controlling and transfer of family business ownership. The family members' involvement is mainly focused on the family's legacy welfare than in the family business. (Al Masah, 2011), who explored the family owned business in West Asia found that most family businesses have the involvement of family members in their transition process. Moreover, family members try to keep the ownership transfer making decision with themselves in order to prevent any conflict between the prospect successors which might impact the going business activities (Ward, 1987;Chrisman, 2003). Involvement of senior members of the family in preparing the plan and maintaining a good relationship among family members lead to a good and smooth transfer of business ownership.

H₀₂: Family members' involvement has as association with successful plan for transfer of ownership in a family owned business.

Successful management requires the development of plans, effective control systems for performance evaluation. This raises the need for planning which is sometimes missing in family owned businesses (Sirmon, 2008). There are few criticisms about family owned businesses (Harris, 2004). Family owned businesses give more importance to the employee policies rather than a succession plans for family owned business succession. In general, there is a lack of succession planning and professionalization in family businesses that has contributed to their high business failure. A good practice in a family owned business is related to the smooth succession-planning process which ensures the family owned business from an informal family business to a more formal family business (Bharti, 2016)

H₀₃: Successful plan has as association with successful transfer of ownership in a family owned business.

Data Analysis and Interpretation

This study was initiated to understand the impact of the family relationship and successor's competence in developing a good succession plan and a smooth family business ownership transfer.

To assess the association of family business successor's competence with the successful plan for transfer of ownership in a family owned business a Chi-square test was performed.

Table 2 showing the Pearson's Chi-square value for the association of family business successor's competence with the successful plan

Chi-square Value	Degrees of freedom	Sig. P value
21.250	3	0.000*

Note: * denotes significance at 1% level

It is observed from the table that with $\chi^2 = 21.250$, $p < .01$. Hence, Null hypothesis (H_{01}) is rejected at 1% level of significance and there exist an association of family business successor's competence with the successful plan for transfer of ownership in a family owned business

To assess the association of family business Family members' involvement with the successful plan for transfer of ownership in a family owned business a Chi-square test was performed.

Table 3 showing the Pearson's Chi-square value for the association of family business Family members' involvement with the successful plan

Chi-square Value	Degrees of freedom	Sig. P value
17.410	3	0.000*

Note: * denotes significance at 1% level

It is observed from the table that with $\chi^2 = 17.410$, $p < .01$. Hence, Null hypothesis (H_{02}) is rejected at 1% level of significance and there exist an association of family business Family members' involvement with the successful plan for transfer of ownership in a family owned business

To assess the association of family business successful plan with the Successful transfer for transfer of ownership in a family owned business a Chi-square test was performed.

Table 4 showing the Pearson's Chi-square value for the association of successful plan with the successful transfer

Chi-square Value	Degrees of freedom	Sig. P value
9.015	3	0.000*

Note: * denotes significance at 1% level

It is observed from the table that with $\chi^2 = 9.015$, $p < .01$. Hence, Null hypothesis (H_{03}) is rejected at 1% level of significance and there exist an association of family business successful plan with the successful transfer for transfer of ownership in a family owned business

Table 5. showing multiple regression analysis of the dimensions of success plan in family owned business ownership transfer.

Predictor variables with FOB's success plan as the DV	R ² (Adjusted R ²)	Standardized coefficient Beta	F - Value	t - value	Sig
Constant	0.571	11.248	21.129	2.356	.000*
Successor		.172	p=0.000*	3.350	.000*

competence	(0.556)			
Family members' involvement		.207	4.785	.000*

The regression model's ANOVA F value is 21.129 and it is significant at 1% level. The regression model's coefficient of determination (R^2) shows the goodness of fit of the model.

FOB's success plan = 11.248 + .172 (Successor competence) + .207 (Family members' involvement).

The value of R^2 is .571 and adjusted R^2 is .556 means that about 57.1% of the variation is estimated at 1% level of significance, which is a moderate coefficient.

Conclusion

The current study analyse the family members involvement and successor competency for a good succession plan and a good successful plan to a smooth succession transfer of family owned business. The test concludes that there is an association between the family members' involvement and successor competency for a smooth transfer of family business ownership through a successful succession plan. Further, the regression analysis implies that the contribution of family members' involvement in preparing the transfer of ownership plan is relatively more than the successor competency. In general, family members' involvement in preparing the succession plan and transfer of ownership leads to a successful business ownership transfer.

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