Decoding the Mantra of Succession Planning for the Unorganized Retail Stores in Central India

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Abstract

Purpose: The paper intended to study the unorganised retail sector in Central India related to their preparedness towards succession planning. Also, the paper tried to explore the family dynamics shared between the family members of a business.

Design/Methodology/Approach: Literature was studied to analyze the various aspects related to succession planning. Bhopal being one of the growing markets having great potential has been the centre of the study. Empirical data were gathered from 138 family businesses of Bhopal using the questionnaire method.

Findings: Evidences were found justifying the gap existing in the succession planning in the family owned businesses in Central India.

Research Limitations/Implications : The study being conducted by taking 138 family-owned businesses limits the possibility of generalizability of the data.

Practical Implications: The insights can be used by the family-owned unorganized retail stores in Bhopal to work out a systematic way of succession planning and avoid all the pitfalls to a successful venture.

Originality/Value: The paper is one of its kinds as the empirical data being collected represents family-owned businesses of Bhopal and elucidates the present scenario of succession planning among them.

Keywords: succession planning, family-owned business, knowledge transfer, owner-managers, unorganized retail sector, Central India

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Try imagining this scene from a typical middle class Indian family of one Mr. Ramesh, residing in the capital city of Madhya Pradesh, Bhopal. He owns a fairly medium- sized grocery *(kirana)* store opened by his father, who is now semi-retired and Mr. Ramesh himself was inducted into the business at a very early age. He has three children; the older two are daughters and after a lot obeisance in front of various deities and god men, a

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son was born. Finally, someone to carry the family name ahead. So, naturally, this little one, as he was considered all his life, was pampered to the point of spoiling him by everyone in the family. He was sent to one of the best schools and colleges their money could buy. However, when the time came for Mr. Ramesh to pass on his mantle and his father's legacy, he became very confused and perplexed. Many questions started wandering in his mind, like; was his son ready to take over the business? ; does his son actually want to follow his footsteps? ; does he actually want his son to follow his footsteps?

The above example is not a figment of imagination. It is just a portal to what happens in the unorganized business sector, especially in a country like India. It is an inevitable fact that every business owner gets replaced by his/her successor. As change is the only constant thing in the universe, as said by the famous Greek philosopher Heraclitus of Ephesus in his doctrine of change, based upon this concept, business succession planning lies within the study of how a business organization changes its ownership to someone within the family essentially related by blood or sometimes, even belonging to the same clan (Fox, 1967 ; Fox, 1993 ; Fortes, 1970 ; Parkin, 1997).

The paper tends to explore the concept of succession planning and the decision-making process that goes into choosing the right successor for passing the baton. Of the various definitions of business succession planning (BSP), one goes like this: It's basically the transfer of business that results from the owner's wish to retire or to leave the business for some other reason. The succession can involve a transfer to members of the owner's family, employees, or external buyers. Successful succession results in a continuation of the business; at least in the short term (Martin, Martin, & Mabbett, 2002). Thus, what we can comprehend is that it is a process whereby an organization plans for future transfer of ownership of top management to the next generation.

The process starts with identifying the position for which the successor is needed and ends with evaluating the performance of the successor who has been identified and put to task. However, the process of succession planning becomes a difficult proposition in family-owned businesses (FOBs), where the choice of a successor is limited and is governed more by emotion rather by rationality. Succession planning in family-owned business is defined as 'the process by which the management control is transferred from one family member to another' (Sharma, Chua, & Chrisman, 2000). A successful succession can provide a family-owned business the much required competitive edge over a non-family-owned business by passing on the heritage accumulated eccentricities that had been once and even now continue to be the building block of the family business and has been passed on from one generation to another (Bjuggren & Sund, 2001). All the tricks of the trade that the family patriarch possesses are passed on, coupled with the integrity and certitude, which gives the successors specific competencies to run the business effectively and helps to create the resources and capabilities also required to sow the future seed of successors (Ram & Jones, 2002).

A professionally run organization will take the process of succession planning on the basis of perceived competency from the pool of candidates mapped for being the possible successors for different positions within the organization, but in case of a family-owned business, where the fight is almost always for a single position, the potential successor has to be chosen from within the family, which limits the choice and always carries a greater risk of failure. However, one key aspect that seems to worry in order to ensure the longevity of succession in FOBs is coaching and mentoring of the successors, which are essential for developing and continuing the founder's entrepreneurial philosophy and value (Ibrahim, Soufani, & Lam, 2003).

The point was emphasised by Morris, Williams, and Nel (1996), who noted that successful heirs are generally well-prepared in terms of education and experience, and have spent years working at all levels within the organization. Furthermore, successful family transitions enjoy positive relationships with limited strife, struggle, and any bad blood, with good levels of trust (Morris et al., 1996).

The paper has tried to explore the Bhopal unorganized market related to the preparedness they have towards succession planning and what kind of dynamics they shared. The paper has also put an effort to discuss these findings based on the prevalent setup of a typical Indian family and the approaches they have towards businesses.

Literature Review

The Indian market is progressing towards getting organised, but a majority of the market is being dominated by the unorganized players. These unorganized players are family-owned businesses, which are managed and in many cases, are also run by family members. In this kind of model, the ownership and policy making stays with the family members (Sharma et al., 2000). Family and business are the two entities that a family business combines and its coexistence is not that difficult to manage at the beginning of the business or till the time the person originating the business is in place (Ramachandran, 2015). The founder of the family business often display entrepreneurial characteristics, which include : need of achievement, internal locus of control, creativity, innovativeness, risk-taking, and social networking (Korunka, Frank, Lueger, & Mugler, 2003). The risk factor of losing key members is catastrophic for the business as the order is lost (Rothwell, 2001). As the business grows and the complexities rise, there is confusion, ambiguity, and conflict between the family members as the decision to bring a family member into a senior position emerges (Morris et al., 1996).

Literature suggests that family businesses have low success rate (Groysberg & Bell, 2014) and the firms which survive till the second generation is limited to 30% and only 15% survive into the third generation (Ward, 1987). In most of the cases, the current leader holds on to his/her position and is not ready to lose the position (Lansberg, 1988). Due to this reason, he/ she would not pass on the key learning to the next generation, and they would have very less idea about their roles and responsibilities. Cases like this can be avoided when the next generation is given proper education and training with exposure to the various businesses being run (Ramachandran, 2015). The situation can be steady and systematic when the succession is well planned (Rothwell, 2001 ; Wolfe, 1996) and there is maturity, financial stability, and closeness between the family members (Beckhard & Dyer, 1983).

Many examples can be found in Indian family businesses, which have their fifth generation into the system like, Godrej, Dabur, and Murugappa families. What is been noticed through these examples is that if the family values are strong and are passed from one generation to another in a proper manner, the business prospers (Martin et al., 2002). Hence, communicating these values to the family members and getting them imbibed within them is challenging and the most important task for the originating entrepreneur (Ramachandran, 2015).

Research Methodology

In order to collect data from the unorganized stores of Bhopal, the shops were randomly selected from different localities of the city. These shops included gift shops, car decors, grocery stores, dhabas (an Indian roadside footstall), photo studios, and restaurants. In total, 138 stores were visited and self-administered questionnaires were filled by the shops owners. The time period of the study is from February - March 2016. The section wise reliability index is given in the Table 1. The results reveal that the internal consistency based on the inter item correlation is quite good for all the items and the values vary from between the range 0.660 to 0.932.

Table 1. Reliability Statistics for Consumers' Questionnaire

Items	No. of items	Cronbach's Alpha
Business Planning attributes	8	0.881
Ownership attributes	7	0.690
Family attributes	6	0.660
Relationship attributes	8	0.932
Total	**29**	**0.845**

Data Analysis and Findings

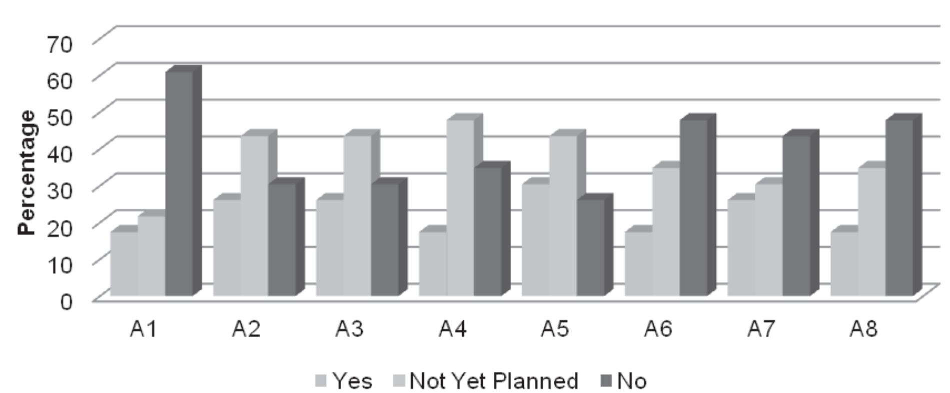
The demographic information collected out of the questionnaires filled by 138 unorganized shop owners of Bhopal is put in the Table 2. From this Table, it is evident that most of the owners running the unorganized stores were male who were mostly in their middle age, that is, 30 to 50 years old. Almost 61% of the respondents fell in the married category and of the same percentage were the proprietors of the venture. Out of the 138 stores visited, 90 stores hosted products from consumer durables and general provision category. Majority of the stores had 10 or fewer staff members working and the percentage of stores having years of existence is spread out from 1 year to more than 16 years. As discussed in the literature review section, most of the family run businesses fail over the generations as majority of them have no succession plan in place.

The Figure 1 is the true evidence for it as more than 80% of the participating stores had not identified the next successor. More than 70% had no plan developed to train the next line of owners or have any standard strategic plan

Table 2. Demographic Characteristics of the Respondents

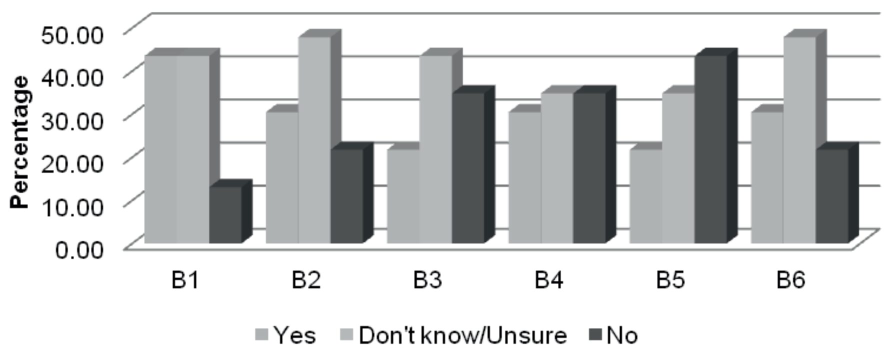
Gender	No. of respondents	%	Product Category	No. of respondents	%
Male	132	95.7	Consumer Durables	36	26.1
Female	6	4.3	General Provision Store	54	39.1
Age (in years)	**No. of respondents**	**%**	Apparels & Accessories	18	13
18 to 28	22	15.9	Healthcare	12	8.7
29-39	38	27.5	Stationary & Books	18	13
40-50	30	21.7	**Number of Staff members**		
51 and above	48	34.8	**working in the shop**	**No. of respondents**	**%**
Marriage	**No. of respondents**	**%**	1 to 5	72	52.2
Married	84	60.9	6 to 10	36	26.1
Widower	42	8.7	11 to 15	6	4.3
Unmarried	12	30.4	16 & Above	24	17.4
Nature of Business	**No. of respondents**	**%**	**Number of Years of Existence**	**No. of respondents**	**%**
Proprietary	84	60.9	1 to 5	42	30.4
Partnership	54	39.1	6 to 10	36	26.1
		11 to 15	24	17.4	
			16 & Above	36	26.1

Figure 1. Respondents' Feedback on Strategic Business Planning



Code	Particulars
A1	Next business leader identified?
A2	Process in place to develop the next generation?
A3	Plan to fund the retirement of the senior generation?
A4	Have a written strategic plan?
A5	Strategic plan has been communicated to family members, staff, and advisers?
A6	Formally assessed the business capacity to fulfil business strategic plan?
A7	Formal way to allocate duties and responsibilities within organization?
A8	Formal process to review each person's contribution to the business?

Figure 2. Respondents' Feedback on Ownership Related to Business



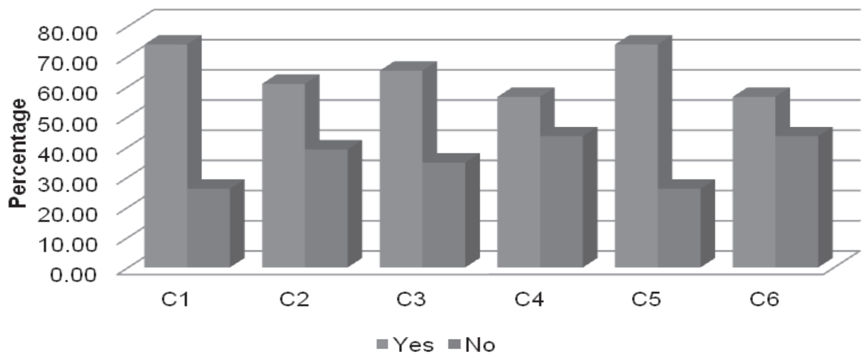
Code	Particulars
B1	Has it been agreed that your business will continue in family ownership?
B2	Any written plan regarding the transfer of ownership to the next generation?
B3	Do you have a process for reviewing these plans on a regular basis?
B4	Do you share this information with other family members, staff, and advisers?
B5	Is there a formal process for shareholders to cash in their shares?
B6	Is there agreement about the possibility of extending ownership to non-family?

for the business. In most of the cases, the organization was running without any structure as there was no formal way to allocate duties and responsibilities within the members or to review each person's contribution to the business. It was found that Indian family businesses have more inclination in having own family members involved in the business. Hence, the family members hold significant managerial positions within the business and are directly involved with the daily operations (Shanker & Astrachan, 1996).

The Figure 2 reveals that only 13% of the business owners kept the option of transferring the ownership outside the family. However, at the same time, the percentage of owners having an agreement on the possibility of extending ownership to a non-family member is higher than those who did not have an agreement for the same.

Indian family businesses have a higher rate of success in comparison to other countries (Martin et al., 2002; Muriithi, Waithira, & Wachira, 2016). The reason being the value system within the family members is well in place, and the emotional bonding is high. The Figure 3 justifies the above statements as majority of the respondents agreed that their family members were well-connected and had a clear set of values and communication. They also

Figure 3. Respondents' Feedback on Family Values and Togetherness



Code	Particulars
C1	We agree that family members may work in the business only if they possess the appropriate qualifications or experience to fit the job requirement.
C2	Pay and reward for family members is fair and open.
C3	Communication between family members is good.
C4	We have a clear set of values that we work to.
C5	We invest in the development of the younger generation to help them assume greater responsibility.
C6	Family members enjoy spending time together outside the business.

Figure 4. Respondents' Feedback on Relationship Level Within the Family Members

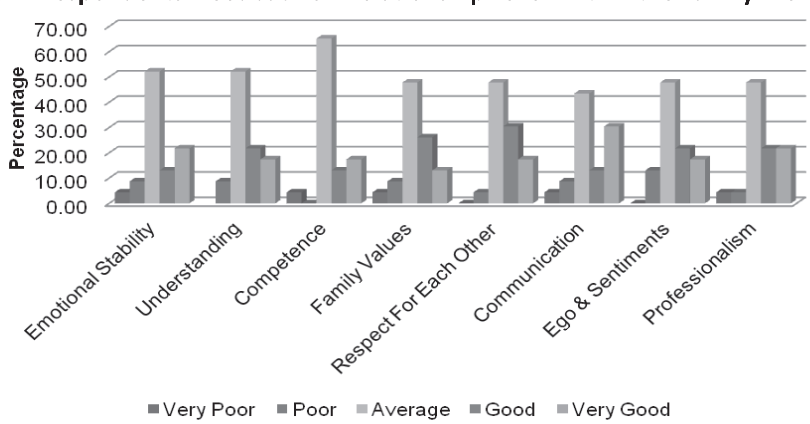


Table 3. Mean Value of the Relationship Level Within the Family Members

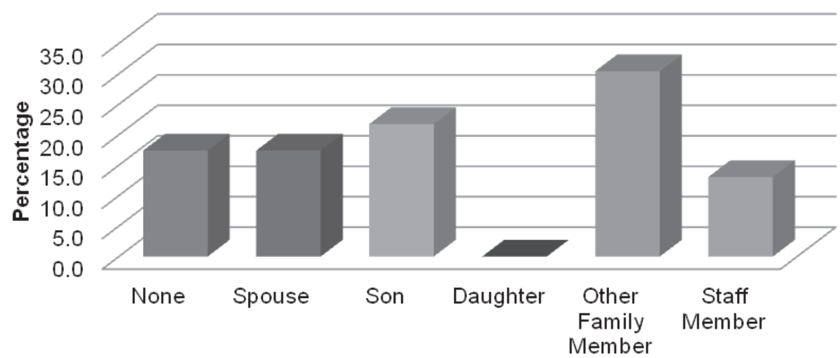
Relationship level within the family members	*N*	Minimum	Maximum	Mean	Std. Deviation
Emotional Stability	138	1	5	3.39	1.076
Understanding	138	2	5	3.48	.898
Competence	138	1	5	3.39	.941
Family Values	138	1	5	3.35	.982
Respect For Each Other	138	2	5	3.61	.839
Communication	138	1	5	3.57	1.161
Ego & Sentiments	138	2	5	3.43	.945
Professionalism	138	1	5	3.52	1.039
Valid *N* (listwise)	138				

['Emotional Stability,' 'Competence,' 'Family Values,' 'Communication,' and 'Professionalism,' the Midpoint is 3 (Min + Max/2, 1+5/2 = 3) and their respective mean value is more than their Midpoint. 'Understanding,' 'Respect for Each Other,' and 'Ego & Sentiments,' the Midpoint is 3.5 (Min + Max/2, 2+6/2 = 3.5) and the mean value of 'Respect for Each Other' is more than their Midpoint ; whereas, for 'Understanding' and 'Ego & Sentiments' it is not.]

gave emphasis on development of the younger generation and see to it that they acquire appropriate qualifications or experience to fit the job requirement.

The rate of success in a family business can be attributed to the relationship level within the family members (Handler, 1992) and also helps improve the various aspects crucial for succession planning (Lansberg & Astrachan, 1994). Through the feedback of these 138 family business owners of Bhopal city (Figure 4), it is clear that barring Ego & Sentiments and Understanding, all the attributes corresponding to the relationship level within the family members is on the positive side.

Figure 5. Respondents' Feedback on the Choice of the Ideal Successor



In India, a patriarchal form of social organization is followed and that is clearly visible from the Figure 5 as none of the business owners selected their daughters as an ideal successor ; 21% of the respondents believed their sons to be the ideal successors and 17% believed that it will be their spouse. Hardly 13% believed to find an ideal successor in their staff and good about 30% of them believed that other family members could be an ideal successor.

Implications and Conclusion

A proper succession planning might be an integral factor in the success of family owned businesses, especially large enterprises, but for small businesses, especially in the unorganized sector, this theory virtually does not exist pragmatically. The main reason may be that the patriarch or the head of the family simply takes it for granted that the next of his/her kin will either follow his or her footsteps or move out.

Furthermore, in most cases in the unorganized sector, family members usually work as extended staff members, so one can assume that from an early age, their on-the-job training starts, which naturally one day progresses towards the succession of the business. Even the literature review could not throw much focused light on the pertaining issue. For instance, according to Sharma, Chrisman, and Chua (2003), voluntary succession might be a natural factor if the patriarch is gravely sick, dead, or old. However, here, another issue comes up that whether the patriarch, if still alive, even if old or sick, has he or she mentally retired from the business or has complete trust over his or her successor (Figure 1).

Another factor came into light with the literature review that what if there is more than one probable successor, who finally takes the baton, as cited by Morris et al. (1996). In another instance, as Groysberg and Bell (2014) mentioned specifically, that the probability of success of a family business is low, especially in the third or fourth generations. It might be true due to many factors, mainly interest level, dominance of patriarch, progressing level of education, etc.

Martin et al. (2002) talked about value building and camaraderie amongst family members - this might be true for big business houses, but for the unorganized sector, the value system ends or starts only if the business is making money or is sustainable, or else, even the patriarch dissuades the next of the kin to develop an interest in the business (Figure 4).

Furthermore, one mistake usually all small family business owners make, especially if they are the second generation entrepreneurs, is that they hold on to underperforming or even toxic employees for far too long only for the reason that their predecessor trusted them, and now these employees, who might be like a part of their extended family, feel that the power which should have been theirs has gone to the younger generation, and try to find ways to demean their new bosses at most instances.

Most of the small-business owners in the unorganized sector had no or minimal strategic planning and were mostly unsure if the ownership will remain within the family members for the business (Figure 2). The value system in the family and the bond they shard could be referred to some sort of external social pressure and also to the system that is found to be predominant and gets imbedded in their DNA from their predecessor. Surprisingly, most of the respondents felt that the relationship level or status within the family members was on an average platter (Figure 3) as if the mere existence of a relationship in-between them was internally forced or thrown upon them, just because they were born in the family and shared the same last name, which is quite unlike in the Western countries, and whatever internal tussles the family members have had with each other, was usually confined to the four walls of their homes.

When the respondents were asked to vote for having their daughters as the nest successor, almost all of them turned it down. Indians, especially the middle class, though they might portray themselves to be very modern and outgoing, but are very traditionalist and stereotyped in nature. It's not that they do not love their daughters; it's just the thought that the daughters one day will be getting married and then there is the question of who will carry out the business. An instance here can be if there is only one child and that too a daughter, then will the patriarch trust the son-in-law to take over the business (if he is interested) or is the wife capable of taking over, only if she has been nurtured since day one. Here again, when the question arises about the wife, what kind of role will the male ego play in those decisions is a question that cannot be answered with certainty (Figure 5).

This paper brings out three major implications for researchers, professionals, and family-business owners. Firstly, as we have found that most of the family-owned businesses have minimal strategic planning and were mostly unsure of the ownership; it should be well planned. Secondly, the relationship level or status within the family members was found to be on an average platter, and this should be worked upon in order to improve. Thirdly, as majority of the respondents turned down the option of selecting their daughters as the next successor, this is very sad and needs serious rethinking. Considering the success girls are having in various fields, this kind of narrow-minded / chauvinist mindset needs to be changed at the earliest. Finally, it can be concluded that it does not matter much if the demographics change or the geography changes, it is all about the mentality. Even though the members of a family - owned business share a good family bond, they get self-centred and lack vision (Table 3). Due to this, the business suffers and eventually ceases to exist. Professional maturity and transparency in communication, if maintained, can lead to the avoidance of a majority of the pitfalls.

Limitations of the Study and the Way Forward

Information within the family-based business is highly sensitive, and it's tough to excavate such information from family members. Also, many a times, it happened the that the key decision makers (predecessors) were not available to be queried as some of them were dead or were not into active business anymore. The study being conducted was done in a specific time frame which restricted us to a limited sample and to a specific location. Considering the fact that succession planning in small businesses is an issue across the geography, future research can be conducted by taking a wider geographical reach.

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