



[Academic Script]

Succession Planning-1

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1. Introduction

A business is always an idea that was dreamt to stay perpetually. However this aspiration of perpetuity is one that requires efforts and sound decisions. One of such decisions is one pertaining to who will be the successor to the business. It is a very complex decision, one that entails a meticulously planned process, that is pursued in an integrated approach. This session will introduce you to the concept of succession planning, what leads to it and what are the key steps in the process.

Objectives

- To understand the reasons of change in business that calls for a succession planning
- To understand the major concerns associated with succession.
- To be oriented to the concept of succession planning as a mechanism to select and build the next generation to carry on the legacy further.
- To understand the importance of instilling leadership qualities in the successor.

[A]Innovation and Change:

Business is subject to change, change in terms of operations, products, promotions, branding, competition and time. This change with time calls for change in the overall business operations. At times, it can be innovation at any of the ends of business, operations, product or management that triggers a need for change in the organization's conduct of business. Researchers have studied interdependencies between the life cycles of the families and family businesses. They opine that stress intensifies when transitions in the family coincides with

transitions in the firm. Each system would try to maintain itself and guard against separation. The outcome can be major symptoms of dysfunction in the family firm relationship.

There can be two kinds of transitions that are distinct and equally affecting; the operational business transitions and the family management transitions. The business with time, moves through various changes like the growth phase, diversification, industry based changes, hierarchy based changes and overall organizational changes . The family management team evolves and changes by ways of death of a spouse, the addition of a new member like the spouses of the kids, or the disengagement of the heir apparent or other important family member. A concerning and noteworthy moment or situation is when family management transitions and business transitions coincide, and require mutual adjustment processes between the family and business subsystems.

[B] Nagging Issues:

There are some researches which have focused on the disability of the business groups to carry on the legacy beyond the third generation. The Bajaj group and the Birla group had split up after the third generation and the Ambani Group could not walk together past the second generation itself. In most of such cases, the concerns could be seen as the competition for power, presence of a large number of people in decision making and family politics. All these hamper sound and prompt decision making. This happens due to lack of a proper succession plan.

It has always been so assumed that the family enterprises run in a way distinct from the general organizational behavior rulebook. The family members involved in either ownership

and/or management are assumed to behave in ways that stand apart from the general organizational behavior dynamics. This difference can be attributed to the family relationship dynamics which may lead to nepotism, non-professional approach and power based concerns.

Particularly one of the biggest nagging concern is related to that of leadership and succession.

A family firm when looked at as a "total system, it consists of three entities as subsystems, the business, the family and the founding entrepreneur. Each of this subsystem has unique characteristics owing to distinct identities and cultures, each progressing through its own life cycle, and each would further contain subsystems of its own. However, these subsystems are not mutually exclusive, they are interdependent in nature. Thus there are high chances that these subsystems may be in competition or conflict with each other, or alternatively, can be in cooperation or complete synergy.

Family firms remain stable so long as the founding entrepreneur is in stable acting capacity. They approach destabilization once either a family member is promoted to a senior position or the founder decides to disengage. Such actions can lead to ambiguity and conflict among the family members and professionals employed by the firm. The following adaptation process in the course of such events can be equally chaotic and difficult to be managed. A successful adaptation requires healthy conditions, both within the firm (e.g. economic health, strategic approach) and family dynamics (e.g. closeness of family, sibling rivalries, financial condition of family members).

2. Succession

Family businesses are a unique institution, which marries two distinct social units of family and business. Succession is treated as one of the most important and complex issues related to family businesses. It may appear natural characteristically, but can be extremely complex. Any business that intends to outlive its founder, it has to plan for an effective succession, which is the only way for the business to survive to be experienced by the future generations. It is inevitable for the successful survival of a family business.

An effective succession plan requires the presence of an extensive organizational planning and a conscious and deliberate preparation for succession. Succession, which can be looked at as the passing of the mantle from one generation to the other can be a highly emotional affair since it can lead to major rifts in the family as well as business. This happens since there would be clans involved during such decision and the involved participants are bound to take sides. To ensure the maintenance of cohesion in family as well as business, it is imperative that the management develops a planning and execution mechanism that provides a valid structure for the transfer of leadership. This establishment and implementation of a mechanism also contributes to legitimizing the process of succession planning for the future generations to register and follow.

Christensen in 1953 was one of the earliest researcher to propose some of the elements that must typically be included in a succession plan: (1) identifying the potential successors; (2) designating a successor; (3) notifying the successor designate and the top management officials. These three steps are

necessarily the tasks required for a comprehensive succession-planning process.

Communication plays a very crucial role in a smooth conduct of the succession process. The right announcement of the successor to the top management, family, media, shareholders, interest groups and the general public, displays commitment of the current leadership and legitimizes the whole process and the decision. This can really tackle power struggles within the organization pertaining to the matter since non-successors are equally exposed to the process and the decisions taken, thereby assuring them of transparency in the system.

The Steps in Succession Process:

- Start the planning process early
- Fostering Inter-generational teamwork
- Establishing a written succession plan
- Involving family and key business officials
- Seeking external expertise
- Setting up of a training process
- Planning retirement
- Making a timely retirement

Determinants of the Succession Process:

The variables related to succession are:

- **Manager Characteristics:** The characteristics and background of the managers are an important predictor of the organizational behavior and outcomes, which in turn affects managerial succession.
- **Age:** The age of the owner/ manager is an important element in succession planning. Generally the older founders owners are more future oriented and risk averse, thereby they shall

be more focused about planning for succession. Also is the fact that with growing age, the inevitability of death as well as the ailing illnesses shall encourage the owner/s to consider succession in order to ensure the smooth running of the business in the times to come.

- Education: There has been found to be a direct relation between education of the owner and the innovativeness of the owner. This attitude towards innovative practices also display the owner's sensibilities of planning succession on time and the level of sophistication pursued for the process.
- Financial Stake: When the owner has high financial interest in the firm in terms of stake, investment in assets and resources, then he would equally display high level of interest in a formal succession plan so as to ensure continuity and maintenance of his financial gains from the firm.
- Size of the firm: Bigger the firm, more extensive would be the succession plan. It is a misperception that the family firms are generally small scale industries. Some of the world's biggest groups are family businesses. Big firms will always approach succession planning in its most formal well-planned sense.
- Formality: The organization structures that are marked with integration, formalization and centralization are conducive to succession planning. A formal organization structure breeds rational decision making; with task forces, committees leading to multifaceted introspection of facts and situations, and arriving at concrete measures to succession related concerns.

The nature of succession processes

Succession is not to be considered as a one time event, its process includes the precedence covering all activities that lead to it and also includes the aftermath of the decision within the

firm and the family. The various parties that can have a bearing on the process can include family members both in and out of the firm, non-family employees, the owner/s, customers, suppliers and so on and so forth. Researchers have pointed out that the transition to succession process must include: the personal development of the successor designate prior to working in the firm, involvement of the heir in the business, and leadership succession.

During the process of succession, family members are bound to play specific roles and these roles are subject to change over the stages of the transition. Successful transitions require a process of mutual role adjustment. The current generation owner may transcend from the status of a "sole operator" to "overseer/delegator." Meanwhile, the successor generation moves from having almost no considerable role to the new leader or key decision maker.

The succession processes must be evaluated on the two parameters of "quality" of the experience and the "effectiveness" of the succession. Quality is a portrayal of the experiences of the family members with the process. It can concern matters like conflict, distrust, rivalry and stress. Effectiveness is more from a other's perspective dimension, as to what others think of the outcome of the entire transition.

3. Developing Leadership Abilities

Leadership succession has been always recognized as an important dimension to family businesses, given that succession is usually followed by changes in the firm. This is more applicable in case of change of a top position, since lot rides of these positions, to the extent that their success or failure

decides the case for the company too. Such a transition calls for a mutual adjustment process between the organization and the new leader. The leader requires socializing, that is to learn the organization's norms and role systems. At the same time, he also has to take in the management control part too.

Leadership entails interaction between the leader and the organization. It refers to a form of social problem solving, which mandates the leader to possess certain unique skills and the necessary knowledge to effectively deploy these skills. The requirement of knowledge is based on the task per se, the organization as a whole and the people with whom the interactions are bound to happen. This knowledge can be garnered through interactions within and outside the organization, through formal interactions as well as informal social interactions.

Training these leaders through work experience is treated as an important mechanism, some of which include the following:

- Job Assignments: They tend to expose the leader to challenging problems
- Mentoring: Being guided by the owner will help the leader build a perspective
- Appropriate training: A hands-on experience with related affairs too

This training experience will help sharpen the leadership capabilities of the successor, increasing the chances of the succession planning as a successful endeavor.

Experts also suggest that the successors should be exposed to some business experience outside of their family firms. This will

ensure a great deal of personal development, competence and a broader perspective towards business. This also ensures an objective assessment of the successor. Even early exposure in terms of summer jobs and menial tasks allocations can also contribute to building a sound understanding of the overall functioning.

The first step in the process of developing leadership skills should be to educate and acquaint the novice leaders with the norms and laws of the organization so that they can eventually internalize these norms and thereby ensure adherence to them. This makes the leadership development of a successor in a family business quite distinct from the general patterns. To develop and sustain these qualities, it is required of the successor to be not just confined to training before taking up the job, but also to continue the training throughout their career with the family firm. Thus training tools like job rotations, new challenging roles and extra-firm stakeholder interactions, will all contribute towards building leadership capabilities. Leadership development processes in family firms should require aspiring leaders to assist on problems beyond their intellect and seek guidance from mentors who have more fully developed cognitive complexity.

4. Summary

For any family business to live through to be accessible to the future generations, it is imperative that the firm has a sound succession plan. A firm needs the right and able successor to carry it on through to the forthcoming generation. However this approach meets many hiccups on its way owing to the conflicting needs and aspirations of the family and business. Thereby the

process needs to be adequately planned with an inter-generational approach that is build on a cohesive spirit towards the sustenance of the firm in the future. The successor needs to be a leader, one who can motivate the entire firm and build a trust based mutually beneficial environment.