

Expectation- Reality Discrepancies of Successor Attributes of Family Businesses

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Abstract

Family businesses are the pillar of strength to all the economies throughout the world. It is not surprising that majority of the businesses in the world are family businesses. Family business comprise of 90 percent of the businesses in India contributing to 90 percent national output and 79 percent employment. However, it has been found that the average life span of a family business is 24 years . 70 percent of family businesses fail or are sold before they are passed on to the second generation and almost 90 percent do not make it to the third generation , while 3 percent survive to a fourth or beyond . One of the reasons for the failure of family business is due to expectation – reality discrepancies between business owners perceived ideal successor attributes versus prospective successors perceived ideal attributes for family businesses. This study compares the successor attributes that potential Indian successors of family business consider most important with the findings of the successor attributes that Indian family business owners consider most important. The current study collected the data from 134 potential successors of family businesses from a reputed business school in Hyderabad and compared the findings with the successor attributes expected from the owner managers of the family firms.

Key words: Family Business, Successor, Attributes, Succession, Business Owners

Introduction

Family firms are found to be one of the most important means of creation of wealth and means of employment generation in present-day world. Whether they are small, medium sized or big they are found to be the dominant form of business in all the countries around the world. However, studies found that only 30 % of family firms survive the second generation, and less than 14% survive beyond the third generation (Bjuggren & Sund, 2000). Studies by Perricone Earle & Tapline (2001) has found that small family firms survive only five to ten years. Consultants and authors attribute the reason for failure to the inability of the successors to manage the succession process from one generation to another (Magretta, 1998). Succession in family businesses means the transfer of control of ownership and management of the business. Succession remains the main challenge for the survival of family business. Many studies investigated the attributes required for a successor's nomination to understand the attributes in a potential successor is understood to be critical from the point of view of the business owner and the attributes the potential successors feel critical for successful succession. Therefore, this study attempts to understand the attributes the potential successors feel are critical to possess for successful succession and the attributes business owners desire in the incumbent for the successful succession of family business.

Successor Attributes

Chrisman, Chua and Sharma (1988) in their study of important successor attributes in Canadian family business context found that family businesses rated integrity and commitment to business as the two most important attributes desired in a successor while birth order and gender were found to be least important. When this study was replicated in the Indian context a similar findings was found that indicating integrity and commitment to the business to be most important attributes desired in potential successors. A sincere, hardworking and committed successor is always looked forward to take charge of the family business. Four personality related variables viz. decision making abilities and experience, self confidence, intelligence and creativity were found to be among the top 10 rated attributes in both studies. Respect for employees also was found to be most desirable by the business owners. However, among the low ranking attributes age, gender, outside management experience, current ownership share, technical skills and successor's relationship with incumbent CEO were considered less desirable. Trust by family members, ability to get along with family members, blood relation and willingness to take risks were found to be higher in Indian family businesses compared to Canadian family firms. Interpersonal skills, marketing skills, business experience and past performance attracted lesser desirable in Indian family firms. The study revealed that family relationships had greater importance for Indian family firms, whereas, skills and past performance of successors were considered highly desirable by Canadian counterparts.

Literature Review

Mariola Dzwigol-Barosz (2018) in the study titled "Competencies of successors of Modern Family businesses" stated that knowledge, skills, talents, styles of action, personality, professed principles, interests and other features are accorded higher priority in order to achieve strategic goals of the company.

M.Smolinski and L. Zakrewska (2017) opined that an effective leader should possess personal efficiency, knowledge, charisma, integrity, emotional intelligence, stress resistance and ability to learn.

Mariola Dzwigol-Barosz (2017) in the study of "Competencies Profiles of Successors in Contemporary Family Firms" aimed to study the significance of successor competencies in contemporary family firms with particular emphasis on the leadership competencies, emotional intelligence and competencies related to the upbringing and socialization.

Rodrigo Basco & Andrea Calabro (2016) in the study "Whom do I want to be the next CEO?" Desirable successor attributes in family firms" attempted to understand whether different incumbent attitudes towards desirable successor attributes have an impact on their intention to nominate a family member or a non-family member as CEO and the extent to which this intention is moderated by the number of family members working in the firm as a proxy of socio emotional wealth preservation. The findings suggest that the intention to nominate a family member as the next CEO increases with the belief that family position is important and decreases when they consider managerial competence attributes are important.

Wiecek-Janka and Hadry's-Nowak (2016) in their study enumerated 20 competencies out of which 11 competencies referred to emotional intelligence and the most chosen competency among them were communication skills, organizational skills, accuracy, entrepreneurship, commitment, stress resistance, firmness, ambition, motivation and courage. However, diligence and commitment scored the highest average among all.

Wiecek-Janka (2014) stated that diligence, courage, precision, commitment and expertise were considered to be inborn traits. Ambition, intelligence and innovativeness were least used in the succession process.

Iram Fatima Ansari, Marc Goergen, Svetlana Mira (2014) in the study "The determinants of the CEO successor choice in family firms" attempted to study the factors influencing the CEO succession decision in family businesses whose current CEO belong to the family firm. The five hypothesized determinants of the succession decision are family power, family generation, directors independence, shareholder protection and past performance.

Weroniczak (2012) in his study emphasized that communication skills, empathic perception, ability to solve conflicts through co-operation, understanding of change processes, seeing diversity as a resource and regarding the company and the family as one were the most valued attributes desired in a successor.

Need for the Study and Research Gap

Identifying and developing successor competencies has never been more crucial than in the current times not only due to its complex and ambiguous process, but also due to the ever changing and dynamic business environment. Given the low survival rate of the family businesses it is but prudent to identify the key successor competencies. However, the attributes for successful succession from the point of view of a potential successor can greatly differ from that an owner-manager. It becomes imperative to identify the successor attributes considered vital by the owner-manager due to their business experience and that by the potential successors of family businesses in order to bring in some conformity among the expectations of both and identify the successor attributes considered common to their understanding. Therefore, a proactive step to tackle the challenge of understanding the successor attributes considered important from both potential successors and owner manager’s point of view towards understanding the expectation – reality discrepancies of successor attributes would seem to go a long way in perpetuating family businesses. Hence, it would be very important to know the important successor attributes from owner managers point of view and match with the potential successor’s opinion. 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 the desirable successor attributes from potential successors and also from owner managers of family businesses to learn if expected successor attributes are same or there are discrepancies present among the owner managers and potential successors of family firms.

Research Design

The data was randomly collected from 55 owner managers of family firms and 134 potential successors of family firms situated in the city of Hyderabad. These businesses included retail, manufacturing, wholesale, service, construction, trading and e-commerce. A questionnaire consisting of 30 attributes was adopted from the study of Pramodita Sharma and A. Srinivas Rao from their study “Successor Attributes in Indian and Canadian Family Firms: A Comparative Study”. In total 500 questionnaires were administered through Google forms and received 55 forms from the owner – managers and 134 forms from the potential successors of family firms. 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).

Table 1: Reliability Statistics for the Questionnaire

Items	No. of Items	Cronbach’s Alpha
Successor Attributes	30	0.922

Data Analysis and Findings

Table 2: Socio-Demographic Characteristics of the Owner-Manager Respondents

Characteristic	Count	%
Gender		
Female	2	3.63%
Male	53	96.3%
Age		
Less than 30	20	36.3%
31 to 45	13	23.6%
46 to 60	20	36.3%
Greater than 60	2	3.63%
Nature of the Business		
Sole Proprietor	35	63.6%
Partnership	20	36.3%
Type of Business		
Construction	1	1.81%
E-Commerce	2	3.63%

Manufacturing	12	21.8%
Retail	25	45.4%
Wholesale	12	21.8%
Service	3	5.45%
Community		
Marwari	15	27.3%
Sindhi	3	5.45%
Gujrati	1	1.81%
Agarwal	34	61.8%
Jain	2	3.63%
Actively involved in the Business		
0 to 5 years	13	23.6%
6 to 10 years	7	12.7%
11 to 15 years	5	0.09%
16 to 20 years	8	14.5%
21 to 25 years	18	32.7%
26 to 30 years	3	5.45%
31 to 35 years	0	0%
36 to 40 years	1	1.8%
Greater than 40 years	0	0%
Geographic Distribution of Sales/ Revenue		
City	11	20%
State	5	9.09%
Regional	14	25.4%
National	22	40%
Asia	2	3.63%
Global	1	1.8%
Location of the Company		
All at One location	19	34.5%
2 to 5	20	36.3%
6 to 10	14	25.4%
More than 10	2	3.63%
Gross Revenue		
50 lakhs and Less	13	23.6%
Between 50 lakhs to 1 crore	9	16.4%
Between 1 crore and 2 crore	7	12.7%
Greater than 2 crores	26	47.3%
Generation in charge of the business		
One	14	25.4%

Two	17	31%
Three	12	22%
Four	12	22%
No. of full time employees employed		
Less than or equal to 50	26	47.2%
Between 50 to 100	30	54.5%
100 to 200	10	18%
Greater than 200	7	12.7%

Source: As per the findings of the study.

The Socio-Demographic characteristics of the respondents are placed in Table.2 where 96.3% of the respondents being male and 3.63% of respondents being female. 36.3% of the respondents were less than 30 years, 23.6% of the respondents were 31 to 45 years old and 36.3% of respondents were between 46 to 60 years old, and 3.63% of respondents aged more than 60 years. 63.6% of firms were sole proprietorship firms and 36.3% of businesses were partnership firms. 1.81 % were construction firms, 3.63% were e-commerce firms, 21.8% firms were manufacturing firms, 45.4% firms were retail businesses, 21.8% businesses where wholesale businesses and 5.45% were service oriented firms.27.3% firms belonged to Marwari community, 5.45 % firms belonged to Sindhi community, 1.81% firms were from Gujrathi community, 61.8% firms belonged to Agarwal community and 3.63% firms belonged to Jain community. 20% of the firms operations were restricted only to the Hyderabad city, 9.09% of firms business was spread across Telangana State, 25.4% of firms business was regional, 40% of the firms business was spread across India, 3.63% if the firms business as conducted in Asia and 1.8% of the firm's business was global.25.4% of the business was managed by first generation entrepreneurs, 31% of the firms business was managed by second generation, 22% of the business was managed by third generation and 22% of the firms business was managed by fourth generation. 47.2% of the firms hired less than 50 employees, 54.5% of firms had employees between 50 and 100, 18% of the firms employed people between 100 and 200 and 12.7% of the firms had more than 200 employees.

Table 3 Socio-Demographic Characteristics of the Potential Successor- Respondents

Characteristic	Count	%
Gender		
Female	59	44%
Male	75	60%
Age		
Less than 20	46	34.3%
Between 21 and 25	85	63.4%
Between 26 and 30	2	1.5%
31 to 45	1	.7%
Will/have joined family business		
By choice	76	56.7%
Parental pressure	5	3.7%
No intention to join family business	44	33%
Which Profession you find lucrative		
Business	118	88%
Service	16	47%

Source: As per the findings of the study

The socio-demographic profile of the Potential Successors had 44% females and 60% males. 34.3% of potential successors were less than 20years, 63.4% of respondents aged between 21 and 25, 1.5% of respondents were between 26 and 30 and 0.7% of respondents aged between 31 and 45.56.7% of respondents stated that they would or have joined the family business by choice, 3.7% of respondents stated that they would or have joined the family business due to parental pressure and 33% of the respondents stated that they have no intention to join the family business.88% of the respondents stated that they find the profession of business lucrative while 47% stated that they find the profession of service attractive. 23% of the female respondents stated that they have no intention to join family business. 9.7% of female respondents stated that they have plans to start their own business in future.

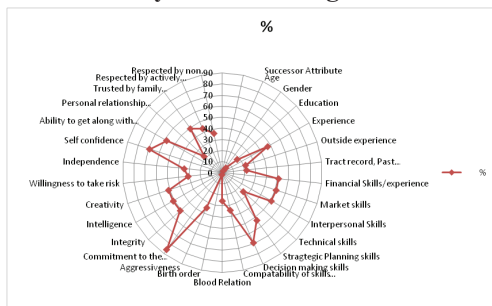
Table 4: Desirable Successor Attributes by Owner-Manager and Potential Successors

Successor Attribute	Owner Manager %	Potential Successor %
Age	1.8%	14.8%
Gender	5.4%	5.9%
Education	18%	36.2%
Experience	47.2%	26.7%
Outside experience	22%	33.2%
Tract record, Past performance	22%	24.5%
Financial Skills/ experience	51%	48.2%
Market skills	51%	48.2%
Interpersonal Skills	51%	67%
Technical skills	25.4%	46.6%
Strategic Planning skills	53%	64.4%
Decision making skills	69%	75.4%
Compatability of skills with the current CEO	34.5%	46.1%
Blood Relation	25.4%	14.4%
Birth order	1.8%	10.6%
Aggressiveness	34.5%	12.2%
Commitment to the business	85.5%	78%
Integrity	51%	56.1%
Intelligence	51%	67.9%
Creativity	51%	73.8%
Willingness to take risk	31%	56.1%
Independence	34.5%	57.2%
Self confidence	69%	84%
Ability to get along with family members	58%	43.3%
Personal relationship with the CEO	22%	34.6%
Trusted by family members	49%	71.1%

Respected by actively involved family members	43.6%	63.3%
Respected by non involved family members	36.3%	47.8%

Source: Table generated through the study

Figure 1: Desirable Successor Attributes by Owner Manager

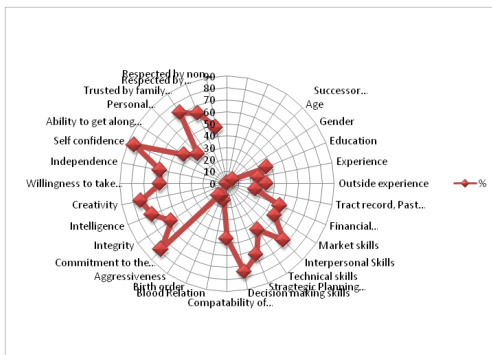


Source: Figure as per the findings of the study

As per Figure. 1, the five most desirable attributes by Owner-Manager in the order of highest preference are Commitment to business, Self confidence, Decision making skills, Ability to get along with family members and Strategic planning skills.

The least important attributes from Owner Manager point of view are age, birth order, gender and education.

Figure 2: Desirable Successor Attributes by Potential Successors



Source: Figure as per the findings of the study

As per table 2, the five most desirable attributes by Potential Successors are Self-confidence, Commitment to business, Decision making skills, Creativity and Trust by family members.

The attributes which are considered least important from Potential Successors point of view are gender, age, birth order, aggressiveness, blood relation.

Findings

1. Out of 55 Owner Manager responses only 2 females were found to be in charge of the family business clearly indicating that majority of the owner managers are males. Although the findings from table 4 indicated that gender is the least criteria in the choice of desirable attributes for successor selection, still male successor seem to be the clear line of choice towards successor selection.
2. Primogeniture was accepted approach to the family business succession (Ozlem Ozdemir & Phil Harris, 2019) , the findings in the current study indicated that birth order was among the least desirable attributes with only 1.8 % and the highest desirable attribute expected by Owner -Manager in a successor to take over the family business was found to be “Commitment to Business” with 85.5 % clearly indicating Primogeniture not being considered important for passing the family business mantle.
3. The highest desirable attribute required in a Successor according to Potential successor is “Self Confidence” with 84 %. The potential successors felt the needed the need to feel confident in order to take over the reins of the business. However, “Self Confidence” and “Decision making skills” was considered equally important attribute in a successor only after Commitment to the business.
4. The least desirable attribute for Owner – Manager is Age with 1.8% and for the Potential successor is 14.8%. It was found very common for the children of family businesses to join or assist in family businesses at a very young age in order to learn the nuances of the business either by observation, listening, doing, watching or by practicing. The younger they start the

better. However, Potential successors feel that it is always better to complete their education and gain experience (33.2%) outside their business in order to be fully equipped to join the family business. Experience outside the family business was not considered very important by Owner-manager with 22% .

5. The successor being related by birth stood at 25.4% by Owner-Manager and 14.4 % by Potential Successor. The family business owners intention to preserve and control their values and beliefs and generate employment to their family members also retain the control over the business by passing the baton to their off springs. However, the potential successors felt that family business performed better if professional were hired when the firms are larger in size and family ownership more scattered.
6. The study noted that the desirable successor attributes from Owner-Managers perspective and from Potential Successors perspective are not highly varied with the discrepancies being limited to negligible percentage for most of the attributes.

Conclusion

Right successor selection is vital for the perpetuity of the family business. Attributes important for successful succession from the point of view of Owner-Manager and from the perspective of Potential Successor goes a long way in the success of the business. Commitment to the business is considered a non-negotiable factor in a potential successor by Owner –mangers of family firms, however, having Self Confidence to take over the reins of the family business is considered vital by potential successors. Both Owner-Managers and Potential Successors seem to be least care about birth order, age, gender of the successors as both attributed least percentage of importance as desirable attributes required in potential successors for family businesses. The fact that daughters conducting the businesses successfully (Apollo group, Godrej, Lupin, Cipla, Emami, Piramal, Sun Pharma and Wockhardt) and if one goes through a quote by Adi Godrej, Chairman, Godrej group: “I have always considered sons and daughters equal and anyone in the family who

wanted to join the business was free to join if they were qualified” clearly shows that gender is no more a deciding factor during the choice of successor for family business. As per past research primogeniture, i.e., relying on first born children to be the next CEO can be risky, as the first born children are found to be more eager to please their parents and prefer to preserve the status quo and therefore less likely to innovate. However, the subsequent children are more likely to rebel against the status quo leading to change and innovation reaping higher return on assets for the family businesses .

This study attempts to study the discrepancies in the desirable successor attributes from the Owner-Mangers point of view and from the Potential Successors point of view of family businesses of Hyderabad city and has found that the discrepancies are negligible and the attributes required for successful succession among the potential successors are more or less the same. Therefore, this study found evidence in the similarities in the desired attributes between Owner-Mangers and Potential Successors of family businesses.

However, a broader study would be more appropriate and beneficial in the future.

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.

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