
Generational Succession and Problems in Family-Owned Business

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Abstract

Family-owned businesses are pivotal in India's economy, contributing 79% to GDP and playing a vital role across sectors. Despite historical and modern challenges—from British colonialism to post-liberalization dynamics—they thrive due to agile decision-making and strong family ties. Challenges like succession planning, cultural shifts, and resistance to change among successors underscore their complexities. Successful navigation requires strategic adaptation, innovation, and formalized governance. These businesses serve as models for entrepreneurial growth and significant contributors to employment. Ensuring continuity demands adept succession planning and skill development amidst familial and operational complexities, crucial for sustaining their economic impact and legacy in India.

Keywords: Family Owned Business, Second Generation Entrepreneur, Entrepreneur, Business

Introduction

Family-owned businesses are the oldest and most frequently encountered form of business ownership. Despite the presence of professionally run organizations for nearly a century, family-owned businesses continue to be a crucial and growing part of a country's economy, contributing significantly to its overall wealth regardless of its stage of development. 79 percent of India's GDP contributed by this business and India ranks third across world in number of family owned businesses with 111 publicly listed companies worth a total of USD 839 billion

Family-owned businesses in India have been a old practice for many years, becoming more prevalent from 1900 onwards as British capital influence decreased until 1947. Currently, India has a diverse range of family businesses, which have survived challenges during the British Raj and after Independence, and have thrived following the liberalization in 1991. In the period of a managed economy, these companies flourished with backing from the government and limited competition from outside, adjusting their products for the local markets. While it was anticipated that liberalization would diminish their presence in favor of MNCs, family businesses have instead thrived by taking advantage of benefits like rapid decision-making and strong connections. They have evolved from modest beginnings, demonstrating significant expansion and economic impact.

Contribution of family owned Business in India

- Contribution to nations economy: Family businesses are present in many sectors, including the retail sector, small industry and Service sector. Major group of contributors to nations economy are the family owned business through tax revenues, employment generation.
- Contribution to industrialization: Family-owned conglomerates have been the leading force in the Indian industrial sector ever since the country gained independence. Currently, Indian

families like Tata, Birla, Ambani, and Adani control major manufacturing companies in the organized sector and have facilitated the growth of different industries.

- **Contribution to Entrepreneurial Growth:** Family-owned businesses that have achieved long-term success serve as a model for other small and medium enterprises in the country that are also family-run. Small and medium-sized enterprises can gain insights from large family-run businesses on not only how to establish a successful business, but also on how to ensure its longevity and build a lasting legacy. Due to their years of operation, these companies have amassed substantial capital, which is utilized for the development of the nation.
- **Contribution to Employment Generation:** More job is generated which leads directly to the growth of the nation. As individuals secure jobs, they begin contributing as taxpayers and increasing their spending habits. After an increase in spending, money continues to flow in the market, leading to economic growth.

Family business members possess diverse abilities. They are dedicated and have a clear vision for the future. Family-owned businesses must progress through generations, leveraging their distinctive abilities to establish a lasting legacy and generate wealth. It is crucial to plan and execute the transfer of the family business to the next generation at the right time, following the correct procedures to maintain family harmony. Every change in leadership within a family business presents different obstacles and advantages for the upcoming generation.

As per the data provided by the Harvard Business Review, approximately 70% of these companies will not survive to the second generation. They will either not succeed or be bought out. Only 30% of them remain in the game. Only 10% of the third generation is able to be inherited.

There are numerous problems faced by Second generation entrepreneurs as follows:

Succession Planning Challenges: One of the most significant issues is the lack of effective succession planning. Many founders believe that their business will naturally transition to the next generation without formal planning. However, only about one-third of family businesses have a documented succession plan, which can lead to confusion and conflict when the time comes for leadership to change hands. Without a clear plan, the second generation may struggle to understand their roles and responsibilities, leading to uncertainty and a potential lack of direction. This can be exacerbated when the founder remains actively involved, creating a power dynamic that can hinder the new leaders from making necessary changes or asserting their authority.

Cultural and Generational Gaps: Cultural differences between generations can also pose significant challenges. The second generation may have different values, priorities, and approaches to business than their predecessors. While the founder may have built the business on traditional methods, the new generation often needs to adapt to modern market demands, which may require innovative thinking and a willingness to embrace change. This generational gap can lead to friction within the family and the business. The older generation may resist changes proposed by the younger leaders, viewing them as threats to the legacy they built, while the younger generation may feel stifled by the established practices and expectations.

Skill Gaps and Preparation: Another critical issue is the skill gap that often exists when the second generation takes over. Many young family members may not have the necessary experience or training to lead effectively. While they may have grown up in the business, they often lack formal education in management or industry-specific skills, which can lead to poor decision-making and operational inefficiencies. Moreover, the younger generation may not have been adequately mentored or prepared for leadership roles. This lack of preparation can result in feelings of inadequacy and self-doubt, further complicating their ability to lead the business successfully.

Emotional and Relational Dynamics: The emotional complexities of family dynamics can also impact the business. Personal relationships can become entangled with business decisions, leading to conflicts that can affect productivity and morale. Issues such as favoritism, sibling rivalry, and differing visions for the future can create a toxic environment that hinders collaboration and growth. Additionally, the pressure to uphold the family legacy can weigh heavily on the second generation. They may feel they have to live up to the founder's achievements, which can lead to stress and burnout. This pressure can also result in a reluctance to take necessary risks, as the fear of failure can be paralyzing.

Resistance to Change: Second-generation owners may encounter resistance from employees who are accustomed to the founder's way of doing things. This can create a challenging atmosphere for implementing necessary changes and innovations. The reluctance to disrupt established practices can hinder the business's ability to adapt to market changes and evolving consumer demands.

Failure to Separate Family and Business: The intertwining of family and business issues can lead to complications that affect decision-making and operational efficiency. Second-generation owners may struggle to maintain professionalism in a familial context, which can result in personal issues overshadowing business priorities.

Pressure to Include Family Members: Family-owned businesses often experience pressure to include family members in key roles, regardless of their qualifications or interest. This can lead to complacency and a lack of accountability, as family members may not feel the same urgency to perform as non-family employees. The challenge lies in balancing family dynamics with the need for professional competency within the business.

Nepotism and Employee Morale: Nepotism can also be a significant issue, where family members are favored for promotions and key positions, potentially alienating non-family employees. This can lead to dissatisfaction, lower morale, and higher turnover among skilled non-family staff, impacting overall business performance.

Adapting to New Business Models: The rise of digital startups represents a shift in the business landscape, creating competition for traditional family-owned enterprises. Many of these startups operate with a different mindset—less encumbered by legacy issues and more open to innovative practices. Family businesses must evolve to compete effectively, which includes embracing new technologies and business models while navigating the complexities of family governance.

Conclusion:

Family-owned businesses in India represent a resilient and enduring force in the nation's economic landscape. Despite evolving economic environments and global competition, these businesses have consistently contributed significantly to India's GDP and industrial growth. From pioneering industries during the post-independence era to thriving in the liberalized economy, they have demonstrated adaptability and a knack for leveraging familial strengths such as rapid decision-making and strong networks. However, challenges like succession planning, cultural gaps, and resistance to change among second-generation leaders underscore the complexities they face. To sustain their legacy and competitiveness, family businesses must navigate these challenges adeptly, embracing innovation while preserving core values. By doing so, they can continue to play a crucial role in shaping India's economic future while maintaining their distinctive identity and contributing to national prosperity.

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