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Successor Traits and its Effectiveness on Sustainability in Family Business in India

Bhavana Gupta*

Abstract

Family businesses made indisputable contribution to the speedy economic development of India. For running the family business in a smooth way, successor traits are essential. For this study two dimensions of successor traits (successor knowledge and successor willingness) were studied. Family business succession is the process of transferring management and possession of business to the next generation of family members. This transfer may also include family properties as part of the process. Family members normally play a scheming role both in management succession as well as the ownership succession. That is why this study seeks out to access the influence of successor knowledge and successor willingness on sustainability in family business in India with the help of SPSS (version 21). The study is based on the sample of 200 respondents from Uttarakhand India. A questionnaire based on 18 statements with five points likert scale was used. Factor Analysis and Cronbach's alpha value were applied to test validity and reliability. For testing the hypotheses regression was applied. Some demographic information were also discussed. Study reveals that the dimensions of successor traits (Succession Knowledge and Succession Willingness) significantly related to the sustainability to the family business in India.

Keywords: Family Business, Successor Knowledge, Successor Willingness, Sustainability, India

Introduction

Family business succession is the process of transferring management and possession of business to the next generation of family members. This transfer may also include family properties as part of the process. Family members normally play a scheming role both in management succession as well as the ownership succession. As such the effective combination and management of the family section will have a decisive effect on the success of the succession process (Walsh, 2011). Family business enjoy power due to family attachment, which is also acquires employees belief, enthusiasm and obligation. These exclusive features such as commitment, shared values, culture, trust and so on gives it positive planned resources and abilities that could clarify for its long term success. This distinguishes the firm from the other non-family enterprises. But another aspect which makes it a subject for through research and investigation in succession process. Family business are responsible for generating seventy five percent (75%) of employment in India and contributes to the sixty five percent (65%) of GDP in Indian economy (Sharma, 2013).

While the definition itself shows the implication the studies expose that only 13% of the family firms carry on up-to third generation. After second generation or even in the first generation troubles like problems in selection of a suitable successor, internal disagreements or lack of attention in successor himself to carry on the family heritage occur. In this research, study is conducted on succession traits and its impact on sustainable development on family business. The key dimensions measured for study are succession knowledge, succession willingness and sustainable development. Literature review found that most research on business successors paying attention on the key conditions and factors for the including succession planning (Kansal, 2012), tacit knowledge

* Assistant Professor, Methodist Girls' Degree College Roorkee, Haridwar, Uttarakhand, India.
Email: bhavanasinghalrke@gmail.com

transfer (Henry, Erwee & Kong, 2013), successor development methods (Michel & Kammerlander, 2015) and succession of successors (Nuthall & Old, 2017) etc. Still there is currently modest research regarding the relation between business successor and sustainability. Most scholars focused on discussing interview based qualitative research and ignored quantitative research, in addition in this research of business successor and sustainability quantitative aspect was measured. Keeping in the view of above the purpose of this study are to carry out an in detail discussion of the relationship between India's family business successors and sustainability, fill the theoretical gap in the scholastic society and offer appropriate suggestions for business succession.

Literature Review and Hypotheses

Sustainability

The term got importance after 1987, when in the Brundtland report the United Nations' World Commission on Environment and Development outlined the sustainable development as development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. The most important issue for the development to be sustainable is the urgency to take into account three pillars simultaneously: society, the economy and the environment (Lee, King & Noh, 2012). Kumar et al. (2013) stated that sustainable development gives us a new direction of thinking considering and overseeing human effect on the world- one that can create enduring advantages for all of us. Manufacturing industries are highly effective in terms of sustainability (Haleem et al., 2012) this is because various kinds of problems which are associated with social economical and environmental issues can be caused by the manufacturing process (Luthra et al., 2005). Thus it is very essential to implement manufacturing process with sustainability. Lowell Centre for Sustainable Production (LCSP) outlines that the production which is sustainable is the creation of goods and services using process and system that are: Non-polluting, Conserving of energy and natural resources, economically viable, safe and helpful for workers, and consumers and socially and creatively rewarding for all working people. In view of the above for purpose of this study sustainable development is defined as family business in India safeguarding the inherent values of business and giving full pay to business vitality through suitable successors.

Successor Knowledge and Impact

The concept of successor invented in the 1950s and 1960s and was initially called Replacement Planning, which referred to the premature preparation for the case of accidental loss of business leadership or senior management (Leibman & Bruer, 1994). Successor candidates are normally classified into two categories: first family successor by legacy second selection of expert management, both type of successions have advantages and disadvantages. Ahrens et al., concluded that a succession occasion in a family has positive significant impact on the business encouragement performance of the business. The succession of a CEO by a non-family member has a greater business promotion performance as compared with that of a family member.

Knowledge is the ability to act based on explicit and implicit elements, enhancing this ability means making use of existing and new implicit and explicit knowledge (Nonaka & Von Krogh, 2009) by increasing and division implicit and explicit knowledge with others (Nanaka et al., 2006) A firm's advancement ability depends very closely on its intellectual resources and knowledge (Delgado-Verde et. al. 2011) knowledge creation process are of crucial importance in any firm due to their influence on creativity, change and innovation (Nonaka and von Krogh, 2009). Particularly challenging are when a family's new generation has to get more a family business from the preceding generation. Research findings points that only 30% of family enterprise survive to the second generation and many enterprises fail soon after the second generation takes control (Morris et al., 1997). As many succession topics are closely related with the selection and development of a appropriate successor (Cabrera-Suarez et al., 2001) and to the proper education and guidance of the successor looking for detailed guidance tools to support the knowledge relocate during the succession process. This is particularly important as family enterprises tend to become more traditional and less innovative over time and second generation family businesses often fail due to operating and unwillingness to look for new business opportunities.

Alshanty and Emeagwali (2019) also projected knowledge capacity will generate the firm core capability of sustainable innovation. In view of the above following research hypothesis is proposed-

H1: Successor knowledge is positively associated with family business sustainability.

Succession Willingness and Impact

Nan and Mahoney (1981) stated that a successor will have significant impact on operating performance. When owners lack confidence in successor's ability or willingness to control, the unwillingness to let go becomes higher. Individual needs fulfillment individual influence and relational influence were identified affecting quality of succession of family (Handler, 1992). Golberg and Wooldridge (1993) stated that birth order is not related to the success of succession. Another study focused on comparative analysis of important attributes in India and Canada, it was found integrity and commitment were most important and family relationships, blood and ability to get along with members was higher in India Day and Lord (1998) considered time lag (approximately 3 years) and reanalyzed the research data of Lieberson and O'Connor (1972) and found that the impact of successor's personal willingness on operating performance is higher than the impact of the industry and the business on operating performance. (Sharma & Rao, 2000) Cabrera et al. (2001) studied the term from resource and knowledge based view the importance of predecessor and successor willingness and motivation to attain firm sustainability was described. Thereafter Sharma et al. (2003) stated that the leadership's inheritance willingness and the successor's succession willingness as well as their recognition of their respective roles in the succession process and improved succession planning will contribute to the smooth completion of the succession process. Venter et al. (2010) found that the successor's willingness and readiness as well as the relation between the successor and the predecessor have significant positive impact on performance in the process of succession. Moreover Woodfield and Huselid (2017) stated generally only 30% family business in Asia can be successfully handed over to the second generation for operation only 10% of such business can be successfully handed over to the third generation. It was also found that it is considerably difficult to successfully complete family business succession thus the following research hypothesis is proposed-

H2: Succession willingness is positively associated with family business sustainability.

Objectives of the Study

The objectives of the study are-

- To study successor traits (successor knowledge and successor willingness) and sustainability in family business in Uttarakhand.
- To ascertain the impact of successor traits (successor knowledge and successor willingness) on sustainability in family business in Uttarakhand.

Research Framework

It is to identify the impact of successor knowledge and successor willingness on sustainability. Fig. 1 represents the model.

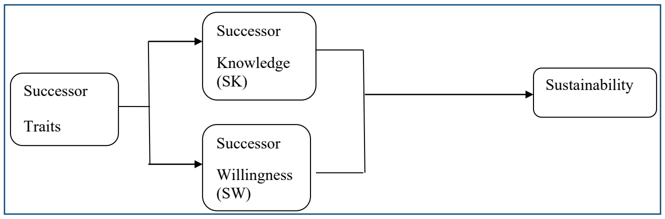

Fig. 1: Research Framework

As shown in Fig. 1, it can be stated that two dimensions of successor traits were studied as successor knowledge and successor willingness which are identified as independent variables whereas sustainability is considered as dependent variable.

Research Methodology

The study is descriptive in nature. The stratified random sampling technique has been used to select the employees from family business at Uttarakhand.

The primary data were collected through the 200 employees working in family business in Uttarakhand. Out of 230 questionnaire were distributed, 219 questionnaire were returned (response rate 95.22%) of those only 200 questionnaire were in a usable state (response rate 86.96%). Data were collected through self-administered questionnaire. The questionnaire contained the two sections: the first section represent the personal background of the respondents. In the second section respondents were asked to attempt the relevant features their family business. In this section questions were asked to measure the successor knowledge and successor willingness. A likert five point scale was implemented for the measurement the indicators from strongly agree (5) to strongly disagree (1). The higher the score the higher the degree of agreement of the respondents. A pilot study was also conducted on 50 respondents in order to identify the measures, questions etc. After data collection was performed these data were analysed through SPSS version 21. These data were tested to ensure normality, validity, reliability, absence of multicollinearity as well as regression.

Statistical Analysis of Sample Characteristics

Statistical analysis of the respondents show that respondent aged between 41-50 report for the largest proportion (44.2%) in Uttarakhand and most of the successor were the eldest sons of their family (49.3%) as comparison to their younger, in addition family business successfully inherited to the second generation account for 54.5% of the total number of family business in Uttarakhand. Moreover most of the respondents were graduates (64.4%) and 40.8% respondents joined the family business for 6-10 years.

Descriptive Statistics

To analyse the data first KMO, Bartlett's test of Sphericity, validity, reliability were applied and after that to test the hypotheses correlation, regression were measured.

Factor Analysis

To analyse the factors KMO, Bartlett's test of Sphericity and Principal component analysis were measured.

Table 1: KMO and Bartlett Test of Sphericity

Statistics		*Successor Knowledge*	*Successor Willingness*	*Sustainability*
N	Valid	200	200	200
	Missing	0	0	0
Eigenvalue		1.662	1.557	1.515
KMO		0.701	0.743	0.729
Bartlett's Test		0.000	0.000	0.000

As shown in Table 1 the KMO measures of sampling adequacy in the study are 0.701, 0.743 and 0.729 respectively for successor knowledge, successor willingness and sustainability, which indicate the sample are adequate. Bartlett's Test of Sphericity is .000, small values (less than 0.05) of the significance level indicates that a factor analysis may be useful with data. According to Kaiser's rule, Eigen value more than 1 is reliable (Field, 2009). In this table all the variables had eigen value 1.662, 1.557 and 1.515 respectively, which is > 1 this implies that the number of factors were appropriate for particular analysis.

For the sake of convergent validity 0.60 was used as a factor loading cut-off point.

Table 2: Factor Loading

Sr. No.	*Statements (Variables)*	*Factor Loading*
	Successor Knowledge	
1.	For successor it is essential to have capability and Professional qualities	0.782
2.	Successor should attentive for the crisis which can meet to the business	0.699
3.	Successor must be talented and can use his capacity full	0.633
4.	Successor has good interpersonal relationship in business	0.667
5.	Successor likes to do the challenging job in his business	0.710

Sr. No.	Statements (Variables)	Factor Loading
	Successor Willingness	
6.	Successor wants to manage his business in all phase	0.711
7.	Successor wants to build his business more productive	0.709
8.	Successor may leave his job for succession	0.668
9.	Successor wants to take over the responsibilities of his business	0.672
10	Successor has higher potential of good business performances as compare to his predecessor	0.715
	Sustainability	
11.	Employee participate and understand the family business	0.683
12.	Employee take care each other and generate good relationship	0.755
13.	Employee build a trust relationship among themselves for smooth working	0.623
14.	After succession the production and sales of enterprise is continuously increasing	0.664
15.	Employee cooperate each other in spite of comparing each other	0.651
16.	Employees are satisfied with the performance of enterprise	0.781
17.	Business also contributing in social, ethical and political sector	0.785
18.	Employees get development on the basis of successor	0.621

As shown in Table 2, the factor loading of each item lied between 0.621 to 0.785, in which every item has the value > 0.6, most items were showing the heavy loading.

Before applying statistical tools, testing of the reliability of the scale is very much essential as its shows the extent to which a scale produces reliable result if measurements were made normally. This is done by determining the connection in between value obtained from different administrations of the scale. If the connection is high, the scale yields consistent result that is reliable. Cronbach's alpha is most widely used method. It may be mentioned that its value varies from 0 to 1 but satisfactory value is required to be more than 0.6 for the scale to be reliable (Malhotra, 2002; Cronbach, 1951). In the present study, the researcher therefore used Cronbach's alpha scale got the measurement of reliability which is described in Table 3.

Table 3: Cronbah Alpha Value

	Scale	No. of Items	Cronbach's Alpha (α)
1.	Successor Knowledge	5	0.722
2.	Successor Willingness	5	0.810
3.	Sustainability	8	0.790

As shown in Table 3, it is considered that reliability value was estimated for successor knowledge, successor willingness and sustainability were 0.722, 0.810, 0.790 respectively. If we compare reliability value of the scale used in the present study with the standard value alpha of 0.6 advocated by Cronbach (1951), it was observed that the scale of the present study was highly reliable for data analysis.

Hypotheses Testing

In order to understand the impact of successor traits on family sustainability, two models were designs in this study for estimating the results. Model 1 (Table 4) shows the impact of successor knowledge on sustainability; model 2 shows the effect of successor willingness on sustainability. The linear regression was performed by entering the dependent variable sustainability and independent variable successor knowledge. The results indicate that the influence of successor knowledge on sustainability is significant.

Table 4: Model Summary of Successor Knowledge and Sustainability

Model	R	R^2	Adjusted R^2	Sig. F Change	Durbin Watson
1	0.513	0.263	0.219	0.000	1.623

a. Predictors: (Constant), Successor Knowledge

It can be found from the regression results in Table 4 that in model 1 the multiple coefficient of determination R^2 between successor knowledge and sustainability is 0.263, which indicates that both variables can be used for explaining the variance of 26.3%, which indicates that successor knowledge has positive impact on sustainability and P = 0.000, referring to a significant impact level. Therefore H1 is supported i.e. successor knowledge is positively correlated to family business sustainability.

Table 5: Model Summary of Successor Willingness and Sustainability

Model	*R*	*R^2*	*Adjusted R^2*	*Sig. F Change*	*Durbin Watson*
2	0.498	0.248	0.233	0.000	1.651

a. Predictors: (Constant), Succession Willingness

Table 5 presents the strength of the relationship between the model and the dependent variable. R is the linear correlation between the observed and model predicted value of the dependent variable in Model 2, the model summary of regression analysis of successor willingness and sustainability were discussed. In Table 5 these variables' large value of R (0.498) indicates strong relationship. R Square is the squared value of multiple correlation coefficients. Its value is 0.248; it demonstrates that the model explains 24.8% of the variation. Significance F change is .000 < .05. The Durbin Watson model explains the value 1.651 which indicates the positive autocorrelation between the variables. Hence successor willingness has positive impact on sustainable development.

Discussion

Regression analysis was separately conducted between successor knowledge, successor willingness and sustainability. First the result between successor knowledge and sustainability has been discussed. The value of R between the variables are 0.513, and R^2 is 0.263, which explains that variables explain 26.3% variation and the adjusted R^2 is 0.219. F value is 0.000. All the factors indicate to accept the alternate hypothesis. It means that successor knowledge has significant impact on sustainability. As regression model between successor willingness and sustainability states that the value of R is 0.498, R^2 is 0.248, which explains that there is variation of 24.8% between the variables. Adjusted R^2 value is 0.233, which is to the near of R^2. which concludes to accept the alternate hypothesis. It means that successor willingness has significant impact on sustainability.

A large number of family firms existing in the state belong to the first generation which are categorized as small and medium size enterprises. Very few studies were found on the relationship between successor traits and sustainability. That is why there is a lack on empirical research on family business. In the analysis of this study, it is found that there are three variables in which sustainability of family business is explanatory variable while successor knowledge and successor willingness are independent variables. Study found that there is a strong impact of successor knowledge and successor willingness on the sustainability of family business. A firm can achieve its sustainability if a successor plans well in time for the change.

Limitations

The basic method of data collection of the study involved a structured questionnaire. This might contribute to self-biasness of the given response. Further, this also resulted in the risk of non-return of questionnaires which had a great impact on the response rate. This study does not have a sampling frame and no records are available which could be accessed freely to obtain a complete list of family business in Uttarakhand. The researcher was only able to collect a sample of 200 respondents.

Conclusion

Family businesses are an important part of the Indian economy and the successful realization of intergenerational inheritance is the key to ensuring the sustainability of a family business. The results show that a strong relationship exists between succession traits and sustainability of small and medium family firms. The findings of regression analysis reveal that succession traits and sustainability play a significant role in the performance of family business. The family businesses must plan for its transition from present generation to the next generation. This study found that both successor knowledge and successor willingness have positive impact on sustainability, which means that successor will become more involved when they have a stronger sense of belonging.

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