

Succession Methods in Family-Owned Small-Scale Manufacturing Organizations: Evidence from Ahilyanagar MIDC

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ABSTRACT

Succession planning is an essential human resource management practice that ensures leadership continuity and organizational stability. Succession planning is a process which involves identifying the appropriate employee or person who shall be probable successor to key or senior level position in an enterprise whenever such post shall be vacant. There are different possible ways using which the organization can be handed over to the next generation. The objective of the present study is to explore different methods that are adopted for succession of family-owned enterprises in small scale manufacturing organizations situated in Ahilyanagar MIDC area. Primary data was collected using questionnaire from the successors of small-scale manufacturing firms. The study adopts a descriptive approach to understand that what are the options as a method of succession and how manufacturing companies select that method. The research concludes with recommendations on how the way of succession can be selected resulting into organizational continuity and effective leadership transitions in manufacturing companies.

Keywords: Succession Planning, Manufacturing Organizations, Family-owned Enterprises.

INTRODUCTION

Small-scale manufacturing organizations play a crucial role in the economic development of many countries, particularly in emerging economies like India. These enterprises contribute significantly to employment generation, industrial production, and regional development. Industrial clusters such as the Maharashtra Industrial Development Corporation (MIDC) areas have been established to support the growth of manufacturing industries by providing infrastructure, resources, and a conducive environment for business operations. In districts such as Ahilyanagar (formerly Ahmednagar), numerous small-scale manufacturing firms operate within MIDC zones and form an essential part of the regional industrial ecosystem.

Despite their economic importance, many small-scale manufacturing organizations face significant challenges related to continuity and leadership transition. One of the most critical strategic issues affecting these organizations is succession planning. Succession planning refers to the systematic process of identifying, developing, and preparing potential individuals to assume key leadership roles within an organization when current leaders retire, resign, or are otherwise unable to continue their responsibilities. It is a proactive approach that ensures the smooth transition of leadership and helps maintain organizational stability and performance.

Succession planning is a strategic human resource management process that ensures the identification and development of future leaders within an organization. It focuses on preparing employees to fill key positions when current leaders retire, resign, or move to other roles.

The conceptual framework of succession planning in manufacturing organizations generally includes the following components:

- **Identification of Key Positions:** Organizations identify critical managerial and leadership roles that are essential for maintaining operational efficiency and strategic decision-making.
- **Talent Identification:** Potential employees with leadership capabilities are identified based on performance, experience, and skills.
- **Leadership Development:** Selected employees are provided training, mentoring, job rotation, and leadership development programs to prepare them for higher responsibilities.
- **Performance Evaluation:** Continuous evaluation helps organizations assess whether potential successors are ready to take leadership roles.
- **Succession Implementation:** When leadership positions become vacant, trained internal candidates are promoted, ensuring continuity and stability within the organization.

For small-scale businesses, succession planning becomes even more important because many of these firms are owner-driven or family-managed enterprises. The knowledge, decision-making authority, and business relationships often remain concentrated in the hands of a few individuals, particularly founders or senior family members. When these key individuals exit the organization without a structured succession plan, it can create operational disruptions, leadership gaps, and even threaten the survival of the business.

Research indicates that although business owners recognize the importance of succession planning, many organizations fail to implement formal strategies for leadership transition. Studies revealed that significant number of small and medium enterprises either delay succession planning or treat it as a low priority due to lack of resources, awareness, or reluctance of founders to transfer control. Furthermore, only a small proportion of organizations have documented succession plans, highlighting a gap between the recognition of its importance and actual implementation.

In industrial clusters such as MIDC areas, where small-scale manufacturing units operate in competitive environments, effective succession planning is vital for long-term sustainability and growth. Proper succession planning helps organizations retain institutional knowledge, develop future leaders, and ensure continuity of operations. It also supports employee development through training, mentoring, and leadership grooming, thereby creating a strong internal talent pipeline.

The manufacturing sector in MIDC regions of Ahilyanagar includes various small-scale enterprises engaged in engineering components, fabrication, processing units, and other industrial production activities. Many of these businesses have been operating for decades and are now entering a phase where founders or senior leaders are approaching retirement. This situation makes succession planning an increasingly relevant and necessary management practice for ensuring the sustainability of these organizations. However, there is limited empirical research focusing specifically on the methods of succession planning adopted by small-scale manufacturing organizations in the MIDC areas of Ahilyanagar.

Therefore, the present research aims to explore and analyze the different methods and practices used by small-scale manufacturing firms in this region to plan leadership succession. The study seeks to understand whether these organizations follow formal succession planning systems or rely on informal approaches such as family inheritance, internal promotion, mentoring, or external recruitment. Additionally, the research intends to identify the challenges faced by these organizations in implementing succession planning and examine how these practices influence organizational continuity and performance.

Following are various methods of succession:

- Passing only management (not ownership) of family-owned enterprises to next generation as method of succession.
- Passing management as well as ownership of family-owned enterprises to next generation as method of succession.
- Selling-off family-owned enterprises to third party as method of succession.
- Appointing non-family CEO, but retaining ownership and control of family owned enterprises as method of succession.
- Appointing non-family CEO, but giving away part of ownership and control of family-owned enterprises as method of succession.

II) LITERATURE REVIEW

- Bhat Mohd. Abass, et. al. (2013) conducted comprehensive survey using secondary literature on management of Indian family business. Article gave overview and academic researches on working and operations of family business firms. Importance of family businesses witnessed intense change in recent past. Thorough strategies, operations and financial transformations had brought sense of corporation among Indian family businesses that enhanced competitiveness during post-liberalization phase. Role of family was essential to avert conflicts between rules and implement changes in expectations for behaviour in each system that weakened business.
- Bhardwaj Shikha (2014) conducted study on emotional and family effects of succession planning of family-owned businesses. Research emphasized on realizing succession planning was integral part of every business. In India, bigger business firms were more comfortable in discussing such issues in board meetings. In India, businesses were mostly like property aspect where one person owned and later passed on the same to family member only. Research discussed problems and issues experienced alongwith changing patterns and practices in succession planning of family businesses in India. Study aimed to assess and recognize existence of Emotional Influence (EI) and Family Interference (FI) in succession planning with reference to family owned small and medium enterprises in automotive component industry.
- Bathija Akash and Priyadarshini R. (2018) analysed factors influencing succession planning in small and medium scale family-owned businesses in India. There were numerous factors considered to identify successors in family businesses. Succession planning was regarded as complicated process and critical challenge to family businesses. Study focused on effects of personal factors as well as organizational factors in small and medium scale Indian family businesses. Study emphasized on

significance of understanding effects of these factors while recognizing successor because such factors determined the success or failure of family business.

- Shivashankaran Revathy and Arnav Anni (2018) worked on exploring and designing suitable Succession Planning Model. Study perceived developing profound leadership pipeline was priority for advancing and growth-oriented organisation because it was critical element towards building robust institution enduring the founders. Succession planning depended on large pool of talented human resource varying from fresh / newly recruited employees to senior leaders being prepared for key responsibilities. Such employees possessed suitable skills, energy and leadership qualities that benefited company across range of roles, departments and hierarchy levels.
- Ballal Juili and Bapat Varadraj (2019) examined family succession and innovation in firms in Thane city, Maharashtra. Family business was oldest and dominant type of business enterprise. About 85% of Indian firms were owned and managed by families and contributed to 2/3rd of GDP. These family businesses generated 79% employment in private sector. Considering these facts, survival of family firms was of high significance. Effective succession planning and innovation to enhance competitive edge over competitors was must if family businesses want to survive.
- Dinesh S., et. al. (2019) investigated conditions of Indian family business enterprises. Study tried to identify reasons behind success of family-owned businesses and also highlighted reasons for failure of family-owned firms. Empirical design was used covering sample of 450 respondents randomly selected from small business firms. Family businesses had strong traditional base comprising strong family cultures, own values and market goodwill. Although sleeping partners, all family members should be communicated with all business details and this would develop trust and confidence among family members and further enhance business.

III) RESEARCH METHODOLOGY

3.1) Objectives of the Study

- To understand the concept and importance of succession planning in manufacturing organizations.
- To explore different methods to be adopted for succession of family-owned enterprises
- To examine the succession planning practices followed by manufacturing companies in Ahilyanagar district.

3.2) Research Design

- Descriptive research design was used.
- Quantitative approach was used as study investigated into opinions and perceptions of successors regarding the methods of succession planning of family-owned enterprises.
- Cross-sectional approach was adopted.

3.3) Data Collection

- Researcher collected both primary data and secondary data.
- Primary data: Data was collected using field survey through preparing and administering the structured questionnaire. This data was collected from 36 individual

successors who were family members responsible for owning, managing and controlling of family-owned enterprises in Ahilyanagar MIDC.

- Secondary data: Data was collected from the reference's books, Ph. D. thesis, dissertations, reports, research papers and articles in periodical, journals and internet.

3.4) Scope of the Study

- Study analysed and investigated the succession planning of family-owned enterprises in Ahilyanagar MIDC area.
- Study covered successors belonging to second generation and above, who owned, managed and controlled the family-owned enterprises.
- Study considered successors of age over and above 30 years.
- Both male and female successors of family-owned enterprises were covered.
- Study covered family-owned enterprises which were into existence from at least last ten years.
- Small scale Family-owned enterprises involved in manufacturing activities were contacted.

3.5) Statement of Hypotheses

- H0: There is no relationship between methods used for succession and challenges experienced in succession of family-owned enterprises
- H1: There is relationship between methods used for succession and challenges experienced in succession of family-owned enterprises.

3.6) Sampling Plan

- Population: Population included family-owned enterprises located in Ahilyanagar MIDC area.
- Sampling Frame: Sampling Frame included individual successors who were owners of family-owned enterprises belonging to second generation or above.
- Sample size: The sample size was 36 individual successors.
- Sampling Method: Combination of convenience sampling method and snow-ball sampling method was used.

3.7) Data Analysis

- Statistical tools: Tools such as percentages, weighted average scores were used. Data was presented with the help of tables, charts and graphs.

3.8) Limitations of Study

- Study was limited only to family-owned enterprises in Ahilyanagar MIDC area. Study was limited to successors of family-owned enterprises.
- Study did not cover first generation businessmen or entrepreneurs (who initially started the family business).
- Enterprises that were into existence from less than ten years were not covered.
- Successors having age of less than 30 years were not considered.
- Study was limited to sample size of 36 successors only.

IV) DATA ANALYSIS AND STATISTICAL INFERENCES

Research aimed to assess and establish the relationship between methods used for succession and challenges experienced in succession of family-owned enterprises in Ahilyanagar MIDC.

Factors such as availability of resources, views of family members & stakeholders, location of enterprise and urgency of situation, resulted in selection and adoption of appropriate method for succession of family-owned enterprises. Considering this fact, methods used for succession was regarded as independent factor.

Based on methods selected or adopted for succession, numerous challenges may be experienced in the succession process of family-owned enterprises. Considering this fact, challenges experienced in succession process was regarded as dependent factor. Pearson Chi-Square Test for independence was applied and values were determined and calculated for testing the hypothesis using SPSS Software at 95% level of confidence.

Table showing case summary and chi-square test for relationship between methods used for succession and challenges experienced in succession of family-owned enterprises

Cases / Factors	Case Summary					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Methods Used for Succession x Challenges Experienced in Succession	36	100%	0	0%	36	100%
Independent Variable	Methods Used by Successors for Succession					
Dependent Variable	Challenges Experienced in Succession					

Chi-Square Tests	Value	Df	Significance Level (2-sided)
Pearson Chi-Square	212.368 ^a	4	0.001
Likelihood Ratio	74.513	4	0.000
Linear-by-Linear Association	33.847	1	0.000
Standard Deviation	0.2298		
Mean Square	29.135		
N of Valid Cases	36		

Result: Applying the chi-square test, analysis and inferences drawn, there existed strong relationship between the selected two factors. Thus, null hypothesis (H0) got rejected and alternate hypothesis (H1) got accepted.

Result showed there was significant relationship between various methods used for succession and challenges experienced in the succession of family-owned enterprises in Ahilyanagar MIDC.

V) FINDINGS

- Findings regarding suitable methods of succession of family-owned enterprises
- Successors perceived following methods of succession were beneficial or highly beneficial: Passing or transferring entire control of family-owned enterprise including management as well as ownership to next generation
- Successors perceived following methods of succession were less beneficial: Passing or handing over on only the management (not ownership) of family-owned enterprises to next generation. Appointing non-family member as CEO, but retaining the ownership and control of family-owned enterprises
- Successors perceived following methods of succession were not beneficial: Selling-off or liquidating the entire family-owned enterprise to third party. Appointing non-family member as CEO, but giving part of the ownership and control of family-owned enterprises

VI) SUGGESTIONS

- Written and clear policy on succession should be drafted and communicated by the owner / proprietor of manufacturing firm well in advance. Also this policy needs to be effectively and timely communicated to all stakeholders.
- Knowledge about procedure and course of succession should be gained and acquired by the owner / proprietor of manufacturing firm before actually commencing with the procedure. This shall enhance efficiency of succession process and thus, deliver better results.
- Succession process to be completed within appropriate time limits. Owner / proprietor of manufacturing firm should ensure should commence as well as executed within specified time limits and deadlines.
- Succession (inheritance of enterprise) should not to be executed under pressure or force. All concern stakeholders should give positive consent and willing participate in the overall succession process.
- Redressal of grievances and conflicts arising from succession should be ensured. Any kind of dispute or conflict arising from succession should be settled appropriately.

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