
State of Succession Planning with Generational Imperatives in Indian Family Managed Businesses

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Abstract

Succession issues are prominent topic since ancient times when kingship and clan system prevalent in India. In tradition, the eldest son become successor for king position when his father becomes retire or not interested to manage the kingdom due to various reasons like old age, health considerations, sudden death or due to some other reasons. The present study is an attempt to investigate and explore such connections and imperatives to provide a rich insight to Indian businesses managing their wealth and family estate in a multidimensional social system. In this conceptual study, it is attempted to get linkages and insights on the topic of succession planning and management to prepare next generations of leadership bench. The findings suggest that Indian family managed businesses need to work upon their succession strategies and they should focus to create some proactive plan.

Keywords: *Succession planning, successor, family business, leadership, social system*

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Introduction

Succession planning is a process which ensure the availability of key persons on leadership roles such as next CEO, Chairman and other top-level positions in any business. In true sense, it is as essential as the existence of business itself. The firm is a direct manifestation of its founder. A living entity that is not only learning but also making mistakes ought to be regarded as something that should be viewed as such. Family businesses should not be perceived as faceless entities, but rather as distinct individuals with their own unique narratives (Hnatek,2012).

Meaning of Generational Succession Planning

Simply, In Business world, succession means who will lead to the position of chairman/CEO or having control over the ownership. Generational succession refers to the strategy of appointing CEO /Chairman /Head of business from the family members. For Example, an existing Chairman/owner may appoint his elder son /daughter as next chairman during his tenure or announces that after his death/retirement, his nominee from family will manage the estate /family business empire.

Genesis of the study

Managing Family business is critical issue for many prominent Indian businesses. Succession planning is one of the relevant areas which needs to be given proper attention and care. The recent cases of Bisleri India, Sahara India, Cipla and many others emphasizes that there should be a proper study which explore and offer insights on proactive succession planning.

Scope of the study

Study offers insights that managing succession is a challenge for majority of Indian Family businesses. Hence, present study is a reference point from which imperatives and solutions to this prominent problem can be obtained by the family business owners. Even, this study caters way to manage succession plan and ensuring business continuity in startups working in different sectors and divergent nature of businesses.

Review of Literature

Many times, businesses that were started by entrepreneurs end up being owned by families. During the early phases of the new venture, the relative or any close person of the founder may have performed some work in new setup. However, the true change from a nascent business to a family business enterprise often takes place when the family members begin working and contributing for the new startups. The proprietors might face the challenges due to biasness caused by nepotism and lesser interest in professional way of managing the startups that is typically a case to majority of family enterprises. As an outcome, the firm may very well continue to be an entrepreneurial set of company, and the owners wish to be known in this manner. However, if members of the upcoming generation start working as an employee or shareholders, the characteristics of the company changes, as do the challenges it faces and the distinct competitive profile it possesses (Poza,2010).

Existence of family enterprises is widespread. The United States of America is home to over 17 million family businesses, including single owner setup / proprietorships, and represents around 90 percent of all incorporated enterprises. Companies owned by Family and controlled by family make up approx. 90 percent of all businesses (Astrachan,1994; Poza,2010). There are around sixty percent of publicly traded companies that continue to be influenced by families, and thirty percent

of all Fortune-500 corporations are controlled by families (Bristow,2000; Poza,2010). India is also a prominent place for having larger number of enterprises having family led ownership. As a result of this fact the first and next to first generations are actively involved in seventy percent of family enterprises, the tradition of multi-generational involvement continues to exist. In addition to market volatility, the survey conducted by SPJIMR finds that family dynamics are the most significant obstacle that Indian family businesses face (SPJIMR Unveils India: State of Family Business Report 2023, 2024). There are different types of family-based enterprises like sole proprietorships, partnerships firms, LLPs, S -corporations, C- corporations, holding companies, and even publicly traded enterprises that are owned by the family (Poza, 2010).

In addition, the authors identified a number of personal factors, such as socialization inside the family business and experiences gained from the outside world, that can assist in determining the level of commitment that successors have, as well as the ways in which this commitment can shift once they are in a position of authority. Among the professional factors that were considered to have a positive influence on the succession planning process like size of the business was the one that was backed by both the founder and the successor. Every time a family group expands and becomes more complicated, it is absolutely necessary to have a set of procedures that are clearly established (Bozer,2017).

Effective succession management relies on the merits of a coherent family led business, a flexible family culture, and familiarity. Successors' dedication and how it might evolve once they take the helm are both influenced by a number of individual factors that the study uncovered, such as family-business socialization and outside experiences. Incumbent, successor, and nonfamily members all agreed that the size of the business was a major professional factor influencing the succession process. A well-defined set of business process and procedures is essential for every family-based business, but especially those that are expanding and become more complicated. A well-defined set of procedures is essential for every family business, but especially those that are expanding and become more complicated (Bozer,2017). Literature offers insights that there are three prominent patterns of succession can be observed in organizations based on CEO /Chairman intention to make decisions and value old traditions of fore founders. These are 1) Conservative successions (CEO firmly dependent upon old values enshrined by forefathers of the business 2) Wavering successions (Here CEO might be uncertain that how he can implement the legacy of business) and 3) Rebellious successions (New CEO never follows the value set forth by founders) (Miller,2003).

Theoretical Framework

The 3- Circle Model on Family Business System

This was developed by Tagiuri and Davis in 1982. This model is effective in understanding the complex relationships and changes occurs within family businesses. The model caters of three

intersecting circles, each representing a different aspect of the system of family business i.e. Ownership, Family, and Business itself.

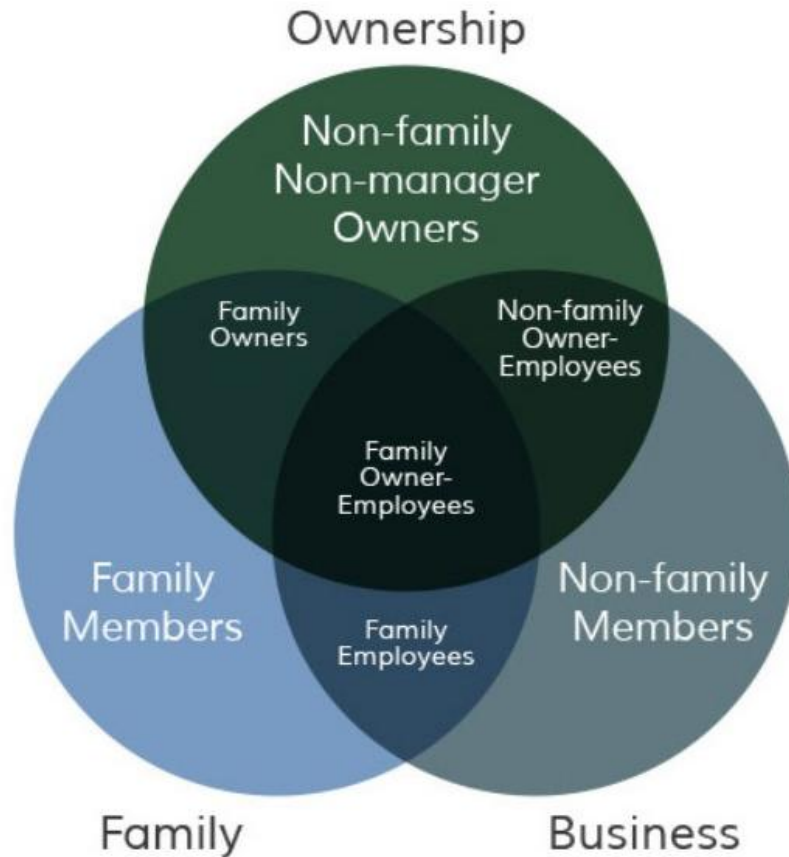


Figure 1: Three-Circle Model of the Family Business System

Source: Davis and Tagiuri (2022)

Ownership:

- **Only Shareholding in Family Business:** These are individuals who own part of the business but are neither family members nor involved in managing the business.
- **Owner-Employees without family ties:** These are individuals who own part of the business, but work in the business and they don't have any family relations.

Family:

- **Owners from family background and relationships:** These are family members who have ownership structure in the family business.

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- **Employees belonging to family but no ownership at all:** such members are related to family but who work in the business operations but do not have ownership stakes.

Business:

- **Family Owner-Employees:** Such people have both ownership and working profile.
- **Non-family Members:** These are individuals who work in the business but don't possess ownership and stakes.

Intersections:

- The common part of Family and Ownership keeps Family Owners.
- The overlapping part of Ownership and Business includes Non-family Owner-Employees.
- The common part of Family and Business includes Family based Employees.
- The intersection of all three circles (Family, Ownership, and Business) includes Family Owner-Employees.

This model illustrates how individuals can play different roles within a family group and how these roles cross each other and interact. Understanding these dynamics is crucial for managing family businesses effectively, as each group may have different interests, goals, and perspectives.

Research Methodology

Research Objectives

- To highlight the various dimensions of the state of succession planning in Indian Family Managed Businesses
- To analyse the imperatives enshrined for business managers handling succession planning in Family Businesses in India

Research Design

In an exploratory design, secondary published sources specially the peer reviewed articles have been analysed to formulate various themes and highlight the underline dimensions in generational succession planning. Major databases like Google scholar, dimension AI, web of science and Scopus have been utilized to check relevant articles for succession planning and related key themes.

Data Analysis & Discussion

Outlook on State of Succession Planning & Management in Indian Family Managed Group

In table 1, the information has been given about significant Indian business leaders, including their companies, market capitalizations, ages, and intended successors. A number of leadership transfers are highlighted, such as the ambiguity surrounding Mukesh Ambani's succession, the professional management of Uday Kotak, and Yusuf Hamied's intention to sell some stake in Cipla.

Table 1: Outlook on succession planning in Most Popular Indian Family Businesses

Business Leader	Age	Company	Market Capitalization	Current Status on Succession Plans
Mukesh Ambani	65	Reliance	₹16L crore	Leading until 2029; all 3 children on the board, succession plan not yet clear
Uday Kotak	64	Kotak Bank	₹3.5L crore	Resigned as MD & CEO; professionals in charge; son's elevation depends on board decision
Anand Mahindra	68	Mahindra	₹1.9L crore	Two daughters not in leadership positions
Kiran Mazumdar-Shaw	70	Biocon	₹32K crore	No children; no announced successor and succession plan
Nusli Wadia	79	Britannia	₹1.1L crore	Younger son Jehangir stepped down from multiple Wadia Group boards
Yusuf Hamied	87	Cipla	₹96K crore	Heirs have no long-term interest; looking to sell the business
Dilip Shanghvi	67	Sun Pharma	₹2.7L crore	<i>No available information about successor / succession plan</i>
Harsh Mariwala	72	Marico	₹74K crore	<i>No available information about successor / succession plan</i>

Baba Kalyani	74	Bharat Forge	₹51K crore	<i>No available information about successor / succession plan</i>
Prathap Reddy	91	Apollo Hospitals	₹72K crore	<i>No available information about successor / succession plan</i>
Anil Agarwal	69	Vedanta	₹84K crore	<i>No available information about successor / succession plan</i>
Onkar Singh Kanwar	81	Apollo Tyres	₹24K crore	<i>No available information about successor / succession plan</i>

Source: *Economic Times*. (2024). *Aging Guard: All Eyes on How Business Leaders Will Pass on The Baton to The Next Generation*

These transitions demonstrate the difficulties that arise when passing on leadership to the subsequent generation. It is indicating from above table that almost 50% of Indian family firms have no proactive succession plan in place. It shows reluctance and lesser focus on this important issue of leadership transition. There is clear indication that majority of Indian family firms need proper attention and working bodies which can tackle these important issues with ahead of time. It shows the emergent attention on issues like developing a proactive succession plan, developing leadership bench and having profound legacy on appointing successor who can lead the enterprise with existing legacy and brand value.

Challenges and Opportunities in Managing Succession

Succession planning become even more complex and challenging one a small size entity become big corporate company. The cases of Indian family-owned enterprises (Table-01) clearly shows that existing leadership lack in vision to develop profound leadership bench and develop a strong leadership pipeline in timely manner. It requires proper education, learning and enshrine values from family ties that continues family legacy over the period of time. If, such attention will be given then the size, operations and overall growth of Indian family firms will be even bigger than the current time. Even, more strong business leaders will emerge from family enterprises who will march their entities with zeal, commitment and value set forth by their fore founders.

Managerial and Social Contribution of the study

Managerial contribution

The need of proactive approach in succession planning in family firms is emphasized throughout the table -01. Bringing to light the situations of Bisleri India, Sahara India, and Cipla, this article brings attention to the fact that it is essential for family businesses to make preparations for leadership transfers well in advance in order to guarantee continuity and stability. Different approaches to succession, such as conservative, wavering, and rebellious successions, are discussed in the work, which offers insights into these approaches. By gaining an understanding of these patterns, current leaders are better able to make educated judgments on the developing of future business leaders who are in line with the values and strategy of the organization. Through the presentation of the 03-Circle Model of the Family Business System, the present study provides a framework for comprehending the intricate relationships that found between family, ownership, and the responsibilities that are played in the business. Within the context of family enterprises, this approach can be of assistance to managers in navigating the multiple interests and duties that exist. Developing a leadership pipeline and enshrining family values are two of the primary problems that are identified in the text as challenges that are associated with managing succession. By taking proactive measures to address these difficulties, family businesses may be able to strengthen their leadership and experience sustained success. Passing down the values and traditions of the founding family to subsequent generations is a prominent step in the process of preserving the family legacy. A well-planned succession may ensure that the family's tradition and values are preserved from one generation to the next generation.

Social contribution

Family business group frequently shows prominent role in the areas in which they are located. The successful planning of succession ensures that these enterprises will continue to flourish,

so contributing to the economy of the local community and generating employment opportunities. The text offers a cultural viewpoint by concentrating on Indian family enterprises as its primary subject matter. For the purpose of developing succession planning techniques that are more culturally sensitive and effective, it is helpful to have an understanding of the specific difficulties and changes that family firms face in India. The relevance of this study lies in the fact that it can be used as a reference point for both theoretical and practical insights on succession planning. The analysis of secondary sources and the highlighting of significant themes are two ways in which this article contributes to a more comprehensive understanding and knowledge base of family business management. The emphasis placed on the management of succession issues and opportunities drives family enterprises to adopt practices that are more professional and structured. This has the potential to result in enhanced governance, transparency, and overall success during the business.

Conclusions

Present papers explain the various issues related to succession planning and its consequences to family managed enterprises. It caters social as well as managerial imperatives which is useful for people working in corporate world. In the age of technologies-based startups development, the need of succession plan development is quite importance for the existence of the entity which often face challenges of leadership succession and its transitions. The cases described under this study highlights the emergent need of passing the leadership roles effectively to next generation of family members otherwise there is question on business existence and its upcoming future. Managing family ties again important for further growth and development of nascent enterprise because there is always a risk of loss of leadership due to natural situations. There is a need of understanding the intersection of all three prominent components of family system including Family, Ownership, and Business itself. This is critical for effective business continuity.

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