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How Does Family Succession Impact Family Firms' Innovation?

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Abstract Family business is the oldest and the most prevalent type of entity in the world. In India, 85% of the enterprises are owned and/or managed by families, contributing to two-third of GDP. Thus the survival of family firms, which also generates 79% of private sector employment, is of paramount importance. Effective succession planning and innovation to gain competitive edge are the two key ways to ensure family firm survival. In this paper, the interplay between family succession and innovation is qualitatively studied using case study approach. Successors and Predecessors are interviewed to gain insights in the areas of succession planning and innovation. It is observed that family succession has a positive relationship with innovation, i.e. the presence of founding family members in the ownership and/or management of the enterprise has a positive influence on innovation tendency of the family firms. The findings contribute to the family business literature on succession planning and innovation, and their inter-relationship.

Keywords Family firms, innovation, succession, qualitative study

I. Introduction

Family businesses are a leading type of business (Sharma et al., 2012), contributing to two-thirds of total businesses across the world (Michelli, 2014). Over 60% of the enterprises in Europe and the Americas are run by families (Ernst & Young, 2013) and in India this number is even bigger, with more than 85% of businesses being identified as family enterprises (Ramachandran and Bhatnagar, 2012). According to a KPMG report released in 2013, family businesses contribute to two-third of India's GDP and account for 79% of organized private sector employment. The family business is the oldest and the most established type of entity in the world, and is considered to be a

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cornerstone of overall socio-economic development (Poutziouris et al., 2006). Thus, the survival of family businesses is of paramount importance for the growth and development of a country (Rafael et al., 1999). The survival question of the family business can be answered by effective succession planning (Boyd et al., 2015; Motwani et al., 2006; Sharma et al., 2003).

Change is inevitable and the fact that his/her successor replaces every business owner is undeniable. In other words, this process of replacement is called succession planning. The significance of succession planning has been emphasized in the sustainability of family businesses (Boyd et al., 2015; Motwani et al., 2006; Sharma et al., 2003). The success of a family business is influenced by the succession planning that is undertaken in the firm (Ghee et al., 2015). However, many family firms turn a Nelson's eye to the process of succession planning (Mandl, 2004). They fail to understand the implications of ineffective succession planning on the business growth and continuity.

A firm can continue to survive and grow only if it is able to stand the increasing competition. To stand the competition, innovation is important. Innovation gives a competitive edge to the firms (Porter, 1990). Innovation acts as a key driver and influences family firm performance (Kellermanns et al., 2012) as well as is responsible for long-term existence of the family businesses (Schumpeter, 1934). The success of a family firm is measured by its long-term survival. In order to achieve long-term survival, innovation is the key. Broadly speaking, innovation refers to the manner with which a firm can adapt to changes and then use those changes as entrepreneurial opportunities (Craig and Dibrell, 2006; Drucker, 1985).

This paper seeks to explore the interplay between succession planning and innovation in family businesses, typically the role of succession from one generation to the other on India family firms' innovation propensity. A comprehensive approach is used to address both the issues of succession and of innovation. The four innovation indicators are used in this study are taken from the Oslo Manual (OECD, 2005). During the course of this study, the family dynamics existing within the business families will be explored. In addition, the preparedness of family members involved in the family business towards succession planning can be comprehended and the influence of succession planning on innovation is also known. Qualitative data is collected from five predecessors and eight successors from five MSMEs (micro, small, and medium enterprises) based out of Thane (a city in Maharashtra state of India). The enterprises are active in a variety of sectors.

Insights obtained from this study are particular to India and, thus, contribute to the literature on Indian family businesses. India is an incredibly complex country made up of different regions, states, geographies, languages, and cultures. The people in north and south are as different as chalk and cheese. The south is more conservative, while the north is competitive and aggressive.

It is also known that the economic and cultural background of the nation influence family policy decisions and, thus, family firm's decision-making (Ward, 2004).

The paper is organized as follows. Section 2 reviews the extant literature on family business, succession planning, and innovation. Section 3 discusses the data and methodology. Section 4 highlights the findings. The discussion surrounding the study features in Section 5. Finally, Section 6 and 7 chalks out the limitations and scope for future research, and summary and conclusion, respectively.

II. Literature Review

1. Family Business

The existing literature boasts of several definitions of family business. According to Chrisman et al. (2005), the role of family involvement defines family business. Further, family involvement has been classified into ownership, management, and governance. The other aspect discussed by Chrisman et al. is the essence. Essence has been accredited to resources (Habbershon and Williams, 1999), intention and behavior (Churchill and Hatten, 1987). Apart from resources, intention, and behavior, two other features of essence-based definition of family business are shared history and commitment to a future together (Hoy and Sharma, 2010). According to Burns and Whitehouse (1996), a family firm is defined as a business entity in which members of the founding family come together to work, to take informed decisions, to achieve the goals, and to ensure that the profits are equally distributed.

Family business is known to be the oldest and the most ubiquitous type of entity in the world. Irrespective of their size, legal structure, and industrial activity, family enterprises are considered to be of paramount importance for the overall socio-economic development (Poutziouris et al., 2006). Family firms typically start small and gradually grow to become big business houses. Dawson and Hjorth (2012) contend that family businesses are more likely to be successful and profitable than their non-family counterparts. The extant literature states that the Indian family businesses are more inclined to having own family members involved in the management and ownership of the business. Hence, family members hold significant managerial positions within the business and are directly involved with the daily operations (Astrachan and Shanker, 1996).

2. Succession Planning in Family Business

Within family business literature, one-third of the total research focuses on succession planning (Sharma et al., 1996). The existing literature on the process of succession planning in family business is scarce (Groysberg and Bell, 2014). A mere 33% of the family organizations survive up to the second generation, 15% up to the third generation, and a miniscule 3% up to the fourth generation (Jain, 2006). In the majority of cases the current leader of the business is not willing to lose his/her position to the successor and therefore holds on to his/her position well over the stipulated time (Lansberg, 1988). Due to this reason, there is a chance that he/ she would not pass on the key learning and experience to the next generations. Since there is lack of flow of knowledge from one generation to the other, the newer generation is unaware of his/her roles and responsibilities. These incidents can certainly be averted if there is a free flow of knowledge from predecessor to successor (Singh, 2016).

The process of succession planning can be steady and systematic when there is good planning with respect to transferring the baton from one generation to the other (Wolfe, 1996; Rothwell, 2001). This can be accomplished when there is maturity, financial stability, and close ties between family members (Beckhard and Dyer, 1983). India, which houses 99% of family enterprises, counts many family firms that have survived into the fifth generation. Some of these successful families are Godrej, Dabur and Murugappa. These examples clearly show that if there is a strong bond among the family members and if healthy family values are transferred smoothly from one generation to the other, then it is likely that the business succeeds (Martin et al., 2002). It is essential to understand that ensuring a proper flow of family values from generation to generation is challenging, but once this is mastered then there is no stopping the entrepreneurial activities in the family (Singh, 2016).

3. Innovation in Family Firms

The essential prerequisites for a successful business are to embrace change and innovation. In order to undertake market innovation, it is important for a family firm to adjust to changing times, making optimum use of advanced technology and grabbing every possible global opportunity (Storey, 2011).

The concept of innovation includes, but is not limited to, introducing new products, adopting new technology, following new business practices that are more market-driven, thereby creating a competitive advantage for the firm. In order to innovate, it is important that the employees working in the business are knowledgeable. In case of a family firm, if the founding family members working in the business have adequate knowledge and skill set then it is very likely that the firm will find it easy to innovate. Otherwise, if the family firm is devoid of such resourceful people within the family, then the firm can look outside for hiring professionals who can innovate (Gedajlovi and Carney, 2012).

According to Craig and Moores (2006), it is important to strike a perfect balance between knowledge and implementation, since innovation without this balance is not profitable. Many researchers claim that mere exposure to theoretical knowledge is not sufficient to generate profits and perform innovations; practical knowledge is the key to sustain innovation.

In the context of family firms, training is provided to the next generation of entrepreneurs in the quest to developing them into creative and innovative business players (Storey, 2011). According to Gedajlovic and Carney (2012), innovation should be a treated as a priority for family firms, and the way to produce new ideas at the organizational level. Innovation is considered to be the most important factor in the growth of small family firms. It has been usually observed that family firms are skeptical about innovation. They do not experiment because of financial and time constraints, as well as the nature of family dynamics shared among the family members of the business. However, recent research has thrashed these assumptions. The research undertaken in this field proves that family firms, especially the smaller ones, break conventional shackles and tend to act more boldly. These small family firms showcase entrepreneurial innovativeness and implement bold decisions. According to Zahra, 2005, small family firms tend to adopt new ideas and technology more quickly than larger, well-established firms. These firms usually do this by launching new products in the market that project their innovativeness.

Another distinguishing factor of family firms is its long-standing relationship between the family members and the firm itself. Taking this on board, family firms tend to have a farsightedness rather than being tempted to generating short-term profits. Since innovation is a time-consuming process and is beneficial in the long run, family firms are willing to invest in new products, processes, strategies, etc., and wait patiently to reap the benefits of innovation (Upton et al., 2001).

4. Interplay of Succession Planning and Innovation

The extant literature on the relationship between succession planning and innovation gives mixed results. Hacibayramoğlu (2014) discovered that there is a positive influence of succession planning on innovation tendency in family firms. This study was undertaken in Ankara, Turkey. Ten family businesses were studied in-depth, and the primary data collected from these family firms helped the author to conclude that there is a positive influence of succession planning on innovation in the business. In this study, the innovation indicators used were sourced from the Oslo Manual (OECD, 2005).

The four innovation indicators are: a) Product Innovation, b) Process Innovation, c) Organizational Innovation, and d) Market Innovation. It was observed that the family firms were more inclined to undertake product and marketing innovation. The reason cited was that introducing a new product or implementing a new marketing strategy was relatively cost- and time-effective compared to bringing a change in process and organizational set-up.

Sarwar (2014) undertook a study in the United Kingdom to investigate the interplay of succession planning and innovation. He observed several problems associated with innovation in family firms. There are conflicts of interests among family members, which act as a hindrance in the innovation process. Ineffective succession planning is a major cause of this problem. The family firms under study did not display strong family ties, and it was often seen that there were discrepancies in the decision-making process. As a result, it was not easy to get consensus of all family members involved in the business with respect to innovation, in terms of products, processes, etc.

Llach and Nordqvist (2010) have conducted a study on 151 Spanish manufacturing firms and found out that family-owned businesses are more innovative than their non-family counterparts. The family firms that were studied displayed certain characteristics that gave an impetus to social, human as well as marketing capital.

Craig and Moores (2006) noted that the family firms tend to invest less in hiring human capital in the form of skilled individuals and experts. Due to this reason, in a family firm, there are less or no talented personnel who can exercise innovation in terms of products, processes, marketing strategies, etc. In addition, they found that there is a dearth in free flow of communication from one generation to the other. Free flow of ideas is an essential pre-requisite of innovation. Due to lack of transparency in communication, there is no free flow of ideas, thereby hindering the process of innovation.

Westhead (1997) undertook a study in the UK of 427 organizations to understand the kind of innovation that happens in family-based companies. The author concluded that family firms provide an excellent variety of products and services, which give ample competitive edge against any other company.

Craig and Dibrell (2006) conducted a study to investigate the effect of firm-level natural-environment-related policies on innovation and financial performance in family and non-family firms. The main finding was that the family firms performed better than their non-family counterparts on the grounds of environment-friendly business policies, firm innovation, and financial performance.

Some of the methodological differences observed in the existing literature relate to the use of a single case versus multiple case approaches, and focus on a particular sector rather than a diversified sample of cases.

The review of literature points to the influence of succession planning on innovation, which can be different across countries. Research in this area has been mostly undertaken in European countries, however there exists a gap in understanding the relationship between family succession and innovation in the Indian context. It will be interesting to look at the aspect of succession and innovation in Indian family firms where the father-son relationship is usually formal and compromises become a necessity (Dutta, 1997). Moreover, we focus on MSMEs since it is the backbone of the Indian economy, contributing to 45% of overall exports and providing employment to close to 10% of the population[1]. Based on the extant literature relevant to our study, we seek to answer the following research question: What is the effect of family succession on innovation? The research objective is to understand the impact of family succession on firm innovation.

III. Data and Methodology

1. Definitions

1.1Family Business

There are multiple definitions of Family Business in the existing literature. Some of them revolve around the role of family involvement in the business and the essence generated through the involvement (Chrisman et al., 2005). Family involvement has been categorized into ownership, management, and governance, whereas essence has been accredited to resources (Habbershon and Williams, 1999), intention and behavior (Churchill and Hatten, 1987). Shared history and commitment to a future together are some of the other features of essence-based definition of family business (Hoy and Sharma, 2010). According to Burns and Whitehouse (1996), a family firm is defined as a business entity in which members of the founding family come together to work, to take informed decisions, to achieve the goals, and to ensure that the profits are equally distributed. In this study, the definition used is: Family Firms are those in which more than one member of the founding family are involved as major owners or managers (Miller et al., 2007).

[1] https://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECvTuNuXK6QP3tp4gPGuPr/xpT2f

1.2 Family Business Succession

Succession Planning can be defined as the transfer of business from the owner to somebody in the family or outside the family in the event of owner's retirement or any other reason. The succession can happen within the family or outside the family (Martin et al., 2002). This study only considered family succession, i.e., passing of leadership from one family member to the other family member. Passing of baton to non-family member is not considered in this study. Therefore, a more precise definition of family business succession which can be used in this study is the process by which the management control in family-owned business is transferred from one family member to another (Sharma et al., 2000).

1.3 Micro, Small and Medium Enterprises (MSMEs)

According to India's 2006 Micro, Small, and Medium Enterprises Act, the MSME Manufacturing Enterprises are classified as micro, small, and medium based on the investment in plant and machinery. The investment in plant and machinery does not exceed Rs. 25 lakhs in micro enterprises. The investment in plant and machinery is more than Rs. 25 lakhs, but does not exceed Rs. 5 crores in small enterprises. The investment in plant and machinery is more than Rs. 5 crores but does not exceed Rs. 10 crores in medium enterprises.

1.4 Innovation

According to the Oslo Manual (OECD, 2005), the term 'innovation' can be defined as the implementation of a new or significantly improved product (good or service), or a process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations. In this study, the four innovation indicators used are a) Product Innovation, b) Process Innovation, c) Organizational Innovation, and d) Marketing Innovation. These four types of innovation are defined in the Oslo Manual (OECD, 2005). Product Innovation can be defined as the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.

Process Innovation can be defined as the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. Marketing Innovation can be defined as the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Organization Innovation can be defined as the implementation of a new organizational method in the firm's business practices, workplace organization or external relations.

2. The Method

This study required a close examination as to which research approach is reckoned to be the most appropriate for the case study. This method also enables to focus on the dynamics present in single settings (Eisenhardt, 1989). In this case, single settings refer to family firms. According to Yin (1994), case studies allow for an in-depth analysis and a more detailed investigation that may be necessary to answer ‘how’ and ‘why’ questions. Furthermore, this study used the multiple case analysis method to examine the succession process in different organizational and family contexts. The goal of a multiple case study is to replicate findings across the selected cases and also to find out the similarities and differences between cases (Yin, 2009). Thus, the evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust (Herriott and Firestone, 1983).

The questions that were asked to the participants are attached in the Appendix section. Also, the consent form sample that was duly signed by the predecessors/successors is included in the same section.

3. Sample

According to Eisenhardt (1989), any number between four and ten cases usually works well and ensures sampling adequacy (p. 545). For practical reasons, five cases were selected, and interviews were scheduled with the family members (successors and predecessors) that lasted between one and one and a half hour each. Family businesses that have been in existence for two or more generations have been retained for the study. These families are based out of Thane, a city in the state of Maharashtra, India. The reasons for selecting Thane for this study are: 1) Thane is a metropolitan city immediately adjacent to Mumbai, the economic capital of the country[2;] 2) It is a city in the third most industrialized district in Maharashtra state[3]; and 3) It is made up of a culturally diverse population[4]. The five cases were selected on the following bases: 1) These family businesses are at least two generations old; 2) They have a sizeable turnover; 3) They operate in diversified industries, 4) A male-female mix (4:1 ratio) in the sample is achieved that makes the study more robust; 5) They are culturally different (2 Marathi-speaking, 2 Gujarati speaking, and 1 Marwadi speaking; Marathi, Gujarati, and Marwadi are the different languages that are spoken in India); and 6**)** The growth of family firms in the sample has

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[2] https://en.wikipedia.org/wiki/Thane

[3] http://dcmsme.gov.in/dips/IPS%20Thane..pdf

[4] https://www.census2011.co.in/census/city/367-thane.html

been intriguing, as the authors have observed these five firms closely over the years.

4. The Data

The names of the family businesses (FB) are not disclosed; for research purpose, the names are given as FB1, FB2, FB3, FB4, and FB5. The data collected by way of in-depth interviews of successors and predecessors are tabulated as follows:

Table 1 Company profile

Cases	FB1	FB2	FB3	FB4	FB5
Year of Establishment	1986	1990	1995	1980	1970
Product/Services offered	FMCG (Fast Moving Consumer Goods)	Ayurveda medicines	Apparel	FMCG (Fast Moving Consumer Goods)	Real Estate
Number of employees	1200-1300	30-35	90-100	100-120	70-80
Annual Turnover	Rs. 170 crores	Rs. 15 crores	Rs. 100 crores	Rs. 50 crores	Rs. 150 crores
Number of Successors	1	2	1	2	2
Successors in Managerial role	1	2	1	2	2

Table 2 Successors' attributes

Cases	FB1	FB2	FB3	FB4	FB5
Age	25	32, 27	21	35, 30	60, 55
Gender	Male	Female, Female	Male	Male, Male	Male, Male
Education	Post Graduate in Organizational Management and Business	BAMS, BAMS (Bachelor of Ayurvedic Medicine and Surgery)	B.Com (Bachelor of Commerce)	B.Com, B.Com (Bachelor of Commerce)	Civil Engineering, Civil Engineering + M.S.
Work Experience before Family Firm	Directly joined family business	Directly joined family business	Directly joined family business	Directly joined family business	Directly joined family business
Specific role in the Management	Marketing Director + Active involvement in sales promotion	Research and Development + Medical Practice, Accounts + Medical Practice	None	New Product Development, New Business Development	Improvement in Existing Product, New Product Development

Table 3 Predecessors' attributes

Cases	FB1	FB2	FB3	FB4	FB5
Age	54	58	45, 43	60	85
Gender	Male	Female	Male, Male	Male	Male
Education	B.Sc + Diploma in Business Management	B.Com + Course in Ayurveda and Naturopathy	B.Com, B.Com	B.Com	Civil Engineering
Work Experience before Family Firm	Directly joined family business	Worked as a Banker	Directly joined family business	Directly joined family business	Directly joined family business
Specific role in the Management	Managing Director + New Product Development	Research + Consultation	Marketing, New Business Development	None	None

Table 4 Recent innovation indicators

Cases	FB1	FB2	FB3	FB4	FB5
Product Innovation	Yes	Yes	Yes	Yes	Yes
Process Innovation	Yes	Yes	No	Yes	Yes
Organization Innovation	Yes	No	Yes	No	No
Marketing Innovation	Yes	Yes	Yes	Yes	Yes

IV. Results

The primary research question of this study is: How does family succession impact innovation in family firms? In order to seek an answer to this question, primary data was collected by way of in-depth interviews with successors and/or predecessors. The five family firms examined helped reach the conclusion that there is a positive influence of succession planning on innovation tendency in family firms.

This section analyzes the data collected and is divided into three parts: 1) Succession planning in family business, 2) Innovation, and 3) Interplay of succession planning and innovation.

1. Succession Planning in Family Business

All the five family firms have a systematic succession plan ready. According to the plan, succession has taken place without any noise. The roles and responsibilities of the successors and predecessors are neatly drafted without any ambiguity. These businesses have been in existence for at least two decades.

After reaching a certain point in time in the business, the older generation smoothly transitioned the business to the younger generation to fill up their shoes. The next generation is well educated. It was observed that a lot of importance was given to children's education. The business families that were studied encouraged basic as well as higher education among their children. Out of the five cases that were studied, the next generation that is rearing to take up their family business is well qualified. Despite their qualifications, they prefer to work in their own business, rather than take up other lucrative jobs.

Expressing his eagerness to join the family business, the successor of FB5 said:

"Right from my childhood I was always interested in building houses. This is obviously because I saw my father and uncle doing the same. After my school I used to go with my father to the office, construction sites etc. to see the work closely. Thanks to my father and uncle, who helped me realize right in my childhood what I want to do in my life."

On similar lines, the successor of FB4 said:

"I always wanted to get into my family business as I always saw my father and uncle strive to achieve success. When the time was right, I joined the business and shouldered the responsibilities that my father and uncle were carrying for over two decades."

Another factor that was stressed by the participants was that of family involvement. In good and as well as bad times, their individual families stand behind them like a rock. In times of stress, the families that are bound by strong values help the business steer out of the rough weather. Values like caring, sharing, selflessness, etc., are imbibed in the family members from the very beginning. The upbringing of the child that is growing up in a business family is different compared to that of a non-business family. The conversations, discussions, exposure to the outside world, etc., are some of the differentiating points.

Out of the five family businesses that were studied, only one business was started and succeeded by a female/s. This is an anomaly in this study. Despite the fact that the daughters of the founder are married, they continue to run the show started by their mother.

2. Innovation in Family Business

The five family businesses emphasized the need for innovation. They practiced innovation in terms of product, process, organization, and marketing.

An average of 15-20% of the annual budget was allocated to Research & Development (R&D) activities. Two out of five family businesses had a dedicated research team. This team worked towards studying competitors, developing new products, improving the existing products, etc.

In the interview, the predecessor of FB2 said:

"During the time when I started manufacturing herbal medicines, the awareness of these products was not much. Initially, it was a bit difficult to convince people about the importance of herbal medicines. However, times have changed. My daughters find it relatively easy to convince people about the importance of Ayurveda."

Stressing on the importance of innovation for firm growth and survival, one of the predecessors of FB3 said:

"Innovation is a key to growth and development. If you don't innovate, you will be dead. My father did a lot for me and now it is time for me to do the same or even more for my future generations. Every creative idea that was thought of is systematically recorded. These things matter a lot in business. When I was down in my business, I picked a leaf from that idea file and could overcome the struggle."

Elaborating about the innovation undertaken by FB5, the successor said:

"My father used to build standalone buildings. During his time, it was fine to build standalone buildings and succeed. However, in today's cut throat competition, you need to offer community living to the people. This is possible by building complexes with state of the art facilities. We believe that there should be a perfect balance between serenity and modernity. This means that the houses should be built in such a way that it is close to the nature but at the same time not far away from civiliza-tion."

Introducing Ayurvedic medicines and promoting them as a replacement to Allopathy treatment was an innovation. The predecessor of FB2 faced difficulties in the initial stages of her business, but gradually, when people started seeing the healing power of Ayurveda, they preferred herbal medicines to Allopathy. From the study, it was evident that the family businesses felt the need for innovation: Product, Process, Organization, and Marketing.

3. Interplay of Succession Planning and Innovation

The main finding from this study is that there is a positive influence of succession planning on innovation tendency in family firms. This is supported by the fact that there are a significant percentage of budgets allocated to R&D activities. The successors have very well understood that in order to compete in the fiercely competitive world, they need to wear their thinking hat all the time and come up with innovative ideas that will make them stand out from their peers. In the process of data collection, it was observed that the successors were more willing to spend time and money on innovation compared to their predecessors. They were able to convince their seniors about the need for innovation. Apart from a few trivial differences of opinions, the process of innovation was rather smoothly implemented in all the five cases studied.

Talking about the affinity that the father-son dyad shared, the predecessor of FB1 averred:

"Way back in 1986, my father and I converted our vision into reality. Back then when I was a young and budding entrepreneur, just like my son today is, my father always encouraged me to think out of the box. At a very early age, he helped me to get rid of fear of failure. Everyday, I used to come with new ideas. My father very patiently listened to me, explained the merits and demerits of my ideas to me, and encouraged me to continue thinking. There were times when my ideas were outright rejected. I used to feel bad, but then quickly start afresh. I shared a very intimate relationship with my father. He was a gentleman at home and a hardcore businessman at work. His teachings will stay with me forever."

Supporting his father, who has now passed on the baton of leadership to his son, the successor of FB1 said:

"My father is a man with a vision. He always imbibed in me qualities that would take me a long distance in life. Since childhood, I was always interested in knowing about our family business, which was started by my grandfather. I have heard many stories about my grandfather from my father, and I confess all of them were equally inspiring. Like my grandfather, who taught the tricks and trades to my father, I am blessed to impart similar kind of knowledge from my father. We share a strong family bond and are a closely-knit family. The values that are instilled in me have helped me to take up the business responsibility well. My father has given me enough powers to execute things independently. Under-standing the constant need for change, my father and I have regular discussions with respect to the road ahead that includes strategizing about new product launch or increasing the business's visibility etc."

V. Discussion

In this paper, we aim to understand how family succession impacts on innovation. The extant literature on family business emphasizes the long-term perspective of family firms and therefore there is a need to be different and innovative (Miller and Le-Bretton Miller, 2005).

Our investigation about the innovation undertaken by the family firms, which have passed on the baton of leadership to family members, revealed that the succeeding generations embraced innovation. The findings shows that innovation was primarily undertaken in the product space, by way of introducing new products or making improvements in existing products. Marketing innovation was also undertaken by a few family businesses, which included having an online presence, and use of social media, to name a few. Process and Organization innovation were not much popular among the family businesses studied. The reason for this was the high cost associated with bringing about a change in a process, and making structural changes in the organization.

The theoretical implications of our study are manifold. Our results clearly state that the family businesses are not affected by paradoxical tensions (Basco and Perez-Rodriguez, 2009) that are often seen in family firms. Though there are a few differences between the founder/predecessor and successor, the bind that ties them together helps solve issues that may arise. The family business is largely driven by emotions, not by rationality. Therefore, decision-making is such that the 'familiness' within the business is preserved. Having a family successor, and preserving the name of the business are some of the important non-economic goals of the family firm. The achievement of such non-economic objectives contributes to the preservation of Socioemotional Wealth (Gomez-Mejia et al., 2007). The other dimension of Socioemotional Wealth (SEW) is that family members take pride in associating themselves with the family firm. Thus, in order to maintain the pride, innovation gives a competitive edge. In our study, we have seen that the family enterprises are inclined towards innovation, not only for the survival, but also for preserving their goodwill in the society.

Our results also have practical implications. The incumbent family members need to realize the importance of innovation for the growth and survival of family firms. It is also necessary to educate next-generation family members on the history of the firm, present situation, and potential future of the business. The strategic decision-making, whether it is the decision of succession or innovation should take into account both, the family and business interests. It is not always the case that every decision taken by the successor or predecessor is backed by an economic motive. Sometimes, it is a non-economic motive that acts as a driving force. Unlike in non-family firms where non-economic motives are not given much importance, the situation is different with family firms.

VI. Limitations and Scope for Future Research

First, the small number of cases that are studied for this work is a major limitation. Though it meets the criterion prescribed by Eisenhardt (1989), a larger number of cases would have helped better understand the relationship between succession planning and innovation. Generalization of the results obtained through this study is, thus, not possible.

Second, the selection of family firms was based on convenience, and there was no specific selection process set up to shortlist the family businesses. The enterprises selected were MSMEs and were run by at least the second generation of entrepreneurs.

Third, the geographical selection is a limitation. Only the business families residing in Thane are studied, therefore it is difficult to generalize the observations in this study to all other MSMEs across India.

Despite these limitations, our study highlights important avenues for future research. First, a study to explore how innovation practices evolve as a family firm’s long-term perspective changes over time should be undertaken. Second, it would be interesting to look at the innovation motives of the family firm. Third, a comparative analysis between a family managed and a non-family managed firm can be useful in gauging the different innovation patterns.

VII. Summary and Conclusion

Succession planning forms an integral part in any business set-up, and especially when it comes to family businesses, the event of succession planning is the vital cog in the wheel of business continuity. From this study, it was observed that in all the five cases, the family members grasped the significance of succession planning, which was evident from the fact that all the five families had their individual succession plan ready. The families proactively answered the question: Who is next after me? This shows that the leaders of the businesses studied are unlike the typical owners who do not want to lose their control and power.

Through the course of interviews, it was observed that the family members share strong camaraderie among themselves. The younger generation is encouraged to join the family business and is groomed right from their childhood days. Going out on an annual vacation together, having one daily meal together, and celebrating festivals together were some of the things practiced by the family firms that helped the next generation’s grooming, but also inadvertently inspired and encouraged them to take up their family business.

Well executed family succession planning serves two purposes; first, if the successor is chosen from the founding family or is related to the founder by blood, then the business remains in the family, and second, which is the most important is for the family business to continue to exist. One of the salient features of any family business is long-term survival. Unequivocally, succession planning is the driving force behind long-term survival of the family business.

The main purpose of the study is to investigate the impact of succession on Indian family firms' innovation tendency. Just like succession planning, innovation is considered to be the vital cog in the wheel of family business and is the driving force behind long-term survival and sustainability of family firms. Even though, both succession and innovation are recognized to be strategically important from a family business perspective, little is known about the interplay between the two.

The primary data collected helped to conclude that there is a positive influence of succession planning on innovation tendency. This means that the younger generation under the able aegis of their predecessors is inclined to implement innovation. Innovation in terms of product, process, organization, and marketing were observed in the cases studied. Innovation in the form of new product development, improvement in existing products, active use of social media, etc., were some of the ways to practice innovation. There were times when the predecessors were resistant to change. But after discussions, the successors were able to convince predecessors about the merits of innovation.

Lastly, to the best of our knowledge, this is the first study that investigates the innovation issue in Indian family firms. In view of the relatively unexplored research field, this study serves as a stepping-stone for future research on family firm innovation. However, being the first contribution to the Indian family business literature resulted in a major limitation in the development of theoretical foundations, through which the main innovation indicators are internationally sourced. Since the study is undertaken only for MSMEs the results cannot be generalized for big family business enterprises. These should be the subjects of new research.

This study is an attempt to address the gap in the interplay between family succession and firm innovation in Indian MSMEs. The major contributions of the study are: 1) Strengthing the existing literature on family business succession, 2) Enriching the extant literature on family firm innovation, and 3) Establishing a positive relationship between family succession and firm innovation. To the best of our knowledge, this study is the first of its kind that seeks to understand the relationship between family succession and firm innovation in Indian non-publicly traded companies.

Note from Dr Shashi Jain, Chair of COSMAR 2018

Family run businesses constitute over 60% of the enterprises in Europe and Americas and 85% of all the enterprises in India. However, a mere 33% of the family organizations survive up to the second generation, with the chance of survival going down to 15% and 3% up to third and fourth generation respectively. This paper studies the interplay between succession planning and innovation, where both the factors are essential for the survivability of the business. The paper was presented in the stream “Human Resource and Organization Behavior” of Consortium of Students in Management Research (COSMAR) 2018 that was organized by the Department of Management Studies, Indian Institute of Science. This paper, however, passed 3 referees’ review of AJIP.

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Appendix 1: Consent Form

I request you to read this form and ask any questions that you may have before agreeing to participate in the study. The purpose of this study is to investigate the role of succession planning on innovation tendency in family firms. You will be asked to share your experiences with respect to various aspects through narratives, incidents and anecdotes. There are no reasonable foreseeable (or expected) risks involved in this study. The records of this study will be kept confidential. We will not include any information in any report we may publish that would make it possible to identify you.

The decision to participate in this study is entirely up to you. You may refuse to take part in the study at any time. Should you have any questions about the study, at any time feel free to contact:

Ms. Juili Ballal at juili.ballal@som.iitb.ac.in or by telephone at +919004222103. Your signature below indicates that you have decided to volunteer as a research participant for this study. Thank you.

- Participant's Name: ______________________
- Participant's Signature: ___________________
- Date: __________________________

Appendix 2: Interview Questions

Participant's basic information

- What is your name?
- How old are you?
- What is your educational background?
- Do you have any work experience outside of your family business?
- Succession in the family business
- Has the succeeding generation taken over the family business?
- If the succeeding generation has taken over, does the predecessor still intervene in decision-making?
- Are the roles of successor and predecessor well-defined? If yes, what are they?

Innovation in the family business

- What is the percentage of sales that you invest in R&D?
- Do you have a separate R&D team?
- What are the different product, process, organization, and market innovations undertaken by your firm

Succession and Innovation

- How has the entry of succeeding generation affected innovation activities?
- Has there been any difference in the way innovation was undertaken by preceeding generation viz-a-viz succeeding generation?
- Firm related questions
- What is the number of employees?
- What is the annual turnover?