A Study of Succession Planning in MSMES: An Empirical Analysis (With special reference to Moradabad Region)

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Abstract:
Today’s businesses must have the right people in the right jobs at the right times. They cannot afford to be without either enough people or the right people who can quickly fill a key role that could become vacant. Succession planning is very essential for every business. The quintessence of succession planning is crucial especially among micro small and medium scale business enterprises as they cannot afford to survive various major setbacks for stability and sustainability in developed and developing countries. Taking into account the relevance of this research topic, this paper aims to determine the satisfaction level of employees by the succession planning in MSMEs. Also the study signifies to identify the efforts made by the CEO are effective in order to protect the brand image of the company and also aims to determine the importance of succession planning among the employees of the organisation. The Primary data was collected through questionnaire survey done on a sample of 50 employees of micro small and medium enterprises of Moradabad region and analyzed with the help of Chi-square test and Frequency distribution table. The findings of the study reveals that the employees are satisfied by the succession planning programs carry out by the CEOs of various MSMEs as they are conducting out some
developmental activities like coaching, mentoring, 360° feedback, structured socialization, developmental assignments, job rotation and other for enhancing their talent to be ready for executing the CEO role. Another result shows that in various MSMEs, CEOs are efficient and effective in order to protect the brand image of the company and also following the tradition of the company.

**Key words:** Succession Planning, Micro Small and Medium Scale Enterprises, Family Businesses

**Overview of Succession Planning**

In today’s competitive business environment, it’s more critical than ever to have the right people in place throughout the organization. And for this to be nimble enough to quickly reshuffle the talent should a new business opportunity arise or one of the key players suddenly departs.

It is within this context that organizations, and more importantly leaders and managers, need to look with increased scrutiny at the need to manage employee succession effectively to ensure they have the right person in right place, future leadership, management and technical capacity to deliver government business. Succession Planning helps to retain and develop talent at every level of your company. One can use his robust succession planning application to easily map every staffing move - across teams or across the world. Plus one can construct and create new department hiring plans, while providing employees with greater visibility into the future of their careers. Agencies that have a high impact succession Planning system will more successfully manage high caliber employees, which will positively impact on long-term leadership quality and business performance.

Succession Planning is a process that allows organizations to make sound decisions about its future. That’s because every organization’s future is dependent upon talent...
the right people in the right jobs at the right time. Succession Planning is a key process for determining that mix.

Keeping those three ‘rights’ aligned requires, first, a fully integrated view of talent management and, then, an understanding of how succession management fits into the whole of talent management.

It is the process of identifying and preparing successors for key positions, is rated as one of the top three focus areas for HR today. More than 40% of survey respondents say the process requires major improvement in their organizations. In today's tight labour market succession planning is critical to creating a flexible, sustainable business.

Today 60% of organizations in the High Impact Talent Management research have no process for succession planning and only about 1/4 have an enterprise-wide approach. Even more interestingly, organizations with an enterprise-wide approach have only had it for an average of 1.6 years, illustrating the dramatic growth in this important part of talent management.

The High Impact Talent Management research found that organizations with mature succession planning processes drive 20-25% greater business impact. This research program includes many best-practices, processes, and systems which help organizations implement business-driven succession planning programs.

Succession Planning is an important risk management strategy to ensure the continuation of effective service provision to the community, regardless of organizational change. Without planning, disruptions caused by both expected and unexpected departures can lead to suboptimal outcomes in the efficient delivery of government business. Forward planning to manage succession helps develop a diverse workforce better equipped to respond well to a variety of challenges, not just personnel-related change.
Succession planning is not an issue that many organizations address in any systematic way. Because many nonprofits are small (with fewer than 10 employees) and because they may be facing other organizational challenges, thinking about who the next executive director might be or what would happen if the director of finance suddenly left is not high on their priority list. There are many reasons why organizations need to be thinking about succession planning. The most important reason, of course, is that we rely on staff to carry out our missions, provide services and meet our organization's goals. We need to think about what would happen to those services or our ability to fulfill our mission if a key staff member left.

Another reason to focus on succession planning is the changing realities of workplaces. The impending retirement of the baby boomers is expected to have a major impact on workforce capacity. Teresa Howe in "Succession Planning and Management" identified other emerging realities about the workforce, they are:

- Vacancies in senior or key positions are occurring in numerous organizations simultaneously and demographics indicate there are statistically fewer people available to fill them.
- Baby boomer retirements are on the rise just at the time when the economy is growing and increasing the demand for senior management expertise.
- There is no emerging group of potential employees on the horizon as in past generations (i.e. baby boomers, women entering the workforce, large waves of immigration).
- Many organizations eliminated middle manager positions during restructuring in the 1980s and 90s and no longer have this group as a source to fill senior level.
- Younger managers interested in moving up do not have the skills and experience required because they have not been adequately mentored. This is because middle
managers, who would normally perform this type of coaching role, were eliminated.

With careful planning and preparation, organizations can manage the changes that result from a generational transfer of leadership as well as the ongoing changes that occur regularly when key employees leave an organization.

Although the type and extent of planning will be different, organizations both large and small need to have some sort of succession plan. Effective succession planning supports organizational stability and sustainability by ensuring there is an established process to meet staffing requirements. Boards and executive directors can demonstrate leadership by having the strategies and processes in place to ensure that these transitions occur smoothly, with little disruption to the organization.

Succession Planning in MSMES

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises are - (a) Enterprises engaged in the manufacture or production, processing or preservation of goods and (b) Enterprises engaged in providing or rendering of services.

But for the above mentioned objective only category (a) applies and hence as specified below:

- A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
- A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and
- A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.
Succession planning, a unique problem faced by most of the MSMEs, is the explicit process by which the firm will be passed on for the family’s next generation to manage and control. Successful succession of CEOs is a crucial goal for these firms; without the next generation’s leadership and direct management, the firm cannot survive as a family-owned firm, let alone maintain its character (Barach and Ganitsky 1995). Several research studies have indicated that when owners/managers retire, less than one-third of family-owned businesses are continued by the next generation.

India is a unique mix of public-owned and private-owned companies constituting large, medium and small enterprises—which can further be categorized into government-managed, family-managed and promoter-managed. The question of leadership succession attracts the nation’s attention with respect to ‘who will lead the big businesses?’ as in the case of recent succession issue faced at the Tata Sons. While we have witnessed successful CEO transitions at several corporate houses of India such as the Tata Group, Infosys, ICICI, HDFC, Hindustan Unilever, Aditya Birla Group and many others, one must not overlook the huge amount of MSMEs (Micro Small and Medium Enterprises) that the country is home to. Considered to be the backbone of the Indian economy, the MSME sector contributes 45 percent of the industrial output, 40 percent of India’s exports, employs 60 million people and creates 1.3 million jobs each year.

Leadership succession is as much an issue for MSMEs as it is for corporate business houses. It has not spared family businesses either, which traditionally have been rolling out successors from their own families. Tata’s, Birla’s, Godrej’s, and Bajaj’s have had their offspring lead the business for more than three generations now. However, there is evidence of leadership transition and business ownership issues confronting Indian family businesses of late (Ramachandran and Bhatnagar, 2012).
The CEO succession process for micro small and medium firms is quite different from large firms due in large part to the coincidence of family and business interests in the smaller firms (Davis 1983, Lansberg 1983, Fox et al. 1996). For example, in larger corporations the date at which the CEO is replaced is usually agreed upon in advance and is controlled by the Board of Directors. Also, the frequency of succession is greater in larger firms in part because these companies themselves produce a larger number of possible successors (Gorden and Rosen 1981). On the other hand, in a typical small or medium sized firm, there is unlikely to be any consensus on when succession is going to take place.

Amidst multiplying competition from domestic and multinational sectors, dynamic changes on the economic front, and the inevitable need to globalize, the Indian companies are faced with the leadership succession challenge like never before. In fact, leadership succession planning is not the only issue facing MSMEs today. The need of the hour is to build a leadership pipeline to fill the lesser posts as well who might in the future go on to occupy the leader’s seat. Moreover, an organization is managed not by the CEO alone; he/she must be followed by potential people in all the key areas.

**Importance of Succession Planning**

Most of the Micro Small & Medium Enterprises (MSME’s) across the globe are promoter driven and hence it becomes very imperative for these organizations, in that case any organization to have a proper succession planning at all the important levels in various departments as well as at the top most level. Most MSME’s do not survive the succession from one generation to the next generation due to lack of proper planning and it is found out that most often the preparations and planning have not been undertaken for psychological
reasons, particularly the fear of family conflicts on the ownership or stake holding issue.

Many MSME owners have founded and built their businesses without giving much thought to what will happen when it’s time for them to retire putting their businesses at risk because they have not adequately prepared for the day when they will no longer be there. Organizations that fail to plan for the timely and effective succession planning especially the leadership roles are often found to be caught off guard leading to disruption to normal business activities in turn loss of market share. Hence to avoid such situation succession planning becomes imperative for SME’s because it enables the organization to identify talented employees and provide the necessary mentoring and training to develop them for future higher level and broader responsibilities and execute them smoothly.

Succession planning is a systematic approach to:
1. Building a strong talent pool / effective leadership pipeline to ensure leadership continuity.
2. Mentoring and Developing potential successors from within the organization in ways that best fit their strengths
3. Identifying and recruiting the best candidates for categories of positions at strategic levels within the organization.
4. Concentrating human resources on the talent retention and development process yielding a greater return on investment and effectively risk management.

Hence Succession planning needs a strategic approach as a part of the business process which enables tackling of emotional issues to make the best decisions about the future of the promoters and their business. Some key steps which need to be kept in mind while working on an effective succession planning strategy are as below.
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- Aligning Business Strategy and Work force Management (Business v/s people)
- Identifying gaps and inconsistencies in processes as well as people.
- Talent identification and talent management (internal as well external)
- Developing succession management strategy (Retention and Recruitment)
- Implementation of Succession planning (Mentoring, Coaching, training for current and new talent pool)
- Commitment to Evaluate and Monitor continuously to execute effective succession planning.

Hence to execute an effective succession planning strategy some most critical factors which play pivotal roles are

1. Promoters / owner / business leader should get personally involved in this process as it requires commitment.
2. Promoters / owner / business leader should hold themselves accountable for developing successors as future leaders.
3. Employees at all levels must be committed to their self-development and growth in the organization.
4. A long term view needs to be kept in mind as Success is based on a business case.
5. Succession should be linked to strategic planning and investment in the future growth of the business.
6. Succession planning must be part of an integrated HR process and should include training, development and performance appraisals at regular intervals.
7. Succession Planning should not be only upward but it should also be lateral.

While executing Succession Planning Strategy SME promoter / owner must consider which exit strategy is best suitable: a
family transfer, selling of Business completely and exiting, or closing the business so as to avoid unnecessary conflict. It should also enable in building a strong financial security for the Promoter/Business owner and its family as is their single largest asset and a major source of personal worth and self-esteem.

Literature Review

In the following section, the information gathered from recent studies which helped in the research is presented.

**Article: General Review (2002)** tells about the reviews of latest management developments across the globe and pinpoints practical implications from cutting-edge research and case studies. Getting the right balance between short and longer-term goals is critical for the well-being of any business organization. Companies shouldn't simply leave everything to chance, though. As US computer scientist Alan Kay once remarked, “the best way to predict the future is to invent it.” The article focuses upon and demonstrated that succession planning is fundamental to any such philosophy. Obviously no one can know for certain what lies ahead. The author by the way of this article recommended that having the right leaders with the right skills in the right roles does at least give an organization some hope of shaping its own destiny. It is important to provide strategic insights and practical thinking that have influenced some of the world's leading organizations.

**Sally Sambrook (2005)** aims to explore some of the issues in voluntary succession associated with finding and successfully developing principal successors to ensure the survival and growth of small firms. The author identifies various key issues including recruiting employees with potential, considering the work/career motives of potential successors and ways of transferring organizational and personal/tacit knowledge from the owner-manager to the
successor, whether an internal employee or a new purchaser. With the help of simple model the author has identified three types of knowledge transfer and two tiers of succession. The researcher offers new insights into succession planning and the model provides a framework for developing successors.

Kevin S. Groves (2007) reveals that the purpose of researcher is to present a best practices model for optimal development of the leadership pipeline and a series of practical recommendations for organizations. With the analysis of data the researcher indicated that best practice organizations effectively integrate leadership development and succession planning systems by fully utilizing managerial personnel in developing the organization's mentor network, identifying and codifying high potential employees, developing high potentials via project-based learning experiences and manager-facilitated workshops, establishing a flexible and fluid succession planning process, creating organization-wide forums for exposing high potential employees to multiple stakeholders, and establishing a supportive organizational culture. This study offers needed empirical support for the value of integrating leadership development and succession planning practices through utilization of managerial personnel.

Morten Bennedsen, Kasper Meisner Nielsen, Francisco Perez-Gonzalez, and Daniel Wolfenzon (2007) This researcher with the help of this paper uses a unique dataset from Denmark to investigate the impact of family characteristics in corporate decision making and the consequences of these decisions on firm performance. Finds that family successions have a large negative causal impact on firm performance: operating profitability on assets falls by at least four percentage points around CEO transitions.

John Wood, Tricia Vilkinas (2007) The author with this paper seeks to identify the characteristics that successful CEOs possess and demonstrate, as perceived by both the CEOs and their staff. In this study he has identified out various
characteristics that are important for CEO success were a humanistic approach, achievement orientation, a positive outlook, a sense of integrity, inclusiveness and learning and self-awareness. Both the CEOs and their staff agreed that the CEOs did possess all these characteristics, some to a greater extent than others. This study was the first to take a comprehensive approach to identify the characteristics CEOs need to possess and did demonstrate. It is also one of the few studies that have involved both CEOs and their staff. The findings of this research would be helpful to future CEOs and to those charged with the responsibility for the selection and development of CEOs.

Khumalo, Felix; Harris, Marilyn (2008) In this research article the author aims at identifying various strategies that helps top level management to formulate succession plan. Evidence from demographics shows a widening gap between baby boomers that are nearing retirement without successors and young managers who lack skill and experience. This is further worsened by an influx of CEO turnover that is escalating and a lack of succession plans in many companies. This study postulates strategies for succession planning and offers transformative change recommendations to a company's Board, CEO and Top Management Team (TMT) to lead from the immediate and emerging future.

Robert Barnett, Sandra Davis (2008) The paper aims at creating greater success in succession planning. He found out that the prevalence of formalized succession planning practices in organizations appears to be increasing, largely due to changing demographics and related trends. However, many organization leaders report low levels of confidence in their succession planning systems and processes. The author concluded that the best succession and talent management practices can help the organizations to achieve significant benefits, including improved financial performance. In this study he proposed a practical, five-step approach to succession
planning that incorporates both best practices and an innovative application of role theory. The approach should help organizations look to and prepare for the future more effectively; including better specifying the future requirements they will have for their leaders.

**Angela Hills (2008)** This paper aims to identify what succession planning actually is, and the pros and cons of buying-in or building talent in the organization. The paper is informed by BlessingWhite’s 2008 global survey into employee engagement. It examines the advantages and disadvantages of buying-in and building talent to ensure the right people are in the right places at the right time within an organization. The author found out that there are five strategies for ensuring succession planning works. These five key strategies are: aligning succession planning with business strategy; assessing leadership potential using the 3Cs; involving the talent in the planning; mixing development: experience/coaching/training; and casting a wider net for succession. This research gives new research data and an approach to succession planning.

**Kay Currie** With the help of this research study, the author aims at analyzing the succession planning process and illustrating the ways in which key principles may by applied in the case of advanced nursing practice. The researcher found out that by considering the elements of the succession planning process may improve the sustainability of future initiatives. A variety of flexible educational solutions are available to support staff development for advanced practice, however, the appropriateness of these must be determined in context. He concluded that the formulation of organizational strategies and operational policies for succession planning is needed to maintain the continuity of advanced practice roles. Research to develop and test implementation models for effective succession planning for advanced practice is required.
Research Methodology

Research Statement
“A Study of Succession Planning in MSMEs: An Empirical Analysis (With special reference to Moradabad Region).”

Objectives
1) To determine the importance of succession planning among the employees of the organisation.
2) To determine the satisfaction level of employees by the succession planning program.
3) To identify the efforts made by the CEO in order to protect the brand image of the company.

Hypotheses
Null hypotheses were framed and tested for significance to prove the objectives in a systematic manner. The null hypotheses were as follows:
Ho1 (Null): Employees are satisfied by the succession planning programs.
Ho2 (Null): There are no efforts made by the CEO in order to protect the brand image of the company.

Research Design
This research has been categorized to be Descriptive because the major purpose of this research is to study the importance of succession planning programs among the employees and to analyze the CEO efforts for maintaining the brand image the company.

The research is being conducted on the employees of micro small and medium enterprises of Moradabad region by using the quantitative method (Questionnaire) as an instrument because it suits the research objective to study the
Succession Planning in MSMEs. Instrument of Assessment, questionnaire for Succession Planning is used to identify the degree to which employees are satisfied with the succession Planning programs and are used to identify that is CEO is making any efforts in protecting the brand image of the company. The convenience sampling method is used and the type of universe is finite.

Secondary data was collected from Internet, books, newspapers, journals, business magazines etc. For primary data collection, a questionnaire containing 18 statements was used. The respondents had to fill one choice of “Yes” or “No”. The questionnaires were filled by 50 respondents. After collecting the data, it was tabulated in Excel sheet and analyzed by using frequency distribution and Chi-square test.

**Sample**
The questionnaire was distributed to 60 middle level employees working in various MSMEs of Moradabad region, out of which 53 came back and finally 50 were taken for the analysis.

**Findings and Analysis**

A survey was conducted with a sample of 50 employees working in MSMEs of Moradabad region. The responses were tabulated in Excel sheet and used to test the two Hypotheses of the Research.

*The first hypothesis of the research was as follows:*

**H01 (Null):** Employees are satisfied by the succession planning programs.

**Alternate:** Employees are not satisfied by the succession planning programs.

O represents: The observed value in satisfying 50 employees by the succession planning programs
E represents: The expected value in satisfying 50 employees by the succession planning programs

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<th>Observed Frequency (O)</th>
<th>Expected Frequency (E)</th>
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<tr>
<td>Strongly Disagree</td>
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Chi-Square Calculated = 7.133333
Chi-Square table value with 4 df and .05 significance level = 9.488

Summary Output

Here the calculation for Chi-square test has been done through excel. Hence the summary output is as follows:

This hypothesis was tested on the basis of the responses of 50 employees using the chi-square method. The critical value of $\chi^2$ at 0.05 level of significance, for 4 degrees of freedom, is 9.488. As the calculated value of $\chi^2$ is 7.133333 which is quite less than the critical value, hence, Ho is accepted. In other words, employees are satisfied by the succession planning programs of the organisation.

The Second hypothesis of the research was as follows:

**Ho2 (Null):** There are no efforts made by the CEO in order to protect the brand image of the company.

**Alternate:** The efforts are made by the CEO in order to protect the brand image of the company.

**Interpretation:**
This hypothesis was tested on the basis of the responses of 50 employees using the frequency distribution method. From the frequency distribution the researcher found out that there is no enough evidence to reject alternate hypothesis. In other words, the 80% CEOs out of various MSMEs are making efforts in order to protect the brand image of the company. They are carrying out some developmental activities like coaching,
mentoring, 360\(^{0}\) feedback, structured socialization, developmental assignments, job rotation and other for enhancing the employee’s talent to be ready for executing the CEO role. The frequency distribution table also shows that 88\% of the CEOs are aware of their duties and potential liabilities associated with executorships and 84\% of the employees are comfortable with their CEOs ability, efficiency and effectiveness to follow the tradition of their enterprises.

Fig. 1.1: Chart showing satisfaction level of employees by the CEO Efforts

Conclusion

Successful succession planning is important for the stability and growth of the economy as this will ensure continuity. It is not only important for the organizations and its current employees, but also for the investors, customers, the community and the employees. Every organization talks about the succession planning whether it is large scale or MSMEs, it’s proven to be beneficial, yet most organizations do nothing about it when it comes to implementation. Succession planning is one of those initiatives that many companies don't find the time to start until it's too late if the organizations don't address succession planning at the right time the organization may end up facing the burden in the middle of a crisis.

Although there are several barriers to succession planning, failure to plan for it jeopardizes the future of the
business enterprise. Inability by any founder to plan for succession will definitely send wrong signals to the founder’s immediate family members and key employees about the intention of the CEO. Possible illness or old age of the CEO may result in the decline of the business and unexpected death may result in family disagreement over the distribution of estate of the founder. Successful succession planning ensures smooth transition from the CEO to his/her successor.

**Recommendations**

A strategic approach to succession planning is the need of the hour in Indian MSMEs. The micro small and medium scale enterprises must be innovative, find ways to create loyalty and be capable of leading diverse and independent teams. The process must essentially follow the following steps (adapted from Russel Associates Report; Vedupuriswar, 2001):

1. It is important to create a written succession plan in that how successors have to be chosen and the respective roles to be done by the board members in the succession process. Consistency with the future strategic direction is required inasmuch as the culture of the organization. However it must be customized to suit the needs of the changing organization structure and the environmental dynamics.

2. The process requires conducting regular, in-depth reviews- the succession process must be reviewed twice a year and the current requirements of a new CEO must be summarized. The company’s direction and strategy must be examined over a five to fifteen year period, factoring in various scenarios such as the impact of competition, supplier relationships, world economic conditions, national policies, customer trends, and so on.

3. To compare the resulting list of capabilities against the firm’s senior talent pipeline- the Board should have
regular exposure to internal candidates and modify their respective leadership development plans as needed to address progress and shortcomings. The key candidates should be identified in anticipation of future openings. The talent pipeline can also be bolstered by a parallel entry from the outside backed by significant advance planning to ensure the outsider gets fully absorbed into the firm’s culture by the time the elevation takes place.

4. To narrow the field to two or three finalists- It is not just selection. Development through job rotation, mentoring and formal training programs must be done. They must be given key initiatives such as entry into a new geographic region or the integration of an acquisition to mimic the potential challenges they would face as a CEO and thereby facilitate the Board to evaluate their performance.

5. To implement the plan- the implementation must begin one year before the planned transition. An assessment of the final candidates through rigorous testing and their measurement against their peers at other firms must be ensured to choose the best available CEO.

6. The succession process must be enabled to explore multiple scenarios and imbibe an accommodating plan for contingencies.

7. The HR (Human Resource) strategy should have a long-term staffing initiative in place, remain flexible yet focused. It must also include strategic talent and knowledge management initiatives such as attracting, retaining and developing skilled employees.

8. To keep up with the changes in the business environment, leaders must be evolved in key areas namely: leadership development, employee engagement and talent retention, strategic leadership, globalization and sustainable business.
Limitations

Despite of every effort of the researcher, few factors may limit the width of this research. There are two limitations to the study reported here. First, the survey has been done within a small area with a small sample hence the generalization of the results is limited. Due to small group, the findings cannot be widespread to a large population with the measurable confidence. Although the findings provide an insight into groups of similar characteristics on succession planning. But it can be further studied with diverse groups. Second, the Questionnaire method used in the study provided respondents’ data on few issues only. The respondents might not have answered the questions objectively due to their own time constraints. However every organization has diverse policies for its employees, the research focuses specifically on middle level employees working in MSMEs, so this again paves the way to explore the other types of organizations.

Future Implications

This research being done on a very small area has a limited scope. The future researchers are advised to conduct the research on a large area and sample. India is a diverse developing country and also its every state has a different context. Thus it is suggested to do more researches on the upper level employees of MSMEs of other states also.

Additionally, a firm’s decision to start planning for succession is likely to be influenced by more than these factors researched in this study (i.e., general factors, presence of a competent successor, present CEOs efficiency and effectiveness, successor’s current involvement with the business, Incumbent’s (CEO) desire is to keep the business in family only, internal successor (within the family) is more successful as compared external successor and successor’s relationship with other
family members etc.). Additional factors that come to mind include internal factors such as the family’s commitment to continue with the business, the complexity of its business, and external factors such as the competitive structure of the industry or a changing regulatory environment.

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