

Factors Enabling Family Business Succession: A Case Study Based Analysis

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INTRODUCTION

A family business is a profit-making organization in which decision making is influenced by multiple members of several generations of a family, who can be related either by way of blood or marriage, and closely influenced by the ownership or leadership of the firm. This type of business is the oldest, most prevalent type of economic organization worldwide and it can be seen in different types of business entities, such as sole proprietorships, partnerships, limited liability companies, corporations, holding companies and publicly traded companies.

Family Owned Business (FOB) is a unique type of business due to the relationship between the shareholders and the management, and differs from other non-family businesses with regard to a number of elements such as continuity of purpose, business and family relationships, business values, family culture, quick decision making, flexibility, and succession. Family businesses are known to do better than their non-family business counterparts. They could be healthier, growing faster both in terms of revenues and profits and usually would have a better future as members of a homogeneous group would stick together in times of crisis.

The majority of family business owners would like to see their business transferred to the next generation. It is surprising, however, that 70% of family businesses would not survive into the second-

generation and 90% would not make it to the third generation. Thus, the survival rate of family firms beyond the founder's generation is extremely low as per literature. Hence, how to handle succession in family business is a highly topical research issue. It is pertinent to evaluate the strategies that can be applied to secure family businesses, which are known to contribute to the national economy of a country in terms of employment generation and economic growth. From that perspective, family businesses have a special role to play in society.

BACKGROUND, RESEARCH OBJECTIVES AND METHODOLOGY

Family business succession is defined as the handing over of management control to one or more family members (Gasson et al., 1992). All businesses undergo succession of different kinds as time goes by; but, succession of ownership and management in family businesses follows a different logic and different processes from non-family businesses (Brundin et al., 2008). According to Hall (2003) there are multiple roles family members have to perform due to overlapping of family and business, where family issues profoundly impact business issues (Fletcher, 2000) and where ownership and leadership are tightly intertwined (Brundin et al., 2008).

Poor "successions" have been the main contributory factor for non-survival of family businesses (Miller et al., 2003), indicating the importance of planning for business succession as an important ingredient of family business survival. If family members are not committed to the succession, it would block the demonstration of the requisite management capabilities of the successor (De Massis et al., 2008). On some occasions, the family members holding important roles in the enterprise may threaten to leave it because of their dissatisfaction about the selection of a successor. In such a situation,

sometimes, the incumbent might cancel the new appointment, which automatically wipes out the succession process.

The relationships among the different groups in the family play a vital role during the succession (Davis, 1983; Lansberg, 1983). Bad interpersonal relationships could be the cause of potential conflicts that obstruct the succession (Kepner, 1983; Lansberg, 1983).

Given this background, it becomes important to study the “factors” contributing towards family business survival, as identified in literature. The present research was carried out with the objective of undertaking this task. It also attempted to address the issue of family business survival in relation to the Sri Lankan context. The presence of such factors in the family businesses which have managed to successfully survive into second and third generations would be examined using the case study approach. The research, based on the conceptual platform laid, also aimed at commenting on their chances of survival beyond the present generation.

Primary data collection was carried out through interviews using a structured and semi structured questionnaire. Twelve family business owners were interviewed to identify their succession plans and practices. The chosen family businesses were either in their second or third generation businesses covering a period of over thirty years, and were small, medium or large scale enterprises engaged in service or manufacturing sectors.

Based on the preliminary findings, a sample of the six most successful enterprises that consented to be interviewed in-depth was selected as the case study sample.

The triangulation method of data collection and information extraction, namely face-to-face interviews, a structured questionnaire and physical observation of the body language were used as the primary tiers of information. Moreover, each situation was handled

with an open mind in a very informal setting. The depth, quality and the scope of data gathered varied significantly from case to case.

CONCEPTUAL FRAMEWORK OF FACTORS ENABLING SUCCESSFUL FAMILY BUSINESS SUCCESSION

Family business succession is the process of transitioning the management and the ownership of a business to the next generation of family members. The transition may also include family assets as part of the process. Family members typically play a controlling role in both the management succession as well as the ownership succession. The *succession planning* process commonly consists of (i) selecting and training a successor, (ii) developing a vision or strategic plan for the company after succession, (iii) defining the role of the departing incumbent and (iv) communicating the decision to key stakeholders (Sharma et al., 2003a).

There is no agreement among the researchers as to what contributes to the success of effective succession in family own companies. Handler (1989) suggests that satisfaction of the predecessor and other family members with the *succession process* can be used as an indication of the perceived success of the succession process. Some other researchers note that “*successors’ ability* to maintain the family business healthy” as a criterion to measure the effectiveness. Venter and Mass (2005) and Sharma and Irving (2005), state that the perceived success of the succession process is determined by the extent of *satisfaction with the process* and *continued profitability* of the business. Here the author has combined both arguments and define the success of the succession as “the subsequent positive performance of the firm, the ultimate viability of the business and the satisfaction of stakeholders with the succession process”

A *well-developed succession plan* is crucial (Sharma et al., 2001 and Morris et al., 1997), but this is a relatively rare occurrence (Sharma et al., 2000, 1996), and there are *psychological and emotional barriers* which hinder inter-family and inter-generational discussions (Lansberg, 1988). Incumbents for instance, may often be reluctant to step aside, creating a common barrier to succession (Sharma et al., 2000). To achieve effective inter-generational succession, there should be a *balance between 'parenting'* (i.e., a personal approach) and *'mentoring'* (i.e. a more detached, *business-focused approach* (Lansberg, 1997), both working within the business and formal management training from outside providers.

RESULTS AND ANALYSIS

The success factors which help strong business succession, thus ensuring inter-generational survival of family business, as revealed through literature could be summarised in the Table 1 below:

It therefore appears that (a) the presence of explicit planning for succession and (b) family characteristics, have been frequently identified in previous research as the most effective determinants of family business survival.

These characteristics were thus looked for in the sample survey, in order to gauge the extent to which the selected family businesses possess those, and thus how likely their succession beyond the present generation, based on the identified criteria.

Table 1: Factors Helping Family Business Survival

Author	Explicit Planning for Succession			Family Characteristics			Capacity and Qualities of Successor Designate	Role of the Incumbent	Viability of Business
	Having a Plan	Satisfactory Process	Parenting and Monitoring of Successor	Intra-family and Inter-generational Dialogue	Psychological and Emotional Harmony	Strong Family Relations			
Fletcher 2000						✓			
Burndin et al, 2008						✓			
Miller et al., 2003	✓								
De Massis et al., 2008	✓	✓					✓	✓	
Lansberg 1997		✓	✓	✓	✓				
Lansberg 1983				✓	✓				

Lansberg 1988				✓					
Morris et al., 1997	✓								
Venter and Mass 2005		✓							✓
Sherma and Irving 2005		✓							✓
Handler 1989		✓				✓			
Davis 1983				✓					
Kepner 1983				✓	✓				
Sherma et al., 2003	✓	✓	✓					✓	
Sherma et al., 2001	✓								
Sherma et al., 2000	✓							✓	
Sherma et al., 1996	✓								

Source: Author's compilation based on literature survey

Table 2: Summary of Information Pertaining to the Family Businesses Surveyed

Criterion	Family business 1	Family business 2	Family business 3	Family business 4	Family business 5	Family business 6
Type of business	Construction industry	Health care	Manufacturing	Personalized baking	Service and manufacturing	Manufacturing
No. of years of existence	95 years	30 years	48 yrs	49 yrs	50 yrs	50 yrs
Size (No. of employees)	400	2800	3000	2	50	35
Present generation	3 rd	3 rd	3 rd	3 rd	2 nd	2 nd
Firm specific knowledge	Strong	Strong	Strong	Very Strong	Strong	Not strong
Guiding principle	Guided by Christian principles	Excellence in customer service	Quality	Quality of Products	High quality and customer care	Trust, integrity, attention to detail
Time taken to reach the present status	15 yrs	17 yrs	30 yrs	4 yrs	35 yrs	10 yrs
Passed on to present generation by	Bottoms up approach, mentoring	Formal and informal training	Informal training, mentoring	Informal training	Forced into the situation	Informal training, exposure

Intended to be passed to next generation by	Indirect action; based on professional qualifications	Socialization. Succession is part of family affairs, and on-going	Education and capability	No plan yet. Learning important things for succession	Not separated from normal business, but a daily routine	Includes non deliberate successor training.
Decisions are made by	Seniority	Board (family & non-family members)	Board (only among family).	The current owner	All siblings together	Individual decision of owner
Family values		Strong		No expectations		
Family Communication	Weak		Good		Weak	Weak
Retirement plans	When the next generation is competent	No plans, but stepping down with age		Work as long as customers are satisfied	When the son is ready to take over the business	
How conflicts are resolved by	Intervention of a mediator	lapse of time	Prioritizing the goal of the firm		Intervention of the Eldest of the family	Communication

Source: Survey findings

Table 2 above summarises the basic information gathered through the survey, while the Table 3 below presents a qualitative assessment of the presence of survival support criteria in those companies.

Literature essentially reveals that successfully changing an old family business in a durable way means practicing preservation and renewal concurrently. It means preserving the essence of the family business while expressing it in new ways, not changing for the sake of changing or clinging on to the past for the sake of security or nostalgia. It also shows that effective family communication, strong family values and explicit planning and grooming of an appropriate successor helps survival of family businesses. Many firms would ignore the aspect of succession planning amidst of their day-to-day business routine, and thus, risks becoming unsuccessful in long term survival.

Table 3: Qualitative Assessment of the Presence of Survival Support Criteria

Survival Factor		Family Business	Family Business	Family Business	Family Business	Family Business	Family Business
		1	2	3	4	5	6
Explicit planning for succession	Having a Plan						
	Satisfactory Process						
	Parenting & Monitoring of Successor						
Family characteristics	Intra-family and Inter-generational Dialogue				✓		
	Psychological and Emotional Harmony						✓
	Strong Family Relations						
Capacity and qualities of successor designate							
Role of the incumbent							✓
Viability of business							

Source: Author's mapping of survey findings on to framework of criteria developed through literature survey

CONCLUSIONS

Out of the six family businesses surveyed, the Family business number five appears to possess the least number of survival support attributes, and therefore, it could be concluded that its chances of survival into the third would be the weakest.

Family business number six has an explicit succession plan, and could possibly survive beyond the present generation. It also has a hierarchical structure, trust among family members, culture of conflict resolution through communication, etc., which also would help in business success, leading to long-term survival.

Family business numbers two and three are the ones surveyed with the largest number of survival support attributes, and thus possibly having the greatest chances survival in the long run. These firms Businesses appear to be parenting and mentoring their potential successors.

Family Business number two has an explicit succession strategy. Moreover, the family business number two has been established in the early 1900's and has managed to preserve its institutional identity and entrepreneurial spirit of the family while renewing its line of business from one industry to another. The second and third generations of Family Business number two continuing to adopt simple and humble attitude inherited by its founders and their customer friendly attitude would also help it successfully survive into future generations.

The current owners of the Family Business number three have passed on to their children a passion for their family business from their early days, gearing up the next generation to willingly take over the business after their higher education. The management looking after their employees well and the resultant increase in productivity through worker satisfaction would help it survive in the long run.

Succession planning appears essential for the success of family-owned businesses in the long run. Given that small and medium scale family-owned enterprises dominate business society in Sri Lanka and that they contribute significantly to employment / wealth creation in the economy, it becomes necessary that the authorities take steps to help them and guide them in developing succession plans. This could possibly be achieved through conduction of management development programmes focusing on this aspect.

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