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# The Determinants of Successful Family Business Succession

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirement for the degree of Master of Business Administration.

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## Abstract

Family businesses represent a large proportion of the businesses registered in South Africa today, however very few of these businesses will cease to exist after the first generation. This represents a great loss in skills and wealth transfer, and a chance to contribute to economic growth. Family businesses need to learn how to manage the factors that affect the succession process. Therefore the aim of this study is to provide family business owners and managers with a keen insight of the determinants of successful family business succession.

This research project consists of the analysis of eight South African family business case studies. Primary data was collected through semi-structured, in-depth discussions with family members in various capacities of ownership and management in the family business. A conceptual model was created to try and assist family businesses to understand the determinants of successful succession.

Five key determinants were identified with a plethora of antecedent factors. The model acts as a mechanism to try and understand the various elements of the family business system and subsystems, and how they interact with each other at different stages of the business life cycle.

## Keywords

Family Business, Succession Process, Determinants

# Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Stuart Prior

26 September 2012

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## Quotation:

"Wherever you go that's where you are" – Author Unknown

# 1. Chapter 1: Introduction

## 1.1. Structure of the Research Paper

In this chapter the concept of family businesses will be discussed, why they are important to South Africa as a country and why their low succession rate is a problem. This will be followed by an overview of the motive behind the research project. The following chapter will discuss the literature on the succession process in family businesses, with the aim of building an argument why current models are insufficient in a South African context. Chapter three will build on chapter two, highlighting the propositions for this research. Chapter four will set out the methodology used to gather the appropriate data to test the research propositions. In chapter five the results will be presented and in chapter six these results will be discussed and linked to existing theory. A new family succession model will be proposed, synthesising theory and results, and revealing the interrelationships and complex nature of the family business succession process. The final chapter will contain the conclusion and suggestions for further research.

## 1.2. Family Business

Family businesses comprise 80%-90% of all the businesses in the world's free economies and contribute an average of 75% of the GDP (Poza, 2010). According to the Department of Trade and Industry and the South African Revenue Services in 2002 there were 1.42 million active businesses in South Africa and 84% of these registered businesses were family owned or controlled (Balshaw, 2003:26).

According to a Chinese proverb, "wealth does not pass three generations" (Sunday Times, 2012). The first generation makes the wealth, the second generation lives off of it, and the third squanders it. This is corroborated by world-wide statistics, which indicate that a mere 30% of family businesses survive into the second generation, with a worsening rate of 12% into the third and 4% into the fourth (Poza, 2010, Finweek, March 2012).

Family businesses as established entities present a great opportunity for businesses to extend their longevity by succeeding into the next generation. Worldwide and in South Africa, particularly under tight economic circumstances, family businesses are expected to increase in number. Family businesses in South Africa could contribute significantly to economic growth (Venter & Farrington, 2009).

Many academics, theorists, politicians and economists believe that the strategy to improve the social and economic welfare of South Africa is to create and sustain new businesses, particularly small and medium-sized enterprises (SMEs) (Farrington & Venter, 2009). Companies that have a higher goal than just profit-making often end up generating higher profits (Collins, 1995), for this reason family businesses are often adept at creating a wealth of profits as a result of a diversified focus beyond profit maximisation. This has been confirmed by a study conducted in three major regions, namely, Latin America, the U.S.A. and Europe where family businesses return between 6%-16% more value than non-family owned businesses (Poza, 2010).

## 1.3. Purpose of the Research

The study addressed the following main research question:

What are the determinants of successful family business succession?

Several examples of successful family business successions are evident in South Africa, most notably; the Oppenheimer family (Anglo-American & De Beers), the Rupert Family (Tobacco & Luxury Goods), the Ackerman family (Pick 'n Pay) and the Mouton family (PSG). All these businesses are considerable contributors to South African prosperity, as they generate large amounts of revenue and create numerous jobs (Sunday Times, 2012).

What elements of the succession process did these families and others manage in order to successfully transcend into the second generation of business success?

## 1.4. Rationale for the Research

Family businesses represent a great opportunity for wealth and skills transfer from one generation to the next. However, the succession rate for businesses in South Africa is very low, and this represents a considerable amount of knowledge and wealth transfer loss

(Farrington & Venter, 2009). Hence, there is a growing impetus towards understanding how family businesses can better survive trans-generational ownership issues, as they hold great value in contributing to the health and wealth of society. Investigation has revealed an uprising of family business research in global academic initiatives and conferences and increasing publication in top management journals (Wright & Kellermans, 2011). Family business research has been characterised by a synthesis of theory that spans from general management and entrepreneurship to spirituality and family relations (Wright & Kellermans, 2011).

A better understanding of the determinants of family business succession may encourage families to consider succession. Alas, there is still insufficient research to affect public policy, improve managerial practices or the promulgation of pro-family business operational incentives (Farrington & Venter, 2009). However, growing understanding of family businesses and their continued importance in a South African context may change the attitudes of important stakeholders.

## 1.5. Scope of the Research

Owing to the multifaceted nature of family business succession, a qualitative research methodology using a multiple case study design, (Leedy & Ormrod, 2013:141) to study eight family businesses at various stages of succession is the most appropriate. The businesses ranged from large multi-nationals with international admiration and rapport to medium-sized local manufacturers, all with a complex myriad of issues to deal with in their current economic environments. The study endeavoured to identify the determinants of successful succession by means of semi-structured in-depth discussions. The results were compared to previous literature and a model was developed to contribute to theory and to enhance the understanding of the family business succession process. Such knowledge would give family business stakeholders a better understanding of the succession process.

# 2. Chapter 2: Literature Review

## 2.1. Introduction

In the previous chapter the need for a better understanding of the family business succession process was discussed.

In this chapter the development in family business research will be discussed, followed by a suggested framework for future family business research. A family business is defined, followed by a discussion about the various theories that explain family business systems in order to contextualise the study. The suggested determinants of successful family business succession are explored and factors that appear to prevent succession are identified. From the discussed theory an integrative model depicting the determinants of successful family business succession will be developed.

## 2.2. Family Business Research

Family business research is the study of family-owned and managed businesses, and their subsystems that affect the way they operate (Poza, 2010). The trend towards family business research and its importance is evident globally, as it has been recognised as the fastest growing discipline in business research (Astrachan & Pieper, 2010; Stewart & Miner, 2011). Investigation has revealed its uprising in global academic initiatives, conferences and increasing publication in top management journals (Wright & Kellermans, 2011). Family business research has developed since its theoretical inception, and an increased number of published articles bare testament to its globalisation and theoretical and methodological efficacy (Goel, Mazzola, Pahn, Pieper, Zachary, 2012).

There is a growing impetus towards understanding how family businesses can better survive trans-generational ownership issues, as they hold great value in contributing to the health and wealth of society (Basco & Perez Rodriguez, 2011; Goel et al. 2012).

## 2.3. Current State of Family Business Research

Much research is based on anecdotal evidence, case studies and small scale descriptive studies. There has been a call for more quantitative studies with larger sample sizes and the trend seems to be to move towards this paradigm (Brockhaus, 2004). This view is supported by Dawson and Horjth (2011); however, they believe that there is still value in a qualitative approach. They further suggested how a narrative approach may be adopted to represent a convergence of methodologies, whereby an effective combination of qualitative, to uncover phenomena, and then quantitative to test those phenomena and their relevance, may be used.

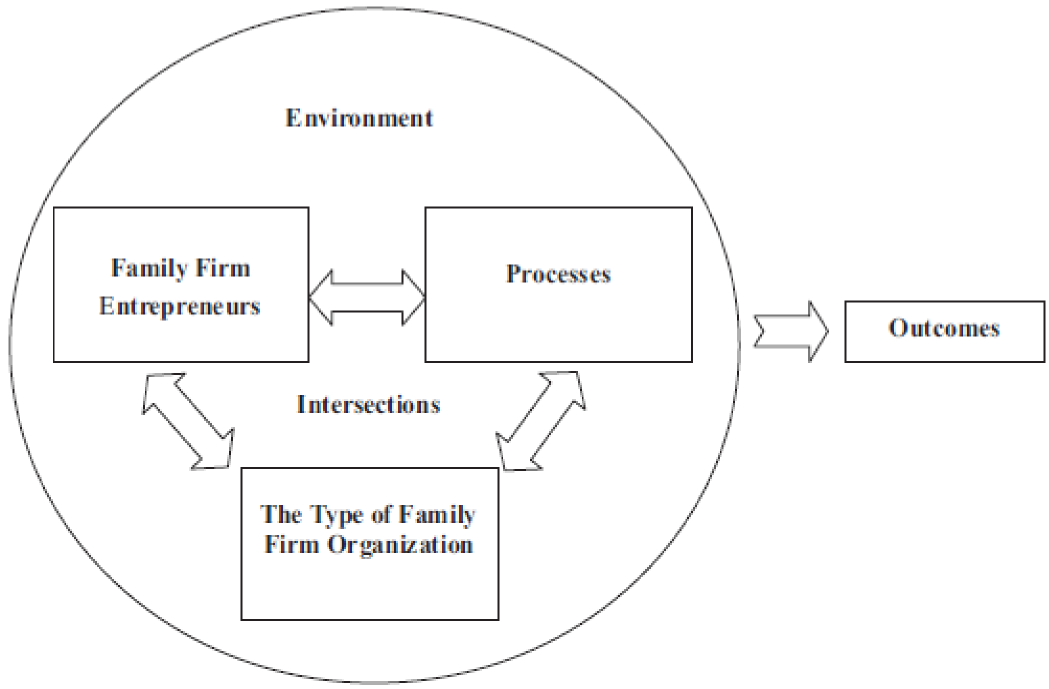
Lambrecht and Lievens (2008) found that although one can conduct extensive studies based on narrow definitions and large sample sizes, each situational context surrounding a family business is unique, and there is still value in using a case study method of research. Pearson and Lumpkin (2011) substantiated this by acknowledging that one needs to measure the latent variables and attempt to understand the constructs, which cannot always be done in a quantitative study.

Farrington and Venter (2009) contested that family business research remains largely fragmented and this is evident by the discrepancies shown in the literature as to the recognition of an incorporative model to be used for future family business research. Brockhaus, (2004) and Dawson and Hjorth, (2011) supported this view and suggested a more rigorous organisation of classification of family businesses in order to create a consistent research methodology.

### 2.3.1. A Framework for Future Family Business Research:

In recent literature Wright and Kellermans (2011) reiterated that family business research remains largely fragmented. They proposed a framework, based on the broad elements of entrepreneurship research, to clarify and organise the body of knowledge so that relevant theory can be extruded (Wright & Kellermans, 2011).

**Figure 2-1: Framework for Future Family Business Research**




(Source: Wright & Kellermans, 2011:118).

They identified six key elements that may affect the outcomes of future family research namely; the type of family firm organisation, the types of family firm entrepreneurs, the processes in family firms, the environments in which entrepreneurship occurs, the intersections between these elements and the outcome (family firm performance) (Wright & Kellermans, 2011).

From this model it may be deducted that each family business system is unique in its nature. Thus, to conduct a quantitative study attempting to understand the factors governing family business succession would render results unreflective of the complex nature of the topic.

Prior to proceeding with family business research, consensus regarding its definition should be reached.

## 2.4. Definition of a Family Business

One of the challenges in conducting family business research is defining what exactly a family business is. Unfortunately, there is no universally accepted definition. There have been various efforts to consolidate a working definition and hence many different definitions are available (Venter & Farrington, 2009). Many of the definitions proposed are broad and incorporative of all aspects of ownership and management, family involvement, interdependent subsystems and generational transfer. This makes it hard to complete comprehensive quantitative studies and create empirical data (Venter & Farrington, 2009).

A definition that is appropriate to this study is that supplied by Venter Boshoff and Maas, (2005):

*"A family business is one that is owned by the members of the same family to shape and/or pursue the formal or implicit vision of the business, and where it is the intention of the family members to hand the business over to the next generation or where the business has already been handed over to a family member to manage and/or control"* (Venter et al, 2005: 284).

## 2.5. Overview of Theories of Family Business Systems

In an attempt to understand the complexities of family businesses, authors have integrated concepts from organisational, business management and family systems theory (Venter & Farrington, 2009). Contributions from a wide range of practitioners and scholars have begun to converge into conceptual models of the family business.

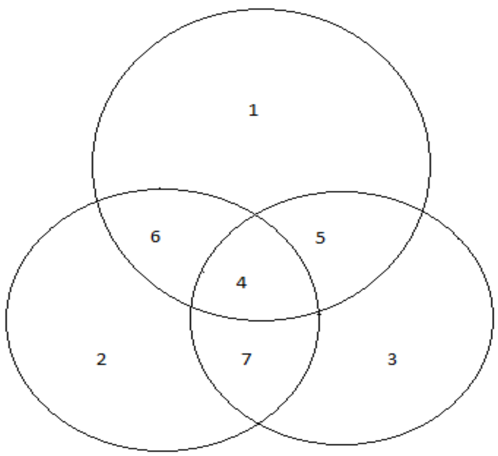
The earliest approaches to family business research came with the reporting of case studies by family business consultants (Farrington & Venter, 2009). Much of the early research related problems in the business, to problems within the family, which created a negative perception of the enigmas existing in family business succession (Farrington & Venter, 2009).

### 2.5.1. Systems Theory

The systems theory is most often used in the study of family businesses (Poza, 2010; Farrington & Venter, 2009). Using this theory the business can be analysed by modelling it as three, "overlapping, interacting and interdependent subsystems of family, management and ownership” (Poza, 2010:8). The basis of this theory is that in order to understand an overall system an understanding of the subsystems and how they relate to the overall system must be gained (Handler & Kram, 1988).

The three-circle system (Figure 2) illustrates the positions family and non-family members can take up in the family business.

**Figure 2-2The Systems Theory Model of Family Business, adapted from Poza 2010.**




Key:
1) Family
2) Ownership
3) Management
4) Related Owner Management
5) Related Non Owner Manager
6) Non-employed related owner
7) Non-related owner-manager

Source: Poza, 2010

The various positions in the circle represent how a particular person is classified within the system. The systems theory shows how family business is best understood and studied as a complex and dynamic social system in which amalgamation of the subsystems towards the common goal of the general system (family business) is achieved through counter adjustments of these subsystems (Poza, 2010). Effectively the model shows how the success of the business is dependent on the balancing of entrepreneurial, managerial and ownership goals (Korainen, 2003).

### 2.5.2. Life Cycle Approach

The lifecycle approach which comprises of five distinct steps in the organisation’s development attempts to analyse a family business and its members in terms of cyclical variation. It proposes that most organisations will go through the following steps (Lester &

Parnell, 2004):

- Existence (also known as the entrepreneurial stage)
- Survival (growth stage)
- Success (maturity)
- Renewal (efficiency)
- Decline

Family businesses must plan for the personal and developmental tasks they face in the future (Dunn, 1999), and the governance of the business must be guided by its stage in its evolutionary lifecycle (Farrington & Venter, 2005).

#### 2.5.3. The Agency Theory

The agency theory purports that if one is to assess the natural alignment of owners and managers (the agents) in a family business it will give an indication of the need for formal supervision and governance practices (Poza, 2010). It is argued that because of the intricate nature of these agency relationships (as a result of the effects of both altruism and nepotism) there are high costs associated with managing these relationships. Essentially, the agency theory encapsulates the idea that the goals of stakeholders may not all be accordingly aligned, and the resultant costs to the business are implicit (Poza, 2010). It can be argued that the agency theory is one way of explaining the intersections of the subsystems in the systems theory.

#### 2.5.4. The Strategic Perspective:

This theory was developed exclusively by Ernesto Poza (2010) as a consultant to over 100 family-owned businesses. He identified two main issues family business owners perceive as challenges to their business (Poza, 2010:14):

1) There is an increasing individualism in the younger generation, that view family businesses as a by-gone that would no longer be able to compete amongst international organisations.

2) There is an increasing fear from the younger generation that outgoing owners will fail to ever relinquish power over the business

It is possible that both these factors may be explained by extensions of the systems theory.

### 2.5.5. The Resource-Based View

The resource based view illustrates how the unique aspects of a family business may be a source of competitive advantage. It is maintained that the owner-manager-entrepreneurial role is often overlapped by the duties of one officer of the family business, which may streamline the business and thus create a competitive advantage. Members of a family may be far more accommodating of other members and ensure knowledge transfer and skills. This sense of community and inspired longevity may improve firm performance (Cabrera-Suarez, De Saa-Perez & Garcia-Almeida, 2001).

### 2.5.6. The Stewardship Perspective

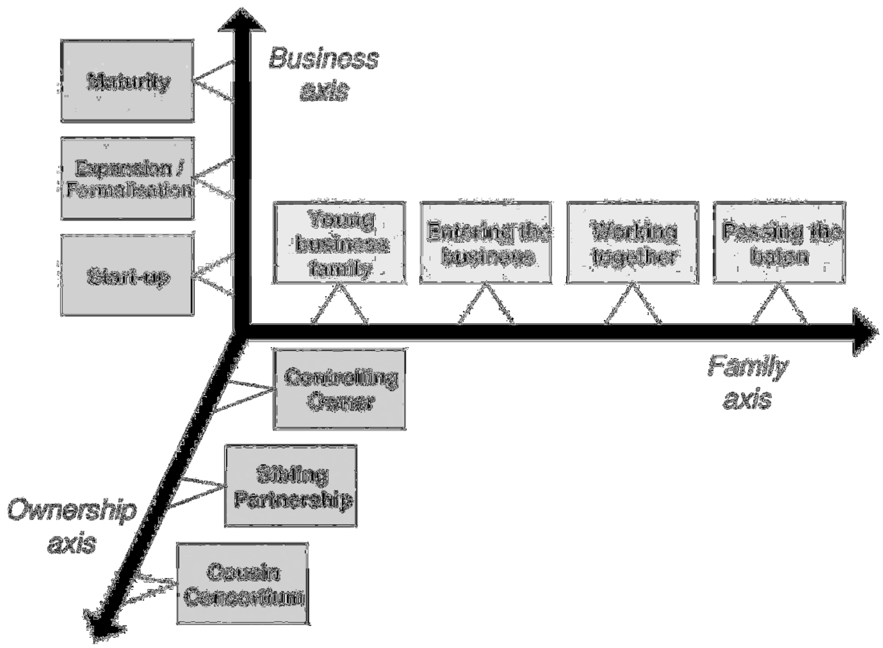
This perspective holds that founding-family members view the family business as an extension of themselves and an absolute legacy that they will do anything in their power to uphold. An extreme sense of pride ranks high amongst their priority goals, and may act as an agent for success or imminent failure, as founders struggle to relinquish their influence over the business (Poza, 2010). This view insinuates that owners are there to provide for the next generation, they have appreciation of the legacy, advocacy for the going concern and strong competency base for advisory (Poza, 2010).

### 2.5.7. Developmental Model of Family Business

Gersick, Davis, McCollom Hampton and Lansberg (1997), suggest that although the systems theory is relevant, it is not entirely appropriate as it does not incorporate time as a factor. The situation may look very different if one takes a snapshot now as opposed to 15 years in the past. Following this line of thought a start-up family business looks very different to a well-established third generation family business (Farrington & Venter, 2009).

Gersick et al (1997) have developed the systems theory model into a developmental model that displays all three subsystems of the family business in their own lifecycles. Figure 3 shows how the business axis (entrepreneurial aspects) family axis (paternalism aspects) and ownership axis (managerial aspects) mature within their own lifecycles.

**Figure 2-3:Three-Dimensional Developmental Model**




Source: Gersick *et al*, (1997).

The developmental model of family business (DMFB) has gone largely unchallenged in family business literature as it incorporates both family and business dynamics. Most models built in current literature align themselves within this framework (Rutherford, Muse, Oswald, 2006).

There have been many modifications to the DMFB. A possibly relevant addition is the Augmented DMFB. This model incorporates ownership characteristics (gender, growth orientation, education level), business characteristics (capital structure, strategic planning) and family characteristics (divorce rate, family turnover, family net worth invested in the business) (Rutherford et al. 2006). By incorporating these factors it is possible to analyse more aspects of the broad spectrum of intricacies that affect family businesses.

## 2.6. Determinants of a Successful Succession

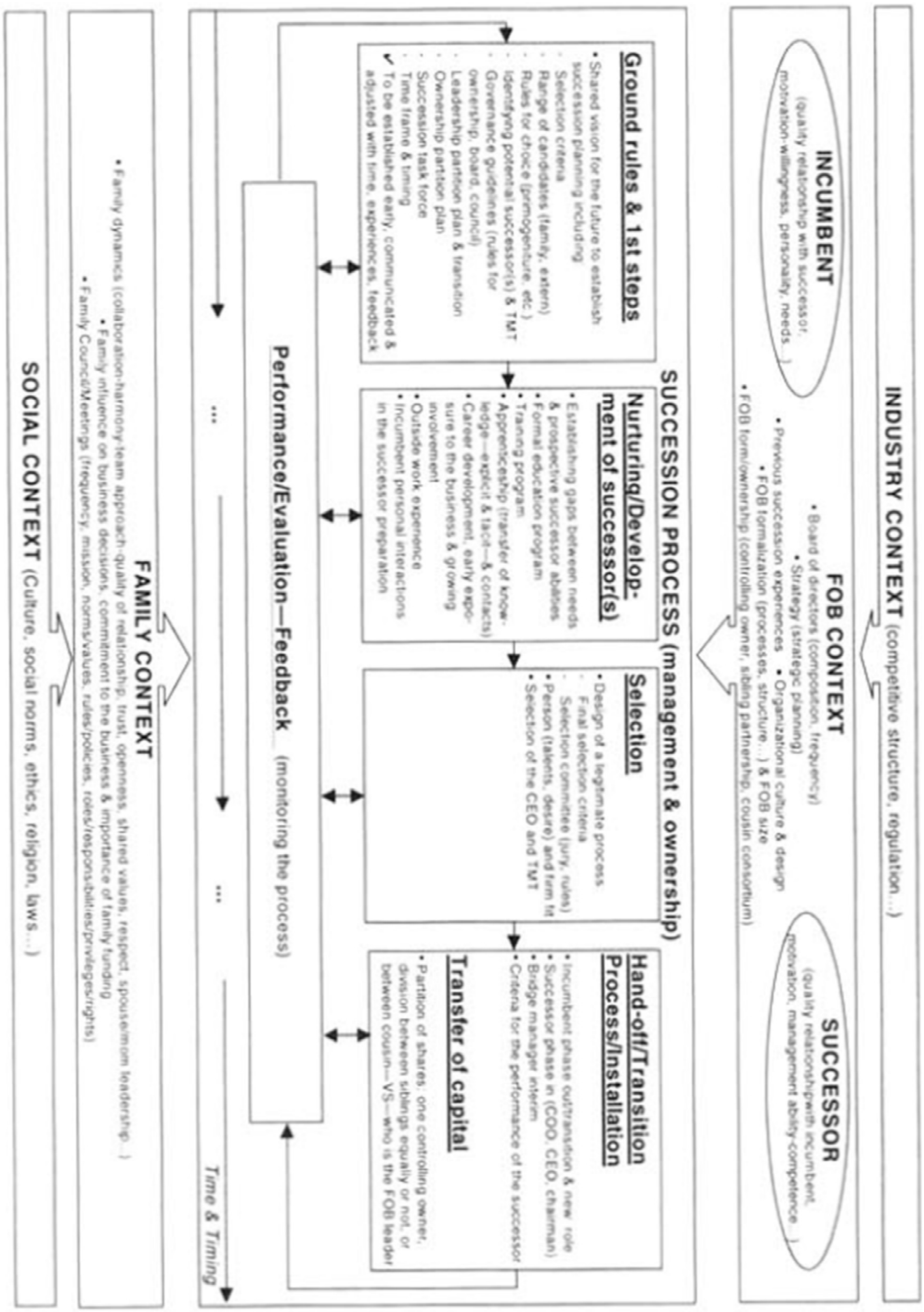
From an overview of the literature a few common themes for understanding the determinants of a successful succession emerge. Davis and Harveston (1998) suggested that each family business is a myriad of complexities because of the juxtaposition of work and family. By this account there is no proposition that can be suggested to discover the determinants as each situation is infinitely complicated. The process can only be managed to best suit each individual case.

Le-Bretton Miller, Miller and Steier (2004), have synthesized most of the literature to put together a more concise list of determinants in order for succession to succeed. They found the most common concerns being:

- The characteristics of successor and incumbent
- Family relationships
- Hand-off of power
- Shared vision
- Succession planning
- Board of directors with strong outsiders on it

They constructed a detailed model, built on these principles that may better explain the determinants of a successful succession (fig 2-4).

**Figure 2-4: Determinants of Successful Family-Orientated Business Succession**



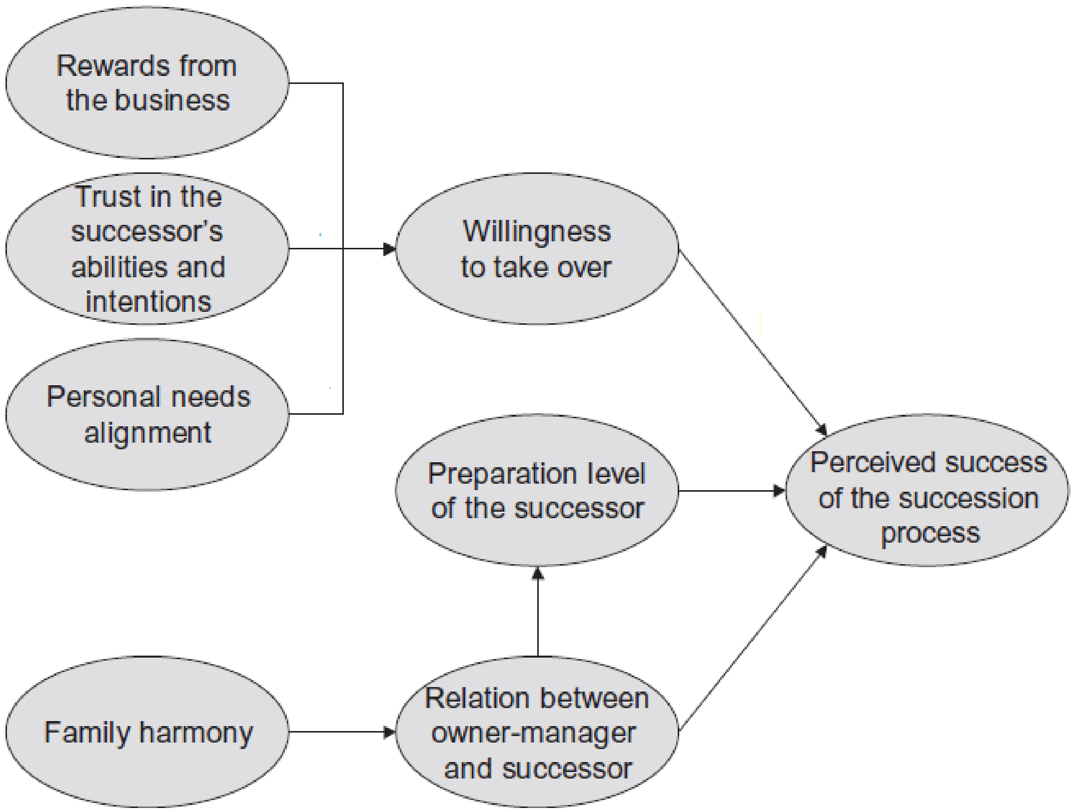

Source: Le-Bretton Miller, Miller & Steier (2004).

In their model (fig 4) Le-Breton-Miller et al. (2004) attempted to depict the relationships between family context, social context, industry context, the successor and incumbent and how these influence the succession process. The model could be criticised for attempting to define specific factors, and thereby eliminating necessary unexplained constructs that may also have a subsequent effect on family business succession. By creating a model with such specific outcomes the authors have relinquished the ability to generalise and become applicable to all family business successions.

Like Davis and Harvetson (1998), Le-Breton-Miller et al. (2004) agree that there are many factors that are present that may be uncontrollable. The role of the successful succession actors is to ensure that they effectively manage the process, and mitigate the effect of the uncontrollable and unpredictable factors. Brockhaus (2004) maintained that the best decisions in family business strategy are made purely on the basis of what is going to benefit the business and not the family.

Research that focused on the issue of succession in family businesses was conducted by Venter et al. (2005) and they developed a theoretical model of successor-related factors that influence successful succession. Their model, as depicted in Figure 5, shows that the factors that directly influence succession are the willingness of the successor to take over the business; the preparation level of the successor; and the relationship between the owner-manager and successor (Venter et al. 2005). They tried to anticipate the antecedent factors that would influence the willingness of the successor to take over and the relationship between the owner/manager and successor.

**<u>Figure 2-5: Theoretical Model of Successor-Related Factors That Influence Successful Succession</u>**




Source: Venter, Boshoff & Maas, (2005:285).

Venter, et al. (2005) identified the antecedent factors affecting the willingness to take over as the potential rewards from the business; trust in the successor's abilities and intentions and personal needs alignment, while family harmony is the antecedent to the relation between owner-manager and successor (Venter et al. 2005). Whilst this model finds relevance in anticipating successor-related determinants of a successful succession it fails to incorporate important aspects of the entire succession process, such as incumbent-related factors and the environment in which the business operates.

Lambrecht and Lievens (2008) suggested that a successful succession is achieved by 'pruning the family tree', in other words, ensuring that all members in the family business contribute in a positive way and are strictly governed by sound principles entrenched in policy.

Solomon, Panattoni, Breunlin, Gustafson, Ransburg, Ryan, Hammerman & Terrein, (2011) agreed that business and human factors govern the process in a complex myriad of phenomena, and the only way to successfully succeed in a family business is to have a very carefully processed succession plan and strategy.

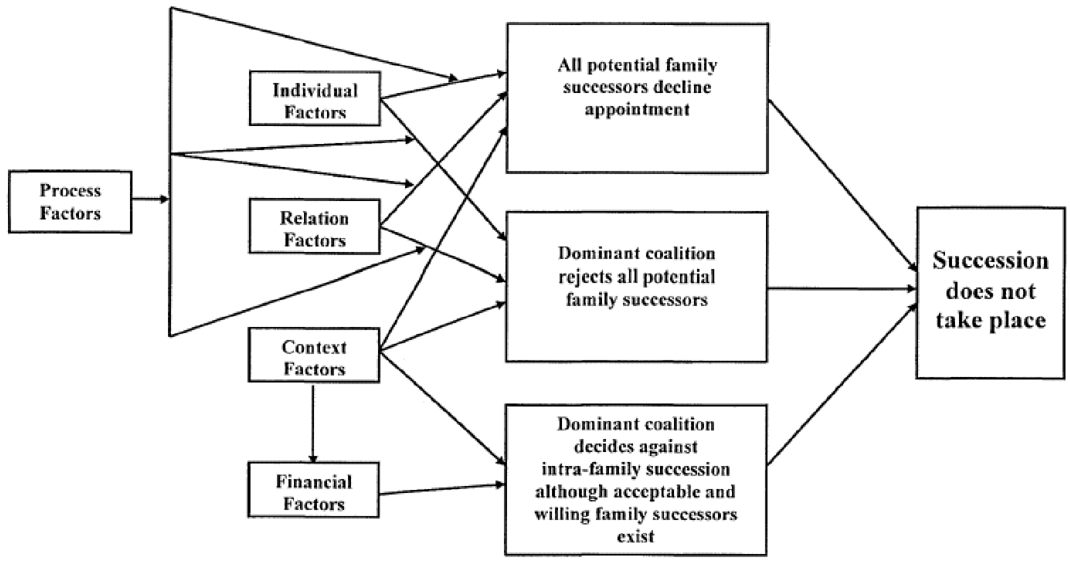
Owing to the low rate of effective trans-generational succession, much research attention has been given to the factors that prevent succession.

## 2.7. Factors Preventing Family Business Succession:

De Massis, Chua and Chrisman (2008) proposed that several factors prevented intra-family succession. Their model (Fig 6) reveals how individual, relational, context and financial factors combined with process factors inter-relate to create three scenarios where succession does not take place:

- All potential family successors decline appointment.
- Dominant coalition rejects all potential family successors.
- Dominant coalition decides against intra-family succession, although acceptable and willing family successors exist.

**Figure 2-6: The Factors Preventing Intra-Family Succession in Family Businesses**




Source: Du Massis, Chua and Chrisman (2008)

Although the model of De Massis et al. (2008) is an accurate description of the family and business systems, and how they interact, the application of this model would be difficult as it fails to explain the specific factors that family owned businesses must manage in order to successfully succeed the business.

Several authors (Brockhaus, 2004; Le-Breton-Miller et al. 2004; Venter et al. 2005; Sharma et al. 2003) have attempted to understand these specific factors that work within the systems and sub-systems of family businesses. A summative view of their efforts is described below:

### 2.7.1. Low ability of potential successors

The ability of the potential successor is most often defined by the other family members. If family members have little or no faith in successors, it is unlikely that a successful succession will occur (Brockhaus, 2004). Venter et al. (2005) added that the ability of the potential successor is influenced by the willingness of that successor to take over. Preparation of successors is a combination of attitude and aptitude (Venter et al, 2005). Griffeth, Allen & Barrett, (2006) in developing their Successor Retention Process model examine a wide plethora of factors that may contribute to the willingness of the successor to join the business. They attribute the success of preparing the successor accordingly to three stages of development, namely, 'getting in' breaking in' and 'settling in'. If successors are unable to successfully enter the business, gain experience and gain acceptance they may fail as potential leaders of the family business.

### 2.7.2. Dissatisfaction and lack of motivation of potential successors

Sharma, Chrisman and Pablo (2003) found that successful succession is a factor of the incumbent's willingness to step aside, the successor's willingness to succeed, continued family involvement, acceptance of clearly specified roles and succession planning. In addition De Massis et al. (2008) found a relationship between the lack of focus on these factors and the dissatisfaction and lack of motivation of potential successors. The survival of a family business depends on the involvement, commitment and inclusion of the next generation.

### 2.7.3. Unexpected Loss of Potential Successor(s)

Levenburg, Wolterlink and Subramanian (2003) showed in a case study how intuitively, the unexpected loss of a potential successor inhibits a succession. They contested that this is mainly due to the incumbent's loss of will to seek other potential successors and a sale of the family business becomes a more attractive option.

### 2.7.4. Personal sense of attachment of incumbent with the business

Solomon et al (2011) revert to disillusioned, apraxic and fearful incumbents as major inhibitors of the family business succession process. The legacy and culture that incumbents create within the organisation, may outlive that incumbent. This may have a positive or negative effect on the future of the business, depending on the particular culture that was created. However, it was found that incumbents who struggled to 'let go' of the management of the business and who had a disillusioned perspective of their future roles within the business, were more inhibitory to the succession process and sustainability of the business (Haverman & Khaire, 2004; Le Bretton Miller et al, 2004).

Le-Breton-Miller, Miller and Steier (2004) also found that the characteristics of the incumbent were crucial to successful succession.

### 2.7.5. Unexpected Premature Loss of the Incumbent

Kelly, Athanassiou & Crittenden, (2000) developed the 'founder-centrality' theory, which purports that much of the organisations strengths and future prospects are born on the existence of the founder. Aspects of strategic vision and goals, culture, strategic behaviour and internal/outward orientation are all based upon the founder's legacy. Having noted that the sudden loss of the incumbent is a major inhibitor to succession, there is cause for examining cases where the loss of an incumbent has encouraged succession, and the will to grow the business. Morris (2008) encountered a case where the founder had suddenly passed away, with no succession plan or adult child. The business did not fail but instead the family members were forced to take on different responsibilities and fill the void left by the founder. The business was able to survive and grow successfully (Morris, 2008). It is yet to be seen whether this case was an anomaly.

### 2.7.6. Incumbent's unforeseen remarriage, divorce or birth of additional children

Events such as unforeseen remarriages, divorces or the birth of more children are found to add to the complexity of the family-management-business system. Analysis of family systems shows how such additions to the family system may complicate the outcomes of that system, because there are more family members with possible interests in benefits of the business. (Solomon et al, 2011).

### 2.7.7. Conflicts/rivalries/competition in the parent-child relationship

Borrowed from the study of family systems, many researchers have explored the notion of conflict, rivalries and competition in the parent-child relationship, and how they may affect the family business succession process (See: Brockhaus, 2004; Le Breton Miller et al. 2004; Venter et al. 2005). It is noted that family business succession is more of a process than an event, and the continued involvement of family members is crucial to its success. In the case that there are negative outcomes because of conflict, rivalry or competition in the parent-child relationship, they act as inhibitors to succession (Venter et al. 2005). Zahra (2005), showed how incumbents may use their power to suppress entrepreneurial activity, if they are in disagreement with growth prospects, and how this may lead to conflict in the parent-child relationship.

#### 2.7.8. Conflicts/rivalries/competition among family members

Similarly to conflicts/rivalries and competition in the parent-child relationship, conflicts/rivalries and competition amongst family members may have an inhibitory effect on the succession process as the process requires a harmonious mix of both business and family systems (Bruce & Picard, 2006). A successor cannot operate effectively without the support of the other family members (Venter et al. 2005).

#### 2.7.9. Perils related to high 'consensus-sensitiveness' of the family business

Kelly et al. (2000) discussed the notion of founder centrality and strategic decision-making within the family business. This relates to consensus-sensitiveness in the sense that the greater the effort required to gain consensus the higher the opportunity costs. If family business managers are to spend the majority of their time, managing relationships and convincing other family members about their strategies, the business unit may become inefficient.

#### 2.7.10. Lack of trust in the potential successors by family members

Venter et al. (2005) examined the effect of successor-related factors on the succession process. They found that the successor bares great influence on the succession process. If there are non-harmonious relationships, or the successor is perceived to be ill-prepared, a sense of distrust in the successor’s ability from other family members will result and consequentially inhibit the succession process.

#### 2.7.11. Lack of commitment to the potential successors by non-family members

Sharma and Irving (2005) discussed the notion of an imperative commitment, where commitment is perceived as crucial for the organisation to survive. When this is the case it is far more likely that non-family members will show commitment to potential successors as opposed to normative commitment, which is bred of an obligatory nature (Sharma & Irving, 2005). A lack of commitment to potential successors is seen as an inhibitor of family business succession.

#### 2.7.12. Change in the business performance

Venter et al. (2005) discussed the successor-related factors that influence succession. One of the factors they investigated is that of rewards from the business. The enjoyment, personal satisfaction and financial security that may come as a result of a family member joining the business influence their potential to join the business. If the potential successor has the intrinsic benefits of joining the family business as their biggest motivation, it may decrease the willingness to join the business (Sharma & Irving, 2005).

#### 2.7.13. Decrease in the scale of the business

Stavrou (1999), found a positive correlation between the size of the family business and the willingness of potential successors to join the family business. The willingness of the successor to join the business was a function of family heritage, financial reward and personal satisfaction.

#### 2.7.14. Not clearly defining the roles of the incumbent and the successors

Le Bretton Miller et al. (2004) purported that family business succession is not a process that occurs over-night, but rather an intricate and planned process with positive and defined outcomes. By not clearly defining the roles of the incumbent, understanding their vision of retirement and defining the roles of the successor, neither will perform at their optimal productivity. Sharma et al. (2001) explored the determinants of satisfaction with the succession process and found that a clear definition of the role of an incumbent in the future of the business was able to facilitate a smoother transition.

#### 2.7.15. Not communicating and sharing the decisions related to the succession process with family members and other stakeholders

Dyck, Mauws, Starke & Mischke, (2002) looked at the succession process as a whole and proclaimed four main factors for a successful succession, namely: timing, technique, sequence and communication. Effective communication between potential successors, incumbents and other family members is critical for strategic decision-making and facilitation of the succession process. Any lack of such communication between all stakeholders may inhibit succession (Le-Breton-Miller et al. 2004; Sharma et al. 2004).

#### 2.7.16. Not developing successors accordingly

There are certain factors that contribute to the development or non-development of successors. Insufficiently exposing potential successors to the business, not giving them sufficient feedback about their progress and failing to train them sufficiently all contribute to insufficient development of successors (De Massis et al. 2008).

#### 2.7.17. Formal Succession Planning

Sonfield and Lussier (2004) presented the findings of an interesting study, which showed how first generation family businesses were less likely to partake in any form of succession planning, compared to second and third generation family businesses, and this was seen as a contributing reason for failing in the succession process.

From the preceding discussion it is evident that determinants of successful succession are varied but that research has not yet exhausted the list of potential determinants.

### 2.8. Succession, Business Cycles and Entrepreneurship

Zahra (2005) explored the influence the family business has on entrepreneurship, and how founders may influence the decisions of the next generation. Their findings persist that founders may influence the business's 'regenerative capability' that allows them to generate new business and markets, renew their operations, develop new skills and adopt new strategies (Zahra, 2005). An important element of the succession process they examined was the informal and formal power founders used to intensify conservatism, which in turn stifles entrepreneurship of the next generation.

As Haverman & Khaire, (2004), Le Bretton Miller et al. (2004) and Solomon et al. (2011) all suggest the founder's inability to let go, negatively affects the willingness of the successor to join the business. However no authors investigate whether this reduced willingness to join the business may be as a result of a reduction in the entrepreneurial culture. Zahra (2005), suggests that research needs to be conducted on family businesses over time or across the various stages of their lifecycles to see how businesses culture may affect risk taking (which can be loosely translated as entrepreneurship) at the different stages of the business lifecycle.

## 2.9. Professionalizing the Family Business

Stewart and Hitt (2012), believe family businesses are best suited to a higher form of governance, and should move towards professionalization (which infers institutionalisation and implementation of corporate governance). The intended outcome on the succession process is that it will be a formal process similar to that in a corporate organisation.

However Melin and Nordqvist (2007), believe that researchers still know very little about institutionalisation and its consequences on idiosyncratic family businesses. This view is supported by Lane, Astrachan, Keyt and McMillian (2006), who argue that corporate governance practices are detrimental to family businesses. Stewart and Hitt (2012), acknowledge these sound concerns and defend their position by offering a broad range of definitions for professionalization, that encompass a wide range of family business types.

## 2.10. Conclusion

Family business research has increased in recent times; however it falls short of being complete in two major areas, effective methodology and the proposition of relevant models.

### 2.10.1. Methodology

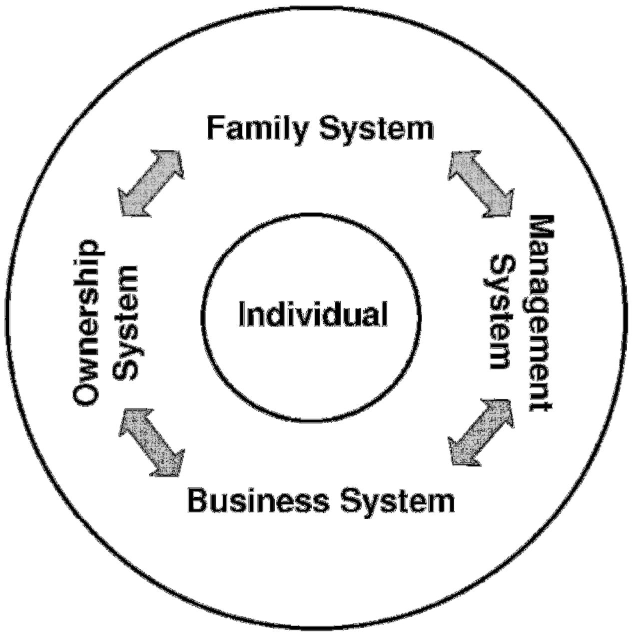
The current call for more quantitative research in the field of family business, testing particular constructs with large samples, is a valid concern of researchers. However this style fails to take into account the element of time and the different phases of the family business lifecycle. By taking a 'snap shot' of a business at a particular point in time will give varied results compared to a comparative analysis completed over time. This view is supported by both Lambrecht and Lievens (2008) and Pearson and Lumpkin (2011). They maintained that family business research should adopt a qualitative approach to discover the latent variables and phenomena surrounding family businesses and the succession process.

### 2.10.2. Current Models

To date most of the models proposed are either rather incomplete in the sense that they fail to fully describe the determinants of successful family business succession or they fail to incorporate the lifecycles of the family business. This view is supported by Pieper and Klein (2007) who contested that most models fail to incorporate an important array of business dimensions and relationships among subsystems because they are rooted in very basic levels of abstraction.

Pieper and Klein (2007) have developed the "Bulleye" open systems approach. They suggested that there is a need to analyse four systems namely; the family, ownership, business and management systems and the individual, and how these systems are inter-related. This is a very challenging model to depict (see Figure 7), however it offers a more holistic view of the family business (Farrington & Venter, 2009).

**Figure 2-7: The Bulleye: Two-Dimensional Onlook onto the Three-dimensional Open System.**




Source: Pieper and Klein (2007)

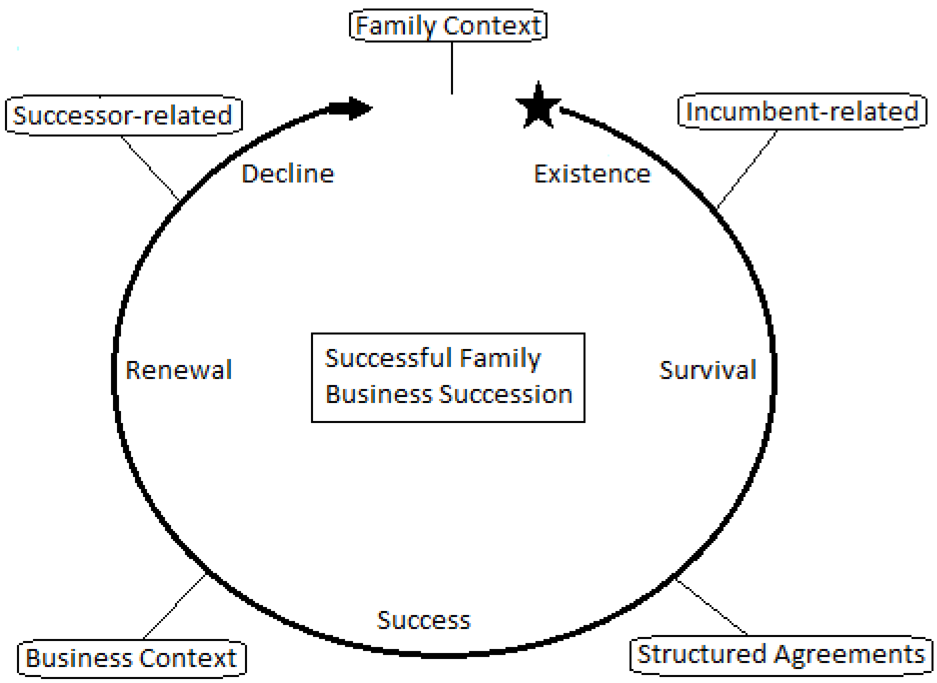
The 'Bulleye' model (Fig 7) attempts to show how the systems affecting family businesses are not mutually exclusive, and how these systems may affect the individual. What it fails to show is the size of the effect these systems have on one another, and the actual antecedent factors that affect the family business succession process. However it is a sound basis from which to develop a model depicting the determinants of successful family business succession.

The purpose of this research is to further explore the latent determinants discovered in previous research and to identify other possible determinants applicable in a South African context. From the findings a more comprehensive model that incorporates the major determinants of a successful succession and their antecedents, whilst incorporating the lifecycle of a family business, will be developed.

### 2.10.3. Proposed Model:

From the literature, the integrative model in figure 8 is proposed to guide the research into the determinants of successful family business succession.

**Figure 2-8: The Determinants of Successful Family Business Succession**




Source: Authors Own

The model attempts to describe the determinants of successful family business succession. It is a holistic model that incorporates the family business lifecycle, and does not limit the determinants as it allows for antecedent factors. The inner circle represents the family business lifecycle which aligns with a typical business lifecycle from start-up, through growth phase to maturity. The model incorporates the position of a particular family member in the lifecycle of the family business. The start-up phase would represent the family member's initial involvement in the family business, the growth phase his/her management of the business and the maturity phase his/her preparation to exit the business.

The determinants are represented in their summative categories. Incumbent-related factors, structured agreements, the business context, successor-related factors and the family context have been identified as the major determinants of successful family business succession. There is an acknowledgement at this stage that each one of these categories has antecedent factors.

It is the purpose of this research to confirm these major determinants and identify the antecedent factors that render each family business unique. In addition, the research will endeavour to assess how the determinants and their antecedents may affect the succession process during the different stages of the family business lifecycle.

# 3. Chapter 3: Research Questions

## 3.1. Introduction to Research Question

From the literature review it follows that researchers have identified many determinants of successful family business succession, but that the potential determinants and their antecedents have not yet been exhausted, especially in a South African context. A comprehensive model for successful family business succession including the different stages of family business lifecycles has not been developed and this research will address this shortcoming. Research questions are said to delineate the research problem (Leedy & Ormrod, 2013).

## 3.2. Research Questions:

The main research question was as follows:

What are the determinants of a successful family business succession?

This question can be unpacked into five secondary questions addressing a number of key constructs extracted from the literature review:

- What are the successor-related factors/elements that affected the succession process?
- What are the incumbent-related factors/elements that affected the succession process?
- What are the family-context related factors/elements that affected the succession process?
- What are the business-context decisions and factors/elements that affected the succession process?
- What factors/elements of the structured agreements that the family implemented affected the succession process?

# 4. Chapter 4: Research Methodology

## 4.1. Research Methodology:

### 4.1.1. Choice of Research Method:

In considering the appropriate research methodology the different research paradigms are reviewed. Generally, research paradigms are split between positivistic and phenomenological concepts (Collins & Hussey, 2003). Positivistic research normally produces quantitative data, where a causal link between the theory/concept is the goal of the researcher (Leedy & Ormrod, 2005). Phenomenological research usually produces qualitative data, as researchers attempt to gain a deeper, richer understanding of the subject of their research using inductive reasoning (Collins & Hussey, 2003). Qualitative research is concerned with a particular phenomenon in a definite time and place (Saunders *et al*, 2009).

Although there are calls to move away from anecdotal evidence, case and small-descriptive studies in family business research (Venter et al. 2005:299), when examining the purpose of this research it seems that a case study is still the most effective method to gain a richer understanding of the phenomena. A case study can be used to for an in-depth study of a particular individual, programme, event, situation, relationship or system to reveal its multifaceted nature (Leedy & Ormrod, 2013). This view is supported by McPherson, Brooker & Ainsworth (2000) who argue that case study research is “capable of creating thick descriptions and rich understandings of social contexts that have relevance and resonance across social sites” (McPherson et al. 2000:49). Furthermore, a case study often has a developmental effect on participants as they tend to have a pro-active role in exploring and shaping the policies that affect their social practices (McPherson et al. 2000). For these reasons a case study method was the most appropriate research method for examining the South African family business context.

Demonstrating, supporting or revising theory would contribute to a better understanding of the constructs behind the unique attributes and behaviours of family businesses (Pearson & Lumpkin, 2011). A concise examination of subjective matter; such as in family businesses case studies, would require an analysis of the observable and latent variables.

Latent variables are inferred from proxies or other measureable variables that are measured to serve as indicators (Pearson & Lumpkin, 2011). Every case study is unique and therefore the latent variables need to be measured in order to understand the constructs.

Essentially, a case study method seeks to create an empirical investigation of a particular phenomenon within its context by examining multiple sources of evidence (Saunders, Lewis & Thornhill, 2009). Case studies are a preferred strategy when 'how' and 'why' questions are being examined, where the researcher has sparse control of the events that occur, and when the purpose is contemporary phenomena with a real-life context (Yin, 2003). The proposed method for this study is a qualitative, multiple case study research design in order to gain an understanding of the phenomena surrounding the determinants of successful succession in family-owned businesses using South African case studies. Multiple cases were studied in order to make comparisons and build theory.

### 4.1.2. Components of Research Design:

Yin (2003:21) sets out that for case studies there are five key components of the research design:

- The research question(s) (See Chapter 3),
- The research propositions (See Chapter 1),
- The unit of analysis (See 4.1.3.),
- The logic of linking the data to the propositions (See 4.1.7.),
- Criteria for interpreting results (See 4.1.7.).

### 4.1.3. The Unit of Analysis:

In a research project it is critical to understand what the specific research question is and what data need to be collected in order to answer this question. The primary unit, or the main unit in focus in order to answer the research question, is called the unit of analysis (Salkind, 2010).

For the purpose of this study, as earlier proposed (see 2.1.4.), the definition of a family business and the unit of analysis is as follows:

A "family business is one that is owned by the members of the same family to shape and/or pursue the formal or implicit vision of the business, and where it is the intention of the family members to hand the business over to the next generation or where the business has already been handed over to a family member to manage and/or control." (Venter et al. 2005: 284).

The unit of analysis was the determinants of successful family business succession.

#### 4.1.4. Universe and Population:

The universe can be defined as the entire possible collection of sample variants in existence (Saunders et al. 2009). Balshaw (2003) estimated that there are about 1 million family businesses in South Africa. Balshaw's definition of a family business is in line with the suggested definition. The universe of family businesses is rather large as family businesses form the larger part of all businesses in South Africa.

The population for a case study based research methodology is defined as the full collection of cases that the sample may be selected from (Saunders et al. 2009). In order to filter the universe into a more representative, and results-driven population the following parameters were added to define the population for the study:

- The family business must have a turnover greater than R20 million per year, and more than 5 employees.
- The family businesses members must have attempted completed or have the intention to enter the succession process, whether it is failed or successful.

#### 4.1.5. Sampling Method

Malhotra (2010:371), states that a sample is "a subgroup of the element of the population selected for participation in the study", whilst sampling is the "process of selecting entities for analysis (Leedy & Ormrod, 2013:152). Nonprobability sampling was used, which means that the researcher cannot predict that each element in the population will be represented in the sample (Leedy & Ormrod, 2013).

Initially a few family businesses were contacted, based on suggestions, using extensive networking. From there snowball sampling was used to extrapolate a list of potential family business contacts and businesses. Snowballing is a form of non-probability sampling that is used to identify members of the desired population (Saunders et al. 2009). This list was then further extrapolated until forty potential family businesses were identified.

Purposive sampling was used to select those family businesses who complied with the parameters 1 and 2 in section 4.1.4. This further reduced the list to twenty five family businesses.

Finally, convenience sampling was used and the following eight family businesses were selected:

**Table 4-1: List of Cases and Respective Industries**

| Case | Name | Industry |
|---|---|---|
| 1 | Jack in the Box | Manufacturing and Franchise Management |
| 2 | Metal Men | Engineering and Manufacturing |
| 3 | Tool Time | Manufacturing and Marketing |
| 4 | A True Gem | Mining and Project Management |
| 5 | A Clothing Legacy | High-end Retail |
| 6 | Spit 'n Polish | Manufacturing and Retail |
| 7 | The BullDozer | Logistics |
| 8 | The Trade-Off | Trading |

The size of each family business was determined using the Small Business Amendment Act of 2003 (See Appendix 3) and the sizes are displayed in table 5-2.

Specific reasons for choosing each case are explained below.

- Jack in the Box: Was a customer and supplier of the researcher's own family business. The participant was extremely keen to divulge their learning from their own experience, which was described as a 'disaster'.

- Metal Men: Was an example of an iconic South African family business that has grown tremendously over the last 85 years. They have successfully managed to overcome succession-related problems with vigour, and look to be a benchmark for other South African family business successions.
- Tool Time: Was a family business whose family has close associations with the family of the researcher. Through the years much mention has been made of the strife in their family that has arisen due to family involvement in the business. A real frank view was promised from the discussion.
- A True Gem: Extensive networking was used to gain access to this family business, as it is of a high stature in South Africa. The researcher felt it important to gain an insight into an iconic South African family business.
- A Clothing Legacy: Was a family business with a plethora of family issues and legacy to uphold. They have intentionally made business decisions in respect of family involvement in the business. Fascinatingly, they have managed to keep the business going through four generations, using a business model that has hardly changed until very recent times.
- Spit n Polish: Was a fully black-owned and managed family business. The researcher found it very difficult to find fully-black owned family businesses to form part of the sample, and was therefore very keen on the prospect of gaining insight from this business. They were very receiving of an interview and were anticipating the results of the study, as they were embarking on an uncertain road themselves.
- The BullDozer: Was a family business that originated from a farming background and the current owners were the first generation to leave the farm. Since inception of their mining logistics company they had grown tremendously to become one of the biggest privately owned businesses in the mining logistics industry. The participants were extremely keen and helpful, and promised to share a myriad of interesting views. They were also very interested in the results of this study.
- The Trade-Off: Were included as part of the sample because they had not succeeded in transferring the ownership of the business to the next generation, who were already managing the business. The researcher felt it important to include them as possible insight might have been shown as to why they could not transfer ownership.

The researcher started to notice the data reaching a point of saturation after roughly five interviews, however there were still some interesting observations that came out of the remaining three discussions.

#### 4.1.6. Measurement instrument

In case study research extensive data can be collected by means of observations, interviews or documents (Leedy & Ormrod, 2013). The objectives of the study were tested through semi-structured face-to-face discussions that allowed for a hybrid of deduction/induction and spontaneity when the researcher wished to press deeper into particular issues (Saunders et al. 2009). Face-to-face interviews were conducted with the members of the sampled family businesses. As the interviews had a time constraint, it was decided to make use of a semi-structured discussion document. The benefit of a semi-structured discussion is that it can be tailored to suit specific respondents. A further benefit being that respondents are able to answer in their own words instead of being forced to comply with particular responses on a structured questionnaire as used in quantitative research (Saunders et al. 2009). The intention was to extract rich, involved data that would best be able to explain the particular phenomenon under inspection (Saunders et al. 2009).

An inductive approach to data collection ensured that any new phenomena was identified and expanded on, to incorporate into the next discussion (Srnka & Koeszegi, 2007). It was found that each discussion needed an element of adaption as various complexities involved in the analysis of a dual social and business context were examined.

#### 4.1.7. Nature of Discussions

The discussions were generally held in a relaxed environment. The general structure of the conversation (before recording for transcription) was that of the family and business history, as well as the researcher's own situation. This often led to a rich understanding of the participant's context. The discussions were roughly one and a half hours in total, with one discussion leading as long as two and a half hours.

### 4.1.8. Discussion Guide

The discussion guide changed three times (See Appendix 1) as relevant and critical information were obtained during interviews before it standardised. Some of the initial questions seemed to be leading questions resulting in participants discussing succession determinants which they would not have covered otherwise. The final discussion guide allowed the participants the opportunity to describe the determinants of successful family business succession that were the most pertinent to their particular case, before uncovering some other possible elements of the succession process.

The discussion guide was used purely as a template and participants were encouraged to tell their own story. As suggested by Dawson and Hjorth (2011), sometimes the richest data came from when the participants were allowed to tell their own story, because for some of them it was a first reflection on their own succession process.

### 4.1.9. Collection of information

The face-to-face discussions were recorded on a voice recorder. All interviews were subsequently transcribed by the researcher which took roughly six hours per document. This contributed to a rich understanding of the content. During the interviews a minimal response technique was used, coinciding with paraphrasing, summarising and clarifying techniques in order to specify vague lines of response (Saunders et al. 2009).

### 4.1.10. Analysis Approach:

The analysis of case studies is an under developed area and one of the major challenges of performing case study analysis. Much depends on the researcher's rigorous thinking, along with the sufficient presentation of evidence and careful consideration of all other possible interpretations, which can be a largely subjective process (Yin, 2003).

Tesch's descriptive method of open coding presents 'a way of working' with textual data and was the principle method of organising the data (Creswell, 1994:154-155). The researcher followed this eight step method, which engaged the researcher in a systematic process of data analysis.

- The researcher obtained a sense of the whole by reading through the transcriptions carefully. Ideas that came to mind were written down.
- The researcher selected one interview and went through it asking: "What is this about?" thinking about the underlying meaning in the information. Any thoughts that were triggered were written in the margin.
- When the researcher had completed this task for several respondents, a list was made of all the topics. Similar topics were clustered together and formed into columns that were arranged into major topics, unique topics and leftovers.
- The researcher then took the list and returned to the data. The topics were abbreviated as codes and the codes were written next to the appropriate segments of the text. The researcher applied this preliminary organizing scheme to see whether new categories and codes emerged.
- The researcher found the most descriptive wording for the topics and turned them into categories. The researcher endeavoured to reduce the total list of categories by grouping together topics that related to each other. Lines were drawn between categories to show inter-relationships.
- The researcher made a final decision on the abbreviations for each category and alphabetized the codes.
- The data belonging to each category was assembled in one place and a preliminary analysis performed.
- Existing data was recorded by the researcher.

The results of the analysis was a rich spectrum of data organised into six main categories, namely; successor-related factors, incumbent-related factors, family context, business context, structured agreements and new themes. These results are discussed in Chapter 5.

In Chapter 6 the data are reflected against the research questions, compared to existent literature and the researcher’s insight was added.

#### 4.1.11. Triangulation

Triangulation can be defined as "the combination of methodologies in the study of the same phenomenon" (Denzin 1970:297, in Hussey & Hussey 1997:74) and four types of triangulation, namely; data triangulation, investigator triangulation, methodological triangulation and triangulation of theories have been identified. In this research data triangulation occurred: data was collected from literature, from the eight case studies and from a family business expert with whom a telephonic interview was conducted (see section 6.11).

#### 4.1.12. Limitations:

As the sample size was very small, the main research limitation is that the results cannot be extrapolated over the entire population of family businesses. Individual bias on account of personal interest and admiration and size and success of the family business may result in unfounded perceptions of success or failure of the family business succession process. In addition an inept interview technique on account of the inexperience of the researcher could impact the results, and create subjective and assumptive results.

Four tests have been developed to establish the quality of empirical social research, which includes case study research (Yin, 2003:34). These for tests are as follows:

- Construct Validity – Establishment of the correct measures to test the concepts that are subject of the study.
- Internal Validity – Establishment of a causal relationship, where certain conditions are shown to lead to other conditions (for explanatory or causal studies).
- External Validity – Establishment of the domain to which a study's results and findings may be generalised.
- Reliability – Demonstration that by using the same data collection procedures, the study can be repeated with similar results.

Validity in research is important to test whether a researcher is measuring what needs to be tested, and if the results are valid and can be used elsewhere (Yin, 2003; Saunders *et* *al*, 2009). In order to improve validity a consistency matrix (see Appendix 2) was completed before the discussions were initiated. In order to show the external validity of this project the findings of a single case must be able to be generalizable beyond each case. The findings of this study must be replicated across other samples, showing strong support of the theory developed in order to gain external validity.

## 4.2. Conclusion

Cross-case synthesis is seen as one of the best ways of analysing multiple case studies as it aggregates findings across a series of individual cases (Yin, 2003). The researcher was able to develop strong arguments that were supported by the data, because a rigorous methodology was followed.

# 5. Chapter 5: Results

## 5.1. Introduction:

The compositional phase of the case study is regarded as the toughest element in attempting to create a worthy contribution to knowledge or practice (Yin, 2003). A cross-case comparison was used in order to identify common and/or unique constructs in each of the cases. The discussion questions were drawn from key themes identified in the literature review. These themes were used to gain a deeper understanding of the phenomena impacting on family business succession, the individual case context and to identify the antecedent factors that affect these key themes.

In total eight family businesses were interviewed. All of the participating businesses had a turnover greater than R20 million and more than 5 employees. At each business different levels of owner-managers were interviewed, their position in the business was as follows:

**Table 5-1: Candidates Interviewed**

| Case | Position in the Business |
|---|---|
| 1 | Second generation majority owner and managing director. |
| 2 | Third generation shareholder and managing director. |
| 3 | Second generation majority owner and managing director. |
| 4 | Third generation shareholder and chairman. |
| 5 | Fourth generation shareholder and general manager. |
| 6 | Second generation managing director. |
| 7 | Fourth generation shareholder and executive director. |
| 8 | Second generation shareholder and general manager. |

## 5.2. Demographics of the cases:

To contextualise the discussion, the demographic information of the eight cases with regard to size of business, generational level and the number of the family members in the business or management or with ownership are summarised in table 5.1.

**Table 5-2: Business Characteristics**

| Case | Size of Business | No of Employees | Generation | Number of family members in business but not in management | Number of family members in management | Number of family members with ownership stake in business |
|---|---|---|---|---|---|---|
| 1 | Medium | 105 | Second | 0 | 1 | Trusts |
| 2 | Medium-Large | 190 | Third | 5 | 1 | Trusts |
| 3 | Medium | 120 | Second | 0 | 2 | 2 |
| 4 | Large | Undisclosed | Fourth | 4 | 2 | 4 |
| 5 | Medium | 50 | Fourth | 0 | 3 | 3 |
| 6 | Medium | 35 | Second | 0 | 6 | 1 |
| 7 | Large | 290 | Fourth | 2 | 2 | 2 |
| 8 | Medium | 10 | Second | 1 | 3 | 0 |

## 5.3. Introduction of the Eight Family Businesses

In order to gain a sense of the unique nature of each case a short description is provided of each of the eight family businesses. All respondents are given pseudonyms.

### 5.3.1. Case 1: Jack in the Box

Second generation owner and managing director; number of employees – 105
Jack joined the family business straight out of university with a purely intrinsic motivation, quoting: "I was just a greedy little piggy." However at age 26 when his father walked out, leaving a dynamic and growing business completely in his hands, Jack was forced to take the reins and develop the business to what it has become today. He had to contend with three incumbents who were all business partners (his father being the majority shareholder), who had left behind an extremely autocratic culture.

Initially involved in the manufacturing of corrugated boxes, the business has now evolved to host multiple projects including franchise management. The business employs over 100 people who Jack extrapolates to "feeding 500-600 mouths, [which is] a huge responsibility and the reason the business must continue to be successful."

The business ownership is held in trusts of which Jack has the majority control. Jack is a strong believer in excellent business principles and does not believe in a family business but rather "a business with family in it". He continually emphasized the need to create a professional business, with family involvement being an added element to manage. He believes; "This business is only as strong as its management team" and "putting in a great management team has allowed us [me] to focus on other areas of business interest."

Whilst emphasizing the difficult nature of family business succession, Jack's nature and responses were very frank, displaying a real sense of practicality and transparency in his delivery. His story is inspiring and humbling in how readily he was willing to admit his faults and shortcomings, and how he would have changed his approach in retrospect.

### 5.3.2. Case 2: Metal Men

Third generation shareholder and managing director, number of employees – 190
Spanning three generations this Mediterranean family has given other South African companies a benchmark as to how to effectively navigate the succession process. Frank is the grandson of the founder and at 36 is the managing director of a medium-sized business that is bordering on becoming a large business with nearly 200 employees.

Frank's father and uncles had struggled with the succession process as the expansion of the family and the inability to separate business and family had hampered growth. However, such was the agility of the business and contributions of the founder that they were able to survive. Although Frank had spent five years living in London working in the financial industry; the whole time he had been away he had the notion of returning to the business and succeeding as the next generation of ownership.

Frank spent ten years working in finance and living in London before he decided that he wanted to return to South Africa and join the family business. Whilst in London he developed a five-year succession plan that he presented to the family on his return. This plan involved him working and running in each and every department of the family business before he rose to managing director.

### 5.3.3. Case 3: Tool Time

Second generation majority owner and managing director; number of employees – 120
Nick is a second generation owner of a family business that is in an expansionary phase. He openly admits that succeeding into the second generation: "was one of the hardest things I have had to do". He blames much of the problems they have faced as a family on the lack of a succession plan.

Nick joined the business as a young man, and was forced to work his way up from the bottom. The impression and understanding he had in his mind of how the succession process would transpire was very different to how it would actually occur. Whilst many of the nuances and much of the culture the incumbent had created were appreciated, it seems as though there was an element of inability of the incumbent to let go of the control of the business.

Nick's case was complicated when his sister's husband entered the business. As Nick was placed more on the sales and marketing side of the business he did not have day-to-day interaction with the incumbent as his brother-in-law did. He believes that the relationship between him and his brother in law will not be the same because of the altercations the two of them had.

Nick went into the business with a mere verbal commitment to how the ownership would change hands. He never quite "gave enough consideration to the financial implications, to what happens when your father leaves". He was very supportive of the notion to create a shareholder's agreement to give a point of reference for succession related negotiations. Nick attributed the ability to work through a "very tricky time in the business" to the way his father and him were always able to separate family and business conflict, and restrict their conflict to business hours.

### 5.3.4. Case 4: A True Gem

Third generation shareholder and chairman; number of employees – Undisclosed due to incalculability, the categorisation of this business was done by assessing the total gross asset value which was in excess of R23 million.

Spanning four generations, this family has had a significant effect on South Africa's business history. Their operations originally focused on mining, however the focus has shifted and it now contains a large portfolio of diverse interests including power generation and agriculture. Andrew is the third generation owner and succeeded his father in the business in the 1980's and is now in the process of transferring ownership to the fourth generation.

The researcher was warmly greeted into Andrew's downtown office and a free and open session commenced whereby some interesting themes were identified. Some of the answers to the research questions could probably have been sourced in the public domain, but for the sake of authenticity they were asked.

Andrew has a strong sense of legacy to maintain and it formed the basis of his willingness to enter into the family business. Andrew believes strongly in satisfying the expectations, desires and ambitions of the entire family, and that the business needs to make provision for the growth of the family.

Andrew maintains that a family business is the "most efficient way to run a business". He offered the following short story as an analogy for the success of family businesses:

"A man needed a serious medical operation, which had a significant element of risk. He pursued the best doctors and individually interviewed and researched their credentials, history and success rate, before choosing what he believed to be the best doctor. The same man needed to take a long distance flight, of which he had no hesitation getting into the plane without even meeting the pilot. When asked why he didn't perform the same due diligence on the pilot, when his life was equally in the pilot's hands? His simple answer was: 'Well the pilot is flying in the plane with me'".

#### 5.3.5. Case 5: A Clothing Legacy

Fourth generation shareholder and general manager; number of employees – 35

Phil is a fourth generation family business manager, going through the process of family business succession and the changing of ownership. His family emigrated from Ireland over 100 years ago, and set up clothing stores in Kimberly, selling upmarket menswear to well-to-do diamond miners and traders. His grandfather was adopted by his uncle when he was young and the business was succeeded down that patriarchal line.

Much of their competitive advantage and business competencies are built on their history and legacy of a family-owned business. Phil joined the business after five years of experience in the financial industry as his father and brother could no longer handle the workload that resulted from the growth in the business.

Although the core focus of the business has remained the same for over 50 years now, the growth has come from branching out into menswear. Phil has been largely responsible for this growth, and it has brought issues of ownership into the spotlight. “Should I have a greater stake in my focus area, or not?” are the types of questions the family has been toiling with.

Phil believes that the main reason the businesses has succeeded into the fourth generation is because the family has always been kept small. One of his impending concerns is size of the fifth generation (between him and his brother they have 5 children). Phil believes that most family businesses will face the problem of sale or continuity.

#### 5.3.6. Case 6: Spit ‘n Polish

Second generation managing director; number of employees – 50
Vernon is a second generation business manager. His family business involves lots of family members and is classified as a fully black-owned business. His father was forced to start his own business many years ago as his progression in a large supermarket chain was limited by his race. He started making floor polish, and the business morphed into a cleaning and polishing aid manufacturing business that employs well over fifty people.

Vernon has an interesting family business situation as his two sisters are also in the business, and no formal succession plan has ever been drafted. There is an innate belief that ownership will transfer to Vernon when their father passes away, but whether this will be the case is an absolute mystery. This causes Vernon some anxiety.

Vernon and his sisters joined the business out of necessity when their father took ill and the business had grown far too big for him to manage it himself. He understood this, but he felt it pointless to hire someone to manage the business when his children may be able to do so.

Although Vernon did not verbalize his concerns coherently the researcher sensed a deep seated anxiety regarding the succession process and what might happen on his father's passing. What Vernon was able to say was that he will "definitely become the next head of the family council". His family already informally used this council to resolve many disputes that arise amongst his sisters and uncles (of which two work in the business).

### 5.3.7. Case 7: The BullDozer

Fourth generation shareholder and executive director; number of employees – 290
Peter is a 4$^{th}$ generation family business owner. His forefathers have been farming land in Tabazimbi for over 100 years. Peter and his brother saw the necessity to expand the business when they were very young, as the price of beef dropped dramatically. With their father's backing they bought a second-hand bulldozer from the S.A. army. Within one year they had expanded their operation to three bulldozers. They are currently the single biggest private mining equipment contractors in South Africa.

Peter and his brother both have children that are currently working in the business and are possibly being prepared for succession. He believes strongly in preparing the successor in a practical and legitimate way. They currently have a CEO that runs the business, and he is acting as an agent to plug the generational gap. Although not related the CEO has the facility to slowly acquire ownership, and become an 'unnatural child'.

Peter expressed huge doubt over the sale or succession conundrum. Should they sell the business and divide up the wealth for the children to gain equal amounts and then "do their own thing, whatever it is", or should they continue to tackle the succession process? He believes in giving his children a platform to flourish, but they need to seize the opportunity and grow their assets accordingly, so they may hand off to the next generation, similarly to how his parents were able to do it.

#### 5.3.8. Case 8: The Trade-Off

Second generation shareholder and general manager; number of employees – 10
Neville is a second generation family business manager. His mother and father started a small trading business 27 years ago that focused primarily on oil-based product trading. He joined the family business with the intent to succeed his parents into the next generation. However, the business recently hit a credit ceiling that was seriously impeding growth. With a larger trading company still wanting to secure their portfolio and the experienced but young team [Consisting of Neville and his brother] a sale was agreed to.

The sale was agreed to because it allowed Neville and his team to take the business to the next level, whilst also allowing the founders to take the retained income plus a goodwill payment out of the company and start their own retirement process.

This particular case was included in the sample as it had succeeded into the second generation, and it could still be considered a family business as management is centred within the family who operate autonomously from their buyers. The economic environment and the expectations of the incumbent contributed to their decision to sell the business.

### 5.4. Determinants of successful family business succession

The aim of the study was to uncover the determinants of successful family business succession. The main determinants of successful family business succession all have several antecedent factors and elements, which will be termed as such throughout the study. The aim of this exercise being that; six main determinants of successful succession will be identified.

Directed content analysis was used as there was prior research about the phenomenon that would benefit from further description. The goal of this style of content analysis is to validate or extend a conceptual theory, similar to that associated with a deductive approach (Hseieh & Shannon, 2005). This approach can provide predictions about relationships of variables that may create the phenomena (Mayring, 2000).

Using previous research the following elements were identified as key determinants of a successful succession process:

- Successor-related factors,
- Incumbent-related factors,
- Family context factors,
- Business context decisions,
- Structured agreements concluded.

The occurrences of these themes during the in-depth interviews with the eight family businesses are summarised in table 5.2.

**Table 5-3: Occurrence of Themes**

| Construct | Occurrence of themes in discussions – for each case | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | Total |
| Successor-related Factors | 8 | 7 | 3 | 4 | 2 | 2 | 8 | 4 | 40 |
| Incumbent-related Factors | 6 | 3 | 2 | 1 | 2 | 4 | 6 | 7 | 31 |
| Family Context | 4 | 6 | 7 | 6 | 5 | 6 | 6 | 7 | 47 |
| Business Context | 6 | 5 | 3 | 2 | 6 | 4 | 8 | 2 | 36 |
| Structured Agreements | 9 | 5 | 8 | 0 | 3 | 5 | 6 | 1 | 37 |
| New Themes | 2 | 0 | 1 | 4 | 1 | 4 | 1 | 2 | 15 |

It is clear from the data that family context factors are the most prevalent in the discussion, as they occurred 47 times in the conversations. This may be due to the fact that the subject of the study is family businesses, and the effect of the family is very influential on the succession process. The second most mentioned theme was successor-related factors with 40 mentions in the discussions. Two of the family businesses (Cases 4,7) mentioned successor-related factors are the most important aspects of their succession process. Structured agreements and business context decisions were mentioned 36 and 37 times respectively. With three of the cases (1,2,3) naming structured agreements as the most pertinent determinant of a successful succession process. Incumbent-related factors were mentioned 32 times in discussion, and new themes were mentioned 15 times in the discussions.

These keys constructs were used as categories for analysis for each of the cases.

**Table 5-4: Case 1: Jack in a Box (Survival stage of the business life cycle)**

| Construct | Emphasis Ranking | Occurrence in discussion |
|---|---|---|
| Successor-related Factors | 3 | 8 |
| Incumbent-related Factors | 4 | 6 |
| Family Context | 5 | 4 |
| Business Context | 2 | 6 |
| Structured Agreements | 1 | 9 |
| Uncategorised | 6 | 2 |

**Table 5-5: Case 2: Metal Men (Survival stage of the business life cycle)**

| Construct | Emphasis Ranking | Occurrence in discussion |
|---|---|---|
| Successor-related Factors | 3 | 7 |
| Incumbent-related Factors | 5 | 3 |
| Family Context | 1 | 6 |
| Business Context | 4 | 5 |
| Structured Agreements | 2 | 5 |
| Uncategorised | 6 | 0 |

**Table 5-6: Case 3: Tool Time (Survival stage of the business life cycle)**

| Construct | Emphasis Ranking | Occurrence in discussion |
|---|---|---|
| Successor-related Factors | 3 | 3 |
| Incumbent-related Factors | 4 | 2 |
| Family Context | 2 | 7 |
| Business Context | 3 | 3 |
| Structured Agreements | 1 | 8 |
| Uncategorised | 6 | 1 |

**Table 5-7: Case 4: A Truly Iconic South African Business (Decline stage of the business life cycle)**

| Construct | Emphasis Ranking | Occurrence in discussion |
|---|---|---|

| | | |
|---|---|---|
| Successor-related Factors | 2 | 4 |
| Incumbent-related Factors | 5 | 1 |
| Family Context | 1 | 6 |
| Business Context | 4 | 2 |
| Structured Agreements | 6 | 0 |
| Uncategorised | 3 | 4 |

**Table 5-8: Case 5: A Clothing Legacy (Existence stage of the business life cycle)**

| Construct | Emphasis Ranking | Occurrence in discussion |
|---|---|---|
| Successor-related Factors | 4 | 2 |
| Incumbent-related Factors | 5 | 2 |
| Family Context | 1 | 5 |
| Business Context | 3 | 6 |
| Structured Agreements | 2 | 3 |
| Uncategorised | 6 | 1 |

**Table 5-9: Case 6: Spit ‘n Polish (Success stage of the business life cycle)**

| Construct | Emphasis Ranking | Occurrence in discussion |
|---|---|---|
| Successor-related Factors | 6 | 2 |
| Incumbent-related Factors | 5 | 4 |
| Family Context | 1 | 6 |
| Business Context | 4 | 4 |
| Structured Agreements | 2 | 5 |
| Uncategorised | 3 | 4 |

**Table 5-10: Case 7: BullDozer (Decline stage of the business life cycle)**

| Construct | Emphasis Ranking | Occurrence in discussion |
|---|---|---|
| Successor-related Factors | 1 | 8 |
| Incumbent-related Factors | 5 | 2 |
| Family Context | 2 | 6 |
| Business Context | 3 | 8 |
| Structured Agreements | 4 | 6 |

| | | |
|---|---|---|
| Uncategorised | 6 | 1 |

**Table 5-11: Case 8: The Trade-off (Existence stage of the business life cycle)**

| Construct | Emphasis Ranking | Occurrence in discussion |
|---|---|---|
| Successor-related Factors | 4 | 4 |
| Incumbent-related Factors | 3 | 5 |
| Family Context | 1 | 7 |
| Business Context | 5 | 2 |
| Structured Agreements | 6 | 1 |
| Uncategorised | 2 | 2 |

The emphasis ranking varies considerably among the eight family businesses. The emphasis that these businesses placed on the various determinants is displayed in table 5 below.

**Table 5-12: Distribution of family business case over business lifecycle stages**

| Business Life cycle stage | Case(s) at this stage | Determinant with greatest emphasis | Determinant with second greatest emphasis |
|---|---|---|---|
| Existence | 2 | Family Context | Incumbent-related |
| Survival | 3 | Structured agreements | Successor-related |
| Success | 1 | Structured agreements | Family Context |
| Renewal | 0 | - | - |
| Decline | 2 | Successor-related | Business Context |

The table above shows how the phase of the business lifecycle of each case influenced the emphasis of the particular determinants. The two businesses in the existence phase emphasized family context and incumbent-related factors as the two most important determinants of the succession process. The three businesses in the survival stage placed particular emphasis on the structured agreements concluded and successor-related factors as the most important determinants. The one business in the success phase emphasized structured agreements and the family context as the major determinants of the succession process. The two businesses in the decline stage, named successor-related factors and business context decisions as the most important determinants of the succession process. Further discussion of these relationships will occur in chapter six.

In the next section each of the determinants are discussed in detail.

## 5.5. Successor-related Factors:

Successor-related factors include the preparation of the successor, willingness of the successors, business cycles and the need to be entrepreneurial, stigma of joining the family business, autonomy of the successor, the personal needs of the successor and the perceptions of the successor.

### 5.5.1. Preparation of the Successor

In the discussions much reference was made to successor-related factors. The most common theme was preparation of the successor. All of the participants believed that preparation of the successor was essential. This is illustrated by the following quotes from participants:

*"I firmly believe that if a child wants to enter the family business a clear and defined career path which details their movement through the organization needs to be discussed, explained and implemented. I believe the child needs to start right at the bottom of the company to learn the nuts and bolts."*

*"They go to be the proper people, it doesn't matter if they are your son or your daughter, if they not the proper guys, they are going to stuff it up."*

*"The toughest thing in the family business is to be able to say to people in the family, they not having it [the business]…very difficult to say to him [successor], boy you're absolutely useless, go do something else. It comes back to the difficult decision of deciding who in the family is the right person to be in this succession, and is that person acceptable to the wider family [and industry]."*

External preparations of the successor may be defined as training in the outside business world, before re-entering the family business (Poza, 2010). Internal preparations may be defined as when the successor is prepared internally by training and operating from the bottom up (Poza, 2010). Both are significant factors in the succession process. The following quotes illustrate the importance of external and internal preparation:

*"I believe your kid has got to be competent enough to take over the business. So he's got to come into the business and he's got to start right at the bottom. You must qualify him well…… he's [successor] got to build respect…..from there he can progress and take over*

*the company."*

*"If they [successors] show interest and they are qualified enough, and they've gone out and tried a bit, by all means come back and have a crack at it [the business], by all means. But they still have to stand on their own feet."*

*"I have just come through the succession process. I basically worked my way up from the bottom over the course of the last five years." – "I did my own thing for ten years, and once I got experience I got involved".*

*"One thing that we are quite clear on is: where we have made the mistake is guys who have just left school or left university and have come straight into the business, that's where we've had our biggest problems, so now it's in the family constitution that if people get involved they must get at least five years outside experience, if they ever want to get involved in a management position."*

*"I think it's been fairly valuable that both of us [successors] have had experience elsewhere….My Dad comes with all the skills, but we bring stuff that he has never experienced. I think the skills we bought are valuable if not more valuable than if we had spent ten years learning from within the business."*

*"I had another job, I worked in a completely different industry, and I worked for a new boss, I got a lot of disciplines, and a lot of what I learnt I still apply today." – "What was important for me is I made a success of that first job, that was really important to me before I came into the family business."*

Some of the other key themes that were extrapolated from the discussions but do not translate well as direct quotes are as follows:

If the successors are not sufficiently prepared to take over the business, the incumbents should look at the option to sell the business, divide up the wealth equally and give the successors the chance to make their own wealth, outside of the family business.

Preparation does not always need to be in the form of qualifications, it is life skills that can also be very important in abetting the succession process. Preparation can begin from a young age, and the earlier a passion is shown for the business the more likely a willing successor will become apparent.

### 5.5.2. Willingness of the Successor

Most of the participants agreed that the willingness of the successor is an important successor-related factor. Generally, the more willing the successor the greater the passion developed for succeeding the business. There were various elements mentioned by the participants that illustrate the importance of having a willing successor:

*"He [successor] has been given an opportunity, and he must make a success of it. But if he doesn't enjoy it, he must rather find something he enjoys and then go out and do it."*

*""My willingness to get involved and take the company to the next level gave comfort to my parents and they knew their hard work was not going to be for nothing."*

*"I came out of a successful environment and I was earning well, and came into a family environment that actually was a step backwards from a financial perspective. But I got a lot out of that knowledge [that I had been willing to make that sacrifice]."*

*"You got to be hungry, you got to want it, there is no such thing as a free ride, and that you're going to get in there because it's a family business, I mean before you know it you have no business left."*

Most participants agreed that willingness to succeed must come from within, but no pressure must be put on successors to join the business, as they need to make an autonomous choice to join and run the business.

The will to uphold the legacy of the family business was only apparent in two cases, where there were strong ties to the legacy and the will to continue the business into the next generation. The majority of respondents were happy to admit that the legacy that their predecessors have created had not contributed to their willingness to join the family business, as the incumbents had always encouraged potential successors to do as they pleased.

### 5.5.3. Business Cycles and the Need to be Entrepreneurial

A few of the participants mentioned the effect of the business cycles and the potential clash between the will of the successors and incumbents.

*"My theory is that if you have been given the opportunity, then your responsibility is to*

*make the business a better business. Invariably what happens is that your risk profile is very different to the risk profile of your father [incumbent]. Where you want to go on a growth path, he may want to rather look after his investment."*

In a sense the successor needs to have an entrepreneurial mind set in order to grow the business accordingly. This is verified by a quote from a participant relating to the growth and management of the business:

*"Then also the business you are in might need to change. You have got to bring someone [successor] in who can see 'it'! There is no point in producing ice in the North Pole; you have got to be in a business that's growing."*

This point was supported by one participant, when he mentioned that if the potential successor was not able to effectively run and grow the business then it must be 'flicked' to professional management, who will continue the growth of the business.

### 5.5.4. The Stigma Associated with Family Business

One of the early participants identified two types of stigma that may affect the succession process. The first one is a social or family-based stigma, and the second being a market-based stigma. The stigma associated with family businesses will be further illustrated in section 5.10.1. When uncovering family and business context based determinants. However, several of the participants illustrated how this stigma may affect the successor:

*"[Stigma] is something which I was very conscious of for many years. I even bordered on being embarrassed about telling people that I worked for the family and found ways to hide that fact, until it became absolutely necessary to tell them it was a family company. I tended to think people thought I was spoilt or unable to find another job elsewhere which is why I ended up in the family business. One of my strengths is my people skills and I could readily pick up people's reaction to me saying that I worked for the family and most times felt that their perception of me changed, which is why I tried not to say anything. It wasn't until many years later when I started feeling more comfortable in my role in the company that my attitude started changing."*

*"From a family perspective, it was based in my upfront statement to my father [incumbent]; it was my decision, my risk and I have to deal with the consequences."* That affected the successors will to take over.

*"[The stigma associated with succeeding in the family business] will depend on how well he [successor] runs the family business. If he is good, then people will use him, and if he is not good they will find someone else. You mustn't worry about those things. You've got to take what you've been given and increase it proportionally."*

*"There will be no stigma that affects you [successor] [and his will to join the business], if you are comfortable in your own skin."*

### 5.5.5. Autonomy of the Successor

Three of the participants made note of the importance of autonomy for the successor, their ability to gain the trust of the incumbent, and run the business by their own means.

*"I don't want any interference running this business from any family member." – "I've got no shareholders, no one to answer to, no partners, I just do as I please, I don't even speak to my father [incumbent], I tell him afterwards, so he has full trust in me, which is very lucky [key to success]."*

*"You need to hit it in the back [successor's need for independence]……, you have to take the ego's out of it, you need complete control."*

*A successful succession is one where; "there is a natural handing over of the reins, that feels comfortable and the incumbent is ready to move on at his discretion……one that allows the guy coming in [successor] to stamp his mark on the business."*

### 5.5.6. Personal Needs of the Successor

While two of the participants identified the need to continue the legacy as the main reason to join the family business, the majority of the participants named other reasons for joining the family business.

Those two that named the continuation of the legacy as their main reason to join the family business, both had high priority with the future prosperity of the family.

*"The family point of view, yes it's all about the legacy of the business"*

*"I think it's a great understanding of the history, where you come from."*

Intrinsic needs and the will to create longevity of the business for the prosperity of the employees were also identified as personal needs of successors.

*"I was just a greedy little piggy that wanted to make as much money as possible, that's all I was interested in. Now I've changed, now I look more towards…I'm more interested in the people we look after [the longevity of the business]."*

*"I actually took a step backwards from a financial perspective [in anticipation of long term financial gains]."*

One of the participants named their personal growth and future opportunities as the main motivating factor in joining the family business. This is highlighted by the following quote:

*"Overall I was in a much better position from a personal growth perspective as each day I was involved in the business functions across the board."*

#### 5.5.7. Perceptions of the Successor

One participant named his single toughest challenge for succession as the perception of him from the perspective of the rest of the family.

*"The second generation, being uncles and fathers and having watched me grow up and you know, they still see us [successors] as kids and yet we are in our thirty's, its that's type of scenario. It's also very hard for them to let go of the range and control and have faith in the next generation to come through. So it was breaking that kind of family dynamic and perception; that we are capable and we are adults in our own right and we bring in our own ideas to the mix."*

### 5.6. Incumbent-Related Factors:

The majority of the participants noted that there were a few elements of the succession process that were affected by the incumbent. The majority of the participants acknowledged that at some stage there had been some hardships around managing the incumbent's expectations, and that the successor and incumbent had often 'bumped heads' when it came to taking the business to the next level. Incumbent-related factors include incumbent's inability to let go, incumbent's expectations and the incumbent's will to pass the business on the successors.

### 5.6.1. Incumbent's Inability to 'Let Go':

Most of the participants alluded to some past or current concern that they had with the incumbents inability to 'let go'. All of the participants were quick to attribute the company's success to the incumbent's previous inputs, however many of them believed it would be better if the incumbent adopted an advisory or monitoring function, rather than controlling the day-to-day operations. When asked what part the incumbents had to play in the succession process and managing the business one of the participants answered the following:

*"All of them played a big part, I mean they have got years and years of experience within the industry. We have obviously had ups and downs through the process, especially as they start letting go and start to modify their behaviour."*

### 5.6.2. Incumbent's Expectations:

A couple of the participants mentioned that the incumbent's expectations needed to be carefully managed, and that a clear role must be set out for the incumbent before it becomes a problem. One of the participants mentioned that it was his suspicion that the incumbent was unhappy with the process, because it was not structured well enough.

*"My feeling is that ultimately, I don't think [the incumbent was happy], because it was a badly structured family business. I felt like he felt he was pushed and I think if you really asked him his honest opinion, he would say that he was not absolutely happy with it."*

Another participant eluded that it is essential to change the incumbent's perceptions and beliefs, as the work environment has changed.

*"There has been a bit of bumping of heads and one of the main things is work/life balance. The old school perception is that you have to be in at five o' clock and leave when the last person leaves. I'm saying no wait a second, because I have got to have that work/life balance."*

Interestingly, a few participants mentioned that the incumbent was happier with the succession process as they believed in the next generation and their ability to take over the business effectively. It seemed as if their biggest concern may have been regarding their personal finances, and they felt more comfortable in the hands of their successors than anyone else.

*"Hey, my finances are run by my children, and he feels much safer, whereas he is not going to feel much safer with an outsider handling his finances and things like that."*

### 5.6.3. Incumbent's Will to pass the Business on to Successors

The majority of the participants agreed that the incumbent has a big role to play in facilitating the succession process. Their leadership style, the business culture they create or the processes they follow may affect the process.

When asked if there were any elements of the relationship with the incumbent that may have affected the succession process the participants mentioned the following:

*"No he's always made it easy, maybe he has been less patient with us being an employee with regards to training, because there is more familiarity there has been more expectation … But he's not good at training anyway."*

*"I firmly believe X's willingness to share information, teach, allow people to grow and develop was/is his greatest strength. He was always giving us the opportunity to grow in our roles by not being afraid to relinquish control. He always believed that the only way we were going to learn is if we did it ourselves, but safe in the knowledge that if we got it wrong, he was there to back us up with his experience."*

*"I think it's a bit of both he definitely left a culture behind that was good for the business, because it was a conservative culture ….but when we wanted to embark on a growth path he perceived to be too risky [it became a problem] ….for us it was something which we didn't find it was the end of the world, but for him it was playing with his pension. That was the only time ownership became an issue."*

One participant was particularly critical of the culture the incumbent created, saying it was detrimental to the future of the business:

*"I think there were a lot that inhibited [elements of the culture the incumbent created], I think that in the beginning you know I learnt from my father, so I behaved badly with people, too hard. I just think today in life [and business] you have to be a people person to run a good business."*

## 5.7. Family Context

All of the participants made mention of the family, its dynamics and how it may affect management decisions. The family and its context may have varying degrees of effect on the business operations. Elements included under family context are the separation of family and business, natural succession, division of assets, profits and interests, family council and constitution, expansion of the family and the family business system.

### 5.7.1. Separation of Family and Business

The family system affects the business system, and four of the participants mentioned that it is the ability to manage the division of the two systems that will result in a successful family business succession.

*"… and boundaries. You need to know when to separate business life and family life as the lines can get blurred very quickly and lead to a complete breakdown in the family unit."*

*"From my side, there was actually an incredible relationship with my father from the perspective that we were able to divorce business with personal."*

*"It's [family constitution] taken the family out of the business decision making, some of the family politics and family dynamics and all of that you know? – Another one is to break down the culture of the Sunday lunch and having business meetings around the dinner table. I try say; look guys work is for work and while we're sitting around having beers let's not talk about anything to do with work. I need my break from all the stresses."*

*[If I can quote you on an earlier discussion, 'it's a business with family in it as opposed to a family business']. "Correct. That I learnt from a woman in America, and it's one of the best things. I mean that was a massive business, it really is. It's a professional business but it might have family in it."*

### 5.7.2. Natural Succession:

Three of the participants mentioned that the succession process was the natural path that they embarked upon. Two out of these three had always believed that they would join the family business and therefore many elements of the succession process were not that hard to overcome:

*"Our family has always been farmers in Ntabazimbi, and then in 1975 we bought a bulldozer."*

*"I came from a generation where I never thought I was going to do anything else."*

The other participant was just waiting for the correct timing to occur:

*"I sold my own business so we can all be together [in the family business] and make things less stressful for my father."*

### 5.7.3. Division of Assets, Profits and Interests:

All the participants made mention of the families interests when making decisions about the family assets and business profits and the succession process.

Two of the participants believed that they needed to include all family members when making a decision about the ownership.

*"I think what you got to do is understand everyone's expectations and manage them."*

*"That's a debate [regarding the division of assets and future direction] that must involve the whole family, coming back to the point of trying to satisfy them all, and you've got to take it from there once you have reached consensus."*

Another participant advised that a mediator should be appointed to hear both sides of the story and make an equitable decision.

*"I don't think it's his decision, I think it's both of your decisions, and I actually think that if I had my time again I think we should've had a mediator…..It structures a proper agreement between the two of you because it takes the personal aspect out of trying to agree on something."*

One participant believed it was the decision of the next generation to divide up the business assets and ownership stake, as long as they were willing to accept the responsibility of looking after the incumbents.

*"I can't sell my share. To whom do I sell? What do you do now? The kids must decide what to do. I don't think I must worry about how much I'm going to give them or how well they are going to be off…..They must do it on their own."*

### 5.7.4. Family Council and Constitution:

Two participants made mention of the importance of family councils, and how the business decisions may be shaped by the growing consensus and input of the entire family.

*"You need to [have a family council], especially if you have got a lot of family, you need to sit once a year or twice a year and fight it out there, and get it done."*

*"We're very much a consensus style family; we don't have great matriarchs or patriarchs, or simply tell the rest of the business what to do, we've always been able to talk to each other and that results in a common consensus, then you go to say well now we know where we want to go, and how we are going to get there."*

One participant had a largely informal family council, however he elaborated that many of the businesses key decisions were mediated through the council:

*"We do have our family arguments when it comes to decision making and all…My father being long time in this industry and all that, so he will come and over rule everything and see whatever, and maybe agrees with my decisions or one of my uncles decisions."*

One participant mentioned the importance of their family constitution and how it has managed the behaviour and expectations of family members entering the family business:

*"We are a very close family anyway; I mean we have Mediterranean backgrounds. Virtually every day of the week we have family lunches or suppers, you know so the family dynamics are very strong because just culturally we are very family orientated. But I think it has definitely helped by putting some sort of ground rules in place in the family constitution, to know what the rules of engagement are, it's a crucial piece."*

### 5.7.5. Expansion of Family

The expansion of the family and the potential family interest in the business was a recurring concern for many of the participants. With the growth of the family comes the increase in potential successors. Three participants formally acknowledged this concern.

*"That's another problem, how do you divide the business up, because you can actually destroy it by cutting it up too small. I suppose it depends on how big the business has gotten. Instead of having two guys who are in it, you now have got six or seven guys who are in it and all want their little share. How do they start voting and who makes all the decisions?"*

*"That's exactly it talking about not having a son which is fine. I'm happy with my daughters….But yeah we will have to take it step by step [regarding succession process], which is fine if it's my daughter's husband but next thing I know one of my nieces' husbands wanting to come in, and that could be a problem."*

*"I say it becomes ever more complicated as families get larger, and can you meet the ambitions of the extended family…As you spread out people will have different ambitions, different desires, want to do different things, and that's why it's difficult to keep the business together while satisfying their ambitions. It becomes even more difficult."*

#### 5.7.6. The Family Business System:

Four of the participants were quick to mention the benefits of a family business, and how those benefits may aid the succession process. Essentially the responses were based around the effectiveness of family business decision-making and operations, which were built on trust and communication.

*"I believe a family business is by far the best way to run a business, if it's successful. I think it's a great understanding in history where you come from, and the fact that you do actually own the business, you're travelling in the business, and I think it's different to someone who is working for a part of the time then will go do something else. In a family business you may retire but you never leave the business."*

*[When the respondent was asked about the family business system] "We have big hostile meetings and screaming matches and that type of thing, whereas if it had been an employer and employee those issues wouldn't have been fixed very easily or it would have taken longer, whereas we sorted it out the next day and kind of just move on."*

*"If you have got eyes everywhere [family members that you can trust] it's better."*

*"Normally in small, family business your livelihood is on the line so communication about across the board issues to me is of utmost importance."*

## 5.8. Business Context:

The business context relates to actual business decisions the family must make, based on macro-micro economic consequences, the changing business environment and the present value of the business.

This was the topic that revealed the most diverse array of themes, as each business faces very unique challenges. The most pertinent themes include sale versus succession, professional management, and miscellaneous business decisions.

### 5.8.1. Sale versus Succession:

Three of the participants named the issue of sale of the business or the decision to succeed as one of the most equivocal business context decisions.

*[What have been the toughest hurdles you have had to overcome with regard to bringing in the next generation?] "I think the right decision. Let's assume that they are going to come in and they are going to run the business like we've run it; quite successfully. Is it the right thing to do? Is it going to be successful in ten years' time? Is it better to sell out and take that cash and do something else with it?"*

*"I'm not too concerned that we carry on in the family, the right decision must be made at the right time."*

*"If you ask me now if I think the business will still be around in its current form in twenty years' time. You know it's difficult to see. It's tricky because, already now take our new business as an example, how do you structure it? Do you structure it to build it up with a view to selling it one day or do we start planning now and open as many shops for succession purposes which adds to the longevity of the business. Or do we maximize profitability and keep it narrow, and don't spend too much money on the shop because we want to sell it one day? It is very difficult starting a business to plan for five-year versus twenty-year returns."*

One participant added that the business should have a long-term vision to have any chance of succession:

*"Make money and be sustainable and viable in the long term, so obviously if you want a*

*family business it's generational."*

Interestingly one participant actually made the decision to sell the business to maximize real value. He believed that his decision to sell the business at the time was the best decision for the family.

*"X's reasons [to sell the business] were to have access to the credit lines and the international network of offices to enable the next generation to take the business to the next level. It also enabled the founders to take the retained income plus a goodwill payment out of the company and start the retirement process."*

#### 5.8.2. Professional Management:

The issue of management was something that came up in all of the discussions. The majority of the participants mentioned how the strength of the management team aided the succession process, and in a few cases incumbents had created a professional management to bridge the generational 'gap' or to pass business on to a non-family manager.

The following quotes from a participant, regarding his management team put this into perspective:

*"I've got very good management here and I've been involved in lots of other things now. So the actual day to day running, everything that I used to do, is actually done by someone else."*

*"The trick is that I surrounded myself with very, very good people in all spheres."*

*"I was privileged from that you know, that's what it's all about is asking for help, and the other thing is I always got the best people around me."*

One participant mentioned that it was important to create a business that does not rely solely on you, and in that way you can pass it on with greater ease.

*"If you decided to sell your business and the business is just you, who's going to buy it? You've got to develop a business that if you drop dead tomorrow that, that business still carries on running."*

One participant divulged that he had nurtured a young director into the business for tactical reasons, as an unnatural child:

*"It was very strategic because I knew at any point in time if the growth of the business was going to keep on going the way that it was, I was going to need some help. From that perspective it was strategic, but in bringing him in from day one I knew what I wanted from this guy, so I have given him absolute trust and gave him all the tools [as well as option to buy into the business]."*

One of the participants mentioned that the succession plan needs to look beyond the family:

*"That's one of the strengths of this company, that it's not just family members in the succession but a whole succession plan for all key positions in the organization."*

Another participant mentioned that it is important to start grooming potential successors from the existing management team in anticipation that there might not be a suitable family candidate:

*"In fifteen to twenty years' time we will have to start looking at whether a successor comes from within our family or if we need to sell or do we have someone internal we can train up. I think in our business I don't think we've got anyone. There's a big skills gap between ownership level and even shop manager level, because people wouldn't be able to run the business; to be blunt. If the succession wasn't coming from within the family we would have to look elsewhere."*

The concept of professional management does not only extend to plugging the generational gap, but as one participant pointed out:

*"There are lots of models around the world….where you have a professional management, where the family is not involved at all, it sits back, I mean it may control the entity but you have to trust the management to do the work."*

#### 5.8.3. Miscellaneous Business Decisions:

There were a few issues that participants raised that were hard to categorise under the business context.

One participant mentioned the possible need to change the shareholder weighting among successors dependent on their area of expertise. The particular context that this issue arose was because in this particular business they had two distinct departments, and the two successors managed these departments separately. The expressed concern was that their individual efforts should be rewarded accordingly.

*"If there is one thing I'm turning over in my mind is possibly changing the shareholdings based on the efforts we both put into our different departments."*

Another business-context related concern affecting the succession process, was how the business needs to grow proportionate to the increase in the size of the family to ensure a successful succession.

*"You've got to take what you have been given, and proportionally increase it. You must give your kids more than what you have got, and they must give more again."*

One of the participants illustrated the need to succeed the business as a business-based decision, because hiring other management would inadvertently lead to increased costs.

*"Why must I keep on hiring other people when you can run this business" [said from incumbent's perspective], it is eventually for the family."*

One participant mentioned the formalization of modern business practices as a major challenge he had to overcome. It was a business motivated decision to introduce such practices to make the business more efficient:

*"The biggest hurdle I had to overcome was trying to introduce modern ideas like management, strategy, direction and customer relations management, into a very successful business with a thirty year track record."*

## 5.9. Structured Agreements:

This classification of themes relates to the actual process that the family undertook to incur the succession and the formal agreements they put in place to govern the agreements. The range of discussion amongst participants was rather wide regarding the formal processes and agreements in place.

Four participants acknowledged the essential importance of a formal succession plan agreement, that they often termed a shareholders' agreement.

*"My biggest advice to anyone going into a family business is; get a shareholders' agreement! No matter what that shareholders' agreement might look like, even if it's just something that forms the basis of understanding."*

*"If I was talking to you about going into a family business, a very important one [factor] is that we have spoken about an agreement, I would be willing to advise you on the agreement, because the agreement is everything."*

*"It's never too early or too late to start planning for succession…….So Ja, I would have done it earlier."*

*"I literally did a four year development plan, which meant starting on the factory floor and working in every single department and running every single department, so that I knew the ins and outs of the whole business. After that I was appointed the deputy managing director…. It's something we worked on together. I was the one who came back and did this whole thing about family business and succession planning, and how a vast majority of businesses fail because of succession second to third generation….then after that we worked together to say fine, if that's the most likely outcome what do we have to do as a family to prevent that from happening."*

*[Have you ever set up a shareholders agreement?] "My brother is very good with this sort admin type of thing so for three or four years now we have a buy/sell agreement in case anything happens to us."*

Three of the participants acknowledged the necessity of a shareholders' agreement, but had failed to make any progress in drafting an agreement, owing to the uncertain nature of drawing up such an agreement, and their position in the business life cycle.

*"Well I think one day when you move on, you are obviously going to have assets, those will be divided up equally. That's another problem, how do you divide the business up? Because you can actually destroy it by cutting it up too small. The kids must decide what to do."*

*"It's totally up to him [incumbent], I can't make that decision although I'm fully aware that a lot of people say and a lot of things go on to say that; since you are the oldest son you need to take over the business, but I don't know in percentage wise what gets given to one or anything like that. I suppose he has made the decision already. I suppose it's totally fair that we are all in the business together so we all get an equal share."*

## 5.10. New Themes

A few responses could not be classified into any of the preceding categories, as they seem to be anomalies; however they add new dimensions to the theory on succession planning.

### 5.10.1. Stigma

It was one of the goals of the study to uncover whether stigma had an effect on the succession process to classify it as a determinant of family business succession.

The participants outlined two possible forms of stigma that may affect family business succession:

- Stigma that comes from a social/family context and may have an effect on the successor's willingness to join the business.
- The stigma that may be derived from an industry-context, where concern may be expressed about the successor's ability to deliver in a manner of the incumbents.

All of the participants agreed that there was always a stigma involved with joining the family business, but most offered solutions and to what extent this stigma affected their personal process.

*"And the stigma, well, you always get that," [if the successor is adequately prepared it will not be an issue].*

*"I would say it's not a factor [stigma], although I would say there is a stigma maybe a lot of people would say: 'they got it soft' because it was a family business and that, but it's not about having it soft, for instance there is a lot of work put into it. Without us the business is not going to run profitably and that goes for any business. There is a lot of work that is put into it; like I said what you sow you shall reap. But people are entitled to their own opinions."*

*"My brothers and cousins who are not involved think I'm crazy in doing what I am doing….Yeah it's part of the cycle that every family business goes through."*

*"Ja, for sure [when asked about an element of stigma], they always think you've taken the easy route into your father's business, like everyone. Probably still today, I mean I don't give a shit, I mean people still think I am supported by my father in law. I don't care it doesn't amuse me at all."*

*"There is an element of stigma within the family [successors cousins] probably a strong belief that; 'you owe me', 'you got the business and I didn't'.*

*"I don't think it affected me [stigma]…I felt in the long term ultimately I was going to make a difference in the business and I wanted to change a lot of things about it.…From a family perspective it was in my upfront statement to my father, it was my decision my risk and I have to deal with the consequences."*

*"People say you have been born with a silver spoon in your mouth and everything fell to you without you having to do anything. You actually have a more difficult task in demonstrating to everybody else that you're up to doing the job.…All you can do is do the best you can do, and hope people will be honest with you. I don't want to stay in the presence of people who cannot see that."*

*"[Stigma] is something which I was very conscious of for many years. I even bordered on being embarrassed about telling people that I worked for the family and found ways to hide that fact, until it became absolutely necessary to tell them it was a family company. I tended to think people thought I was spoilt or unable to find another job elsewhere which is why I ended up in the family business. One of my strengths is my people skills and I could readily pick up people's reaction to me saying that I worked for the family and most times felt that their perception of me changed, which is why I tried not to say anything. It wasn't until many years later when I started feeling more comfortable in my role in the company that my attitude started changing. "*

Two of the participants expressed a concern about stigma from the market or industry.

*"From a customer perspective, I think the first thing is that you have to be comfortable in your own skin, in other words you have to believe that you have made a success of where you were before [with regard to the business] which in my instance I can categorically say I have, then you can go in there with confidence, and the silver spoon syndrome, you are going to have to deal with that."*

*"That's the one of the big things that we've had to break down both internally and to the customers, is that it's the automatic assumption [stigma regarding joining 'daddy's business']. Is this guy good enough to be running the business or is he just an appointment, a favourable family member appointment. We've been quite strong about that and we have done some 360 degree feedback with a lot of our employee, and its*

*coming back very strong now that it's not a family member appointment, it's actually in its own right the best guy to lead the company. That was one of the biggest concerns going into this is what the perception of people just thinking that damn it's another family guy in here is he actually going to be any good? [Did it end up being a valid concern?] No, I mean we get the occasional comment from people who don't know me out in the industry, that exact thing; 'it's daddy's business', but without being too boastful, the ones that have got to know me, it has turned those kinds of perceptions around."*

#### 5.10.2. Black Economic Empowerment (BEE)

In our current economic environment BEE is an element of regulation that seems contrary to the principle element of family business; keeping ownership in the family. Questions were posed to participants to see how they felt about BEE and how it may have affected their succession process.

*"All the companies within our industry, all our competitors are all family-owned businesses so they are all in the same space and they all refuse to give away the business for nothing, none of them are considering BEE structures just because we have to….[Regarding an employee ownership scheme as part of a BEE deal]. There are various options probably involving our employees, but that has to make commercial sense."*

*"Ya, it has affected us [BEE]. I understand it's a difficult concept if you have a family business; it's just in the family. Then the law requires you to sell some part of that to somebody else. Well I think that's a tough thing, and actually not right."*

*"I have actually been in one serious BEE discussion, which I find the whole thing to be an absolute joke….He was going to contribute naught. I can't reconcile myself with that."*
*[Has BEE affected the succession process?] "Funny enough nothing to date."*

*"My thinking is that if you're here in South Africa, BEE is here to stay, if you're going to fight it, and pretend that it doesn't exist, in the long term you can only lose…So again, a lot of that stuff on the scorecard, that stuff I believed in, but I'm not prepared to give away shareholding."*

*"We are classed as black…so it just needs a piece of paper to say this company is BEE orientated [They hadn't yet engaged in BEE certification]. Because our business we don't have any white partners or anything like that. But a lot of people will want to see it on paper, will want to see that X is owned by black people."*

*"The other thing is that with South Africa now is BEE. I mean now all of a sudden you've got thirty percent of our company that doesn't belong to us. You have got to give it away*

*otherwise you don't get work. SO already the value of the company is worth less….What has BEE done for this country? It's made a couple of guys rich and show me one company that really needs BEE that put a lot into it…..And they [BEE partner] only have an upside they don't have a downside."*

## 5.11. Conclusion

There were five main determinants of successful family business succession that emerged from the discussions. Broadly categorised they were; successor-related factors, incumbent-related factors, family context factors, business context decisions and structured agreements concluded. These determinants had many antecedent factors and elements that contributed to the importance of the determinant at different stages of the family business lifecycle. The data shown is rich in nature and needs to be carefully analysed to ensure its meaning is accurately portrayed in the following chapter.

# 6. Chapter 6: Discussion of Results

## 6.1. Introduction

In the previous chapter the results that addressed the research questions were presented. The research questions were identified using the literature to identify key themes and constructs. The discussions were based on these constructs in order to verify their validity and further identify other phenomena surrounding the family business succession process.

This chapter relates the results from the interviews with the eight family businesses to each of the specific research questions in an attempt to answer the main research question: What are the determinants of successful family business succession? The findings will be tested against the literature and the researcher's own insight as a member of a family business. Finally, disparities in the knowledge and findings will be discussed and a model will be proposed to better understand the determinants of a successful family business succession.

The grounded theory presented is derived from narratives of family business owners/managers who are in different phases of the succession process. The discussions are grouped according to five categories of determinants of successful family business succession, namely: successor-related, incumbent-related, family context, business context and structured agreements.

## 6.2. Discussion of the Successor-Related Factors

**Research Question: What are the successor-related factors/elements that affect the succession process?**

This research question produced forty responses. Three main successor-related factors or elements became apparent in the discussions:

- The preparation of the successor, with perceptions of the successor as an antecedent.
- The willingness of the successor, with the stigma associated with joining the family

business, and the personal needs of the successor as antecedent factors.

- Business cycles and entrepreneurial spirit, with autonomy of the successor as an antecedent factor.

Venter et al. (2005) in their paper exploring the successor-related factors of family business succession identified three key factors that directly affect the succession process: The willingness of the successor to take over the business, the preparation level of the successor and the relationship between the owner-manager and the successor. The first two factors of this study align with the findings of Venter et al. (2005) but the third seems to add another factor. However, business cycles and the entrepreneurial spirit and its antecedent factors do address the relationship between owner-manager and successor. This is because the resultant outcome of business cycles and the entrepreneurial spirit can lead to friction between incumbent and successor (as an outcome of their different risk profiles). However, if the owner-manager and successor have a strong and proactive enough relationship they should be able to overcome such differences.

Le-Bretton Miller et al. (2004) identified many successor-related factors, although no distinction was made between key or antecedent factors, namely: successor motivation, successor ability, nurturing and development, career development, outside work experience, apprenticeship, formal education and training programs. All of the antecedent factors uncovered in the study are aligned with the factors of these authors. In the context of the study no new determinants relating to the successor emerged.

From the discussions it emerged that preparation of the successor is critical to the succession process, be it preparation within the business or experience in other industries with other organisations. Such preparation will boost the potential successor's willingness to enter the business. The successor's increased confidence will overshadow the stigma attached to joining the family business. Appropriate succession preparation will improve the perception of the successor held by other owner-managers, employees and the industry within which the family business operates.

The willingness to join the family business is affected by the personal needs of the successor. The successor needs to be eager to join the business, as a result of potential long-term gains or the will to continue the legacy left by the previous generation.

The business cycles that the organisation naturally transitions through and the entrepreneurial spirit that needs to be kindled by the successor can lead to success or failure of the family business succession process. When an incumbent's risk profile differs from that of a successor, as the successor embarks on a family business growth path and the family business re-enters the entrepreneurial "existence" phase, as described by Lester and Parnell (2004), conflict between the successor and the incumbent would be probable. This is supported by Zahra's (2005) findings that the founder influences the entrepreneurial activity of family business. Their formal or informal power may intensify conservatism, which in turn stifles entrepreneurship.

Historically the determinants of successful family business succession have been analysed as a top-down approach (Griffeth et al. 2006). Considering the low succession rate of family businesses it is possible that understanding the process should be done from a potential successor's perspective. (Griffeth et al. 2005).

The data showed that it is the relationship between the successor and the incumbent that governs the ability of both parties to manage this family business ownership transition. The findings also showed that the relative autonomy of the successor was associated with the incumbents trust in the successor and ability to relinquish control of the family business. It seems apparent that one of the determinants of a successful family business succession is to understand and satisfy the expectations of the successor, rather than the founder. This is contrary to previous research findings as most of the previous research finds the need to satisfy the expectations of the incumbent as a major determinant of successful succession.

The data also suggest that successor-related determinants are the most important to family businesses in the decline stage of the business lifecycle. Further research needs to be conducted to establish the strength of this relationship, and if family businesses in this stage of the lifecycle need to focus specifically on successor-related determinants in order to conduct a successful family business succession.

## 6.3. Discussion of Incumbent-Related Factors

**Research question: What are the incumbent-related factors that affect the succession process?**

Three main categories of responses emerged in response to the research question probing incumbent-related factors in the succession process, namely: the incumbent's inability to let go, the incumbent's expectations and the incumbent's will to succeed the business.

Solomon et al. (2011) stated that the inability of the incumbent to 'let go' was a major inhibitor to the succession process. Haverman & Khaire (2004) and Le Bretton Miller et al. (2004) shared a similar opinion. The incumbent's inability to leave the successor as the autonomous manager of the business may result in a power struggle, which is unproductive and may even destroy a relationship.

Sharma, Chrisman and Chua (2003) found that the incumbent's perceived satisfaction of the process is directly related to the successor's willingness to take over the business. Interestingly they also found that the successor's willingness to take over was dependent on the incumbent's willingness to step aside, indicating an inverse relationship. Further it was found that financial performance of the business after succession is an indicator of satisfaction (Sharma *et* al, 2003). From the findings it follows that the expectations of the incumbent regarding their future involvement, succession planning and financial rewards all have an impact of the succession process.

The incumbent's will to transfer ownership of the family business may be gauged by the implementation and strategic creation of a succession plan. Sharma, Chrisman, Chua (2003) in their work entitled: Succession Planning as Planned Behaviour, stated that most of the previous literature on succession planning emphasized the critical role of incumbents in the succession process, and their willingness to transfer the business ownership. From the findings it is evident that family businesses with an incumbent who is willing and able to transfer ownership of the business and provide for a strategic succession plan are more likely to gain greater satisfaction from the outcomes of the process.

The data also presented that the business culture created and established by the incumbent has an effect on the succession process. If the business culture is to facilitate succession and create longevity for the business it is more likely to make the transition to the second and third generations, than if the business is streamlined for short-term profit maximisation.

Solomon et al. (2010) identify the shift in socio-economic trends, which show people working till a greater age than used to be expected. This is due to increased life expectancy and the resultant need to have financial assets that will last long enough to support them. This explains an incumbent's fear of passing on the business, and remaining in control for longer. The data reflect this sentiment, and show how the incumbent's expectations need to be re-assured by the successor. A shareholder's agreement or promise of future earnings may give some resolve, but as this is an untested principle, further research needs to be conducted to determine the size and nature of the effect, and how successors can manage the incumbent's expectations better.

The research findings propose that the determinant most affecting the family businesses in the existence stage of the business lifecycle is incumbent-related factors. This may be due to the conflictive nature of differing risk profiles (and hence entrepreneurial tendencies) of successors and incumbents. This finding differs from the majority of previous literature that fails to identify the differing risk profiles as a source of possible conflict and a factor contributing to the determinants of successful family business succession.

To summarise; it is apparent that the incumbent has a significant effect on the succession process. The incumbent may be needed to initiate and facilitate the process, but it is their effective presence, attitudes and beliefs that will determine the success of that process. This is confirmed by Poza (2010, p 109), who offer that incumbents have a mandate to drive the success of the family business. That means they must be the architects of the transition process, but must also be acutely aware of when to step away and let the right agents fulfil their duties.

## 6.4. Discussion of the Family Context:

**Research Question: What are the family-context related factors/elements that**

**affected the succession process?**

From the interviews six different categories of factors and elements that affect the succession process emerged, namely: the separation of family and business, natural succession, division of assets and profits, the family council and constitution, expansion of the family and the family business system.

From the data it surfaced that families that are able to separate family and business issues have a better chance of having a successful succession process. Principles drawn from the literature prescribe that family businesses are an intricate connection of sub systems, with underlying implications and outcomes (Poza, 2011). The families that are able to disregard the inhibitory aspects of family relationships, but leverage the benefits of family relationships will see those relationships as a factor that encourages a successful succession process.

The findings from the data suggest that professionalization may be detrimental to some of the businesses as they prefer the loose structure of the family business for flexible decision making. This supports Melin and Nordqvist's (2007) view that family businesses should not adopt corporate practices, as this is the characteristic that makes them effective. However, there were some elements of professionalization that were seen as positive influences on the succession process.

It is evident from the data that three of the participants were in favour of the creation of family councils and creeds (constitutions). These forms of governance were able to moderate family member behaviour and involvement in the organisation. However the remainder of the participants cited the flexibility and informal structures of the family business as a source of competitive advantage.

There was no apparent correlation between the size of the business or different stage of the business lifecycle and the will to professionalise the business. The findings do suggest that family businesses that have had a destructive or complicated succession process express the will to have some form of governance, and this indicates a move towards professionalization. This forms a possible area for further research.

A distinction needs to be made between the division of profits and assets. The division of profits (dividends) is a remuneration decision that is made by the owners of the business in respect of the manager's efforts. Division of assets is decided upon by the owners as a gift to family members (Lane et al. 2006). From the data it is evident that a division of both assets and profits must be done in a manner that is equitable and fair for all members of the family, taking into consideration the acknowledgement of contribution. This is a key factor contributing to motivation and the willingness of successors to join the business.

As Bruce and Picard (2006) contested, the size of the family may affect the amount of conflict, rivalry and competition among family members. Inherently, if the business is to support more people it needs to generate greater profits to distribute among family members. The data showed that the size of the business must increase proportionally to the number of family members that wish to join the business.

One must not forget the principle benefits of a family business system, which revolve around the relationship between the family and its business, the loyalty, management style and common interest and the effect they may have on the succession process (Poza, 2010). Altruistic values will aid the succession process as family members have a greater interest in the success of the succession process than the financial implications. Issues of love, compassion and legacy should aid family members in seeking an equitable and prosperous solution. This was shown in the data in two scenarios; where legacy was cited as a major reason to join the business and continue family prosperity, and where the concern for the interests of other family members was cited as a reason to continue the business successfully.

Hubler, (2009) examines the 'soul' of the family business and its effect on the business performance. He defines the soul as "the driving force behind all that happens in the family business, as well as the essence of a family's spirit and being" (Hubler, 2009:254). Perhaps this is supported by the findings that say that the profits of the family business must be extended to all members of the family. A finding that must be further explored is why successors feel obligated to divide up ownership (and profit) equally among family members even after the succession process, and if this future burden may decrease the willingness of successors to join the business.

## 6.5. Business Context

**Research Question: What are the business-context decisions and factors/elements that affected the succession process?**

The data presented three main categories of business context decisions, namely: sale versus succession decisions, the employment of professional management and some uncategorised business decisions.

Family businesses exist in a business context with unique consequences and challenges as a result of their particular economic and cultural environments (Pieper & Klein, 2007). The data show that family businesses are confronted with the decision of: sale versus continuity (succession). There are various consequences that may lead to the family considering a sale as opposed to a succession, and these are some of the key concerns of owners. Incumbents are generally concerned with their financial prosperity, and the sale of a family business may be an attempt to realise some of that value, if they do not have confidence in the next generation to create longevity.

In the situation where potential successors are not willing to enter the business or the incumbent's do not feel the potential successors are adequate it is unlikely a succession will occur (Brockhaus, 2004). However if the family owners wish to keep the ownership but retire from management of the business then they may employ professional management if there is a large age gap between incumbents and potential successors, in order to 'plug' the gap. Professional managers hired by family businesses need to be process-orientated and understanding of the needs of the business (Hall & Nordqvist, 2008).

It is thus possible to draw from the data that although the business is a family business, decisions need to be taken that best suit the longevity and prosperity of the business, and that sometimes requires taking the family element out of the business decision making. If one is to keep the principles of family businesses at the core of their policies and culture, managers and successors must adapt to this. The key principle that the data produce is that family businesses must adjust to their business contexts just as non-family businesses do. Decisions must be made in light of their business environment, with their family context in mind. If this principle is not considered in the succession process it will become an inhibitory factor.

The findings indicate that managing the business context is an intricate balance of the family's and business's better interests. In the particular case of the "Trade-Off" (case 8) the intention was to succeed ownership into the second generation; however the financial incentives of selling the business outweighed the potential rewards of the succession process. The benefits of the sale meant that the potential successors were able to secure financial security in the long run, and the incumbents were able to realise some immediate value from the business. This concept needs to be further explored, as intrinsic factors may have a substantial effect on the succession process.

## 6.6. Structured Agreements

**Research Question: What factors/elements of the structured agreements that the family carried out affected the succession process?**

The data reflect a few structured agreements that affect the succession process. Buy/sell agreements, trusts, insurance policies, division of assets and remuneration were all aspects of structured agreements that were discussed, additionally it was found that they are generally governed by a shareholders agreement. Two of the businesses ownerships were held in trusts, these trusts were both controlled by the successor, but all family members had some form of ownership in these trusts. The successors were remunerated at market-related rates and seemed content with these agreements, as they provided for the whole family.

Poza, (2010:55) describes how a family business's competitive advantage may be routed in the overlap between family, business and management subsystems and the unique qualities it gives a family business. However this source of competitive advantage may also be one of the greatest challenges a family business faces. A shareholders agreement is something that may act as a form of governance between the shareholders-family business relationships. The data show that successors prefer to set up a shareholders agreement as a base of reference for expectations and division of ownership for the successor, and the other family members.

Two of the successors that were interviewed expressed the notion that a shareholders agreement is the most important part of the family business succession process. They suggested that this agreement be put in place before succession begins. Both of these businesses had been through a fairly ‘messy’ succession process. Further research should be conducted exploring whether this is a common consensus among businesses who have concluded a succession process that has not met the expectations of successors and incumbents. It is possible that a shareholders agreement is the primary determinant of a successful succession process, however it is not possible to conclude this from the results of this study.

## 6.7. New Themes

The data presented a few elements that may affect the succession process that could not be categorised under the previous headings. With regard to the factor “stigma” some reference is found in literature however this is outdated to 1982. The impact of BB-BEE on family businesses is only relevant in the South African business environment.

### 6.7.1. Stigma

The issue of stigma is of particular relevance as six of the 8 respondents commented on it. From the comments of the successors both the family-related stigma and the industry-related stigma are possible inhibitors of the succession process, but can both be overcome. However, it should be noted that interviews were not conducted with successors who have not entered the family business. Although it was possible for the participants in the study to overcome stigma, it is equally possible that there are many potential successors who have not done so. A separate study should investigate this seemingly serious determinant.

Griffeth et al. (2006) examined a number of previous works that identified successor-related factors in development of their Successor Retention Process model. Their thorough review of the literature gave sparse mention to factors that may contribute to the stigma associated with the family business. Literature dating back to 1982 and 1983, mentions three observations that had a negative effect on the succession process, namely; inherited wealth and the need to prove worth, guilt about inheritance and successors who were viewed as reaching their position solely by birth (Griffeth et al. 2006).

These observations were also reflected in the data; however they were all seen to not have a negative effect on the succession process, as all of the successors were able to successfully overcome the negative sentiments associated with joining the family business, but a significant consideration is ignored. It has previously been established that a mere 30% of family businesses succeed into the second generation. It is possible that the stigma associated with joining the family business contributes significantly to successions failing. This principle needs to be further assessed to determine whether overcoming the stigma associated with joining the family business is a principle determinant of successful succession. All of the successors interviewed were able to overcome this stigma, and hence it may be described as an antecedent determinant of successful succession.

The stigma of being "in daddy's business (IDB)" does not seem to have been covered in the literature as no research on this factor could be found.

Poza (2010), covers the negative perceptions family business employees and the rest of the industry may have concerning successors and their adequacy to manage the family business. If the potential successor is sufficiently prepared in a wide range of contexts, such as emotional intelligence, industry experience and technical skills, that suit the business and its strategic needs, then the social pressure and stigma will have less of an effect on the succession process. Two of the successors interviewed were concerned over the industry's perceptions of them, based on a family appointment. Their concerns turned out to be unfounded as the industry actually approved of their appointment. It would be an interesting aspect to investigate how many family based appointments are not concluded because of negative perceptions sourced from the industry.

### 6.7.2. Black Economic Empowerment

Pieper and Klein (2007) suggested that analysis of family businesses must include a careful look at the environmental factors that affect the family business system. In South Africa, we have a regulatory system that encourages the distribution of wealth to previously disadvantaged individuals. The aim of the regulation is to transfer ownership of entities to these individuals. Considering that the main aim of family business succession is to keep the business ownership in the family (Poza, 2010), it seems that regulation forcing a division of ownership and gifting non-family members with some ownership may be in direct contrast to the aims of a family business succession.

Although this regulation affects all South African family businesses, it seems from the data that it mostly affected family businesses that needed to gain market entry. They have no choice but to comply with the BEE regulation, even though they vehemently disagreed with the principle of divesting shareholding of a family business.

One of the participants is a black business owner. The mere fact that they are a fully black-owned business makes them adequate to obtain contracts and they have therefore given no attention to the other items on the BB-BEE score card. They see it as an advantage to be able to be seen as favourable suppliers, but they have not made an effort to accredit themselves as they do not see BEE status as a major value add for customers.

## 6.8. The lifecycles of the family business, and how they affect the succession process:

We have distinguished from the literature that there are five key phases of the family business lifecycle, namely: existence (also known as the entrepreneurial stage), survival (growth stage), success (maturity), renewal (efficiency) and decline. The data in table 5-12 (p.50) Show how the eight participants were distributed with regard to their life-cycle. From the data it was apparent that the different stages of the family business life cycle defined the importance and emphasis of the elements and factors that affect the family business succession process. All of the businesses placed particular emphasis on family context-related elements, factors and decisions, and the rest of the distribution was broad.

Two businesses that were in the decline stage were re-entering the existence stage as the new generation attempted to revive the entrepreneurial spirit of the business. Successor-related and business-context factors were named as the most important factors affecting the succession process. This aligns itself with the literature presented by Venter et al. (2005), which suggests that incumbents need to have faith and trust in potential successors. Incumbents in this stage of the business lifecycle are considering the sale versus continuity conundrum, leading them to consider successor-related factors, and perform business-context analysis to make a judgement as to the best decision for the prosperity of the entire family.

The data show that the three businesses in the survival phase considered the structured agreements they concluded (or failed to conclude) as having the greatest influence on the succession process. Sharma et al. (2003) showed that the propensity and willingness of a successor to take over directly affected the likelihood of succession-planning activities.

The data show that these family business owners realised that a strategic succession plan, that encompasses all aspects of the succession process, may form a base of reference for agreement. There is scant reference in the literature that relates the prevalence of structured agreements as a focus determinant to the survival phase, however Sonfield and Lussier (2004), discovered that succession planning was less likely to happen in the first generation as opposed to the second and third. Of the three businesses identified in the survival phase two were in the first generation and had paid tribute to the lack of succession planning causing problems in the succession process. The other business was in the third generation and had paid tribute to the distinct effort put towards succession planning as a reason for a successful succession.

The assumption that businesses in the survival phase need to emphasize efforts towards succession planning needs to be further tested by analysing a representative sample of family businesses in the survival phase.

The data present that the two businesses in the existence phase considered family context and incumbent-related factors as the most influential on the succession process. The deduction from the data is that businesses in the existence phase have entrepreneurial tendencies as growth was one of their primary objectives. Successors and incumbents may have different risk profiles that could dampen entrepreneurial activity when the family business is in an existence phase and this could lead to incumbent-related issues that hamper the succession process. Zahra (2005), showed how incumbents may use their power to suppress entrepreneurial activity. This could explain conflict between successors and incumbents and indicate the reason why incumbent-related factors were the most prevalent concerns of businesses in this stage of the lifecycle. Similarly this premise needs to be tested over a representative sample.

The one business that was in the success stage of the business lifecycle, named the formal processes and agreements and the business context as the two most influential factors of the succession process. Inductive reasoning suggests that formal processes and agreements was a major concern because the ownership of the business had not been transferred to the successors, and it was a major area of concern and confusion. The business context factors were named as a major influencing factor on the succession process because the successors were attempting to streamline the business and gain as much short-term profit, and hence possibly compromising the long-term survival of the business.

Sharma et al. (2001), showed how the satisfaction from the succession process is both a factor of the incumbent's and successor's expectations. The incumbent's expectations were largely formed around financial security and value realisation, whereas the successor's expectations were largely based around autonomy and clarity of role within the business. The data shows that the successor may be confused as to their role as a manager or owner of the business, and this may be causing them to realise as much short-term value as possible. The incumbent is possibly unaware of their negative influence over the succession process, and hence family context and (the lack of) structured agreements are the major determinants of a successful succession process.

It is apparent from the data that at different stages of the family business lifecycle certain elements of the succession process wield a greater effect on the succession process.

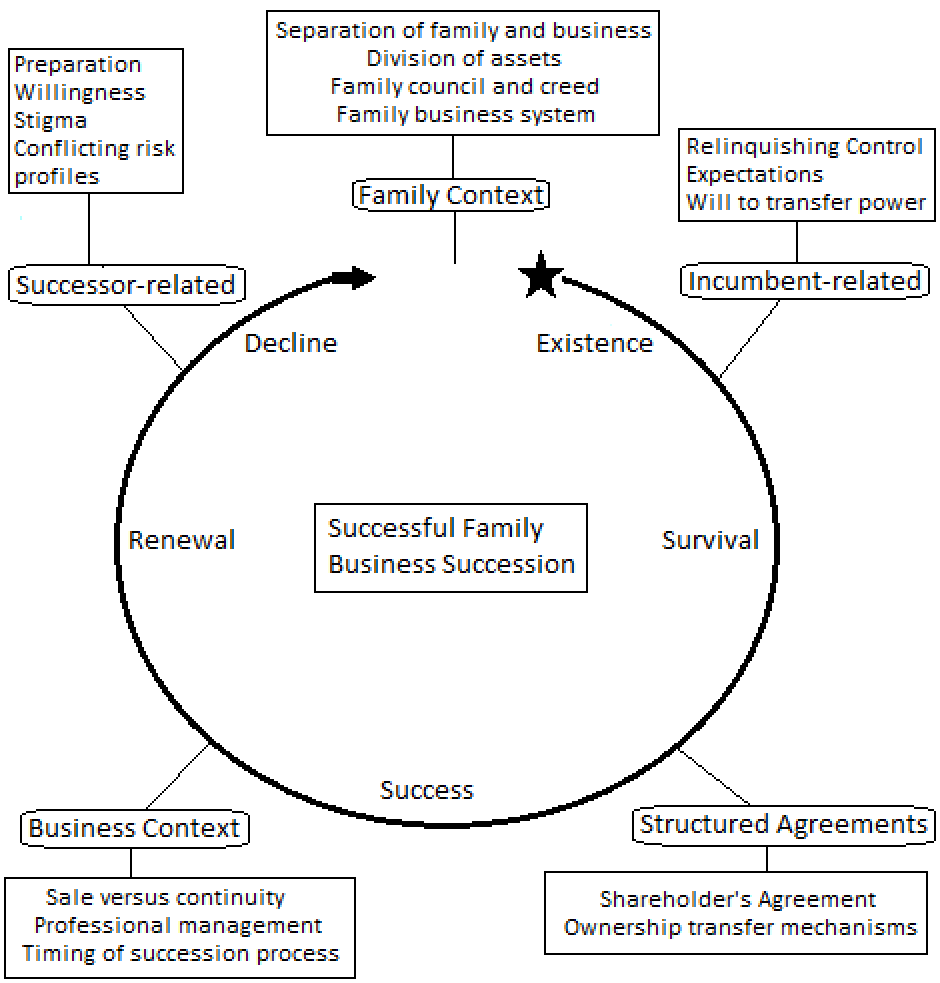
## 6.9. Determinants of a successful succession process:

The data show 22 different factors and elements that affect the succession process. These factors and elements can be grouped into five different categories, which have different magnitudes of influence depending on the lifecycle stage of the family business and the unique environmental elements that the business faces. In order to discover the determinants of successful succession, an understanding of how these factors and elements fit into subsystems that control the family business succession process should be conceptualised and understood.

## 6.10. Towards a conceptual model of successful family business succession

Review of the field of family business research in chapter 2 revealed various models that do not sufficiently describe the determinants of successful family business succession. Most notably the important element of time has not been included. Time is of particular relevance as a family business succession is not an event but rather a process over a period of time. Building on the previous models on family business succession and informed by the research data and the researcher's insight as a potential successor in a family business, the model in figure 8 is the culmination.

**<u>Figure 6-1: The Determinants of Successful Family Business Succession</u>**




Source: Developed by Author

### 6.10.1. Explanation of the Model

Building from the inside out, the inner box is the outcome - successful family business succession. The perception of a successful family business succession is largely a subjective view from any observer, but for the purpose of the model it will be the view of the family.

The inner darker circle represents the business lifecycle. It shows how a business typically moves from the '"spark"' which triggers the existence stage through the other phases of the business lifecycle, survival, success and renewal, to the decline stage. It is a continuous process, unless of course the succession process does not occur. As aforementioned the importance of the determinants of the succession process may have different weights depending on the context that is unique to each family business. The determinants of family business succession have been depicted in a sequence that represents their importance compared to that stage of the business lifecycle as determined from the results of the study. However the model is wholly inclusive of the consideration that all determinants have a role in the succession process.

Family businesses may be able to skip stages of the business lifecycle, if they are able to effectively manage the succession process before the business changes performance output and outlook.

The inner darker circle is flanked by five determinants with subcategories of factors that have emerged to be the main determinants and factors that affect the succession process. Some of the antecedent factors were discovered in the study.

### 6.10.2. Family Context

The family context is a factor that is a strong influence on the succession process. Family businesses derive their meaning as a result of the interlinking of three different sub systems namely, the family, ownership and management systems (Poza, 2010). The data suggest that elements of the family context that need to be managed are as follows:

- The separation of family and business: Family business members need to be able to separate family and business issues effectively, in order to reduce obstructive family involvement, yet nurture the best interests of the family.

- Division of Assets: Families must decide on fair and equitable ways to divide family assets that are beneficial for the business and family. This usually means a fair division of assets that recognises efforts and contributions, whilst considering birth rights.
- Family Business Council: Families must develop a family council that is able to arbitrate conflict, and contribute to the building of a family creed (constitution) that will encourage certain codes of behaviour.
- Family Business System: Families must be able to minimise nepotism and optimise altruism to leverage the benefits of the family business system.

### 6.10.3. Business Context:

The business context is a continually evolving environment that must be constantly analysed and adapted to incorporate the best outcomes for the family business (Pieper & Klein, 2008). The data suggest that elements of the business context that need to be managed are:

- Sale versus Succession: Family business owners continually assess the business environment and the future of the business. A decision must be made to sell the business or enter the succession process, one way or another to realise the best possible value for the benefit of the family.
- Timing: The timing of the succession process is crucial in dictating the outcome of the process. If the process occurs too early, successors may not be sufficiently prepared, alternatively if the process is begun too late successor motivation and willingness to take over, may be lost.
- Professional Management: The employment of professional management may have two separate intentions. Family business owners may want to professionalise the business, or they may need to hire professional management to run the business in the interim before the successor is suitable.

### 6.10.4. Successor-related Factors

As the future success of the business depends on the actions of the successors much emphasis is placed on the developing of suitable successors for an effective succession process (Venter et al. 2005). The data reveal the following successor-related factors that affect the likeliness of a successful succession:

- Preparation of the successor: Preparation may occur in many forms, but the premise is that all stakeholders must approve of and have trust in the successor.
- Willingness of the successor: The willingness of the successor is a factor of the benefits of joining the family business.
- Stigma: Successors may be subjected to family-related or industry-related stigma, both questioning the capability of the successor. If the successor is adequately prepared and confident to take the business forward, the stigma presented by both the family and the market/industry will not affect the succession process.
- Conflicting Risk Profiles: The successor may have a different risk profile to the incumbent, linked to their immediate and long-term benefit requirements from the family business. This difference in attitude needs to be carefully managed to ensure that conflicts of interest do not result in counter-productive relationships.

#### 6.10.5. Incumbent Related Factors

Incumbents and the role they play are crucial in the culture they create and their ability to facilitate the succession process (Solomon et al. 2011). The data presented the following incumbent-related factors that have an effect on the succession process.

- Relinquishing control: Incumbents, who are unable to relinquish control, severely hamper the succession process.
- Expectations of the incumbents: The incumbent's expectations must be satisfied as they need to realistically realise value from the business.
- The incumbent's will to transfer power: An incumbent's primary role is to facilitate the succession process, conversely disgruntled or dissatisfied incumbents can inhibit the succession process.

#### 6.10.6. Structured Agreements

A succession plan is one of the key elements of a successful family business succession process (Sharma et al. 2003). The formal processes and agreements that family businesses implement are the key steps to developing succession plans. From the data it was apparent that two key elements need to be addressed in order to manage the succession process:

- Shareholder's agreement: A shareholder's agreement forms a basis of understanding between parties entering the succession process.
- Ownership transfer mechanisms: Family business members need to form an effective approach to the way in which the ownership of the business is transferred to the next generation. Some commonly used mechanisms are trusts, insurance policies and buy/sell agreements. Families need to balance the benefits they expect from the business with the benefits the successor expects from the business.

#### 6.10.7. The changing environment and the business cycles:

The interlinking of these determinants and main factors with the business cycle indicate that they are forever changing as their impact changes and as the business cycle develops. These factors will affect family businesses differently depending on the unique context in which those businesses operate and the stage of the lifecycle the business is in.

### 6.11. Advised Action to Conclude a Successful Family Business Succession

After careful consideration there are two steps that a family business may take in order to help them conclude a successful family business succession:

- Family businesses need to carefully manage the effects of, the family context, the business context, successor and incumbent-related factors and the structured agreements they put in place.
- Family businesses need to manage these effects within the context of their environments and dependent on what stage of the business lifecycle they are situated.

If family businesses are able to identify and manage these two key steps properly then they have a greater chance of concluding a successful family business succession.

## 6.12. Triangulation

The benefits of triangulation were discussed in section 4.1.8. An hour long telephonic conversation with a renowned South African family business consultant and author was conducted. A copy of the proposed model was sent to the expert before the conversation. The following issues were identified and talked about:

- There is a critical difference between management and owner plus management succession. It was pointed out those most family businesses in South Africa face management succession, which has different outcomes to ownership plus management succession. The expert asked the researcher if this distinction had been made in the selection of the sample. The researcher noted that the sample had consisted of four ownership plus management successions and four management successions. The expert's definition of management successions were successions where the successor(s) took full control of management of the business but not full control of the ownership. Ownership plus management successions; when successors took full control of both ownership and succession. The expert was satisfied that the proposed model may therefore cover both types of successions, however they expressed concerns that it may need to be tested over a greater sample size.
- The family creed (constitution) is one of the key principles that needs to be implemented by family businesses before the succession process, as it forms a basis of reference in times of conflict. This would align itself with the research findings, as two of the participants mentioned the need for a family constitution. Furthermore it is possible that those participants who referred with emphasis to a shareholder's agreement may have been satisfied if some form of shareholder's agreement emanated from a family creed.
- It is the family's decision to reward successors (in the case of a management succession) accordingly with regard to remuneration. Levels of remuneration must be set that align themselves with market-related standards, but must also provide sufficient motivation for successors. This sentiment is echoed in the findings regarding the family context, that family members must be able to make decisions

that balance the best interests of both the family and the business.

- BEE has commonly been used as a tool for family businesses in South Africa to realise some value, by selling off parts of their company, but still keeping the majority control. The findings show how only one of the businesses had performed this action, and they were vehemently against the outcome, however they needed a BEE partner to compete for business. The findings also show that BEE did not have a correlating effect on the succession process; however this is a possible area for further research if the expert's observations are considered.
- When the expert was presented with the element of stigma as something that may affect the family business succession process and that it may prevent potential successors from considering the family business, they were unable to relate it to a commonly considered factor. Some comparison was made to the legacy and the obligation that may create, but no express mention was made of the direct effect stigma has on the succession process. It would seem a distinct opportunity to uncover the magnitude of this effect on the family business succession process.
- The determinants that the research identified were in line with common family business theory, but how they inter-relate and the magnitude of their effect dependent on the stage of the lifecycle is unexplored.

## 6.13. Conclusion:

The main research question of: what are the determinants of a successful family business succession was answered in this chapter. A new model was built that accounts for the key elements and factors of the succession process that need to be managed accordingly, in consideration of the business lifecycle. Family business members must understand that a successful family business succession may be concluded if all of these variables are considered and managed properly.

# 7. Chapter 7: Conclusion

## 7.1. Introduction:

The previous chapter discussed and analysed the results of the study, and synthesized a working model of the determinants of successful family business succession. This chapter will discuss the background to this study as well as the objectives of this study. A summary of the findings and discussion of the model will follow to give practical recommendations for family business members operating in South Africa. The limitations of the study will be highlighted, which will subsequently be followed by the implications and suggestions for further research. Finally a conclusion to the study will be presented.

### 7.1.1. Research Background and Objectives:

There are approximately one million family businesses in South Africa of which as little as 30% will succeed into the next generation (Balshaw, 2003). This represents a significant loss of transfer of skills, knowledge and capital, let alone the ability to create longevity and economic growth (Venter et al. 2005). In our developing economy it should remain an imperative to create and sustain SME's as they create wealth and empowerment.

The field of family business research has advanced in recent times but the literature is still fragmented as debates over definitions, methodologies and desired outcomes fuel the need to continue research in the field (Wright & Kellermans, 2011). Of particular interest is the research or lack thereof in a South African context. One study by Venter et al. (2005), sought to understand the successor-related factors of a family business succession. The research was done on a South African sample, however they failed to examine any factors outside the realm of current literature, and revealed very little that may be unique to South Africa.

There is no doubt that we live in a unique country with unique challenges, through this paper the researcher attempted to understand the determinants of successful family business succession in South African context. The purpose being to give family business owner mangers a better understanding of the sub-systems that their businesses exist in, and the factors and elements of the succession process that they need to manage in order to survive in the long-term. An increase in the amount of family businesses will represent a significant increase in the longevity of South African businesses that grow and begin to compete internationally. Inductive reasoning says that the longer a business exists the more it needs to grow and become innovative and produce unique products and skills. This will be a key to economic growth in South Africa in the foreseeable future (Venter et al. 2005).

#### 7.1.2. Summary of the findings

The findings suggest that a myriad of factors affect the succession process, but the key to managing the process is understanding these factors and successfully planning the succession process. The findings also suggest the determinants of successful succession, are managing a complex system of successor and incumbent related factors, the business and family context and conducting formal processes and agreements whilst considering the family business lifecycle.

The findings of the paper fused nicely into a model that satisfies Pieper & Klein's (2008) call for including individual and environmental aspects, whilst satisfying Pearson and Lumpkin (2011) and Lambrecht and Lievens' (2008) will to include an aspect of time.

Family business managers will be able to interpret the model, by looking at the stage of the lifecycle their business is in, and accordingly strategizing how to overcome the difficulties presented by the various factors most pertinent to their particular situation.

#### 7.1.3. Limitations to the Study:

There were a few limitations that were presented in this study. The nature of the discussions in the study changed over the course of the study. Much was learnt from the first three respondents, which helped with shaping the discussion guide for the concluding five interviews. There is a possibility that key outtakes were missed from the first three participants, due to the researcher's inexperience and poorly structured discussion guides.

The proposed model cannot be generalised across the population, because this was qualitative research, and the aim was to build a theory and not test it. This principle is particularly applicable to the discovery of the new themes. The stigma associated with joining the family business needs to be further tested among family businesses who failed to continue the business into the next generation of ownership. It is possible that the stigma associated with joining the family business is a major inhibitory factor in the succession process. Further, BEE is an additional new theme that must be further tested over a larger sample. It was found that it does not have a detrimental effect on family business succession; however these themes were discovered in family businesses that had already overcome the succession process. It is possible that the family businesses succession process is negatively affected by the proposition of BEE.

Studies done in a South African based context are very limited in their number. This research is limited by the principle that the factors and elements discovered may be unique to a South African context. This concern is lucid to concerns regarding demographics and the fact that only one fully black owned family business was examined.

The sample size was small, the defining implication being that the results are hard-pressed to be extrapolated over a large sample. This implicitly means that any of the new themes discovered need to be tested over larger sample sizes.

The model was based on participants who were obliging to contribute toward the study, and hence a purposive sampling method was used. There is a possibility that the true determinants of successful succession are being hidden by businesses that are not willing to discuss what possibly went wrong, as the emotional scars and social implications are too great to give them liberty to discuss such issues. To make the findings of the study more robust quota sampling should be used, to gain insight into the true complexities of the family business succession process.

## 7.2. Recommendations for Further Research

The model developed in this research has its limitations, as mentioned in 7.1. An appreciation of more robust research must be encompassed in order to establish the validity of the determinants of successful family business succession that were identified. Most of the determinants discovered in this study were seated in current literature. It is the new themes that needed to be stretched out and tested for validity. This could be done through a two-phase approach for both of these new themes. Firstly a qualitative exploratory study could be done on family businesses specifically exploring the effects of stigma and BEE on the succession process. It is suggested that family businesses who failed in the succession process be included in this sample. Secondly, an explanatory study, hence a quantitative study could be done exploring the magnitude of these effects on family business succession processes.

Other potential areas of research that may be conducted, is to test this model across different samples with more representative demographics, considering a South African context. Some possible research questions that may emanate from such an exploration may be as follows:

- Why is there an apparent lack of succession in fully black owned family businesses?
- What are the effects of an era of discrimination on family businesses in South Africa?
- Would excluding family businesses from BEE policies increase the succession rate?
- What elements of social theory can be used to de-stigmatise the family business succession process?
- Are family businesses truly an important growth engine for the South African economy?

## 7.3. Conclusion:

It is believed that family businesses are an important source of economic growth for South Africa. They represent an opportunity to transfer a wealth of capital, knowledge and expertise across generations. Family businesses also often outperform regular businesses for two main reasons. They have other goals than profit maximisation, and their governance remains flexible enough for them to be quick adaptors.

Alas, the succession rate of family businesses in South Africa and worldwide is poor and gets even worse from generation to generation, to the point where a third generation family business is in the minority four percentile of all existing businesses. This represents a significant loss of opportunity and wealth creation. Researchers claim to understand the determinants of successful succession, however transposing this knowledge on family business practitioners is still a major challenge.

If family businesses are able to better understand the aspects of the relationships between family, business and management they may be able to identify the determinants of successful succession, and accordingly manage these factors to ensure a successful succession process.

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# 9. Chapter 9: Appendices

## 9.1. Appendix 1

### 9.1.1. Discussion Guide 1

- Qualifying questions:
- According to the Small Business Amendment Act of 2003, which category of business do you fall in to?
- How many family members are working in the business but not in management?
- How many family members are currently involved in the management of the business?
- How many family members have a stake of ownership in the business?
- How many generations has the family business existed?
- What are the determinants of successful family business succession? Determinants meaning: an influencing or determining element or factor.
- Popular literature illuminates several determinants of successful family business succession. I would like to discuss these determinants, and possibly uncover some other determinants of successful family business succession.
- Recent research by South African academics uncovered a few determinants of successful family business succession, namely:
- The willingness to take over,
- The preparation level of the successor,
- Relationship between the owner/manager and successor,
- The role of the incumbent.
- There are various themes and antecedent factors that influence these determinants.

- Do you have family that are currently legible as successors? How do you define legibility? Age, experience, qualifications, current involvement?
- Have you ever thought of retirement or developed a succession plan?
- Are there elicit reasons for you developing/ not developing a succession plan?
- Ideally how would you have preferred the succession plan to look like and why?

- What are the toughest hurdles you have had to overcome with regard to succession?
- What do you feel is a successful family business succession?
- If 'NO' legible successors ask question 7a,8a).
- Are all your successors willing to take over?
- Were you willing to take over, what contributed to this willingness?
- Have you prepared your successors to take over? How did you do so?
- How were you prepared to take over?
- What is the relationship between you the owner/manager/successor and the successor/owner/manager?
- What effect has the incumbent (the outgoing owner/manager) had on the family succession process?
- Do you feel their expectations were met with regard to the succession process and the role they now have?
- Family harmony is better understood as a group of relationships that work together and have an agreeable effect towards a common purpose. Is there harmony in the family, and has it impacted on the succession process?
- Have your personal needs affected the succession process?
- What rewards did joining the family business present?
- Was there ever an element of stigma or negative sentiment presented from your social/family context that may have affected the succession process?
- Did BEE affect the succession process in any way?
- Are there any other factors you could uncover that may have affected the succession process?

- Discussion Guide 2:

- Qualifying questions:

- According to the Small Business Amendment Act of 2003, which category of business do you fall in to?

- How many family members are working in the business but not in management?

- How many family members are currently involved in the management of the business?
- How many family members have a stake of ownership in the business?
- How many generations has the family business existed?

- What do you think represents a successful family business succession?
- What are the determinants of successful family business succession? Determinants meaning: an influencing or determining element or factor.
- What are the toughest hurdles you have had to overcome with regard to succession?
- Have you ever thought of retirement or developed a succession plan, if so at what stage of your family business history did you do so? What were the elicit reasons for developing a succession plan?
- Are you happy with the succession plan? If not, what would you have changed?
- Did your willingness to take over affect the succession plan?
- Do you believe in preparing the successor? Should it be internal or external?
- Have you prepared your successor? How?
- Were there any elements of your relationship with the incumbent and the culture that they created in the business that inhibited the succession process? Could you outline some elements that nurtured the succession process?
- Do you feel the incumbent's expectations were met through the succession process?
- Was there ever an element of stigma or negative sentiment presented from your social/family context that may have affected the succession process?
- Did BEE affect the succession process in any way? Do you feel one of the principle categories; being ownership, conflicts with the family business ideal of keeping ownership in the family?
- Does the recent change in direction of the family business represent part of the succession process? Is it necessary to grow the business for successful succession to occur?
- Are there any other factors that may have affected the family business that we have not explored?

- Discussion Guide 3:

- Qualifying questions:

- According to the Small Business Amendment Act of 2003, which category of business do you fall in to?

- How many family members are working in the business but not in management?
- How many family members are currently involved in the management of the business?
- How many family members have a stake of ownership in the business?
- How many generations has the family business existed?

- What are the determinants of successful family business succession? Determinants meaning: an influencing or determining element or factor.
- What are the toughest hurdles you have had to overcome with regard to succession?
- What do you think represents a successful family business succession?
- Have you ever thought of retirement or developed a succession plan, if so at what stage of your family business history did you do so? What were the elicit reasons for developing a succession plan?
- Are you happy with the succession plan? If not, what would you have changed?
- Did your willingness to take over affect the succession process, was it a nurtured willingness or was there a need to continue the family legacy?
- Do you believe in preparing the successor within the business or letting them get experience elsewhere before returning to the business?
- Have you prepared your successor/how were you prepared as a successor? How?
- Were there any elements of your relationship with the incumbent and the culture that they created in the business that inhibited the succession process? Could you outline some elements that nurtured the succession process?
- Do you feel the incumbent's expectations were met through the succession process?
- Do you believe family harmony is important to the succession process?

- Was there ever an element of stigma or negative sentiment presented from your social/family context that may have affected the succession process?
- Was there ever an element of negative sentiment posed from the market?
- Did BEE affect the succession process in any way? Do you feel one of the principle categories; being ownership, conflicts with the family business ideal of keeping ownership in the family?
- Do you believe it is necessary to grow the business for successful succession to occur, does one as the successor need to accommodate the needs of your siblings?
- Are there any other factors that may have affected the family business that we have not explored?

## 9.2. Appendix 2:

**Table 9-1: Consistency Matrix**

| Research Questions | Literature Review | Data Collection Tool | Analysis |
|---|---|---|---|
| What are the successor-related factors/elements that affected the succession process? | Venter et al. (2005) Levenburg et al (2003) Sharma et al (2003) De Massis et al (2008) Borckhaus (2004) Griffeth et al (2005) | Question 1,2,6,7,8 of discussion guide. | Content analysis on semi-structured discussions regarding successor related factors that may arise from any of the questions. |
| What are the incumbent-related factors/elements that affected the succession process? | Le-Bretton Miller et al. (2004) Brockhaus, (2004) Venter et al. (2005) Solomon et al (2010) Kelly et al (2000) Haverman & Khaire Zahra (2005) | Question 1,2,9,10 of the discussion guide. | Content analysis on semi-structured discussions regarding incumbent related factors that may arise from any of the questions. |
| What are the family-context related factors/elements that affected the succession process? | Lambrecht (2008) Davis & Harveston (1998) Rutherford et al (2006) Bruce & Pickard 2006 Sharma & Irving (2005) Dyk et al (2002) | Question 1,2,11 of the discussion guide. | Content analysis on semi-structured discussions regarding family context factors that may arise from any of the questions. |
| What are the business-context decisions and factors/elements that affected the succession process? | Gersick et al (1997) Farrington & Venter (2009) Poza (2010) Cabrera-Suarez (2001) Lester &Parnell (2004) Korainen (2003) Stavrou (1999) Zahra (2005) Pieper & Klein (2007) | Question 1,2,15 of the discussion guide. | Content analysis on semi-structured discussions regarding successor related factors that may arise from any of the questions. |
| What are the factors/elements of the structured agreements that affected the succession process? | Dunn (1999) Handler & Kram (1988) Sharma et al (2001) Stewart & Hitt (2012) Melin & Nordqvist (2007) Lane et al (2006) Poza (2010) | Question 1,2,4,5 of the discussion guide. | Content analysis on semi-structured discussions regarding structured agreement decisions that may arise from any of the questions. |

## 9.3. Appendix 3: Classification of Business Size in South Africa.

**"SCHEDULE**

*(See definition of 'small business' in section 1)*

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 |
|---|---|---|---|---|
| **Sector or subsector in accordance with the Standard Industrial Classification** | **Size of class** | **The total full-time equivalent of paid employees** | **Total turnover** | **Total gross asset value (fixed property excluded)** |
| Agriculture | Medium | 100 | R5m | R5m |
| | Small | 50 | R3m | R3m |
| | Very Small | 10 | R0.50m | R0.50m |
| | Micro | 5 | R0.20m | R0.10m |
| Mining and Quarrying | Medium | 200 | R39m | R23m |
| | Small | 50 | R10m | R6m |
| | Very Small | 20 | R4m | R2m |
| | Micro | 5 | R0.20m | R0.10m |
| Manufacturing | Medium | 200 | R51m | R19m |
| | Small | 50 | R13m | R5m |
| | Very Small | 20 | R5m | R2m |
| | Micro | 5 | R0.20m | R0.10m |
| Electricity, Gas and Water | Medium | 200 | R51m | R19m |
| | Small | 50 | R13m | R5m |
| | Very Small | 20 | R5.10m | R1.90m |
| | Micro | 5 | R0.20m | R0.10m |
| Construction | Medium | 200 | R26m | R5m |
| | Small | 50 | R6m | R1m |
| | Very Small | 20 | R3m | R0.50m |
| | Micro | 5 | R0.20m | R0.10m |
| Retail and Motor Trade and Repair Services | Medium | 200 | R39m | R6m |
| | Small | 50 | R19m | R3m |
| | Very Small | 20 | R4m | R0.60m |
| | Micro | 5 | R0.20m | R0.10m |
| Wholesale Trade, Commercial Agents and Allied Services | Medium | 200 | R64m | R10m |
| | Small | 50 | R32m | R5m |
| | Very Small | 20 | R6m | R0.60m |
| | Micro | 5 | R0.20m | R0.10m |
| Catering, Accommodation and other Trade | Medium | 200 | R13m | R3m |
| | Small | 50 | R6m | R1m |
| | Very Small | 20 | R5.10m | R1.90m |
| | Micro | 5 | R0.20m | R0.10m |

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 |
|---|---|---|---|---|
| **Sector or subsector in accordance with the Standard Industrial Classification** | **Size of class** | **The total full-time equivalent of paid employees** | **Total turnover** | **Total gross asset value (fixed property excluded)** |
| Transport, Storage and Communications | Medium | 200 | R26m | R6m |
| | Small | 50 | R13m | R3m |
| | Very Small | 20 | R3m | R0.60m |
| | Micro | 5 | R0.20m | R0.10m |
| Finance and Business Services | Medium | 200 | R26m | R5m |
| | Small | 50 | R13m | R3m |
| | Very Small | 20 | R3m | R0.50m |
| | Micro | 5 | R0.20m | R0.10m |
| Community, Social and Personal Services | Medium | 200 | R13m | R6m |
| | Small | 50 | R6m | R3m |
| | Very Small | 20 | R1m | R0.60m |
| | Micro | 5 | R0.20m | R0.10m". |