A TRAINING AND DEVELOPMENT MODEL FOR SUCCESSORS IN A FAMILY BUSINESS: CASE STUDY

By

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DECLARATION

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DECLARATION:

In accordance with rule G 4.6.3, I hereby declare that the above mentioned treatise is my own work and that it has not previously been submitted for assessment to another university or for another qualification.

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ABSTRACT

Family businesses constitute between forty five and ninety percent of gross domestic product worldwide. Research shows that within the next five years over fifty percent of executives will retire, highlighting the significance of successful family business successions. Family businesses founded in the “baby-boom” era are of immediate concern to researchers who are working to understand the dynamics around the succession process and ultimately the criteria preventing or enhancing successful successions.

The purpose of this study was to better understand the development of successors in family businesses. A detailed literature study was conducted on family businesses and in particular the factors which both positively and negatively affect family business successions. A single case study approach was used to test whether six dynamic variables applied to this case or not.

Three sibling brother successors, a sibling sister and their parents were each separately interviewed and the interviews voice recorded. They were asked questions which could be later analysed and used to uphold or negate whether the six dynamic variables applicable to successful family business succession were upheld or rejected. The data was meticulously analysed and similar answers grouped together. Answers which varied from the norm were reported separately. It was found that in all six of the propositions the responses received from the case study respondents upheld the propositions.

Thus, families businesses seeking succession, may well understand and take action regarding the six dynamic variables relating to successful family business successions.
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CHAPTER 1

INTRODUCTION, PROBLEM STATEMENT AND DEMARCATION OF THE STUDY

1.1 Introduction

Many founders of businesses which were started in the “baby-boom” period are reaching or are close to retirement age and are in need of a successor (Cullen, 2008). Recent research conducted by Venter and Boshoff (2007) shows that only thirty percent survive the second generation, with little more than fourteen percent make it past the third generation. Landes (2006) refers to family businesses which have succeeded to the third generation as “Dynasties” and he describes the achievement as “mammoth”.

Family business succession typically involves the transfer of knowledge, control, power and management responsibilities as well as ownership (Santiago, 2000). However, psychological factors may also be present to affect the succession such as the candidates’ personal skills and experience outside the business, commitment to the family goals and the legitimacy of the successor as viewed through the eyes of the employees within the company (Poutziouris, Smyrnios, Klein, 2006). A successful family business succession should seek to improve the profitability of the business and that the stakeholders such as employees, bankers and suppliers have confidence in the successors (Bigliardi and Dormio, 2009).

This chapter gives an overview of the study undertaken with regard to the criteria around successful family business successions and in particular the development of successors prior to succession. The chapter states the main problem, the sub-problems and the methodology used to conduct and present the findings of the study.
1.2 Statement of the research problem

Given the low success rate of family business successions, increasing research is being conducted into the dynamics which may positively and negatively affect successful successions from taking place. Many researchers agree that the succession process should be planned well in advance (Cullen, 2008; Venter and Boshoff, 2007; Chua, Chrisman and Sharma, 1999). In particular the transfer of knowledge and leadership skills are essential to a successful succession (Cater and Justis, 2009; Venter and Boshoff, 2007). Thus the main problem addressed by this study is to:

Analyse and verify Cater and Justis’ (2009) proposed model known as “Development of Successors from Followers to Leaders in Small Family Firms”.

1.2.1 Research sub-problems

In order to solve the main problem, Cater and Justis (2009) developed a model which proposes six dynamic variables which play a role in the development of successors in family businesses. This study will attempt to test the model proposed by Cater and Justis (2009). The six sub-problems are listed below:

(i) A positive parent–child relationship between the founder or incumbent and the successor enhances the development of successor leadership (P1).

(ii) The possession of a long-term orientation enhances successor leadership (P2).

(iii) The possession of a spirit of cooperation among the successors enhances successor leadership (P3).
(iv) The thorough and rapid acquisition of company and industry knowledge enhances the development of successor leadership (P4).

(v) Understanding the role of manager–builder in the family firm enhances the development of successor leadership (P5).

(vi) Understanding one’s orientation toward risk taking enhances one’s development as a successor leader (P6).

A graphical representation of the model proposed by Cater and Justis (2009) can be seen below in Figure 1.1:

**Figure 1.1: Successor Development Model**

Source: (Cater and Justis, 2009)
1.3 Research design and methodology

In order to address the main problem and the sub-problems the research was divided into two main components; the literature review and the case study survey.

1.3.1 Literature review

Family business research has received more and more attention over recent years. The author conducted extensive research on family business and in particular successions within family businesses. Research contributions on the topic of successor development and successful family successions were the focal point of the literature review.

1.3.2 Case study approach

In accordance with Yin (2003) a prominent family business within Port Elizabeth, South Africa, was chosen as the case study. The business is part of a successful franchise chain, concerned with retailing of motor spares and accessories to mechanical shops and also to the public. It had always been the intention of the founder to run his own business and in 1995 he took the risk and opened a new franchise. Prior to this the founder worked full time assisting franchisees to open stores and therefore even though there was risk in leaving full time employment to open his own store, the founder was aware of the factors for successfully running a franchise. Under the successful leadership of the founder, a further franchise was acquired in 2001. In 2005 the two eldest sibling brothers were instrumental in opening the last franchise. All the franchises operate in the Port Elizabeth area and each one is run separately by one of the male siblings.

The family consisted of the parents and four siblings. The eldest sibling is female and chose not to succeed the parents. The remaining siblings are males and each plays a significant role in the day to day running of the family business. The founder participates in significant meetings which may affect the family business but leaves the day-to-day decisions to the successors. The founder still draws an income from the business and maintains a twenty five percent shareholding control. The
succession has proven successful through increased profits and stakeholder acceptance of the successors.

The data collected from the interviews was analysed and verified against the six propositions in Cater and Justis’ (2009) successor development model (see Figure 1.1).

1.3.3 Measuring instruments

A questionnaire was designed to gather data to support or negate the propositions proposed by Cater and Justis’ (2009) model. The questions were semi-structured in nature (see Annexure A). The respondents’ answers were tape recorded so that the responses could be methodically analysed at a later time.

1.4 Contribution of the study

Considering the low success rate of family business successions, this study endeavours to support or negate the propositions made by Cater and Justis (2009) and in so doing assist family businesses with improving the success rate of family business successions.

A further contribution of this study is to provide future researchers with additional criteria which may contribute to successful family business successions.

1.5 Scope of the study

The literature review identifies a number of factors which contribute either negatively or positively to family business successions. This study focuses primarily on the training and development of successors in family businesses.

1.6 Definitions of concepts

The following definitions need to be clarified:
1.6.1 Family business

A family business may be defined as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" Chua et al. (1999).

1.6.2 Family business succession

Family business succession typically involves the transfer of knowledge, control, power and management responsibilities, as well as ownership (Santiago, 2000). Bigliardi and Dormio (2009) conclude that a successful family business succession typically includes improved or sustained profitability and stakeholder acceptance.

1.7 Conclusion

Cater and Justis (2009) proposed that it is essential for successors in family business to have a strong trust relationship with the incumbent and that both the successor/s and the incumbent should have a willingness for succession to take place. Successor cooperation amongst each other as well as the desire to acquire the necessary industry knowledge is important. Successors should have a manager-builder type personality and successors should minimise their orientation towards taking risks, which may jeopardise the future of the family business.

Chapter two introduces, defines and shows the benefits and disadvantages of family businesses. The main differences and the stages of family businesses are also discussed.
CHAPTER 2
INTRODUCTION TO FAMILY BUSINESSES

2.1 Definition and introduction to family business

According to Chua et al (1999) a family business may be defined as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families". Venter and Boshoff (2007) argue that a family business should also “[have] the intention of the family members to hand the business over to the next generation”. Venter (2009) further notes that a single family should control at least fifty-one percent of the shareholding, with the ability to exercise considerable influence over the business and its activities.

Cullen (2008) in her study argued that family owned businesses comprise of between sixty-five and eighty-five percent of businesses world wide. Cullen (2008) continues to say that family businesses contribute between forty-five and ninety percent of the Gross National Product (GDP) and employment (Landes, 2006). Colli (2003) concludes that family businesses have provided significant contributions to varied business sectors in the form of small, medium, large and even at multinational companies. Additionally, Colli (2003) identifies that family businesses were the “engine” of the industrial revolution, which can be attributed largely to the inability of the formal sector to create jobs. Family businesses will be an even greater influence economically in the future (Adendorff, 2004; Farrington, 2009). Landes (2006) reasons that developing nations are those with the greatest need for family businesses as they are typically not mature enough to entertain managerial business structures. Africa, the Middle East, South Asia and much of South America, fall into this category where family businesses will be their best hope for economic growth and sustainability (Landes 2006). Adendorff (2004) reports that in South Africa, the creation of family businesses has social and economic empowering influences. Colli (2003) agrees, finding that family firms may have a
positive influence in some business sectors and in particular the services sector, compared with non-family or public firms. Research shows that these family businesses have the ability to generate wealth at much greater levels than non-family businesses (Adendorff, 2004). Venter and Boshoff (2005) write that family businesses drive economic development like no other institution in economic history. It is further argued that family businesses are fast becoming the dominant form of business enterprise (Venter and Boshoff, 2005). Adendorff (2004) and Landes (2006) found that the financial rate of return of family businesses was thirty-six percent as opposed to twenty-seven percent for non-family owned businesses, showing that family businesses have more economic impact than non-family owned businesses. Colli (2003) points out that in Spain and Italy, the well being of some of the family businesses in those countries in fact has relevance to their countries’ global competitive advantage.

Cullen (2008) points out in her study, that many of the founders of businesses which were started in the “baby-boom period” are reaching, or are close to, retirement age. Of particular concern is that only thirty percent survive the second generation, while little more than fourteen percent make it past the third generation (Venter and Boshoff, 2007). Landes (2006) labels a family business which has been succeeded to the third generation and beyond, as a “dynasty”; proposing that economic growth, technological advancements, as well as, diversification make family businesses which have reached “dynasty” status “mammoth” achievements. Often heirs find distractions such as politics, culture and the “good life” are preventative to successful succession (Landes, 2006).

Venter and Boshoff (2007) claim that the transfer of leadership is one of the biggest reasons family businesses fail to move from one generation to the next. Banking magnets such as the Barring and Rothschild families found that by having “lots” of children, the range of potential successors was extended providing a better chance for the businesses’ continuity (Landes, 2006). A lack of a planned approach to succession is also often the reason for the failure of successions (Cullen, 2008; Venter and Boshoff, 2007; Chua et al, 1999) as well as the choice made by families.
over the ownership structure (Farrington, 2009). Adendorff (2004) points out, that family involvement may be synonymous with poor corporate governance and may lead to the demise of the family business. Daniel (2008) notes that family businesses which have managed to trade beyond the third generation think long term and typically have the character and tenacity to ride out the bad times, make the necessary adaptations for survival by implementing difficult decisions in order to ensure the survival of the business above all other commercial goals.

Family businesses have the additional complexities of ownership and family conflict issues (Schwass, 2008). According to Schwass (2008) due to these complexities, family businesses may adopt unconventional business models enabling them to achieve greater success than their non-family owned counterparts. However, in so much as family members may be instrumental to business success, they may also have a negative effect on the performance of the family business, often inflicting the need for conflict resolution (Schwass, 2008).

2.2 The benefits of family businesses

Chrisman (2003a) argues that it would be invaluable to research a relationship between family involvement and competitive advantage, as this would allow the exploitation between family firms and their ability to enhance economic performance. This competitive advantage is evident in family business where there is typically more loyalty, passion and commitment than in non-family owned businesses (Grant, 2007). Successors strive to build on the legacy of their founders, thus creating great drive (Grant, 2007). Landes (2006) quotes that “one of the greatest competitive advantages a company can have... are bloodlines”. Gallo and Cappuyns’ (1999) research shows that successful family businesses display the characteristic of flexibility and adaptability giving them a competitive advantage, where non-family businesses are prone to delays in decision making, which is typically much shorter in family businesses Daniel (2008). Strength, commitment and unity are also added attributes which may give the family business competitive advantages (Gallo and Cappuyns, 1999). Grant (2007) argues that the value
system of a family business is passed down from generation to generation creating a work culture, which continues into the personal lives of the members.

Balogun and Jenkins (2003) consider the culture of the business to be related to the transfer of tacit knowledge within the organisation. Barney, Clark, and Alvarez (2002) suggest that family bonds may even offer opportunities over and above non-family businesses due to the family members' willingness to share information more readily. Cabrera-Suarez, Saa-perez and Garcia-almeida (2001) reason that the “family firm’s specific knowledge, as well as the ability to create and transfer it, are considered a key strategic asset that may be positively associated with higher level of performance”. Furthermore, Grant (2007) realises that as multigenerational family businesses continue to have access to a large trustworthy labour pool through the addition of further family members into the business. Grant (2007) ventures to say that the less informal work environment of the family business is typically superior to those of non-family businesses. As the business expands, families are able to assist members with their career paths, through either branching into investments or through promotions (Grant, 2007). The author adds further that the possibility of succeeding the founder creates a great sense of pride and motivation to potential successors (Grant, 2007). Successors of family businesses also enjoy a longer period of grooming and preparation for succession, giving family businesses an advantage over non-family owned businesses Daniel (2008). Colli (2003) concludes that in most cases the preparation of the successor is more often one handled within the family and outside consultants are infrequently made use of.

Daniel (2008) finds that larger families often resort to a “family constitution”, which sets out an approach and guide for members to abide by, thus minimising conflict and tabulating a success path for the family business. The constitution defines the family, its identity, vision, values, mission and the rights and responsibilities of the members. In addition the constitution typically has checks and balances in place to curb the abuse of power (Daniel, 2008). Landes (2006) provides an example where Mayer Amschel Rothschild, a prominent banker, drew up a partnership agreement to guide the family before he died. The agreement provided clear rules for order, family behaviour and the succession of power, giving his decedents a code by which they could live by and protect their private and business lives. Mayer
Amschel Rothschild made it clear that there would be no room in the family business for females or sons-in-law and furthermore that his heir and decedents would only be allowed to marry Jewish wives (Landes, 2006).

2.3 The disadvantages of family businesses

Family firms suffer challenges unknown to non-family businesses because problems are carried over into the family, for example member conflicts (Schulze, Lubatkin and Dino, 2003). Grant (2007) mentions that between generations, personal goals of the members may differ, requiring clarification to avoid stress and conflict which has the potential to destroy the business. The Gucci family is a prime example of a family business which rose to great heights only to be brought into disarray through family member disagreements, lawsuits and other debilitating conflicts (Daniel, 2008). Another potential risk faced by family businesses is that of divorce (Daniel, 2008). This sensitive issue can range from insignificant to enormous, depending on the couple involved, the nature of the divorce, the structure of the family wealth and the local laws involved (Daniel, 2008). Research shows that the two most potentially harmful risks to the family business were excessive shareholding and difficult sons-in-law (Daniel, 2008).

Barney et al (2002) believe that the need to maintain family ties reduces family members’ ability to maintain other strong social ties, which may weaken their social networking skills. Grant (2007) reasons that the work ethic between generations varies, with the new generations often not willing to “put as much in” compared with the previous generations, leading to management ownership delays. However one of the most challenging areas is that of compensation. Grant (2007) comments that all too often compensation is misused for personal goals, potentially putting the business at economic risk. Founders tend to be poor planners and find it difficult to share and articulate their vision to potential successors (Grant, 2007). The author goes on to say that the sooner the founder manages the “family element” effectively, the better the chances are that the family business will be transferred to the next generation. Bertrand and Schoar (2006) propose that often too much pressure may be placed on family members to succeed the family business, which may hamper development of the business.
2.4 The main differences between family and non-family businesses

According to Gallo and Cappuyns (1999) successful family businesses run their businesses according to generally accepted business rules and that the family culture dominates within the business. Popular thought is that family businesses are typically managed with a longer term view than non-family businesses, which tend to be short term, profit driven (Bertrand and Schoar 2006). The family history often gives the members a feeling of uniqueness which is linked to the past and gives insights as to the future of the family business (Daniel, 2008). Daniel (2008) adds that when a family adopts a goal of “wealth inheritance”, this provides an emotional bond motivating the family to work together and succeed for the benefit of future generations.

Gallo and Cappuyns (1999) suggest that the family members themselves pose an additional dimension to the stakeholder scope within the business; in particular during expansion strategies, where family businesses need to ensure adequate human resources are available for the task. Also noted by Barach and Ganitsky (2010) is that conflict is typically managed differently in family businesses, in that the parents often step in and arbitrate. Gallo and Cappuyns (1999) point out that where non-family businesses place great importance on profits as a yard stick to success, family firms are more inclined towards inter-family relationships and the long term livelihood of the business. However shareholding in a family business is far more of an emotional factor than in non-family businesses (Gallo and Cappuyns 1999). In addition family businesses have the concept of inheritance as a factor to contend with (Venter, 2009). As Colli (2003) points out, the local laws around inheritance often play a significant role as to the strategies of succession, which in turn relate to the governance and performance of the family business. The author adds that for reasons of family name continuity, daughters were traditionally not permitted to inherit the family business (Colli, 2003). Landes (2006) recount an example of the Barring banking family where changing tax laws caused the family to create subsidiary companies to avoid taxes, whist at the same time maintain control of these subsidiaries through another family controlled company.
Researchers have traditionally assumed that owner-managed firms will have either zero or insignificant “agency costs” which are typically experienced by non-family business (Chrisman, Chua and Litz, 2004). Agency costs are associated with activities and systems designed to align the managers’ interests with those of the owners (Chrisman et al., 2004). However altruism (selfless acts towards others), does carry agency costs in family businesses, making conflicts difficult to resolve (Chrisman et al., 2004). Furthermore Chrisman et al. (2004) state that nepotism does exist within family businesses making the replacement of under performing members difficult and therefore creating agency costs. However Chrisman et al. (2004) conclude that agency costs of family owned businesses are considerably lower than those of non-family businesses. Bertrand and Schoar (2006) propose that a culture embedded in family relationships and nepotism may sometimes stunt economic growth as often a more individualistic approach to entrepreneurial activity is required for the business to succeed. Watson and Papamarcos (2002) comment that the more focused employees are on the business, fostered by a higher degree of trust between members, agency costs are reduced and hence competitive advantage is created.

The inheritance of the family business separates them from non-family businesses. Bertrand and Schoar (2006) write that inheritance could be where all the shares are passed to the eldest or where the shares are divided equally between the siblings. Should the latter be the case, the authors’ note that care should be taken to avoid harmful effects of sibling rivalry and conflict between family members. In addition Daniel (2008) indicates that in some cases where successors of the business are in line to inherit vast sums of wealth, founders often consider the “poisonous” effects the inheritance may have on the successors. Daniel (2008) adds that wealth may be considered a double-edged sword, creating a burden and stress for the founder and successors. Having too much money is one thing, but research has revealed that knowing what to do with the wealth often poses more problems than the wealth itself (Daniel, 2008). Daniel (2008) adds that the concept of wealth preservation by managing risk is often a daunting task for successors of the family business.
2.5 The stages of family businesses

Research conducted by Gallo, Tàpies and Cappuyns (2004) found that successful family businesses strive for excellence in products, services, branding and the organisation image as a whole. Founders believed in a strong labour ethic, promoting hard work and dedication (Gallo et al, 2004). The authors elaborate that a willingness to change and adapt were important to survival. Gallo et al (2004) further add that family members typically enjoyed a simplistic lifestyle and expenses were carefully considered before commitment was made.

Understanding at which stage the family business is in, can assist with resolving tensions which may arise between the members (Schwass, 2008). Daniel (2008) refers to research revealing that the family, the family business, ownership and family business management diverge over time and across generations. According to Schwass (2008), below are the three stages of the businesses' life cycle and the possible tensions that family members are likely to experience:

(i) **The entrepreneurial stage**: - Founder generation, focused on the creation of the business. The family is not an issue as the founder spends most of the time establishing the business through innovation and entrepreneurial efforts (Schwass, 2008). The drive and values of the founder are paramount during this stage generating a unique family business culture (Gallo and Cappuyns, 1999). Daniel (2008) supports this theory stating that the elements of the family, business ownership and management are one integrated system, vested with the founder.

(ii) **The early generations and smaller families**: - Founder’s children enter the business and on occasion outside management may become involved as some family members chose to pursue careers outside the family business (Daniel, 2008). Ownership becomes an emerging and often emotional issue. Family members not wanting to continue in the family business seek ways to liquidate their shareholding. Significant also is the desire for succeeding family members wishing to express their creativity on the inherited business (Schwass, 2008).
(iii) **The later generations and larger families:** Grandchildren, as well as cousins, enter the family business. Questions such as “should the business continue the old way or be remodelled?” are asked. Many more family members have inherited shareholding and the question as to whether they want involvement in the business or not, become apparent (Schwass, 2008). In addition, shareholders begin asking whether “new blood” is required for future sustainability of the business (Schwass, 2008). Research findings by Gallo and Cappuyns (1999) showed that companies in this stage of the family business displayed high rates of growth. Daniel (2008) proposes that during this stage of the family business the family, family business, ownership and the business management are often found to operate independently of each other. In addition, contemporary models of family businesses also find a connection to family wealth management, family philanthropy and business governance (Daniel, 2008).

Findings from research conducted by Rutherford, Muse and Oswald (2010), support the above life cycle research. That being small firms are likely to be first or second generation. There is typically significant tension between members and control is often undertaken by a single family member. Rutherford *et al* (2010) conclude where firms are displaying growth, the CEO is usually well-educated. These firms also practice high levels of strategic planning, have a high percentage of debt to equity ratio and sizeable portions of the families net worth is invested in the business, whilst firms which are older, tend to be larger and more financially stable (Rutherford *et al*, 2010). Colli (2003) argues that where a large amount of heirs are considered for succession, sibling partnerships or cousin consortiums may be formed and it becomes necessary to regulate the relationship of the successors and the firm. This is controlled through prescribing those who may work inside the firm and others who may not.
2.6 Conclusion

The phenomenon of family owned businesses is clearly going to dominate the global economic arena in the future. With family businesses contributing between forty-five and ninety percent of GDP (Cullen, 2008), the wellbeing of family businesses is of significant importance. As Venter and Boshoff (2007) point out the focal objective of a family owned business is to successfully pass it along to the next generation, and in so doing, create jobs and wealth (Adendorff, 2004). Cullen (2008) reports that many businesses are reaching a point where the founders are looking to retire, posing a sensitive time in the history of family businesses, considering the low rate of succession success – often attributed to poor succession planning (Cullen, 2008; Venter and Boshoff, 2007; Chua et al, 1999), inadequate corporate governance (Adendorff, 2004) and the complexities of ownership and family issues (Schwass, 2008).

Although family owned businesses experience a competitive advantage regarding reduced agency costs compared with non-family owned businesses, altruism and nepotism may be harmful and carry agency costs of their own (Chrisman et al, 2004). Family businesses are able to further create competitive advantages through loyalty, passion and commitment of the family members (Grant, 2007). In addition, flexibility, commitment and a shared value system assist family businesses in their growth strategies (Gallo and Cappuyns, 1999). Cabrera et al (2001) found that typical of the family business is the high level of trust which exists between the members, creating a unique strength where information is more easily transferred between members than in non-family orientated businesses. Grant (2007) related that the more relaxed working environment created by family businesses is advantageous and in addition family businesses typically have a greater pool of human resources to incorporate during times of expansion.

Family businesses experience some unique problems of their own. Member conflicts may be common and often resolved by the parents (Schulze et al, 2003), differences in personal goals and visions can have a negative impact on the business, whilst in some cases misuse of financial compensation can harm the survival of the family business (Grant, 2007). However, family businesses tend to
be managed with a much longer view in mind, contrary to non-family businesses which are more short-term profit centered (Bertrand and Schoar, 2006).

Depending on the stage of the business life cycle, the family business may experience variations of entrepreneurial activity (Gallo and Cappuyns, 1999), ownership issues and/or sibling rivalry for the position of successor (Schwass, 2008). The further along the business cycle the family business manages to reach, the more sustainable the business becomes (Rutherford et al., 2010).

Chapter 3 will look at the process of succession in the family business. The chapter reviews the importance, benefits and the factors preventing successful family business successions. In addition, the chapter looks at the factors required to prepare successors for succession as well as the transfer of knowledge and values from the founder or incumbent to the successor. In alignment with the succession process, the chapter provides an understanding of the transfer of leadership, ownership and power from the founder to the successor. Finally the chapter highlights a succession model developed by Cater and Justis (2009), that has six propositions which may affect the development of successors within a four stage process.
CHAPTER 3

SUCCESSION PLANNING IN FAMILY BUSINESSES

3.1 Introduction

The importance of family businesses is evident from the literary research conducted in chapter 2. In particular, the low success rate of family business succession is of concern. This is highlighted by the fact that increasing numbers of founders from the “baby-boom” era are reaching retirement where power, leadership and ownership need to pass to the next generation (Cullen, 2008).

As is evident from Chapter 2, businesses can be broadly divided into family owned businesses and non-family owned businesses. The low rate of successful succession in family businesses as opposed to non-family businesses is a cause for concern for researchers seeking to understand and provide a model for improving this low success rate. In particular, control and ownership differentiate family businesses from non-family businesses (Javitch, 2005).

Conflict is dealt with differently in family businesses. Typically the founders (parents) have to help resolve conflicting issues (Fu, 2004). The interests of the family and business are often intertwined creating ambiguity (Fu, 2004). Altruism and nepotism have also shown to be traits within family businesses which can act negatively on the performance of the business (Bertrand and Schoar, 2006).

This chapter discusses the process of succession and the barriers to successful succession in family businesses. Preparation of the family successor is discussed during the different stages of the successor’s life. Attention is given to the transfer of knowledge from the founder to the successor via explicit and tacit means. The chapter also looks at the transfer of values, leadership, power and finally ownership. A successor development model researched by Cater and Justis (2009) provides the framework to research the six propositions the they believe influence the development of successors.
3.2 Overview of succession planning in family businesses

Succession planning and implementation is a process rather than an event, requiring careful planning around key areas such as initiation, selection, education and implementation (Bowman-Upton and Baugh, 2009). Mamprin (2006) quantifies the need for successful succession in family businesses by stating that “youth are not entering the workforce faster than executives are retiring”. As many as fifty percent of executives will retire within the next five years (Mamprin, 2006), highlighting the need for more successful successions. Bowman-Upton and Baugh (2009) conclude that as many as forty percent of U.S. businesses are engaged in successions at any given point in time. Bowman-Upton and Baugh (2009) add further that a retiring founder has the dilemma to either close the business doors; sell to outside buyers or employees; retain ownership by hiring management or retain family ownership and control through succession. This gives all the more reason for a strategic succession plan to be drawn up and implemented well ahead of the intended succession taking place. Rothwell (2001) reasons succession planning: “is a deliberate and systematic effort by an organisation to ensure the continued long-term effective performance of an organisation, division, department or work group”.

Succession planning also refers to the process of developing a business strategy which provides prescriptions about how the business transition can be operationalised effectively (Wang, Watkins, Harris and Spicer, 2004). The authors write that it should be understood who is eligible to succeed and who should be part of the overall succession planning process. Wang et al (2004) add that consideration should be given as to how the current and post-succession will be transferred, as well as, a planned method of preparing the successor. The succession planning process is crucial to the effective implementation of a successor and to ensure the long term sustainability of the firm. According to De Massis, Chua and Chrisman (2008), care should be taken to minimise the impact of taxation during and after succession has taken place, as it could place a serious burden on the family’s financial resources. Wang et al (2004) referencing Davis (1997), argue that succession planning has three main objectives:
(i) to efficiently and fairly distribute ownership from older to younger generations;
(ii) to pass control of the business in a way that will ensure effective business leadership; and
(iii) maintain and promote family harmony.

3.2.1 The importance of succession planning in family businesses

It has been reported that only thirty percent of all family business successions are successful (Harvey and Evans, 2010). Schrader (2006) supports this research concluding that only three out of ten construction family businesses will survive into the second generation, and that only one in ten will survive into the third generation. Paton (2007) refers to a study of nearly 1,500 small businesses in twenty-eight countries conducted by PricewaterhouseCoopers and the findings were that only thirty percent of U.K. companies had chosen a successor compared with fifty percent in other countries. The research showed that forty-four percent of those requiring to become succeeded intended passing on to the next generation. Thirty-three percent with succession plans expected successors to come from outside the family, as opposed to seventeen percent globally. Sixty-six percent of the UK companies felt succession planning was one of the biggest challenges they faced.

Javitch (2005) argues that despite the logic of planning for succession, many founders are unwilling to give up control or are unwilling to see someone else in charge. The attitude that "no one could possibly take over after me" and "If I give up control, the company will inevitably fail" are real threats to planning for succession (Javitch, 2005). Schwerzler (2010) reasons "it is extremely important to first develop the family succession plan and then the succession plan for the family's business; otherwise the business owner will spend a lot of time and money developing a succession plan that will almost always fail to reach the desired results".

Besides the acceptance of various stakeholders towards the successor, for example, employees, investors, bankers, shareholders and suppliers. Harvey and Evans (2010) cite Handler (1991) that for a successful succession to occur:
(i) the successor’s career path should be enhanced;
(ii) the successor wishes to lead and contribute to the business;
(iii) the life stage of the successor is appropriate – not to young or too old;
(iv) the successor has been properly prepared and groomed for the position; and
(v) the successor is able to exert personal influence on the succession.

Harvey and Evans (2010) report that it is seldom that all stakeholders are satisfied with the succession which may interfere with the business; often resulting in confusion and ambiguity. The authors continue to say that “well-articulated and managed” succession with well communicated values of the founder can be smooth and relatively conflict free.

3.2.2 The benefits of succession planning in family businesses

Santiago (2000) writes that a successful succession minimises disruptions to the family and the business. Santiago (2000) cites Davis (1997) by further adding that a successful succession should transfer control and power management duties and knowledge, skills and competencies to the successor. There are also psychological factors which may influence the succession plan such as the candidates’ personal skills and experience outside the business, commitment to the family goals and the legitimacy of the successor as viewed through the eyes of the employees within the company (Poutziouris et al, 2006).

Phan (2010) concludes that an effective board of directors can ensure that succession planning is properly initiated and implemented well ahead of time. The succession plan often reassures investors and stakeholders of the vision and mission of the company. It also has the ability to assure employees that the company is secure and that the future interests of the employees have been taken into consideration (Phan, 2010). In addition, early announcement of succession plans allows the children time to adjust to the decisions and allow the founder to make retirement plans (Bowman-Upton and Baugh, 2009). Grey (2010) proposes another benefit of having a succession plan, is that it creates confidence in potential investors or lenders of money towards the business for future expansion.
3.2.3 Factors contributing towards a successful succession

Walter (2009) concludes that one of the most important issues for successful succession is that the founder plans the process and the development of the successor, well in advance of the succession. Leadership development of the successor is essential for acceptance of all stakeholders concerned (Walter 2009; Mamprin 2006; Cater and Justis, 2009; Venter and Boshoff, 2007). Bowman-Upton and Baugh (2009) reason that in order for a family business succession to be effective, it is important that communication between the stakeholders is open and encouraged, so as to identify and resolve conflict areas early. Researchers agree that it is essential that a trust relationship exists between the founder and the successor facilitating the open communication process (Chrisman, Chua and Sharma 2010; Cater and Justis, 2009). Bigliardi and Dormio (2009) conclude that a successful succession has occurred when the successor:

(i) Maintains or improves the profitability of the firm; and
(ii) stakeholders, such as employees, suppliers, banks etc. have confidence and are satisfied.

Table 3.1 below tabulates the criteria for successful succession, such as increased performance and stakeholder satisfaction measured against the indicators such as improved profits or improved market share etc.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Indicators</th>
<th>Sources</th>
</tr>
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<tbody>
<tr>
<td>Increased performance</td>
<td>• Improved profits;</td>
<td>Cabrera-Suarez et al (2001)</td>
</tr>
<tr>
<td></td>
<td>• Positive financial indicators; and</td>
<td>Dyer (1986)</td>
</tr>
<tr>
<td></td>
<td>• Increased market share.</td>
<td>Handler (1991)</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>• High family member commitment;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Reduced conflicts among family members and;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Strengthening of relationships with customers, suppliers and/or banks.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** (Bigliardi and Dormio, 2009)

Bigliardi and Dormio (2009) reiterate that the succession process should be planned over a number of years, with predetermined guidelines and the founder communicating the core values and vision of the business. The authors continue to add that the potential successor should try to gain experience outside the family firm and that the founder should gradually relinquish responsibility and control of the business (Bigliardi and Dormio, 2009; Carlock, 2006). In addition to the above, Carlock (2006) adds that other factors such as the role of external board members, shareholder agreements, support of employees and conflicts should be positively managed to ensure successful succession. Bowman-Upton and Baugh (2009) reason that in conjunction to the succession plan, an estate plan and a strategic plan should be developed. These reduce the cost of ownership transfer and align all members to the strategic vision of the family business respectively.

The question of leadership development is often one which is linked to the success of a succession plan. Barry and Jacobs (2006) and Cater and Justis (2009) agree that leadership planning, training and assessments of successors are tools used to develop leadership skills. Barry and Jacobs (2006) mention job rotation for short periods may be used, while Cater and Justis (2009) refer to hand-on experience, to develop the rounded competencies required to run the business. Cross training, where the successor works in various positions within the business, is one of the
most effective ways of development. Cross training seeks to eliminate “knowledge voids” (Waymon, 2005). Carlock (2006) and Cater and Justis (2009) suggest that a mentor relationship should be developed for the successor. With increased globalization and rapid adoption of new technologies, external experience and skills gained would allow the family firm to compete effectively with other businesses (Howorth and Ali, 2001). Carlock (2006) provides an assessment score sheet which allows family business owners the ability to ascertain the readiness of successors. The score sheet is divided into four categories. By rating twenty questions surrounding family participation, business performance, ownership management and next generation participation, founders are able to identify areas which require more attention.

3.2.4 Factors preventing successions in family business

De Massis et al (2008), report that in some cases potential successors refuse the leadership position, or are not capable of fulfilling the position of leader of the business. De Massis et al (2008) note that where a successor is absent, through either illness or death, or even where the successor is not motivated to take over the position, succession may not occur. Another scenario is where a “dominant coalition” (other shareholders) may reject all family members for succession. De Massis et al (2008) emphasise that if the founder is too attached to the business, this poses the most significant reason succession will not take place – that is the founder is unwilling to “let go”. Negative family relationships, the inability of financial resources to accommodate the incoming successor and receding economic environment could also be reasons why succession does not take place.

Barry and Jacobs (2006) concur that it takes typically between twelve and eighteen months for new successors to become productive and effective after succession has taken place. Their research lists further reasons for the failure of succession plans (Barry and Jacobs, 2006). These are as follows:

(i) life-stage incompatibilities (e.g. parents too old, children too young);
(ii) children do not want to take over the business;
(iii) children hold negative impressions of the business;
(iv) gender (daughters are viewed negatively); and
(v) the business is not viable or inheritance taxes/legal issues make succession impractical.

3.3 Developing the successor(s) for succession

Preparing the successor involves multiple activities and is considered by many scholars as a long-term process. Sharma, Chrisman and Chua (2003); Cater and Justis (2009), point out that the development of a successor takes place throughout early childhood, adolescence and adult years. Cater and Justis (2009) indicate that the leadership styles of the founder and the successor will inevitably be different; in that founders have an entrepreneurial leadership style, while the successors are builder-managers who take over a going concern. In their recent research Cater and Justis (2009) make use of Handler's (1990) four-stage succession process for the role adjustment between predecessors and next-generation family members in succession. Cater and Justis (2009) offer six propositions that affect the development of successors such as positive parent-child relationships, acquiring knowledge, long-term orientation, cooperation, successor roles and risk orientation (Cater and Justis, 2009).

3.3.1 Stage one - Pre-entry stage

The first stage finds the entrepreneur as the sole operator of the business and the next generation members as having no active role in the business. During this stage, the successor is not working full time and is exposed to the family business informally (Cater and Justis, 2009). The formation of a good founder/successor relationship based on trust is essential to a favourable succession later on (Cater and Justis, 2009). The successor begins to understand the business by listening to “shop talk”. As the successor matures, he/she is encouraged to work part-time, during school holidays in the family business, thus gaining knowledge from the lower ranks upward. Carlock and Ward (2001) reason that once schooling is complete, the successor is encouraged to attend college or university and that by gaining work experience outside the family business soon after completing tertiary studies, has benefits for the family business and the individual. Carlock and Ward
(2001) add that by gaining work experience under two or more bosses, as well as, receiving two or more promotions is preferable. This development process may take between two and five years (Carlock and Ward, 2001). Experience in the same industry makes the lessons learned more applicable, but this is not essential. The potential successors also benefit from the external experiences by (Carlock and Ward, 2001):

(i) learning their true market value, regarding salary etc.;
(ii) establishing a professional identity;
(iii) making “youthful” mistakes away from future colleagues;
(iv) developing expertise and self confidence; and
(v) being evaluated, promoted or demoted exclusively on their own merits; and learning that the grass is not always greener on the outside of the family firm.

3.3.2 Stage two - Entry stage

Cater and Justis (2009) refer to the second stage where the entrepreneur is seen as the ruler and the next generation members as helpers, after entering the business. When the potential successor joins the family business, it is important that the successor undertakes a genuine vacant position in the company as opposed to a position being created to suit the new member (Carlock and Ward, 2001). Cater and Justis (2009) write that where possible the family member should be encouraged to open up a new branch or new territory so as to be accountable for a profit/loss centre and encouraged to become responsible for various projects. Carlock and Ward (2001) propose that an effective career plan for successors should seek to develop skills and leadership qualities as well as expand the vision of the family business into the future. In addition, Ward (2004) identifies a number of other skills and values which the successor should develop during this stage:

(i) the family comes before the business;
(ii) respect wealth and live within your means;
(iii) wealth is neither shown off nor hidden;
(iv) open disclosure around finance and estate planning;
(v) a code is followed as to how to treat family members and world;
(vi) communication skills such as listening, presentations and conflict management;
(vii) sharing investment opportunities with other siblings;
(viii) practice learned family values;
(ix) develop a sense of empathy for other family members;
(x) understand the family mission statement;
(xi) commitment that the business serves a greater good; and
(xii) exercise philanthropy as a gesture of thanks.

3.3.3 Stage three - Succession stage

In the third phase, the incumbent learns to delegate responsibility to the successors and so begins planning for retirement as the successors move into the role of managers. During this stage, Cater and Justis (2009) refer to the incumbents as supervisors and the successors as managers. Vancil (1987) adds that in some cases where the successor is being groomed for the leadership role the control and power of the company may be shared with the founder prior to full succession being accomplished. Typically mentoring and coaching coupled with hands-on experience is used to develop the successors (Cater and Justis, 2009).

3.3.4 Stage four – Retirement

The fourth stage finds the predecessor retiring from the organization and acting as a consultant to the firm while the next-generation members are active as the leaders and decision makers in the firm (Cater and Justis, 2009). When the successor eventually takes control of the business, typically equity and power are transferred to the successor and the involvement of the founder is diminished (Carlock and Ward, 2001). Cater and Justis (2009) contend that the successor will need to provide leadership to the family business, while the founder will typically offer advice in the form of consultation.

Harvey and Evans (2010) point out that the succession process does not come to a halt once succession has taken place. It is essential that the stakeholders to the
process, such as, employees, bankers, suppliers and distributors are introduced to the new successor(s) in a planned and articulated manner. Stakeholder conflicts need to be resolved quickly should they arise (Harvey and Evans, 2010). The planned approach Harvey and Evans (2010) postulate should include the incumbent and the successor and indicate how much participation will be required of the incumbent during post-succession. Typically the founder may need to monitor changes that are required to improve the business and also to monitor any changes in progress required (Harvey and Evans, 2010).

3.4 The transfer of tacit and explicit knowledge from the founder to the successor(s) in the family business

Interpretation of knowledge is the “individual’s capability to draw distinctions, within a domain of action, based on an appreciation of context or theory, or both; it presupposes values and beliefs, and is closely connected with action” (Tsoukas and Vladimirou, 2001). Knowledge needs to be created, shared and transferred over time to create value to the family business (Chirico, 2007). The author continues and says that knowledge is an accumulation of pure knowledge acquired from academic learning and tacit knowledge acquired from observation and practice (Chirico, 2007). Tsoukas and Vladimirou (2001) argue that employees usually regard certain areas of their knowledge as part of their power base within a company; thus their willingness to share may be limited. Tacit knowledge remains much more difficult to transfer as it is “fragile and subject to decay” if not transferred from generation to generation (Chirico, 2007). Cabrera-Suarez et al (2001) voice that the effective transfer of tacit knowledge from the founder to the successor is often considered a means of competitive advantage for the family business.

Many family owned organisations which, instead of writing each single rule in an organisational memory, pass on their knowledge from generation to generation by means of tradition and value systems (Poutziouris et al, 2006). Poutziouris et al (2006) and Gemünden (2004) reason that trust between the founder and the successor plays an important role when transferring knowledge. Family businesses have a distinct advantage over other organisations as the element of trust is typically much greater in family businesses. Thus they are able to build what is
termed social capital (Fu, 2004), which is derived from trust built through interrelationships between the parents (founders) and the potential successor(s) (children) – assuming no conflict exists.

Tacit knowledge is not easy to describe, share and transfer from the founder to the successor. Tacit knowledge is accumulated from doing something or gaining experience (Smith, 2001; Hildreth and Kimble, 2002). An example would be knowing how tight to tie a bandage, which would be difficult to describe and formalise, yet may be known by a doctor. Tacit knowledge demonstrates the capacity of an individual to solve problems (Sternberg, Forsythe, Hedlund, Horvath, Wagner, Williams, Snook, and Grigorenko, 2000). “That is, tacit knowledge plays a key role in practical intelligence - the ability to adapt to, select, and shape environments in order to solve everyday problems”. Sternberg et al (2000) and their colleagues identified that tacit knowledge is typically acquired from less formal environments (outside the classroom) and contains knowledge from responses to particular situations.

Sanchez (2000) reasons that the transfer of knowledge occurs at either the explicit level via dialogue, or the tacit level via observation or via both. Take the example of a father showing his son how to light a fire. By packing and lighting a fire, the father is demonstrating the task and the son is acquiring tacit knowledge through observation. At the same time, when lighting the fire the father may verbalise information regarding the task and thus his son receives explicit knowledge. Through discussion, the information is transferred and affirmed until they come to a shared knowledge of how to light a fire. Sanchez (2000) provides a further example of Toyota’s quality circles where tacit knowledge is shared between individuals who meet weekly to discuss production problems in an attempt to improve quality.

Explicit knowledge is knowledge that can be explained and articulated by the individual (Sanchez, 2000). The authors contends that explicit knowledge can be documented in journals, manuals, drawings and standard operating procedures etc. and in this way learning occurs in a structured, managed and scientific manner. Gemünden (2004) advocates innovation is a product of tacit knowledge and explicit knowledge transfer. Nonaka and Toyama (2003) write that tacit knowledge may
bring about innovation through understanding how, why and what products consumers may purchase.

Nonaka and Toyama (2003) describe knowledge transfer as a “dynamic process” of dialogue and practice, involving the social interaction between individuals, organisations and the environment. The authors reiterate that knowledge must be viewed within context otherwise it is just information. Furthermore, explicit knowledge without tacit insight loses its connotation. Nonaka and Toyama (2003) reason that the agents of the knowledge process interact with each other and the environment, where each affects the other, creating either possibilities or limitations for knowledge transfer to take place. Therefore knowledge is not “just a part of reality” but reality viewed from an individual angle (Nonaka and Toyama, 2003). They explain that knowledge is transferred in four ways (the SECI process):

(i) **Socialisation** – tacit knowledge is transferred through spending time together or working in the same environment. A typical example would be the tacit knowledge gained by an apprentice;

(ii) **Externalisation** – tacit knowledge acquired from socialisation is converted to explicit knowledge, which through dialogue, is shared between individuals;

(iii) **Combination** – refers to the process where information from inside and outside the firm is processed into more complex explicit knowledge; and

(iv) **Internalisation** – through the process of sharing explicit knowledge, individuals are able to convert this knowledge into tacit knowledge.

Figure 3.1 below provides a graphical representation of the SECI process which depicts that knowledge may be transferred horizontally and vertically across all organisations; in a spiral manner, both within and outside the organisation:
Chirico (2007) argues that formal education through school and university creates pure knowledge and that skills are the by-product of experience. The two combined leads to competency in a particular field (Chirico, 2007). Thus CEO’s who are groomed for the job would be more likely to succeed as opposed to those who were not groomed (Chirico, 2007).

The parents have a vested interest to teach the children “everything they know about the business”, in order to improve the chances of survival of the family business (Poutziouris et al, 2006). This is largely achieved through the effective transfer of tacit and explicit knowledge over an extended period of time (Poutziouris et al, 2006). Poutziouris et al (2006) found that “step by step” learning which is positively rewarded through consistent positive feedback sessions encourages individual learning. Cater and Justis (2009) agree with this thinking stating that a hands-on approach to learning within the family business is very effective. Poutziouris et al (2006) add that the motivation of the learner contributes to learning, as well as, that knowledge obtained should be applicable to the job of the learner. In addition tacit knowledge is gained through the product chain of the company (Gemünden, 2004).
Poutziouris et al (2006) have developed a model which is comprised of three components that could affect the learning of a potential successor. They explain that the successor, must learn/acquire knowledge about how to run the family firm. In order to do so, the successor needs a tool that will assist knowledge acquisition (Poutziouris et al., 2006). This mediating tool is represented by the family and knowledge transfer takes place through a social context. Moreover, knowledge is derived through tradition, representing a system of values outside of the individual. The family acts as a reference system which contains the structure of well defined values, ideas, norms, behaviours and general knowledge (Poutziouris et al., 2006).

Poutziouris et al (2006) summarise that in order for effective knowledge transfer to occur, the following desirable circumstances should be in place:

(i) learning process must start in early stages (childhood);
(ii) commitment, expectations, values and perceptions have to be shared between the founder and the potential successor; and
(iii) potential successors should be given challenging, real life problems to solve.

Poutziouris et al (2006) list other specific variables which affect knowledge transfer, which are indicated in Table 3.2 below:

<table>
<thead>
<tr>
<th>TABLE 3.2: VARIABLES AFFECTING KNOWLEDGE TRANSFER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family/Founder variables</td>
</tr>
<tr>
<td>• Values, expectations, ideas</td>
</tr>
<tr>
<td>• Stewardship concept</td>
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</tbody>
</table>
3.5 Transfer of family values

According to Poutziouris et al. (2006) recent research has shown that the value system used to start the business by a founder is different to the values that the founder passes down to the successor. Irving (2005) writes that it is important that core values are identified and shared amongst the family members in order to avoid conflict between the members. The author continues that where the values of members are consistent with each other; the members are more likely to identify similarly with the family business. Dorian, Dunbar, Frayn and Garfinkel (2000) note that where the leadership of a firm is charismatic, the tendency of the followers to adopt the leader’s values is far greater. Adapted from Poutziouris et al. (2006), Table 3.3 below ranks in order of preference, founding leaders’ values and the leading values for potential successor(s):

<table>
<thead>
<tr>
<th>Leading Founders’ Values</th>
<th>Leading Values for potential Successors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Hard work</td>
<td>• Business orientation</td>
</tr>
<tr>
<td>• Family orientation</td>
<td>• Hard work</td>
</tr>
</tbody>
</table>

Source: Poutziouris et al. (2006)
3.6 Transfer of ownership, leadership and power

The process of handing over the power, ownership and leadership roles to the successor can be very traumatic for the founder (Harvey and Evans 2010). Ownership poses one of the many problems associated with family business succession (Duh, Tominc, and Rebernik, 2009). Duh et al (2009) report that succession is often not planned well enough in advance. The authors mention that there are usually psychological and emotional issues to contend with (Duh et al, 2009). Scholars agree that the transfer of ownership, leadership and power needs to be well planned before implementation takes place (Chrisman, Chua, and Sharma, 2003b; Ibrahim, Soufani and Poutziouri and Lam, 2004; and Grant, 2007). These authors agree that dates need to be set as to when ownership transfer will begin and when final transfer will take place. In addition to ownership transfer, the founder should also set dates for handing over managerial responsibility to the successor, as well as, when the incumbent intends to discontinue working in the business.

Successors to a family business are typically required to have the following skills on succession (Chrisman, Chua, and Sharma, 1988; Goldberg, 1996; Stavrou, 1999; Ibrahim et al, 2004):

(i) integrity;
(ii) commitment (Chrisman, Chua and Sharma, 1998);
(iii) self-confidence;
(iv) managerial autonomy (Goldberg, 1996);
(v) leadership skills (Cater and Justis, 2009);
(vi) management skills and competencies;
(vii) commitment; and
(viii) respect and understanding of each other (Ibrahim et al, 2004).

Cater and Justis (2009) define leadership as “the process of influencing the activities of an organised group in its efforts toward goal setting and goal achievement”. Cater and Justis (2009) and Venter and Boshoff (2007) emphasise that leadership succession is far more important in family businesses than non-family businesses, as the founder has established a culture for the business. The leadership style of the founder tends to be more entrepreneurial in style, geared more towards the long term survival of the family business than pursuing short-term profits (Cater and Justis, 2009). The authors add that the successors are inheriting a going concern from the founder and this typically leads to a builder-manager leadership style (Cater and Justis, 2009).

The transfer of power is directly related to the successor’s leadership role (Harvey and Evans, 2010). If the founder does not hand power over to the successor(s), this can be very damaging to the leadership of the successor(s) (Harvey and Evans, 2010). Harvey and Evans (2010) comment that if the successor(s) does not have experience working in the family business prior to succession, the successor(s) may dramatically change the business culture. Harvey and Evans (2010) propose that historically, the founder has received benefits from the family business such as income, power etc. which require sensitive consideration before succession is finalised (Harvey and Evans, 2010).

Aronoff (2010) argues that there is a trend for second generation family business successors to lead the business as a team. Aronoff (2010) adds that ownership is also following the “team” trend, with family owned businesses tending not to place full ownership on one successor. Aronoff (2010) ventures to say that gender issues have ceased to exist regarding ownership and leadership.
Mamprin (2006) indicates that “general” leadership competencies of the successor should be developed so that leadership may be more flexible at all levels of the business. It is important that the successor’s leadership skills are well groomed as research has found a positive relationship between stock prices and changes in leadership (Adendorff, 2004). Wang et al (2004) stress that core competencies required of the successor should be communicated continuously by the founder and should begin during the early stages of the successor’s development. Adendorff (2004) concludes that it is the responsibility of the family business successor to ensure good family governance through leadership. Recent research conducted by Astrachan and Keyt (2006) shows that eighty two percent of the respondents attending a leadership development programme had a very strong impact on the leadership qualities of successors. In particular, those that fell between the thirty and forty-five year age group ranges were the most positively affected (Astrachan and Keyt, 2006).

With respect to the transfer of power, Poza (2004) proposes that each case of succession in a family business is unique and requires an individualised solution for the smooth transfer of power, ownership and company management. In another study Vancil (1987), found that the “duo” mode of top management to be the most common. That is, management and ownership are shared for a period of time. The number of owners, the differences of their perceived roles, as well as, the differences of the different share sizes (Shleifer and Visny, 1997) will also have a bearing on how ownership will be transferred to the successor(s). Chrisman et al (2010) conclude that integrity and commitment were among the most desired attributes of successors. They propose that successors should also possess the following attributes, prior to succeeding the family business:

(i) **Strong founder relationship** – A foundation based on trust is essential for a smooth succession to take place as both the founder and the successor need to co-operate. Chrisman et al (2010) note that the founder successor relationship is the most vulnerable when the potential successor is in his or her late thirties. Thereafter the bonds strengthen;
(ii) **Strong family relations** – Chrisman *et al* (2010) cite that “family harmony” is important in family businesses, to the point that strengthening relationships is often valued higher than improving profits. In some cases family members may not even be active in the business and therefore the successor should be seen as trustworthy (Chrisman *et al*, 2010);

(iii) **Family standing** – Although gender or age may not determine the successor, Chrisman *et al* (2010) acknowledges that choosing the eldest sibling is often preferred as it minimises rivalry and ambiguity amongst other members; and

(iv) **Competence** – Typically difficult to measure, family successors are usually measured on the formal education they have acquired, experience outside and within the business and on any other achievements they may have (Chrisman *et al*, 2010).

### 3.7 Successor development and training model

Cater and Justis (2009) depict the process of succession where the successor follows a number of steps (see Figure 3.2 below). Upon entering the business the successor becomes a student to the business, learning the processes and people in the business. After some time the successor takes up a management role and is given responsibility. At this point the successor may benefit from a mentor, coach or an advisor, until reaching the top ranks of the business. Finally the successor takes ownership from the incumbent and is ready to repeat the cycle again as the new incumbent (Cater and Justis, 2009).

The Cater and Justis (2009) succession model offers six propositions which affect the development of successors during the four stages of succession process. The authors propose that three variables – positive parent-child relationship, long-term orientation, and cooperation— affect the development of successors during all of the four stages. Positive parent-child relations were developed through positive shop-talk, part-time employment and the parents’ positive advocacy about the firm. Cater and Justis (2009) reason that a positive parent-child relationship is vital
throughout the succession process, creating bonds of trust in stages three and four. Long-term orientation refers to the desire of the first generation to pass the baton onto the second generation. The third variable stated by Cater and Justis (2009) refers to the vital element of cooperation within and between generations of the family. Cater and Justis (2009) found that harmonious relations between generations should be maintained. They argue contrary to previous research that conflict is likely to be evident in all family businesses but it is the lack of management and control of conflict which may prevent successful successor development. Cater and Justis (2009) conclude that cooperation between generations is important in the first two stages of the succession process and that cooperation among individuals in the successor generation are important in stages three and four of the succession process. Cater and Justis (2009) found that the acquisition of knowledge, although a life long process, is largely affected by the self-motivation of the successor to rise to the top of the business, applies largely to stages one and two. They continue to say that the parents are often the main mentors to the successor, providing the successor with hand-on experiences to master operational knowledge and reach competence.

In order for successful succession to occur Cater and Justis (2009) believe that it is important that successors adopt a manager or builder role. Should a successor want to start a new entrepreneurial venture, then the family business may not be the right place for the successor (Cater and Justis, 2009). The authors found that the risk taking of the founders became more conservative in the later years, whilst successors were more willing to accept change and embrace risk. Cater and Justis (2009) conclude that successors should avoid the temptation of taking too much risk after succession, or abuse their newly acquired power.
3.8 Conclusion

Given the global importance of family businesses to economies, the historically low rate of successful family business successions and the likelihood of increased founder retirement in the near future (Cullen, 2008); companies should seek to understand the pitfalls of succession process implementation. Family business founders are encouraged to draw up a succession plan stipulating dates to hand over the responsibility, power and ownership of the family business (Carlock and
It is the responsibility of the founder to curtail any conflict which may arise throughout the process. For this reason the founder needs to actively become involved in the process of initiation, selection, education and implementation of the succession process (Bowman-Upton and Baugh, 2009). The primary objectives of the succession process are to distribute the assets to the successor, pass control and ownership across, whilst maintaining harmony amongst the family. (Wang et al, 2004). A family business which has undergone a successful succession will typically maintain or improve profitability and sustain stakeholder confidence in the successor and the vision forward. Barry and Jacobs (2006) note that it typically takes between twelve and eighteen months for a successor to become productive after succeeding the founder.

Preparation of the successor is typically a life-long experience for the successor, beginning in early childhood, adolescence and into adulthood (Sharma, Chrisman and Chua, 2003). Researchers agree that the sooner the successor is exposed to the family business the better. After-school part-time work allows the successor the opportunity to work in junior positions (Cater and Justis, 2009). After schooling and tertiary education the successor is encouraged to obtain experience outside the family business as this is very beneficial to master the necessary skills for effective leadership and also to bring in outside thinking (Carlock and Ward, 2001; Venter and Boshoff, 2007). Upon entering the family business skills shortages identified of the successor should be addressed through training, mentoring and cross training (Barry and Jacobs, 2006; Cater and Justis, 2009).

It is essential that a relationship of trust exists between the founder and the successor in order for effective knowledge transfer can take place (Watson and Papamarcos, 2002; Venter and Boshoff, 2007; Cater and Justis, 2009). Over the lifetime of the successor, the founder should seek to impart both tacit and explicit knowledge to the successor about the business and its processes. Chrisman et al (2010) adds that strong family relations and competence are typical traits possessed by successors.

There are various reasons why succession does not occur, such as the unavailability of a successor, or the unwillingness of a successor to succeed the
founder (De Massis et al., 2008). Barry and Jacobs (2006) list other reasons for the failure of succession, such as the parents are too old or the children too young, children not willing to succeed, incompatible gender issues or even tax/inheritance reasons.

Formal education does play a role in skilling the successor; however on-the-job or hands-on experience gained outside the family business are very beneficial to master the necessary skills for effective leadership (Carlock and Ward, 2001; Venter and Boshoff, 2007; Cater and Justis, 2009). Venter and Boshoff (2007) also note that the lack of leadership skills is one of the most common reasons for the failure of family business successions.

It may be necessary that founders release the power and ownership of the business over a period of time. However, it is recommended that dates be set for the founder to release the leadership, responsibility and power (Carlock and Ward, 2001). Failure to fully transfer these elements of the succession process can seriously threaten the successor’s effectiveness (Poutziouris et al., 2006).

Throughout the succession process the potential for conflict exists. For this reason the founder needs to actively become involved in the process of initiation, selection, education and implementation of the successor (Bowman-Upton and Baugh, 2009; Cater and Justis, 2009). Current trends show that a “team” approach is being adopted whereby the responsibilities of succession do not fall on one successor only (Aronoff, 2010). Different stages of the family business will also pose different challenges such as ownership and conflict management (Gallo et al., 2004).

The six propositions affecting successful succession offered by Cater and Justis (2009) in their model is presented in Figure 3.2. The authors propose that succession takes place over four stages. In chapter four, research methodology is developed to test the six propositions argued by Cater and Justis (2009).
CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

The previous chapter reviewed the literature regarding the process of succession in family businesses. In particular this study will analyse the model proposed by Cater and Justis (2009).

The purpose of this chapter is to discuss the research design and methodology for this study. With reference to the literature review already conducted and in particular the model proposed by Cater and Justis (2009), best practices were used to design the research.

Cater and Justis’s (2009) model for the development of successors will be analysed in the following sequence:

(i) Literature review conducted about family businesses;
(ii) literature review conducted about succession in family businesses; and
(iii) an analysis of the successor development model and propositions made by Cater and Justis (2009).

4.2 Research objectives

The point of departure will be to make use of an existing model proposed by Cater and Justis (2009) which offers six propositions which may affect the development of successors throughout the four stages of the succession process.

4.2.1 The main research problem.

The main research problem may defined as:
4.2.2 Research sub-problems

The following sub-problems need to be solved, in order to solve the main research problem. The sub-problems are therefore to analyse and verify the six propositions Cater and Justis (2009) argued affect the development of successors in family businesses, which are listed below:

(i) A positive parent–child relationship between the founder or incumbent and the successor enhances the development of successor leadership (P1).

(ii) The possession of a long-term orientation enhances successor leadership (P2).

(iii) The possession of a spirit of cooperation among the successors enhances successor leadership (P3).

(iv) The thorough and rapid acquisition of company and industry knowledge enhances the development of successor leadership (P4).

(v) Understanding the role of manager–builder in the family firm enhances the development of successor leadership (P5).

(vi) Understanding one’s orientation toward risk taking enhances one’s development as a successor leader (P6).

4.3 Research methodology and design
Research methodology is a technique by which data is collected (Bryman and Bell, 2007). Yin (2003) writes that the quality of research findings are directly related to the validity of the research methodology used. A research design is the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of study (Yin, 2003).

Research can be divided into two broad categories, quantitative and qualitative research (Shah, 2006). Shah (2006) finds that quantitative research is hypothesis driven, highly structured, with closed questions and is designed to describe a population through the analysis of numerical data. Qualitative research seeks to explore phenomena around relationships, typically with open ended questions and is designed around a group (Shah, 2006). This study will make use of the qualitative method of data collection. Ospina and Wagner (2004) reason that the advantages of this approach are:

(i) flexibility to follow unexpected ideas during research and explore processes effectively;
(ii) sensitivity to contextual factors;
(iii) ability to study symbolic dimensions and social meaning;
(iv) increased opportunities to:
   • develop empirically supported new ideas and theories;
   • investigate in-depth and longitudinal explorations of phenomena; and
   • provide more relevance and interest for practitioners.

Creswell, Hanson, Clark Plano and Morales (2007) refer to the five most popular qualitative research design types:

(i) narrative research;
(ii) case studies;
(iii) grounded theory;
(iv) phenomenology; and
(v) participatory action research (PAR)
4.3.1 Case study characteristics

This study used the case study method to gather the data and information. Yin (2004) proposes that there are two types of case study designs, the holistic design and embedded design - which involves cases within cases. The design used for this study makes use of a holistic design, as it focuses on a single case. The case study approach is a research strategy, which seeks to understand the dynamics present within single settings, which aims at providing descriptions to test and/or generate findings (Cano, 2003). Yin (1994) writes that the central components of a case study should be designed to provide a linkage between the data collected and the conclusions. The design should incorporate:

(i) the case study questions;
(ii) the case studies propositions;
(iii) case studies units of analysis;
(iv) the logic linking the data to the propositions; and
(v) the criteria for interpreting the findings.

Case studies as a research strategy provide the opportunity to develop or test models generating valuable contextual data (Plekka and Welch, 2006). The case study is best suited to in-depth descriptive questions regarding experiences over time (Creswell et al, 2007; Singh and Jones, 2007).

Yin (2003) lists and recommends the following types of case studies:

(i) the critical case – clearly identified hypothesis;
(ii) the clinical case study – relating to health, accidents or customer liability.
(iii) the revelatory case – observation of a phenomenon previously inaccessible to scientific investigation;
(iv) the representative or typical case – exploring cases about everyday situations;
(v) the longitudinal case – exploring changes over a period of time with; and
(vi) the observational case – base primarily on observation.
Yin (2004) reasons that by collecting and fairly presenting evidence to support interpretations and referencing related research, will produce stronger case results. Singh and Jones (2007) argue that a case study is employed to gain an in-depth understanding of the situation and meaning for those involved.

According to Yin (2004) case studies may be single or multiple designs, where multiple designs must follow a replication rather than a sampling logic. According to Yin (1994) single cases are used to challenge a theory or represent an extreme case. This study entailed a single case, multi respondent study and will serve as a “... distinct experiment that stands on its own as an analytic unit” (Eisenhardt and Graebner, 2007), to test the six propositions in Cater and Justis’s (2009) successor development model. In so doing, the study is concerned with analysing what, why and how questions around real-life experiences (Yin, 2004).

Yin (2004) argues that when collecting data in the case study method “… the main idea is to ‘triangulate’ or establish converging line of evidence to make the findings as robust as possible”. That is to say that two or more independent sources point to the same events or facts – thus providing validity to the data.

4.4 Research data and collection methods

Data are facts that any particular situation affords or gives information or impressions to an observer (Leedy, 1997). According to research done by Santiago (2000) in the field of family business, family members participate more willingly to personal interviews than to a survey. Yin (2003) reasons that interviews are guided conversations rather than structured queries, following a consistent path as opposed to a static route. In addition Yin (2003) adds that supporting documents should be used to corroborate and augment evidence from other sources. The primary data was obtained by interviewing the siblings and parents of the family business and where applicable secondary data was collected in the form of documents obtained from the respondents. All data collected was guaranteed to be kept confidential.
Making use of library resources and extensive use of the Internet, a literature research was conducted on family businesses (chapters 2) and the dynamics surrounding successor development in family business (chapter 3). Yin (1994) and Eisenhardt (2002) agree on six sources for data collection:

(i) documentation (letters, agenda, written reports, etc);  
(ii) archival records (administrative records, personal records, etc);  
(iii) interviews;  
(iv) direct observations;  
(v) participant observation; and  
(vi) physical artefacts.

4.4.1 Sample selection

In accordance with the case study approach, a representation of any population was not intended, but rather a single case was chosen to develop and/or test theory (Eisenhardt and Graebner, 2007). Thus theoretical sampling was used to depict illuminating relationships around the six propositions presented by Cater and Justis’ (2009) model.

According to Yin (2004), the strength of the case study method is its ability to examine, in-depth, a “case” within its “real-life” context. Eisenhardt (1989) asserted that randomization is not necessary in selecting cases. The single case study method is an appropriate design under several circumstances (Yin, 1994). One reason is that it may represent an extreme or unique case, another reason is it may be used to test a well formulated theory and thirdly it provides a researcher the opportunity to research a phenomenon previously inaccessible to scientific investigation (Yin, 2004).

The goal of this study was to choose a case which is likely to replicate or extend the theory offered by Cater and Justis’ (2009) successor development model. For the purposes of this study, only family businesses with a minimum of second generation leadership succession were eligible. Chua, Chrisman and Sharma (1999) define a family business as "a business governed and/or managed with the intention to
shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families”.

The researcher acknowledges that the findings of this study may not apply to larger family businesses, as the case study was performed on a small family business.

4.4.1.1 Case study selected

A prominent family business within Port Elizabeth, South Africa, was chosen as the case study. The business is part of a successful franchise chain, concerned with retailing of motor spares and accessories to mechanical shops and also to the public. It had always been the intention of the founder to run his own business and in 1995 he took the risk and opened a new franchise. Prior to this the founder worked full time assisting franchisees to open stores and therefore even though there was risk in leaving full time employment to open his own store, the founder was aware of the factors for successfully running a franchise. Under the successful leadership of the founder, a further franchise was acquired in 2001. In 2005 the two eldest sibling brothers were instrumental in opening the last franchise. All the franchises operate in the Port Elizabeth area and each one is run separately by one of the male siblings.

The family consisted of the parents and four siblings. The eldest sibling is female and chose not to succeed the parents. The remaining siblings are males and each plays a significant role in the day to day running of the family business. The founder participates in significant meetings which may affect the family business but leaves the day-to-day decisions to the successors. The founder still draws an income from the business and maintains a twenty five percent shareholding control. The succession has proven successful through increased profits and stakeholder acceptance of the successors.
4.4.1.2 Profile of respondents

Table 4.1 below details the respondents to the case study.

<table>
<thead>
<tr>
<th>Title</th>
<th>Code</th>
<th>Family member description</th>
<th>Age</th>
<th>Sex</th>
<th>% Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founder FF</td>
<td>FF</td>
<td>Father</td>
<td>61</td>
<td>Male</td>
<td>25%</td>
</tr>
<tr>
<td>Founder FM</td>
<td>FM</td>
<td>Mother</td>
<td>58</td>
<td>Female</td>
<td>0%</td>
</tr>
<tr>
<td>Sibling S</td>
<td>S</td>
<td>Sister</td>
<td>37</td>
<td>Female</td>
<td>0%</td>
</tr>
<tr>
<td>Successor Sibling SSE</td>
<td>SSE</td>
<td>Eldest brother</td>
<td>34</td>
<td>Male</td>
<td>25%</td>
</tr>
<tr>
<td>Successor Sibling SSS</td>
<td>SSS</td>
<td>Second brother</td>
<td>33</td>
<td>Male</td>
<td>25%</td>
</tr>
<tr>
<td>Successor Sibling SST</td>
<td>SST</td>
<td>Third brother</td>
<td>29</td>
<td>Male</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Author’s own construction

4.4.2 Data reliability, validity and generalisability

Leedy (1997), states that reliability and validity are encountered frequently in research methodology and are concerned with the measuring instrument and contribute to the integrity of the research. Reliability and validity are two criteria which confront all researchers and need to be taken into account in the research design. With regard to construct validity, Yin (1994), recommends that cross-referencing to methodological procedures and evidence should correlate through the establishment of chain analysis. Yin (2003) proposes that where case studies in the past have been poorly documented, this has made the research suspicious. In this case study, analysing a model proposed by Cater and Justis (2009) reliability is dealt with. In this study, a comprehensive literature review was conducted in the field of family business succession and a preliminary meeting was held with the
case study respondents to ascertain the relevance of the questionnaire and to introduce the researcher formally and by way of an introductory letter (Annexure B).

Chenail (2009) feels that the best way to manage errors of deficiency and exuberance is for researchers to stay as close to the original data as possible. The author goes on to say that generalisability or external validity, can be difficult for qualitative researchers because of the purposeful vs. random nature of the sampling. Chenail (2009) adds that tying previously published research into current findings makes the research more general (Chenail, 2009).

4.4.3 Research design

According to Santiago (2000) in the field of family business, family owners tend to participate in personal interviews more readily than responding to a survey. The use of personal interviews allows for a level of trust to develop as well as achieving the depth of information required in this kind of study (Cullen, 2008). The amount of information divulged during an interview is relative to how comfortable the respondent is with the researcher and how trustworthy the respondent feels the researcher will be with sensitive information (Santiago, 2000). The case study method also allows the researcher to observe and analyse a phenomenon previously inaccessible to scientific investigation and extend the current theory (Yin, 2003).

4.4.3.1 Instrumentation

In accordance with Yin (2004) multiple sources of evidence were gathered to create a process of triangulation, whereby evidence is corroborated and augmented. The researcher was the only interviewer for the case study. Primary data came from personal interviews and where available secondary data was received from the respondents in the form of documentation.

The following sources of data collection were used (Yin, 1994):
(i) **Personal Interviews**

The use of personal interviews allows for a level of trust to develop, as well as, achieving the depth of information required in this kind of study (Cullen, 2008). The amount of information divulged during an interview is a function of how comfortable the family business members are with the researcher and with the discretionary ability of the researcher to keep sensitive information anonymous (Santiago, 2000). The interviews were conducted on a one-on-one basis and each lasted between sixty and seventy five minutes to complete.

The semi-structured interviews provided the primary data collection method. The interviews were tape-recorded so that analysis of the data could be methodically reviewed afterwards. Where necessary, follow up was made to clarify any ambiguous evidence. In-depth, face-to-face interviews were conducted with the incumbents and the siblings of the family business. The interviews were conducted face-to-face on a one-on-one basis. Approximately four hours and forty minutes of recorded interviews were accumulated and analysed.

(ii) **Documents**

Members and management were asked to supply company documents and family information where available.

### 4.4.3.2 The questionnaire

Eisenhardt and Graebner (2007) state that theory-building research using case studies typically answers research questions that address “how” and “why”. Thus the questionnaire is a common instrument for retrieving data for these questions (Leedy, 1997). Yin (1994) writes that it is important to identify different levels of questions, such as those specific to respondents and questions asked of the individual case. According to Taylor-Powell (1998) the following guidelines should be used when designing the questionnaire:

(i) **use simple wording and avoid ambiguity**;
(ii) avoid the use of abbreviations, jargon or foreign phrases;
(iii) be specific;
(iv) use clear wording;
(v) include all necessary information;
(vi) avoid questions which may be too precise;
(vii) phrase personal questions in less objectionable ways;
(viii) avoid questions which are too time consuming;
(ix) avoid making assumptions; and
(x) avoid bias questions.

The questionnaire (Annexure A) was presented to colleagues and supervisors before being implemented on the case study respondents.

4.4.3.3 Layout and contents of the questionnaire (Annexure A)

The specific questions of the questionnaire are based on the literature review and the main and sub-problems. The questionnaire comprised a total of forty-seven questions and was developed and based on the following categories:

(A) QUALIFICATION OF RESPONDENT AND FAMILY BUSINESS
(B) STRUCTURE OF THE FAMILY BUSINESS AND RELATIONSHIPS
(C) BRIEF HISTORY OF THE FAMILY BUSINESS
(D) TRAINING AND DEVELOPMENT OF SUCCESSOR
(E) SUCCESSION PROCESS
(F) MANAGEMENT AND POLICIES
(G) GENERAL

At a pre-interview meeting, a week before the interviews, the questionnaire and cover letter were hand delivered to the respondents and an explanation of the methodology and study was clarified by the researcher.
4.4.3.4 Testing the questionnaire

Prior to the interviews being conducted the questionnaire was approved by the researcher's supervisors for its validity.

4.5 Data analysis and interpretation

An analytical approach was used in the interpretation and categorisation of the data (Yin, 1994). It was ensured that the data obtained with the case study was treated fairly so that the results would provide reliable and compelling conclusions. (Yin, 2003; Eisenhardt, 2002). Each respondent’s data was analysed independently and similar responses were grouped together. Responses which varied from the groups were recorded as such.

4.6 Conclusion

Chapter Four dealt with the planning, process and methods used for data collection. Personal interviews was the chosen method to collect data from the respondents for the single case study. A questionnaire was developed according to the literature research and the six propositions made in the model by Cater and Justis (2009). A brief description of the family business was outlined. The profile of the respondents to the case study was summarised in Table 4.1. This includes the family member title, code, family member description, age, sex and family business ownership percentage. The family members were coded for ease of reporting and to protect their identity.

Chapter five will discuss the data interpretation and research findings.
CHAPTER 5

DATA FINDINGS AND INTERPRETATION OF FINDINGS

5.1 Introduction

The purpose of chapter five is to analyse the data from the interviews against the literature review (chapters two and three) and the six propositions made in the model proposed by Cater and Justis (2009). As referred to in chapter four, respondents in the case study were tape-recorded during the face-to-face interviews.

5.2 Reporting method

The report is designed to bring the findings of the case study to a conclusion (Cullen, 2008; Yin, 2003). The tape-recorded data was later systematically reviewed and similar answers to each question were grouped together (Yin, 1994). Answers which varied from the general responses were reported separately.

5.3 Findings

The findings below are presented in the order of the questionnaire. Each respondent was required to confirm their name, age, gender and to confirm they were a successor(s) to the family business. In addition the respondents were asked to confirm their agreement to the definition of a family business as detailed in the questionnaire (Annexure A).

A) QUALIFICATION OF RESPONDENT(S) AND F.B.:

Qualification of the respondent(s):

(i) Please confirm your full name.
• Each respondent confirmed their full names.
• Figure 4.1 provides the codes used for the respondents.

(ii) **Please confirm your age.**

• Each respondent confirmed their age.
• Figure 4.1 provides a summary of the respondents’ ages.

(iii) **Respondent gender.**

```
MALE            FEMALE
```

• Each respondent confirmed their gender.
• Figure 4.1 provides a summary of the respondents’ genders.

(iv) **Please confirm that you are a founder, successor sibling or sibling to the F.B.**

• All respondents confirmed their titles, as per Table 4.1.
• SSE confirmed that he assisted with the open day preparation of the first store.

(v) **What is your current position in the F.B.?**

• FF stated that he is semi-retired and acts as a consultant to the family business.
• S is the part-time debtors’ clerk.
• SSE, SSS and SST confirmed that they were branch managers.
• SSE is the group operations and procurement manager.
• SSS is the group admin manager.
• SST is the group sales manager.

Qualification of the F.B.:

(i) **Please state the trading name of the business.**
• All respondents confirmed the name of the holding trust.

(ii) Please confirm whether you agree your F.B. falls within the following definition:

"... a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families".

YES / NO

• All respondents agreed with the above definition of a family business.

(iii) What generation is currently running the F.B?

• All respondents stated that the family business was in its second generation of leadership.

(iv) Any other information concerning the F.B? (E.g. branches?)

• All branches of the family business are franchises operating in the motor spares retail sector.
• All respondents confirmed that there were three branches of the business operating in Port Elizabeth.
• FM was very involved in the business at the onset as the bookkeeper, before she handed the position over to her sister, so she could care for the children.

B) STRUCTURE OF THE FAMILY AND RELATIONSHIPS:

(i) Describe the genealogy (family-tree).
All respondents stated that FF and FM were the parents, S was the eldest sister sibling, SSE was the second child and first son, SSS was the third child and second son and SST was the forth child and third son.

(ii) **Describe what it was like growing up in the family.**

- All siblings felt they had a “good” upbringing and a happy childhood.
- There was a lot of sibling rivalry between all the successors, however the relationships have remained close and all siblings are friends.
- The household was run along strict morals, yet was fair.
- FM played an important role in uniting the family and assisting with the family business when necessary.
- Harmony was maintained by FM predominately, but FF also played a role.
- In order to stay in close contact the siblings have formed a “supper club” where they meet once a month for a meal.

(iii) **Describe your relationship to immediate family members.**

- SSE mentioned that the FF was the disciplinarian in the family.
- SST notes that the relationship between SSE and SSS is very strong and that they have a very good friendship.
- It was noted by SSE and SST that SSS is a very good communicator and when disputes arise often acts as a go-between SSE and SST.

(iv) **Describe any significant relationships with other family members.**

- All the respondents said there were no other significant family member relationships with the exception of FM’s mother. After their Grandfather died, the family sold their home to live with the Grandmother and care for her.
- The Grandmother was quiet and did not significantly influence either of the successors.
- The family associated more strongly with FM’s side of the family.
- S had a strong relationship with the mother of FM.
(v) **How are conflicts between family members handled?**

- All respondents said that FM was the most significant participant when it came to family conflict resolution. FM is considered very fair and principled and successors accept judgements made by her.
- FM and SSS were instrumental in resolving the conflict between the successors regarding the equal division of the family business ownership.
- FF also ensured that leadership conflicts were handled fairly between the successors.
- Since succession, SSS has become instrumental in the resolution of family business conflict.
- Conflict is handled around the table in an “open cards” manner.

C) **BRIEF HISTORY OF THE F.B.**:

(i) **Who started the F.B.?**

- All respondents agreed that FF started the family business.
- FF always wanted to start his own business. When moving in with FM’s mother, the opportunity presented itself as household expenses were reduced.
- SSE was given four months to travel overseas before returning to assist FF with the running of the FB.
- FM assisted for six years in the evenings as the bookkeeper, before handing over to her sister.
- SSE and SSS assisted FF with preparations of the first store.

(ii) **What year?**

- The family business was started in June 1995 with the first store.
- The second store opened in 2001.
• The third store was opened in 2005.

(iii) **Any other information regarding the F.B? (Culture, values?)**

• At the time the store was opened, it competed against four of the same franchises in Port Elizabeth.
• The franchisor felt that the first branch opened by FF would be a failure due to a lack of customers located around the store’s premises.
• All successors agree that FF is a very hard-working person who put a lot of hours into the family business to make it successful.
• FF worked behind the counter personally, thus ensuring the service was excellent. This meant that good profits were realised faster than normal.
• SST states that there is a very open door, professional, yet relaxed culture.
• The successors encourage a monthly gathering of the staff for a braai.
• Beers are often consumed after work as an opportunity to communicate in a relaxed manner between the staff and the successors.
• Friendliness and a feeling of family belonging amongst staff members is encouraged by the successors. FF states that the staff in the stores is comprised of other families, such as three brothers and four sisters.

D) **TRAINING AND DEVELOPMENT OF SUCCESSOR(S):**

(i) **Did you hear any “shop-talk” while growing up?**

• All respondents confirmed that there was a lot of “shop talk”, especially around the dining room table and at family gatherings.
• FM often had to control the amount of “shop-talk” discussed around the table.
• The daily turnover and profitability of the business was openly discussed by FF.
• All respondents recall that “shop-talk” was of a positive nature and encouraged later sibling involvement.
• SSS recalls that he could tell whether the day had been a good or poor one by the expression on FF’s face when he returned home after work.
• SST states that he learnt many of the part codes by just listening to dinner table “shop-talk”.

(ii) Did you encourage “shop-talk” with your children (Parent)?

• FF and FM worked hard in the family business and by default “shop-talk” occurred. This was not a conscious effort.

(iii) Did you try to portray a positive attitude towards the F.B. (Parent)?

• FF was very proud of the family business and as it was profitable from the start, both FF and FM spoke positively about the family business.

(iv) What was your parents’ attitude towards the F.B?

• All successors agreed that FF had a lot of pride towards the family business and that the family name was behind the business.
• The siblings all felt that for the most part, the parents spoke positively about the business and with a lot of pride.

(v) Did you structure any part-time or holiday work for your children (Parent)  YES / NO

• FF and FM stopped giving the siblings pocket money. In order to earn money they were encouraged to work in the family business.
• FM recalls that FF ensured that the siblings earned the minimum wage rate to start with.
• FF ensured that the successors worked at all levels of the family business and were not given any preferential treatment. This help build relations with the other staff members.
• FF ensured that the successors were treated the same as other staff, in that if they wanted to work, they had to work every Saturday regardless of other commitments.

(vi) Discuss any part-time or holiday work done at the F.B.

- STRUCTURED or ADHOC

• Part-time work was structured, with the FF ensuring that the successors gained experience in all facets of the business i.e. driver, sales counter, spares storeman, procurement and admin.
• All the successors were encouraged to work in the family business during school holidays and over weekends.
• FF insisted that if the successors wanted to work during school holidays; they had to commit to all of the days and not just some of them.
• FF ensured that the successors started at the bottom of the business and worked their way up to management positions.
• All successors agreed that the wages they received were market related and fair and would have been the same as if FF had employed anybody else.
• SSE and SST were both fired by FF from their positions during the succession process. Before rejoining the family business, they were required to re-apply for their positions via an interview process. FF recalls that SSS was very nearly fired from his position.
• S did not work part-time for the family business as she had left school and worked for a local grocery store.

(vii) Discuss any tertiary education acquired.

• S did not study any further after leaving school.
• SSE studied a bachelor of commerce, but did not complete the final year due to work related pressure.
• SSS has achieved a masters degree in clinical psychology.
• SST studied bachelor of commerce, but did not complete the final year as he joined the family business.

(viii) Discuss any experience gained outside the F.B.

• Neither of the successors gained any significant experience outside the family business.
• SSE and SST had small and informal work whilst travelling overseas.
• SSS worked community service for one year as a clinical psychologist before joining the family business.

E) SUCCESSION PROCESS:

(i) Who initiated the succession process?

• All respondents agree that the FF initiated the succession process. FF always had the intention of SSE taking over the business.
• FF had documents drawn up, planning SSE’s later succession of the family business.
• In 2002 at the age of 53 FF had a heart attack. FM realised a need to accelerate the succession process. FM encouraged SSS and SST into the family business.
• FM realised that SSE’s strength was his procurement and marketing abilities, but he was weak in the finance area. FM felt that for the survival of the family business SSS should be encouraged and thus create a stronger team.
• If it had not been for his heart attack, FF feels he would most likely still be working in the business.
(ii) *Discuss the incumbent’s attitude towards children succeeding (Parent)?*

- FF was initially very nervous that the successors would not have the ability to succeed at running the family business.
- FF also felt that the successors would not have the same amount of pride when running the business.
- FF made it very clear that if the successors were not running the business properly he would sell it from underneath them.
- FF withheld ownership of the family business for three years during the succession process, until he felt comfortable the successors could manage the family business.

(iii) *Was the succession process planned?*

- Initially FF intended for SSE to take over the family business, as the other male siblings were not interested.
- After FF’s heart attack in 2002, SSS and SST were given the opportunity to also join the family business.
- FF monitored the progress of succession from his office at home.
- Three years into the succession process FF began the process of transferring ownership to the successors.
- SSS was instrumental in creating a family trust with each trustee owning twenty-five percent of the shares (see Figure 4.1).
- SSS assisted by appointing an attorney to construct a family trust and to create a “roles and responsibilities” constitution.
- Each successor raised finance which was used to purchase twenty-five percent of the newly formed trust.
- Each successor now manages and is responsible for one of the stores.
- The time between initiating the succession to leadership takeover by the successors took approximately two years.
- SST recounted that S showed no interest in becoming a successor to the family business.
(iv) **Discuss if there was any conflict during the process?**

- During the succession process SSE felt that equal shareholding between the successors was very unfair considering he had worked in the business since its inception.
- All successors felt that the conflict around the successor shareholding, which lasted approximately one year, was “make or break” for the family business.
- FM and SSS were instrumental in convincing SSE to realise that it would only be fair and in the best interests of the family business if each successor controlled an equal share and earned equal salaries.
- As compensation for SSE’s longer service to the family business, SSE was initially given a greater profit share. By the year 2011 all successors will have an equal share of the profits.
- Shareholding was divided equally between FF, SSE, SSS and SST, as can be seen in figure 4.1.

(v) **Describe any roles and responsibilities you have had in the F.B.**

- Each of the successors worked in all of the roles and positions in the family business.
- S is currently the debtor’s clerk for the family business.

(vi) **Discuss any coaching or mentoring you may have received.**

- FF and FM gave most of the coaching and mentoring to the successors.
- The successors often had to work under supervisors whilst they were learning the family business.
- SSE and SST recall that the development/leadership style of FF was to lead by example. Tacit and explicit knowledge were obtained by the successors by observing FF’s behaviour.
- FF recalls warding off the many ideas SSE had, by stating that when he succeeded the family business, he could implement them.
• SSE felt that FF’s desire to do things right made FF a good role model.
• FF’s coaching concentrated more on the “the bigger picture” areas such as how to succeed in business, ethics, morals, people skills and critical success factors.

(vii) **What are the critical business factors for your F.B?**

The successors agreed that the following critical success factors applied to their family business:

• Good customer service;
• care of staff;
• correct stock holding;
• monitoring cash flow;
• honesty and integrity; and
• stock range

(viii) **Discuss the satisfaction levels of other stakeholders after succession.**

• SSS recalls that bankers were not too concerned as long as loans were paid timeously.
• FM states that the banks are very impressed with SSS’s conservative approach to finance and are more than eager to offer funding.
• FF feels that SSE if very well respected by the part suppliers. He adds that SST is well thought of as a public relations person.
• When attending national franchisee gatherings, both FF and FM are proud that at all three successors are well respected by their peers.
• SSS and SSE felt that by working along side staff members in the family business helped create strong employee relationships and ensured their buy-in after the succession.
• All the successors created a second tier of management structure when they succeeded the FF. New managers were appointed from existing staff with improved packages.
(ix) **Has ownership been transferred to you (Shares)?**

- All the successors confirmed that they had taken twenty-five percent ownership of the family business.
- The remaining twenty-five percent is still held by FF.
- All four siblings are in line to equally inherit the twenty-five percent shareholding held by FF.
- S chose motherhood rather than becoming a successor, although she could have succeeded the family business if she had wanted to.

(x) **Does the incumbent (father) now act as a consultant to the F.B?**

- All respondents agreed that the FF attends quarterly meetings and other management meetings as a consultant.
- The FF also attends a minimum of four family business meetings and gives advice.
- FM adds that all the successors have a great respect for FF business skills and they would all walk away from a business deal if FF did not think it was viable.

**F) MANAGEMENT AND POLICIES:**

(i) **What is the current leadership structure of the F.B?**

- Each successor has an equal share in the family business and controls one of the three stores in Port Elizabeth.
- There is no CEO in place for the family business.
- Decisions are made on a “one trustee, one vote basis”, in the event of a split decision; the majority of votes would predominate.
- SSS by virtue of his communication and conflict resolution abilities has a tendency towards overall leadership and control. He acts as the chairman to meetings.
(ii) *Do you see your leadership role as manager-builder or entrepreneur? Please elaborate.*

- Currently all the successors are performing manager-builder roles.
- The successors have plans to expand the business, both within the franchise group and into different industries which, they feel, make them entrepreneurial in nature as well.
- SSE has the most entrepreneurial tendencies out of all of the successors.

(iii) *Do you foresee any major challenges/opportunities for the F.B. ahead?*

- The successors felt that most of the major business challenges for the current family business structure have been addressed by the successors.
- Opportunities exist in the fuel retail sector. The successors would trust and support SST in managing growth in this area.

(iv) *What risks do you foresee in meeting the challenges/opportunities?*

- SSS feels positive that the high car sales five years ago should provide a new growth market as these vehicles typically become serviced outside of the new car dealership workshops.
- SSS also feels that the residential growth in Port Elizabeth is occurring in the areas where their stores are located; offering opportunities for increased sales.
- FF feels that the family business should not be allowed to grow too quickly as this could put pressure on the cash flow.

(v) *Is there a constitution or set of rules in place to govern the FB?*

- A “beneficiary’s agreement” has been signed by all the successors and FF regarding the ownership of the company and variations thereof.
A “list of functions” has been signed by each successor indicating the tasks and responsibilities each must perform.

(vi) **How are decisions made within the F.B?**

- Issues are openly discussed (often informally) or at a meeting place between the successors and with regard to larger decisions FF is consulted.
- Trust between successors plays a large role when arriving at a decision.
- As SSS controls the admin and finance he often has the final say before a decision is made; advising whether the business can afford to undertake a project or not.
- The “one trustee, one vote” has not been applicable thus far, as consensus has been reached between the trustees before going to vote.
- As mentioned, if FF does not like a business transaction all the successors would walk away from the deal.

**G) GENERAL:**

(i) **What core values does your family represent?**

- Christian values are important to the family.
- All agreed that pride, integrity, honesty and fairness to staff are very important.
- FM is instrumental in maintaining and promoting good family relations.

(ii) **Do you work as hard as your father did?**

- All the successors agreed that they do not work as hard as FF did. SST reasoned that FF had to perform all the functions while the successors have the tasks divided into three.
- FF expected that the successors should have the same work ethic he had.
• SSE and SSS feel that quality family time is as important as time spent in the family business.
• Where necessary, the successors feel they are willing to work long hours in.
• Neither of the successors work on Saturdays which FF always did.

(iii) **Is the survival of the F.B. important to you?**

• All successors feel very proud of the family business and feel their name is synonymous with the success of the family business.
• FF would "love" to see the third generation participate in the family business.

(iv) **Is/was it important to you that your children take over the F.B. (Parent)?**

• It was always the intention of FF that SSE succeeded him.
• FF recounts that while driving with the successors to a business trip recently, the successors were beginning to talk about how and what would be required to have the third generation succeed them.
• Only SSS has a first born (nine month old son) and has not given much consideration to his son succeeding him.
• SSE and SST do not have children yet and have not given much consideration to future children succeeding them.

(v) **What steps have you put in place for your children to succeed you?**

• SSS said that his son will be made beneficiaries to the family business.

(vi) **What advice could you offer other families undergoing leadership succession?**

• All successors as well as FF and FM agreed that equal ownership and earning are essential to successful successions.
• SSE felt trusting that your siblings have your best interests at heart, is an important factor.
• Ensure that conflict is well managed and controlled.
• Every successor must be accountable for their involvement.
• All rules and responsibilities must be put in writing.
• SSE and SSS acknowledge that the compatibility of the successors’ personalities must be one of respect and friendship.
• SSE also acknowledges that taking ownership of the family business was very important and created a feeling of “having to make this work”.

(vii) *What do you believe makes F.B. successful?*

• Equality between successors in the family business.
• Pride and the family name associated with the business.
• Trust and harmonious/close family relationships.
• Respect of family members and their abilities.
• Enriching family while succeeding in business.
• Compensation and adjusting for family strengths and weaknesses.
• SSE felt that the “one trustee, one vote” system is a good way to resolve all conflicts currently and going forward.

(viii) *How do you perceive risk in business?*

• All successors are careful and calculating regarding risk taking.
• All the successors are eager to expand the family business into the same or other industries.
• The successors are more inclined towards taking risk around businesses which are “system based” such as other franchises.
• FF is still willing to take risks to expand the family business.

5.4 **Conclusion**

The purpose of chapter 5 was to record on the findings of the research conducted. Where the answers of respondents were similar they were grouped together. Where respondents’ answers varied, these have been reported on separately.
Chapter six draws conclusions from the data collected and the model presented by Cater and Justis (2009). Finally, the author makes recommendations for future research in the field of family business.
CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

In this chapter and in accordance with the objective of this research, the findings in chapter 5 are analysed and interpreted against the six propositions made by Cater and Justis (2009) in their successor development model.

6.2 Conclusions

The conclusions of this research are presented in accordance with the six propositions offered by Cater and Justis (2009):

(i) A positive parent–child relationship between the founder or incumbent and the successor enhances the development of successor leadership (P1).

- All respondents agreed that trust among the family members was essential to the development and succession of the successors to the family business, which is in agreement with the proposition.

(ii) The possession of a long-term orientation enhances successor leadership (P2).

- Although SSE was ear-marked to succeed FF from the onset of the family business, the inclusion of SSS and SST by FM showed a willingness to have all siblings succeed in the family business.

- The structured approach by FF regarding to successor knowledge acquisition of the family business supports the long-term orientation of FF to have the business succeeded by the siblings.
• FM played an important role in managing the conflict between the siblings during the succession process, displaying a desire to have a smooth succession transfer.

• All the successors share a deep sense of pride associated with the family name, displaying a strong sense of leadership continuity.

Therefore the above supports the proposition that a long term orientation promoting succession existed in this case.

(iii) The possession of a spirit of cooperation among the successors enhances successor leadership (P3).

• Although the successors were very competitive when growing up and rivalry existed among them, their relationships were and remain very strong.

• The eventual realisation by SSE that equal ownership should exist, together with the negotiations between with the other successors, shows their willingness to cooperate.

• SSS together with FM were instrumental in negotiating the “beneficiary’s agreement” and the “functions list”.

• All the successors are satisfied with the “one trustee, vote” concept, which lays a foundation for future conflict resolution and decision making between the successors.

• The willingness of the family members to get together regularly for a meal, further supports that the family members favour a spirit of cooperation.

• The structured staggered approach to profit sharing and ownership distribution ensured a fair method of compensation to the successors.
Thus, the willingness of the successors to resolve and negotiate a fair integration to succession shows they have a positive spirit towards cooperation.

(iv) The thorough and rapid acquisition of company and industry knowledge enhances the development of successor leadership (P4).

- FF ensured that the successors had a “hands on” approach when working part-time and when joining the family business. This also meant that employees accepted the successors from the onset of the succession process.

- The successors were required to work under supervisors or were mentored by FF.

- Shop-talk also provided the successors with knowledge about the industry and other stakeholders.

The above supports the proposition that the successors acquired rapid knowledge of the industry.

(v) Understanding the role of manager–builder in the family firm enhances the development of successor leadership (P5).

- Although the successors agree that they have made positive staff enhancements to the family business since succeeding, most of the systems in place are managed and need little or no improvement.

- Each successor has appointed a manager to their stores. In this way the successors manage the business. They are looking at franchise type businesses which are systems/management driven.
• All the successors are looking to expand the business using the inherited business foundation as a platform.

The above supports the proposition that the successors have adopted a manager-builder type role in the family business.

(vi) **Understanding one’s orientation toward risk taking enhances one’s development as a successor leader (P6).**

• SSS and SST identify SSE as having entrepreneurial tendencies, which Cater and Justis (2009) identify as a danger to the continuity of the family business; if not managed correctly. However SSS and SST feel that their conservative natures will ensure that level headed decisions are made.

• The findings of this case show that the successors are ambitious and willing to take calculated risks with expansion efforts. This supports the findings of Cater and Justis (2009) that successors are typically perceive themselves to be more risk orientated than predecessors.

SSS and SST are likely to ensure that risk orientation in the family business is conservative and unlikely to jeopardise the family business, which supports the sixth proposition.

6.3 Limitations

It is acknowledged by the author that this study was conducted on a single family and may not represent case studies with extended family members. This case study was based on a second generation succession where only the siblings succeeded the family business. Where successions include cousins or other family members the findings may vary.
6.4 Suggestions for further research

Prior to the succession plan being implemented, the successors to this case study faced an ownership dilemma. SSE felt that equal shareholding offered to his brothers was unfair given the amount of time he had worked for the family business prior to their involvement and that the other successor had previously shown no interest in the family business. The negotiation skills of SSS, in drafting the “beneficiary’s agreement”, as well as the conflict management of FM were crucial for the success of the succession. All successors now agree that without equal ownership of the family business, the business would not survive. Thus future research may look at the importance of equal ownership and earnings between successors for the survival of family businesses.

A further area for research is the management of conflict within the family business. In this case study the three successors to the family business feel that the “one vote, one trustee” system provides a method whereby, even in the absence of the incumbents conflicts may be resolved.

6.5 Conclusion

In chapter six the case study findings were analysed against the six propositions made by Cater and Justis (2009) in their successor development model. Data collected from the case study respondents supported all the propositions.

Of particular significance regarding this case study was the importance of resolving the ownership conflict between the successors during the succession process. All the respondents view the resolution of this conflict as paramount to the success of the succession. The successors all conclude that equal ownership remains crucial to the harmony between the successors and thus the continuance of the family business.

As family businesses continue to dominate the economic landscape, it is hoped that this study will help to contribute to a greater success rate of family business successions in the future.
LIST OF REFERENCES


Ospina, S. and Wagner R.F. 2004. *Qualitative Research,* Graduate School of Public Service, New York University, 2


A TRAINING AND DEVELOPMENT MODEL FOR SUCCESSORS IN A FAMILY BUSINESSES: CASE STUDY - QUESTIONNAIRE

This questionnaire has been designed to facilitate a semi-structured interview around open-ended questions. If you feel that you have additional information regarding a question, please feel free to elaborate. Any supporting documentation you may have would be greatly appreciated.

A) QUALIFICATION OF RESPONDENT AND F.B:

Qualification of the respondent:

(i) Please confirm your full name.
(ii) Please confirm your age.
(iii) Respondent gender. MALE FEMALE
(iv) Please confirm that you are a successor to the F.B.
(v) What is your current position in the F.B.?

Qualification of the F.B.:

(i) Please state the trading name of the business.
(ii) Please confirm whether you agree your F.B. falls within the following definition:

"... a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families".

YES / NO

(iii) What generation is currently running the F.B.?

(iv) Any other information concerning the F.B.? (Branches?)

B) STRUCTURE OF THE FAMILY AND RELATIONSHIPS:

(i) Describe the genealogy (family-tree).

(ii) Describe what it was like growing up in the family.

(iii) Describe your relationship to immediate family members.

(iv) Describe any significant relationships with other family members.

(v) How are conflicts between family members handled?

C) BRIEF HISTORY OF THE F.B.:

(i) Who started the F.B.?

(ii) What year?

(iii) Any other information regarding the F.B.? (Branches, culture, values?)

D) TRAINING AND DEVELOPMENT OF SUCCESSOR:

(i) Did you hear any “shop-talk” while growing up?

(ii) Did you encourage “shop-talk” with your children (Parent)?

(iii) Did you try to portray a positive attitude towards the F.B. (Parent)?
(iv) What was your parents’ attitude towards the F.B.?
(v) Did you structure any part-time or holiday work for your children (Parent) YES / NO
(vi) Discuss any part-time or holiday work done at the F.B.

| STRUCTURED | or | ADHOC |

(vii) Discuss any tertiary education acquired.
(viii) Discuss any experience gained outside the F.B.

E) SUCCESSION PROCESS:

(i) Who initiated the succession process?
(ii) Discuss the incumbent’s attitude towards children succeeding (Parent)?
(iii) Was the succession process planned?
(iv) Discuss if there was any conflict during the process?
(v) Describe any roles and responsibilities you have had in the F.B.
(vi) Discuss any coaching or mentoring you may have received.
(vii) What are the critical business factors for your F.B.?
(viii) Discuss the satisfaction levels of other stakeholders after succession.
(ix) Has ownership been transferred to you (shares)?
(x) Does the incumbent (father) now act as a consultant to the F.B.?

F) MANAGEMENT AND POLICIES:

(i) What is the current leadership structure of the F.B.?
(ii) Do you see your leadership role as manager-builder or entrepreneur? Please elaborate.
(iii) Do you foresee any major challenges/opportunities for the F.B. ahead?
(iv) What risks do you foresee in meeting the challenges/opportunities?
(v) Is there a constitution or set of rules in place to govern the FB?
(vi) How are decisions made within the F.B.?
G) GENERAL:

(i) What core values does your family represent?
(ii) Is the survival of the F.B. important to you?
(iii) *Is/was it important to you that your children to take over the F.B. (Parent)?*
(iv) What steps have you put in place for your children to succeed you?
(v) What advice could you offer other families undergoing leadership succession?
(vi) What do you believe makes F.B. successful?
Dear,

Thank you for agreeing to participate in this research study.

With many “baby-boomers” reaching retirement family businesses are facing the uncertainty of leadership succession. Your input to this case study will assist in confirming and enhancing previous research conducted, in efforts to improve the low rate of successful successions world wide.

The case study approach has been chosen for this research project, where in-depth interviews are conducted to get valuable insights as to factors affecting successful family business successions. In order to avoid disruptions to the interview and to make allowance for later data analysis the interview will be tape recorded. All information regarding the family business and your responses will be treated as strictly confidential.

The following statement indicates the purpose of this research study:

**A TRAINING AND DEVELOPMENT MODEL FOR SUCCESSORS IN A FAMILY BUSINESS: CASE STUDY**

The research findings will be sent to you for your interest.

Yours sincerely,

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