Succession in a Family Business in the Beer Industry

by

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ABSTRACT

Every business organisation has a unique set of challenges and problems. The family business is mainly affected by personal factors and family political influences. Most family business political influences are based on succession. Many of these problems exist in corporate business environments, but can be exaggerated in a family business. Family businesses go through various stages of growth and development over time. Many of these challenges will be found once the second and subsequent generations enter the business. One of the key problems is succession planning. Most family organisations do not have a plan for handing the power to the next generation, leading to great political conflicts and divisions.

Despite the foregoing problems, family business is the world’s dominant form of business organisation. Based on figures compiled by the Family Firm Institute (FFI), in the Barclays Wealth Insights 2009, family firms comprise 80% to 90% of all businesses in North America. In the United Kingdom 75% of all businesses are family businesses. Some of the world’s biggest and best-known companies are family-owned. In the United States, some 37% of Fortune 500 companies are family-owned.

In the global beer industry there are two family owned businesses in the top five, namely the Anheuser Busch Inbev Brewing Company and Heineken Breweries. Charlene de Carvalho-Heineken, a Heineken family member is delegate member of the Board of directors of Heineken Holding N.V. (Heineken Annual Report, 2011). This research report investigated succession at Heineken (as a family business).

The researcher employed a mixed methodology approach where both quantitative and qualitative data collection instruments were used to gather data from two different groups of respondents (Heineken Operational Company Executives and Heineken Expatriates). Numerous attempts were made to contact Mrs Charlene de Carvalho-Heineken as well as other members of the Heineken family, without success. None of the questionnaires were returned.
The research concluded that despite the fact that Heineken management has been highly professionalised with the majority of senior management structures filled with non-family members; the company is still a family business because 50.005% of the shareholding is held by Mrs. de Carvalho Heineken who is a family member. The research also observed that Mrs. de Carvalho Heineken sits on the Heineken Board of Directors. There is also an interesting side to the family ownership of the Heineken business. According to the Heineken Group’s 2009 Annual Report, the Hoyer family and Heineken family own L’Arche Green, a company that holds 58.78% interest in Heineken Holdings.

This scenario confirms earlier research findings that according to the Agency Theory, managers who are not owners will not watch over the affairs of a firm as diligently as owners managing the firm themselves. The placement of Mrs. de Carvalho Heineken and Mr. D.P. Hoyer on Board of Directors is therefore very strategic in terms of maintaining the “familiness” of the Heineken business.

Although respondents were not as direct as to whether there was a succession plan at Heineken, available documents reveal that indeed there is a succession plan at the company. It is interesting to note that Mrs. de Carvalho Heineken has been a member of the Executive Board of Directors since the age of thirty-four (she was nominated in 1988). This type of exposure to the Heineken business would go a long way in preparing Mrs. de Carvalho-Heineken for future positions. Her experience as a member of the Executive Board of Directors therefore confirms results of studies that found that positive firm performance by family successors is associated with successor’s development and intergenerational relationships, succession planning, successor’s potential capability, commitment to the firm and successor’s business skills.
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>FOB</td>
<td>Family Owned Business</td>
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<td>NFOB</td>
<td>Non-Family Owned Business</td>
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CHAPTER 1: Overview of the Beer Industry

1.1 INTRODUCTION

Family businesses are amongst the most important contributors to wealth and employment in virtually every country of the world (Larsen and von Ins, 2010). Johnson (2004) argues that based on figures compiled by the Family Firm Institute (FFI), family firms comprise 80% to 90% of all businesses in North America. In the United Kingdom 75% of all businesses are family businesses (Johnson, 2004). While the majority of family business owners would like to see their business transferred to the next generation, it is estimated that 70% will not survive into the 2nd generation and 90% will not make it to the 3rd generation (www.ffi.org). The most critical issues facing business-owning families are family-based issues more than business-based issues (Ward and Carlock, 2010).

Contrary to most expectations, family businesses are not limited to small, “mom and pop” operations. Some of the world’s biggest and best-known companies are actually family-owned (Hilbert–Davis, 2006). In the United States, some 37% of Fortune 500 companies are family-owned while 60% of publicly-listed companies are family-controlled (O’Sullivan, 2008). Wal-Mart, Ford, Mars Corporation, J.P. Morgan, Firestone, DuPont and Levi Strauss are some examples of big family businesses in the U.S. Other family-owned or family-controlled multinational companies with popular brands include: L’Oreal (France), Benetton (Italy), Siemens (Germany), Ikea (Sweden), Lego (Denmark) and Kikkoman (Japan), (Johnston, 2004; Hilbert-Davis, 2006 and O’Sullivan, 2008).

In the global beer industry there are two family owned businesses in the top five, based on volumes sold. These companies are the Anheuser Busch Inbev Brewing Company and Heineken Breweries (St Louis Business Journal, 2008). The St Louis Business Journal (2008) further reports that the Busch family owns as much as $2 billion of the Anheuser-Busch stock. As for Heineken, for almost 140 years, three generations of the Heineken family have built and expanded the brand and the company in Europe and around the world. Today, Charlene de Carvalho-Heineken is...
delegate member of the Board of Directors of Heineken Holding N.V. (Heineken International Company Communication, October, 2010).

1.2 GLOBAL BEER TRENDS
At the end of 2011 the top four breweries accounted for 46% of the global beer sales volumes. According to global beer sales by volume chart (Figure 1.1) Heineken is viewed as a significant player in this industry, ranked 3rd largest brewery by volumes sold.

![Global Beer Sales by Volume](image)

Figure 1.1: Global beer sales by volume.

It is also projected Figure 1.2 that there will be a four percent (4%) increase in global beer market revenues from 2011 to 2015.
1.3 GLOBAL BEER LANDSCAPE

The SABMiller Annual Report (2011) states that there has been a process of rapid change in the global beer market and that there was a strong organic growth in the beer category due to economic and societal developments, as well as transformative improvements in the emerging and developed markets. In recent years, China overtook the USA to become the world’s leading beer market, having grown by over 50 million hectolitres between 1997 and 2002 (The Top 10 Beer Companies, 2009).

The US market, meanwhile, continues on an upward path, buoyed by the increasing demand for imported beers (St Louis Business Journal, 2008). Total beer imports into the USA in 2008 stood at just under 27 million hectolitres, making it the largest beer importer in the world. In order to put this in context, this makes the imported beer market in the USA bigger than the entire Polish beer market and would rank as the world’s 9th largest market in its own right. Other key importing countries are the UK, France, Italy, Spain and, Germany (St Louis Business Journal, 2008).

Looking at exports, Mexico is the world’s leading exporter of beer (Figure.1.3). Mexico has increased its exports of beer by 19% from 2010 to 2011. The top four beer exporting countries (Mexico, Germany, Netherlands and Belgium) account for
above 70% of the world’s total beer exports according to the Canadean Wisdom Database (2010).

![Top 4 Beer Exporting Countries](image-url)

**Figure 1.3: Top 4 beer exporting countries, Canadean Wisdom Database (2010)**

In terms of per capita consumption, the Czechs continue to be the world’s biggest beer drinkers, consuming 160 litres per head per annum. The only other three countries with per capita consumption rates over 100 litres per annum are, in order, Ireland, Germany and Austria, all located in beer’s traditional heartland of north western Europe (Belgianshop, 2012).

1.4 **FINANCIAL CONTRIBUTION OF BEER TO THE GLOBAL ECONOMY**

The potential industry earnings (Table 1.1, below) for beer were estimated to be $163.9 billion in 2005. There was an uneven distribution of these earning across the world beer market. The Americas was the largest market with $ 55.2 or 33% of the world market. The table below shows the global distribution of the potential industry earnings (latent demand) per region as measured in US Dollars (Parker, 2005).
Table 1.1: Global potential industry earnings for beer, Parker (2005).

<table>
<thead>
<tr>
<th>Region</th>
<th>Latent Demand US $ mln</th>
<th>% of Globe</th>
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<tr>
<td>Americas</td>
<td>55,171</td>
<td>33.7</td>
</tr>
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<td>Asia</td>
<td>52,314</td>
<td>31.9</td>
</tr>
<tr>
<td>Europe</td>
<td>41,299</td>
<td>25.2</td>
</tr>
<tr>
<td>Middle East</td>
<td>6,648</td>
<td>4.1</td>
</tr>
<tr>
<td>Africa</td>
<td>6,409</td>
<td>3.9</td>
</tr>
<tr>
<td>Oceana</td>
<td>2,851</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>163,893</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1.5 BACKGROUND TO HEINEKEN BREWINES

Heineken Brewery (Heineken Brouwerijen), a Dutch brewing company, founded in 1864 by Gerard Adriaan Heineken in Amsterdam is one of the leading family owned businesses in the world. Heineken owns and manages one of the world's leading portfolios of beer brands. As of February 2013, Heineken is present in over 70 countries, where it operates more than 165 breweries, with a total output of 221 million hectolitres (allAfrica.com, 2013). It brews and sells more than 170 international premium, regional, local and specialty beers, including Cruzcampo, Tiger Beer, Żywiec, Starobrno, Zagorka, BirraMoretti, Ochota, Murphy's, Star, Amstel lager and of course Heineken Pilsener (Heineken International Company Communication, 2010).

The 22-year-old Gerard Adriaan Heineken acquired a small brewery in the heart of Amsterdam (Heineken International Company Communication, 2010). Adriaan Heineken had convinced his mother that there would be fewer problems with alcoholism in Holland if the Dutch could be induced to drink beer instead of gin and
moreover, that beer brewed in Holland was of such poor quality that he felt a personal obligation to produce a high-quality beer. Heineken's mother bought him an Amsterdam brewery known as De Hooiberg (the Haystack) which had been established almost 300 years before, in 1582. Heineken was only 22 when he assumed control of De Hooiberg, one of Amsterdam's largest breweries (Heineken International Company Communication, 2010).

The founder's son, Henry Pierre Heineken, managed the company from 1917 to 1940. He continued his involvement with the company until 1951. During his tenure, Heineken developed techniques to maintain consistent beer quality during large-scale production. Henry Pierre's son, Alfred Henry "Freddy" Heineken, started working at the company in 1940 and in 1971 was appointed Chairman of the Executive Board. In 1972, the company changed its name from Heineken's BierbrouwerijMaatschappij N.V. to Heineken N.V. Alfred Henry "Freddy" Heineken was a powerful force behind Heineken's continued global expansion and while he retired from the Executive Board in 1989, he maintained involvement with the company until his death in 2002 (Heineken International Company Communication, 2010).

Heineken expanded exponentially throughout the 1970s and 1980s. Through license agreements, Heineken beer was produced in Sierra Leone and Trinidad (1972), Jamaica (1973), Norway and Sweden (1975), St. Lucia and Tahiti (1976), Haiti (1977), Ireland (1978), Italy (1979), Morocco (1980), Greece and South Korea (1981), Japan (1983) and Spain (1988). The company also purchased stakes in numerous foreign brewers, including: a minority stake in Cervejarias Kaiser S.A., a leading Brazilian brewing group, in 1983; a minority stake in El Aguila S.A., a leader in Spain, in 1984 (increased to 51.2 percent in 1986) and a minority stake in Quilmes International (Bermuda) Ltd., which had interests in Argentina, Uruguay and Paraguay and later expanded into Chile (Heineken International Company Communication, 2010). Heineken was unquestionably a powerful force in the brewing industry in the 1980s. In revenues it ranked fifth in the world behind Anheuser-Busch, Miller Brewing, Britain's Allied Domecq PLC and Japan's Kirin Brewery Company, Limited. Its share of the world beer market increased from 2.61 to 2.82 percent between 1977 and 1981 (Heineken International Company Communication, 2010).
Management policies at Heineken changed little over the years. The family retained control over virtually all aspects of the company, which was managed by a small team selected by the head of the family. The managing family group was kept small in order to prevent factions from developing. The family head of the company was involved in Heineken's day-to-day functions. Alfred Heineken, grandson of the founder and owner of 50 percent of the shares in the company, directly supervised research and development, finance and public relations in the mid-1980s. Despite Alfred Heineken's official retirement in 1989, he still kept close ties with the company well into the 1990s, serving as chairman and delegate member of the supervisory council (until 1995) and as chairman of the board of Heineken Holding N.V., which held a 50 percent stake in Heineken N.V. (Heineken International Company Communication, 2010).

Currently, fourth-generation Charlene de Carvalho-Heineken sits on the board of directors, while her husband Michel de Carvalho is part of the group’s supervisory board (Kumar, 2012).

1.5.1 Heineken's principal subsidiaries

Heineken has an array of subsidiaries which are either wholly owned or where the company has a majority shareholding. Heineken’s wholly owned subsidiaries include: Heineken NederlandsBeheer B.V.; Heineken Brouwerijen B.V.; Heineken Nederland B.V.; Heineken InternationaalBeheer B.V.; Heineken Technical Services B.V.; Amstel Brouwerij B.V.; Amstel Internationaal B.V.; Vrumona B.V.; Inverba Holland B.V.; Brouwerij De Ridder B.V.; B.V.BeleggingsmaatschappijLimba; Brand Bierbrouwerij B.V. and Beheer-en Exploitiemaatschappij Brand B.V. (Heineken International Company Communication, 2010).

Heineken also wholly owns subsidiaries inside and outside the Netherlands. These are Sogebra S.A. (France); Murphy Brewery Ireland Ltd.; Amstel Sörgyár RT (Hungary); ZlatýBaafzant A.S. (Slovakia); Mouterij Albert N.V. (Belgium); Ibecor S.A. (Belgium) and Heineken USA Inc. (Raghavan and Johnson, 2001).
Heineken has shareholdings in the following breweries: El Aguila S.A. (Spain; 71.3%); Heineken Italia S.p.A. (Italy); Athenian Brewery S.A. (Greece; 98.8%); Zywiec S.A. (Poland; 50%); PivovarCorgon S.R.O. (Slovakia; 59%); Calanda Haldengut A.G. (Switzerland; 99.7%); AntillianseBrouwerij N.V. (Netherlands Antilles; 56.3%); Commonwealth Brewery Ltd. (Bahamas; 53.2%); Windward & Leeward Brewery Ltd. (St. Lucia; 72.7%); Bralima S.A.R.L. (Democratic Republic of the Congo; 94.3%); Brasseries et Limonaderies du Rwanda Bralirwa S.A. (70%); Brasseries et Limonaderies du Burundi Brarudi S.A.R.L. (59.3%); Brasseries de Bourbon S.A. (Réunion; 85.4%); Ghana Breweries Ltd. (75.6%); Brasseries du Logone S.A. (Tsjaad) and P.T. Multi Bintang Indonesia Tbk (84.5%) (The Heineken Company, 2013).

1.5.2 Heineken’s principal competitors

According to Economics Online (www.economicsonline.co.uk) Heineken Breweries is in the Top three of the global Top ten Breweries. Heineken’s principal competitors in the last decade were Anheuser-Busch in Bev; SAB Miller; China Resource Enterprise; Carlsburg; Tsing Tao; Grupo Modelo; Molson Coors and Kirin.

Figure 1.4: Global brewing industry market share, Economics Online (2011)
1.5.3 The Heineken Ownership Structure

1.5.3.1 Heineken N.V.

Heineken Holding N.V. holds a 50.005% interest in Heineken N.V. FEMSA holds a 10.143% interest in Heineken N.V. Free-float interest in Heineken N.V. represents 39.852% (Heineken International Company Communication, 2010).

1.5.3.2 Heineken Holding N.V.

L’Arche Green N.V., of which 88.55% is owned by the Heineken family and 11.45% by Greenfee B.V. for holds a 50.82% interest in Heineken Holding N.V. FEMSA holds a 14.94% interest in Heineken Holding N.V. Free float in Heineken Holding N.V. represents 34.24% (Heineken International Company Communication, 2010).

Since its formation in 1952, Heineken Holding N.V.’s objective - pursuant to its Articles of Association - has been to manage or supervise the Heineken group and to provide services for Heineken N.V. The role Heineken Holding N.V. has performed for the Heineken group since 1952 has been to safeguard its continuity, independence and stability and create conditions for controlled, steady growth of the Heineken group’s activities. The stability provided by this structure has enabled the Heineken group to rise to its present position as the brewer with the widest international presence and one of the world’s largest brewing groups and to remain independent (Heineken International Company Communication, 2010).

The shares of both Heineken Holding N.V. and Heineken N.V. are listed on Euronext Amsterdam. Options of Heineken N.V. shares are traded on the Euronext Liffe options exchange. Every Heineken N.V. share held by Heineken Holding N.V. is matched by one share issued by Heineken Holding. The net asset value of one Heineken Holding N.V. share is therefore identical to the net asset value of one Heineken N.V. share. The dividend payable on the two shares is also identical. However, historically, Heineken Holding N.V. shares have traded at a lower price due to technical factors that are market-specific (Heineken International Company Communication, 2010).
The Figure 1.5 below shows the Heineken ownership structure.

![Heineken Ownership Structure Diagram](image)

Figure 1.5: The Heineken ownership structure (Heineken International Company Communication, 2010)

1.5.3.3 Heineken’s Management Structure

The way Heineken’s ownership is structured accommodates for both familiness and other normal corporate arrangements. This arrangement also transcends into the company’s management structure (Figure 1.6 below).

At the head of the Heineken Group is Heineken Holding N.V. with a Board of Directors. The management of Heineken N.V. is run by the Executive Board, which has two members and is chaired by Jean-François van Boxmeer (Heineken International Company Communication, 2010).

Heineken has five operating regions: Western Europe, Central and Eastern Europe, The Americas, Africa and the Middle East as well as Asia-Pacific. Each region is headed by a Regional President. The two members of the Executive Board, the five Regional Presidents and six Group Directors together form the Executive
Committee. The Executive Committee supports the development of policy and ensures the alignment and implementation of key priorities and strategies across the organisation (Heineken International Company Communication, 2010).

Figure 1.6: Heineken management (Heineken International Company Communication, 2010)

1.6 BACKGROUND TO THE PROBLEM

Family businesses face some difficult challenges and hurdles. The generational transition and generational succession ranks amongst the most important tasks which family firms have to come to terms with (Hnatek, 2012). Only a third of all family businesses successfully make the transition to the second generation largely because succeeding generations either are not interested in running the business or make drastic changes when they take the helm (Le Breton-Miller, Miller and Steve 2004). The significant failure rate of family transitions highlights a number of concerns about family businesses in general, including the ability of these organisations to maintain a consistent value system and business philosophy.
Baskin (2011) argues that many business-owning families focus their attention on the transition of leadership in the business without thinking of what will happen in the family when the current family leaders are no longer present. There are peculiarities that are unique to the family business.

The family business is made up of three separate but overlapping systems according to Tagiuri and Davis as cited by Hilbert-Davis and Dyer (2003). The three systems are:

- the business system
- the ownership/governance system
- the family system

The overlapping of these three systems frequently tends to give rise to conflict (Hilbert-Davis and Dyer, 2003). Heineken Breweries has avoided most of the common problems associated with family owned businesses. According to Kumar (2012: 75):

> Heineken reported strong results for the first half of 2011, with family ownership of the company boosting the world’s third-largest brewer. The company’s revenues rose to €8.35 billion for the first six months of the year, up from around €7.5 billion for the same period in 2010. The company’s good results were influenced by rising demand from emerging economies, as well as the Heineken family ownership of the business....

This study sought to investigate the impact of succession on the performance of Heineken Breweries as a family owned business.

1.7 Research Questions

The following research questions provided a framework to answering the research problem:

- What is the management succession model followed at Heineken?
- What influences the appointment of family members to senior positions at Heineken?
• What have been the key management success factors that have propelled Heineken to its current status as a significant global player in the beer industry?

1.8 Significance of the Study
Every family business faces the reality that it will eventually end or have new managers. Family businesses have characteristics contributing directly to the difficulty of transferring management to the next generation. Of particular interest are characteristics which distinguish the management succession issues of family businesses from those of non-family businesses. Family businesses typically provide limited career growth opportunities for family members and employees given the small number of top managers and only one to three levels of management. Despite these and other numerous potential and real problems facing family owned businesses, Heineken has grown from strength to strength. This study will contribute to the available body of knowledge on managing succession for the sustenance of the family business.

1.9 Research Scope
The research broadly investigated the key factors that affect succession management in family owned business and specifically what has happened at Heineken.

1.10 Summary of Chapter
This chapter gave the background to family owned businesses, the beer industry and the Heineken Breweries. Family businesses are highlighted as among the most important contributors to wealth and employment in virtually every country of the world. Heineken Brewery (Heineken Brouwerijen) is a Dutch brewing company, founded in 1864 by Gerard Adriaan Heineken in Amsterdam. Heineken Breweries has existed, for almost 140 years and has been built and expanded as a brand and company by three generations of the Heineken family. In the global beer industry, Heineken Breweries is one of the two family owned businesses in the top five, based on volumes sold. Heineken has been described as a unique company and family
business. There is evidence of both familiness and other normal corporate arrangements.

The background to the research problem highlighted that family businesses face some difficult challenges and hurdles. Amongst the greatest family business challenges was highlighted as generational transition resulting in only a third of all family businesses successfully making the transition to the second generation. The research problem and research questions were stated. The scope of the research was also defined. This chapter closes with an outline of the rest of the report.

In Chapter 2 the researcher gives a critical review of literature related to the study. Chapter 3 discusses the research methodology that was used. In Chapter 4 the researcher describes the research data. Chapter 5 discusses the research findings. Chapter 6 of the report offers research conclusions and recommendations.
CHAPTER 2: Literature Review

2.1 INTRODUCTION
This chapter will review literature related to the problem area. According to Boote and Beile (2005) a literature review is an evaluative report of studies found in the literature related to the selected area. The review should describe, summarise, evaluate and clarify this literature. It gives a theoretical basis for the research and helps the researcher determine the nature of the research. The literature review is a selection of a number of works that are central to the topic area. In quantitative research, a literature review is a theoretical foundation that guides research by determining what variables to measure and what statistical relationships to look for. Trochim (2006) states that there are two realms involved in research—theory and observation. Theory is what goes on inside the heads of researchers while observation is what goes on in the real world or measures and observations. In conducting research, it is therefore critical to work between the two realms of theory and observation. The theory for this study has been selected on the basis of how best it explains the relationships among the research variables (Trochim, 2006).

According to Boote and Beile (2005), a literature review serves the following purposes:

- It assists to explicitly state the theoretical assumptions of the study;
- It connects the researcher to existing knowledge. Using relevant theories, the researchers will have a basis for his/her hypothesis and choice of research methods;
- Articulating the theoretical assumptions of a research study forces the researcher to address questions of why and how. The literature review helps the researcher to move from simply describing a phenomenon observed to generalising about various aspects of that phenomenon
- It helps to identify the limits to generalisations. A theoretical framework specifies which key variables influence a phenomenon of interest. It alerts the
researcher to examine how those key variables might differ in varied populations (Boote and Beile, 2005),

A literature review is conducted based on the assumption that people learn and build on what others have done before (Neumann, 2006). Creswell (2003) also argues that a literature review shares the results of studies with the readers that are closely related to the study being reported on. Furthermore, a literature review provides a framework for establishing the importance of the study as well as a benchmark for comparing the results of the study with other findings (Kirby, Greaves and Reid, 2006).

2.2 THE CONCEPTUAL FRAMEWORK

Researchers, scholars and practitioners in the family business field have cited the dominance of family owned businesses in the global economic landscape (Sharma, 2004). Despite this fact, family businesses still face challenges.

Succession in family businesses is based on a number of theories, notably: organisational and agency; systems; potential capability; agency; life-cycle and system and organisational learning and resource-based view theories. The agency, organisational learning and resource-based view theories will be central to this study. However, an overview of all the theories is necessary (Sharma, 2004; Subhash and Rani, 2004; Ward, 2007).

2.2.1 Organisational and Agency Theories

Subhash and Rani (2004) argue that organisational and agency theories offer a conceptual framework of the relationship between the company CEO and performance. This theory argues that companies with insider CEOs have a tendency of being more profitable than those with outsider CEOs.

2.2.2 Life-Cycle and System Theories

Life-cycle and system theories contend that successful transitions in family businesses influence performance. However, Smith (2005) argues that although
transitions are smooth when successors are better prepared, good relationships and succession planning are critical but they do not really result in better company performance.

2.2.3 Potential Capability and Systems Theories

A combination of the potential capability and systems theories evaluates performance after succession. The theory assumes that the success of the family business is attributable to differences with predecessors (King, 2003). The argument is that a successor’s potential capability, commitment and skills brought to the business are important for the firm’s performance. Commitment and skills brought to the business are also important.

2.2.4 Agency Theory

The Agency Theory is based on the idea that managers who are not owners will not watch over the affairs of a firm as diligently as owners managing the firm themselves. Williams and Firer (2005) presents the argument that the separation of ownership and control leaves shareholders with little or no control over the actions of a company’s managers. Williams and Firer (2005) formalises this conflict of interest arising from the separation of ownership and management and referred to it as a “principal's and agent’s problem” (Tsikriktsis, 2002: 35). The Agency Theory provides the explanatory framework with which to examine hypothesised relationships and builds a model for understanding the distinction between family and non-family businesses. There are other variables linked to the Agency Theory, notably altruism and entrenchment.

2.2.4.1 Altruism

In altruism, family members weigh the payoffs to relatives in their decisions in proportion to their relatives' degree of relatedness. The theory shows that family management entails both costs and benefits. A family bond between owners and managers leads managers to partially internalise owners' gains from their actions and thus reduces agency conflicts over ex ante decisions (Noe, 2012). Family
control is characterised by lower formal compensation of managers, more informal compensation through diversion as well as better alignment of firm/manager effort incentives. Whether the costs or benefits of family governance dominate depends on the institutional environment in which the family business operates. Kin relatedness and governance institutions are complements (Noe, 2012).

Altruism describes a moral value that motivates individuals to undertake actions that benefit others without any expectation of external reward (Karra, Tracy and Phillips, 2006). Researchers therefore suggest that family firms should, by virtue of their intra-familial altruistic element, be exempt from problems of agency (Tsikriktsis, 2002). Poza (2004) says that family firms are qualitatively different enough from non-family firms as to make formal governance unnecessary and at times even counterproductive. However, Chrisman, Chua and Litz, (2005) and Schulze, Lubatkin and Dino, (2003) view this characteristic as particularly troublesome and argue that family enterprises are uniquely predisposed to internal dysfunction, in large part due to the autonomy of the controlling shareholders in the decision making process.

Schulze et al. (2010 and 2003) further show how a tendency toward altruism can manifest itself as a problem of self-control and create agency costs in family firms due to free riding, biased parental perception of a child’s performance, difficulty in enforcing a contract and generosity in terms of perquisite consumption, which may ultimately result in a decrease of shareholders’ investments.

2.2.4.2 Entrenchment

Management entrenchment permits managers to extract private benefits from owners. It may take place in family firms especially with family successors. Morck and Yeung (2004) argue that since entrepreneurial spirit and talent are not necessarily inherited by up-coming generations of a controlling family, it is much easier for next generation successors to use their wealth and influence to obtain competitive advantages through political rent seeking rather than through innovation and entrepreneurship.
Poza (2004) states that family firms have advantages in incentives and monitoring when compared to non-family firms. Subhash and Rani (2004) suggest that family ownership and management can add value when the political and legal systems of a country do not provide sufficient protection against the expropriation of minority shareholders’ value by the majority shareholder.

From the above arguments, both altruism and entrenchment can be used either in favour of or against family ownership of business.

2.2.5 Views about Agency Theory

The following section discusses the views about the Agency Theory:

2.2.5.1 Resource-based View (RBV)

RBV explains the long-run differences in firm performance that cannot be attributed to industry or economic condition (Smith, 2005). It suggests that a bundle of resources, rather than the product market combinations, lies at the heart of a firm’s competitive advantages. This approach requires that the firm be seen not through its activities in the product market, but as a unique set of resources that are complex, intangible and dynamic. Smith (2005) proposes that: The resource-based view of the firm substitutes two alternate assumptions in analysing sources of competitive advantage. First, this model assumes that firms within an industry (or group) may be heterogeneous with respect to the strategic resources they control. Second, this model assumes that these resources may not be perfectly mobile across firms and thus heterogeneity can be long lasting.

A firm’s resources are defined as stocks of available factors that the organisation owns or controls (Smith, 2005). Capabilities refer to a firm’s capacity to deploy resources, usually in combination and applying organisational processes, to generate a desired result. Capabilities are information-based, tangible or intangible processes that are firm-specific and developed over time through complex interactions among the firm’s resources. Unlike resources, capabilities are based on
developing, carrying and exchanging information through the firm’s human capital (Smith, 2005).

Family owned businesses are viewed as unusually complex, dynamic and rich in intangible resources. Hui-Hong and Tan (2004) argue that the resource-based view therefore provides researchers in the field of family business with an appropriate method for analysing them. Family businesses present some strategic resources and capabilities that may bring about competitive advantages. Hui-Hong and Tan (2004) argue that a set of resources and capabilities that are distinctive to a firm as a result of family involvement is the “familiness” of the firm, which is defined as “the unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members and the business.”

Based on the resource-based view framework, Rowe, Tapies and Barbero, (2005) examined the impact of leader succession on organisational performance and found that leader succession did affect performance and that leaders did not matter, but timing seemed to be important in succession and that leader’s needed time to develop organisation specific skills.

Research on family firms suggests that they outperform non-family firms (Nordqvist, 2005; Miller and Le Breton-Miller, 2005; Villalonga and Amit, 2004). Despite this, family business succession remains a black box and among the most critical research questions facing family business researchers. Despite a plethora of research in this area, succession rates among family businesses remain low (Nordqvist, 2005; Miller and Le Breton-Miller, 2005; Villalonga and Amit, 2004).

2.3 FAMILY BUSINESS

Several attempts have been made to create a unified definition of family business, grounding the discussion in the belief that family plays an important role in creating and determining the vision, control mechanisms and resources used in a family firm and should therefore distinguish the entity from non-family firms (Brockhaus, 2004). Ashtrachan and Shanker (2003) offer a more holistic view of three possible definitions of family business that include a broad, middle and narrow definition of
the family firm. Since this study is based on succession in the family business, the middle definition of Astrachan and Shanker (2003) that views a family firm as a business that a family member runs and has the intention of passing onto another family member is preferred. Under the above definition, Astrachan and Shanker (2003) argue that in the United States of America, for example, family owned businesses formed 58% of the workforce and 59% of the GDP.

At the very onset one has to recognise that there are two established but contrasting systems at work in a family business, i.e. the family system and the business system. Sharma and Irving (2005) suggest that these two systems are an Achilles’ heel for the family business because the systems are both established but not necessarily compatible. Graetz and Shapiro (2005) further explain the two systems by emphasising that family is based on emotion, nurturing and security, but a business revolves around productivity, accomplishment and profit. This combination makes the family business uniquely different from other non-family owned businesses.

According to Chen (2008), a family business is defined as an organisation whose major operating decisions and plans for leadership succession are influenced by family members serving in management or on the board. This definition can be further analysed by breaking it into two component elements, notably:

- an organisation whose major operating decisions are influenced by the family members serving in management or on the board; this part of the definition refers to governance of the business; and
- plans for leadership succession are influenced by the family members serving in management or on the board; this part of the definition refers to succession/intergenerational transfer of the business.

Hambrick and Chen (2008) identify the following criteria, as qualifiers for an organisation or an entity as a family business:

- Employees: more than one family member working in the company (paid or not);
- Career development: career decisions of the family are influenced by the business;
- Succession: family relationships have influence on management succession;
- Governance: family members hold key positions or majority control of the board of directors;
- Values: family values impact business philosophy;
- Linkage: absence of clear demarcation between family and business; and
- Shared responsibility: family shares a sense of responsibility for the business.

Whilst there are a host of definitions describing the family business found in the literature, there is not one widely accepted definition. Abbott (2001) notes that there is no consensus on the definition of family enterprise in the research or teaching and consulting communities; among journalists and even those running a family business. Venter, Kruger and Herbst (2007) show the range of family business definitions in tabular format, separating orthodox theories from heterodox theories. They also state that the definition provides a guideline for causalities and link information (Venter et al., 2007).

Johnston (2008) says the primary criterion for defining a family business has been ownership. Some authors would insist that at least 50% of ownership should reside in one family for it to be considered a family business. Other scholars such as Donckels and Frohlich (2007) require 60% or more equity in the family business. Others, however, say that ownership can be substituted by other factors such as management control or management influence. When family members influence the direction of the business even though they may own less than the majority of the stock, the firm may be considered a family business. Johnston (2008) further points out that when a significant number of family members sit on the board of directors or are part of senior management, then the company is a family business.

A family business is also defined through what is referred to as F-PEC scale, that is, the family influence on power, experience and culture (Astrachan, 2005). “Power” is understood as the level of ownership and strategic/managerial control. “Experience” means the cumulated experience the family has brought into the business, that is,
the number of generations in charge of ownership and management over time. “Culture” deals with the values and the commitment of family members towards the enterprise (Astrachan, 2005: 83).

2.3.1 The Benefits of Family Business

Walsh (2011); Astrachan (2005) and Grant (2010) agree that there are many benefits to being a family in business, although, far too often, family business is portrayed (especially in the media - Walsh, 2011) as being plagued by intergenerational and sibling conflicts, fiscal irresponsibility, incestuous hiring and promotional practices and ongoing legal battles among shareholders.

The benefits derived from being a family in business depends on the makeup and size of the family as well as its stage of evolution (i.e., first, second or third generation – Walsh, 2011). The following are highlighted as some of the benefits that can provide a significant competitive advantage to family businesses (Walsh, 2011):

- **Loyalty** – Family members usually demonstrate a greater sense of loyalty to each other and to the business. They also tend to show more commitment to the business’s success and are more passionate about what the business stands for).

- **Legacy** – Families in business have an opportunity to create a lasting legacy that brings with it a sense of accomplishment and a strong sense of pride. Building on the efforts of their forefathers is a strong motivator for subsequent generations to become stewards of the family business and carry it to new heights in the name of the family).

- **Labour pool** – Multigenerational family businesses have access to a labour pool of family members who, as previously mentioned, tend to be more loyal and more committed to the business. Family members also tend to be more flexible in taking on different job functions and filling in for others.
Key employees – Key employees (non-family) appreciate and enjoy the unique work environment created by a family in business. The workplace tends to be less formal, more hands on and more personable. Many key employees are treated like extended family and develop a strong bond with the family and the family business.

Patience – Family businesses tend to be less driven by short-term financial results and are prepared to sacrifice short-term gains for the achievement of longer-term goals. This allows the businesses to align the deployment of resources with their strategic objectives. This long-term approach to investing is often referred to as “patient capital.”

Values – Family business owners have the opportunity to teach and pass along their business and personal values to the next generation of family managers/owners. Family members take pride in upholding these family values and build them into their day-to-day work and personal activities. The work culture is often a reflection of these family values.

Career opportunities – Family business owners pride themselves on being able to provide family members with career opportunities in the business. The family business can be a great training ground for family members who aspire to pursue business careers elsewhere or within the family business. Family members are also provided with the opportunity to become managers and owners of the family business.

Relationships – The opportunity to work with family members to pursue common business goals can be a very rewarding experience. Years of bonding among family members can create a strong sense of belonging and interdependency. Effectively managing these family relationships will go a long way in ensuring long-term family and business harmony.

Financial rewards – Successful family businesses are able to provide financial rewards to both active and non-active family members. It is not uncommon for
family businesses to reward family members more than they could obtain elsewhere. This is often viewed as one of the privileges of being family.

- Succession – As well as providing career opportunities, family businesses also favour passing the business along to the next generation of family members. The opportunity to be an owner of the family business or of any business for that matter can be both motivating and rewarding.

- Community and philanthropy – Most family businesses are active in their communities. The communities benefit from both the family members as volunteers/supporters and from the family business through financial support and employment opportunities. This commitment to the community tends to permeate the generations and provide family members with the opportunity and rewards that stem from this ongoing community support.

2.3.2 Challenges of Family Business

Walsh (2011); Astrachan (2005); and Grant (2010) further identify challenges that afflict family businesses of which the most common are: Resolving conflicts among family members who are in the business; Formulating a succession plan; developing a strategic business plan; and developing a retirement and estate plan.

- Conflicting goals/values – Family members, especially between generations, can have different personal and business goals/values. These goals/values need to be clearly expressed and understood by all, to avoid unnecessary stress and potential conflict among family members (Walsh (2011); Astrachan (2005); and Grant (2010)).

- Conflicting personalities – Everyone is different. Different personalities can often lead to sibling rivalries and intergenerational conflicts. Left unattended or unmanaged, they can destroy family and business harmony and in some cases, destroy the business (Walsh (2011); Astrachan (2005); and Grant (2010)).
- Expectations – Family members have different expectations from the family and from the business. Expectations with respect to employment, management, ownership, compensation, work assignments, training, use of business assets, etc. will vary among family members. These expectations need to be addressed and managed in order for the family and the business to operate smoothly. Left unattended or unmanaged, they will negatively impact family and business harmony and challenge the long-term survival of the business (Walsh (2011); Astrachan (2005); and Grant (2010)).

- Work ethic – The work ethic tends to differ significantly as the family business moves through its generations. The newer generations tend to be less prepared to invest the kind of time their parents invested in the business. This can cause considerable stress and disaccord between the generations and can also unnecessarily delay the transition of both management and ownership (Walsh (2011); Astrachan (2005); and Grant (2010)).

- Employment of family members – Who gets to work in the family business? Who gets what jobs? Can spouses and in-laws work in the business? Will employment be based on what the families want (bloodline) or what the business needs (competencies)? How are these employment decisions made? If not effectively addressed, all of these issues can turn into liabilities for both the family and the business (Walsh (2011); Astrachan (2005); and Grant (2010)).

- Compensation – Compensation and the inappropriate use of compensation to achieve family or personal goals instead of business goals continues to be one of the most challenging issues facing family businesses. The expectations to be fair are often in conflict with the desire to treat family members equally. Emotions can run high when this topic is addressed (Walsh (2011); Astrachan (2005); and Grant (2010)).
2.4 IMPACT OF THE FAMILY COMPONENT ON THE BUSINESS

The Three Circle Model (Walsh, in Family Business, 2011) outlined below in Figure 2.1 is often used to illustrate the interaction/impact of the family component on the management and ownership of family businesses. The Three Circle Model is represented by the ownership circle, the management circle and the family circle. The ownership circle represents the interaction/impact that the owners have on the family and on the management of the business. The management circle represents the interaction/impact that management has on the family and on the ownership of the business. The family circle represents the interaction/impact that the family has on the management and ownership of the business (Walsh, in Family Business, 2011).

![Three Circle Model Diagram](image)

Figure 2.1: The three circle model, Institute of Family Business, 2011

2.5 SUCCESSION/ INTERGENERATIONAL TRANSFERS IN FAMILY BUSINESSES

Since business and family are two distinct systems, the interrelation between family and business may cause certain tensions and distortions, usually with opposing
objectives and needs (Abbott, 2001). Therefore, it has been traditionally assumed that family members involved in the ownership and/or management of a company usually behave in a way that differs from the general dynamics of organisational behaviour (Cabrera-Suárez, 2004).

2.5.1 Family Business Stakeholders

Succession requires the involvement of several players within the family firm. Sharma, Chrisman, Pablo and Chua (2001); Cabrera-Suarez (2004) and Cadieux (2007) identify and differentiate the perspectives of various stakeholders that make up a family business in order to understand the impact succession has on a family business. The stakeholders are divided into four different contingencies: family, owners, managers and people external to the firm; with each contingency having different goals and expectations but the overlapping and intermingling goals and expectations of the family, management and ownership contingencies being particularly important in family business succession matters (Sharma et al. 2001; Cabrera-Suarez, 2004 and Cadieux, 2007).

This study focuses more on the roles of the founder and successors, which are the two most critical stakeholders in the succession process (Cadieux, 2007).

2.5.1.1 Founders/Incumbents

The term founder denotes the family member from the family business’s first generation that has majority ownership and managerial control over the firm (Cadieux, 2007). An incumbent in generations following the first generation of the family business is the family member in the business that holds the most managerial control and typically holds majority ownership (Cadieux, 2007). The founder and incumbent play very similar roles with the only major difference being the generation he or she is from. Recognising that there is a very low survival rate when transitioning leadership from the first generation to the second (Cabrera-Suarez, 2004), in this study, the term “founder” describes the family member in charge, unless the situation warrants that the term “incumbent” be used to point out that the business has made it past the first succession.
2.5.1.2 Successors

A successor is the family member who assumes managerial control and eventual ownership control of the family business after the founder steps down or leaves the family firm (Cabrera-Suarez, 2004; Fagerberg and Verspagen, 2009). There can also be a potential successor who is a family member that has the necessary traits and willingness to potentially take over the family business but has not or did not assume leadership of the business. Cabrera-Suarez (2004) further extrapolates that the more a next-generation successor has achieved fulfillment of career interests, psychosocial needs and life stage needs in the family firm, the more likely the individual will experience a positive succession experience.

2.5.2 Succession

Succession is widely recognised as the most important issue that most family firms face (Fagerberg and Verspagen, 2009). Sharma et al. (2001) observe that succession planning in family business is the deliberate and formal process that facilitates the transfer of management control to a family member, which helps in the transition process as it preserves organisational memory.

Family business succession is the process of transitioning the management and the ownership of the business to the next generation of family members. The transition may also include family assets as part of the process. Family members typically play a controlling role in both the management succession as well as the ownership succession (Zald, 2002). As such, the effective integration and management of the family component will have a determining effect on the success of the succession process (KPMG, 2011). In the context of family business, succession involves the transference of leadership for the purposes of continuing family ownership (Zald, 2002). For a family business to outlive its founder, it must experience succession. In other words, succession constitutes the central issue that must be addressed in order for the family business to survive and be passed on through generations (Graetz and Shapiro, 2005).
The close family relationship between employees affects business decision-taking and may give rise to power struggles, nepotism, lack of professionalism and generally, from a purely rational and objective point of view, less than optimum top management behaviour (Cabrera-Sua´rez, 2004). One of the main problems of family firms is related to leadership succession and the development of capable successors. It is clear from the literature that leadership succession is an important variable for the understanding of the organisational processes given that succession is usually followed by changes in the organisation (Miller and Rice, 2003; Cabrera-Sua´rez, 2004). Succession is considered an indicator of the future of the business, since the successes and failures of the CEO are frequently linked to those of the company (Cabrera-Sua´rez, 2004).

2.5.3 The Succession Process

Two new models of CEO succession are identified: one where the Board actively partners with the incumbent CEO and the other – a crisis model – where the Chairman and the Board assure the active management of the succession process. In both cases, best practice is for the Board to develop its own assessment criteria (International Journal of Business Governance and Ethics, 2007). A 'best practice' profile is suggested. Good assessment processes then focus on understanding the candidate, identifying data gaps, looking at evidence of predicted future performance and identifying development priorities. The final stage of the process is transition planning. A process for CEO succession is proposed and a number of principles for effective succession are put forward (International Journal of Business Governance and Ethics, 2007).

Researchers have characterised succession as a process rather than an event (Miller and Rice, 2003 and Cabrera-Sua´rez, 2004). This notion indicates that succession does not just happen with a management change or transfer of stock; as all participants in the succession process must devote much time and commitment to the process. There are varying definitions of the succession process but Sharma et al. (2001) definition is probably the most applicable to this study because it does not limit itself to one type of succession scenario and takes a very holistic approach by
defining the succession process as the actions, events and developments that affect the transfer of managerial control from one family member to another.

Cadieux (2007) argues that while family business scholars generally agree that succession is a process, many have proposed different variations of the process.

The scholar’s process generally breaks succession into four stages, notably:

- the four-stage life cycle that approaches family business succession by focusing in on the founder and successor;
- the four-stage model that examines the adjustment of roles between the incumbents and successors; and
- a combination of these models (Cadieux, 2007).

It is critical to note that each of the four stage models examines the role adjustments of successors and founders. There are, however, other factors to consider in the succession process, such as timing. Relationship factors and timing can have a dramatic effect on succession (Cadieux, 2007).

Miller and Rice (2003) remarked that a vast body of literature suggests that top management succession is an especially challenging event for all kinds of firms. They continued by highlighting a key indicator that is sensitive to the succession announcement of the top management is stock prices. Miller and Rice (2003) further indicate that the stock prices will react either positively or negatively depending on the succession announcement.

Gulati (2007) identifies two ways to appoint CEO’s in any firm, that is, either:

- To appoint an insider to takeover or
- To appoint an outsider to take over.
2.5.3.1 Appointing an insider as CEO

This may be accompanied by little change in the top management team. Graetz and Shapiro (2005) suggest that insider successions were found to presage periods of continuity, especially if the previous CEO remains as a board member.

2.5.3.2 Appointing an outsider as CEO

Outsider successions, by contrast, could elicit too much change, as someone with a new perspective tries to leave their mark. Outsiders also may promote indecision and vacillation, as rookie CEOs grope to find their way (Miller and Rice, 2003, Graetz and Shapiro, 2005). These ways of appointing CEOs are also reflected in the family business. Therefore, in the family business intergenerational successions might well mirror these reactions of too much or too little change. Furthermore the unusually strong influence exercised by leaders of family businesses and the intimate relationship and vast experience gaps between the old and new leaders might render these reactions more extreme (Graetz and Shapiro, 2005). Reactions from an immature successor may include overdependence and conservatism, rebellion and excessive change, or ambivalence and confusion (Fraley, Brumbaugh and Marks, 2005). One reason for such extremes is that an intergenerational succession creates an unusually large age and experience gap between old and new CEOs, often 25–30 years (Miller and Rice, 2003). This gap in the immaturity of the successor and emotion-fraught parental relationships makes dysfunctional reactions of submission and rebellion all the more likely (Miller and Rice, 2003).

Venter et al. (2007) suggest that the quality of the successor’s relationship with the founder is a critical determinant of the succession process and is influenced by mutual respect and understanding and sensitivity to each other’s needs. Not only does the successor’s relationship with the owner-manager influence the perceived success of the succession process, but also his relationship with his siblings. As important as it is for the owner-manager to be willing to hand over the business to a successor so too must the successors display an interest and willingness to want to manage the family business. This willingness to take over the family business may be influenced by how well the successor’s career interests and other personal needs
are aligned with opportunities in the business; whether the opportunity exists to exercise business. On the other hand, owner-managers who develop strong interests in activities other than the management of the family business generally have an easier time planning their succession.

Miller and Rice (2003) identified some areas where poor intergenerational succession might manifest via strategy, organisation and governance. These authors then tabularised the mentioned areas against what they term the succession patterns, as shown in the Table 2.1 below.

<table>
<thead>
<tr>
<th></th>
<th>Conservative</th>
<th>Wavering</th>
<th>Rebellious</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td>Stagnation; Risk Aversion and Insularity.</td>
<td>Indecisive, inconsistent, start-stop</td>
<td>Revolutionary change – often far for its own sake</td>
</tr>
<tr>
<td><strong>Organisation and Culture</strong></td>
<td>Tradition-bound; Bureaucratic; Centralised</td>
<td>Confused culture, Conflict-ridden units</td>
<td>New units, new rules, chaotic organisation</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>Old guard still powerful</td>
<td>Mix of old and new managers</td>
<td>Significant turnover; new sheriff in town</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>Loss of market share, dying markets</td>
<td>Abortive Projects; Shrinking Margins</td>
<td>Cost and expenditure overruns</td>
</tr>
</tbody>
</table>

A brief analysis of each of the succession patterns is provided.

2.5.4 **Conservative Succession Pattern**

The new CEO remains in many ways dependent on the old - even after the latter has quit or died. So the shadow of the parent lingers. As a result, a period of strong leadership may be followed by one of conservatism in which strategies and organisations are locked in the past (Miller et al., 2003; Nicholson, 2008).
2.5.5 Wavering Succession Pattern

Wavering successors are characterised by indecision. They want to make their mark on their firms but are uncertain as to how. On the one hand, they respect the policies and traditions of the founders. On the other, they wish to exert influence and show their independence. In addition, they vacillate between these attitudes, manifesting doubt and reversing their own initiatives (Afghan, 2007).

2.5.6 Rebellious Succession Pattern

In rebellious successions, a new CEO rejects the legacy of the prior generation. There is wholesale eradication of the past and its practices. Rebellious successions are rarer than those of conservatism or wavering because normally, renegade offspring decide not to go into the business or are discouraged from doing so by the older generation. But if rebels do ascend to power, they want to do things very differently from the "old man. "Succession is the ultimate test of family business (Bocatto, Gispert and Rialp, 2010), where the fundamental challenge is achieving succession success. Venter et al. (2007); Boshoff and Maas (2003) attempted to bring clarity to the aspects that will ensure a successful intergenerational succession in family businesses.

2.5.7 Why Succession Does Not Occur

De Massis, Chua and Chrisman (2008) argue that little systematic attention has been paid to factors that prevent transfer of managerial control from one family member to another. They paid a lot of attention to how incumbents, successors and non-family stakeholders can prevent succession but essentially narrowed it down to three exhaustive but not mutually exclusive direct causes, notably:

- All potential family successors decline management leadership of the business;
- The senior generation rejects all potential family successors; or
- The senior generation decides against family succession even if willing and acceptable family successors exist.
It is important to recognise how the relationships between key stakeholders such as founders and successors can play in the succession process. Family business research suggests that the person most responsible for the continuity of the family business is the founder, since he/she is the only stakeholder that is part of all three contingencies central to a family firm (De Massis et al., 2008). When it comes to succession, many founders frequently develop a complex set of rationalisations and compromises that prevent them from engaging in succession planning, have ambivalent feelings towards succession, or inadvertently sabotage potential successors (De Massis et al., 2008).

Other researchers and practitioners say that one of the most significant factors that determine continuity of the family firm from one generation to the next is whether the succession process is planned (Dyck, Mauws, Strake and Mischke, 2002 and Venter and Boshoff, 2005). Despite the rational reasons for planning succession, research suggests that leadership succession is seldom planned in family businesses. Founders are often reluctant to plan the succession process (Ibrahim, Soufani and Lam, 2001). Unless the succession process is a sudden or forced event, the process should be thoroughly planned (Dyck et al., 2002).

2.5.8 Successors in Theory

One of the few theories that have a strong focus on the successor’s role in the succession process is Venter, Boshoff and Maas’ (2005) successor-related factors theory. Venter et al. (2005) research measured the success of the succession process using two conditions: satisfaction with the process and continued profitability of the business. The successor-related factors theory advances the succession literature by focusing the spotlight more on the successor as seen in the Figure 2.2 below:
The above theory indicates that the successor’s willingness to take over, preparation level and relationship with the founder influence the succession process. However, the successor-related factors theory heavily relies on founder-centric constructs, limiting itself to succession that are very linear in nature, while examining the perception of success instead of the reality of success.

Venter et al. (2005) propose that in order to close the gap between perception and reality, future research could be designed to collect field data on what is actually done in family businesses to plan for succession. The goal is to understand several types of succession, especially those that do not follow a linear succession process.

In the emerging field of family business, the most desirable characteristics successors can possess are ability, experience, willingness and commitment to the business (Cabrera-Suarez, 2004). The successor characteristics can be viewed in two all-encompassing categories, notably: the level of successor commitment to the continuation of the family firm and the various capabilities that successors possess. The topic of successor commitment and capabilities can be explicitly summarised in the Figure 2.3 below:
2.5.9 Heineken’s Position as a Family-Owned Business

Although Heineken has grown into a large global corporation with diverse nationalities leading various regional operations, the company has still remained a family-owned business. Four generations of the Heineken family have been actively involved in the expansion of the Heineken brand and the Heineken Company throughout the world and the passion of the family remains as strong today as it was in 1864 when they first started brewing beer (Jacobs, 2006).

2.6 STRATEGIC MANAGEMENT ASPECTS TO SUCCESSION IN FAMILY BUSINESSES

Despite their unique features, family owned businesses, like any other businesses, are subject to a number of generic management issues. The fact that the Heineken family business is structured in a unique way where corporate governance is central, the discussion on business management-related issues becomes relevant here. This section discusses related strategic management areas relevant to the Heineken business.
2.6.1 Strategic Management

Strategic management consists of the analysis, decisions and actions an organisation under takes (Gregory, Lumpkin and Taylor, 2005). Ackermann et al. (2005: 175) view strategic management as:

A way of regenerating an organisation through continuous attention to a vision of what the people who make up an organisation wishes to do. It is a proactive process of seeking to change the organisation, its stakeholders (in as much as they are different from the organisation) and the context, or ‘environment,’ within which is seeks to attain its aspirations.

Strategic management thus, is the coherence of resources (people, material, financial or technological) for the sustained performance of the organisation.

2.6.2 Mission

An organisation’s mission is a Statement of Strategic Intent (SSI) (Ackermann et al., 2005). Ackermann et al. (2005) refers to a mission statement as a ‘call to arms’ or ‘battalion flag’, which is a powerful motivator for strategic change.

Ackermann et al. (2005,) argue that for a Statement of Strategic Intent (SSI) to have an impact upon others in the organisation, it should be inspirational and emotional. It should also express key strategies for delivering the goals. Organisational values and standard behaviour patterns of staff should also be articulated in the SSI. Lynch (2003) alternatively views the purpose (mission) of an organisation as shaped by vision, leadership and ethics. There should be a clear process of moving from purpose to mission and objective through stakeholder engagement.

2.6.3 Strategy

Ackermann et al. (2005) argue that the organisation determines its strategic future through managers habitually acknowledging its reality. An organisation’s strategy is closely linked to its mission/purpose. Strategy therefore is: a sense of purpose; an
act of looking ahead; a plan; a position; fit; leverage and stretch (Hannagan, 2002). Slack et al. (2001) concur with Hannagan that business strategy is more than a single decision; it is the total pattern of the decisions and actions that position the organisation in its environment and that are intended to achieve its long-term goals. Johnson and Scholes (2002) offer a more detailed view of strategy as, 'the direction and scope of an organisation over the long-term, which achieves advantage for the organisation through its configuration of resources within a changing environment and fulfill stakeholder expectations.'

Johnson and Scholes’ (2002) view of strategy is the kingpin of this research since it covers issues of: strategic fit- the developing of strategy by identifying opportunities in the business environment and adapting resources and competencies so as to take advantage of these; and, stretch – which is the leveraging of resources and competencies of the organisation to provide competitive advantage.

2.6.4 The Heineken Family Strategy

Heineken aims for sustainable growth as a broad market leader and the company aims for segment leadership. In both cases, the Heineken brand plays an important part. Heineken has established broad leadership usually by acquiring strong brands, which are combined into a new, larger company. Offering training to the employees, improving the organisation and introducing new technology then reinforces the positions of the local beers. This results in economies of scale that create a distribution network for both the local beers and Heineken beer. If a market is already in the hands of other brewers, the company devotes all its energy to developing a premium segment with Heineken beer and if feasible, specialty beers (Heineken International Company Communication, 2010). The goal of Heineken is to grow the business in a sustainable and consistent manner, while constantly improving profitability. The four priorities for action include:

- to accelerate sustainable top-line growth;
- to accelerate efficiency and cost reduction;
- to speed up implementation: we commit to faster decision making and execution; and
• to focus on those markets where we believe we can win (Heineken International Company Communication, 2010).

2.6.4.1 Cornerstones of Heineken Strategy

Heineken’s strategy success hinges on four (4) pillars, notably: Leadership Development; Talent Management; Performance Management and Rewards. Heineken business grows in scale and complexity with people as the main source of competitive advantage. Heineken thinks globally; works collaboratively; inspires others; and develops individuals and teams. Heineken ensures that all its people speak in a common language and build on its capabilities in a systemic way (Heineken Annual Report, 2012).

2.6.4.1.1 Heineken Leadership Development

Heineken’s Annual Report (2012) points out that the company’s culture – the way people behave and how they work together, defines the company’s ability to win. The company invests in building a high-performance learning culture that fosters personal leadership, interdependence and disciplined professionalism among more than 85,000 employees worldwide (Heineken Annual Report, 2012).

A key step in building leadership capability at Heineken is the way the company clearly frames what it expects from leaders in order to execute the company strategy. In 2012, Heineken launched six new Heineken Leadership Competencies in order to equip its leaders with a common understanding of what is expected of them in their roles. The new framework is complemented by an online Leadership Academy which contains further tools and an updated leadership 360˚ feedback process with structured coaching and follow-up (Heineken Annual Report, 2012). The Heineken flagship development programs for Heineken talents, notably: the INSEAD-based Heineken International Management Development Excellence Course (HIMDEC); and the Heineken International Management Course (HIMAC) are updated to align with the new leadership competencies and the country’s current strategic challenges. In 2012, we developed more than 140 nominated leaders through these programs (Heineken Annual Report, 2012).
In order to develop functional capability and competencies, Heineken implements common language, processes and systems across all its global functions. These competency frameworks are linked to a range of blended learning offers via an integrated e-learning platform for all Heineken functional and leadership academies. In the process, Heineken has developed and implemented the Leadership Model below in Fig 2.4:

Figure 2.4: The Heineken leadership model, Heineken International Report, 2012.

2.6.4.1.2 Talent Management

Heineken strives to improve processes to manage the talents of the organisation. There are Resource Committees which oversee Senior Management resourcing and succession planning. In addition, Heineken continuously embeds Personnel Development Plans (PDP) across the Company to develop a career framework definition which is deployed in successive financial years (Heineken Annual Report, 2012).
2.6.4.1.3 **Performance Management**

Performance management has been a key focus across Heineken over the years. Specifically, there has been a new performance management structure for senior managers creating a clear distinction between the short-term variable pay agreement for bonus calculation and an Annual Performance Agreement which rewards individuals based on how they achieve their objectives (Heineken Annual Report, 2012).

2.6.4.1.4 **Reward**

Heineken educates all its HR managers on the key drivers of personnel cost management and has increased the focus on effective senior manager rewards, sales compensation schemes and pension plans. Key achievements have been: monthly reporting on personnel cost developments; an updated senior manager reward policy; comparisons of sales compensation schemes; and, a mapping of pension plans of the 20 largest operating companies (Heineken Annual Report, 2012).

2.7 **Chapter Summary**

The chapter reviewed literature related to the research problem. A literature review was described as an evaluative report of studies found in the literature related to the area study. The review described, summarised, evaluated and clarified this literature. The literature review was conducted to give a theoretical basis for the research and help determine the nature of this research. The literature review is a selection of a number of works that are central to the topic area. The literature review assisted to explicitly state the theoretical assumptions of the study; connected the researcher to existing knowledge; articulated the theoretical assumptions of the research; helped the researcher to move from simply describing a phenomenon observed to generalising about various aspects of that phenomenon and helped identify the limits to generalisations.
CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter explains the methods that were employed to conduct the research. It is critical to highlight that although complete control of all the aspects of the research is not always possible, these aspects still had to be planned in advance in order to achieve reasonable success in all aspects where possible. Issues of research process/methodology, research philosophy, research approach, research strategy, data collection tool, pilot test and research constraints are explained in this chapter.

3.2 AIM AND OBJECTIVES

The aim is to gain understanding into the succession philosophy at Heineken Breweries as a family owned business and to determine what the impact of Heineken family members are in the management of Heineken Breweries. An important aspect of this investigation is also to identify the management factors that has propelled Heineken Breweries to the status of a significant global brewer.

The following objectives were addressed by the study:

- To establish what the management succession model that is followed at Heineken;
- To establish what the impact of appointing family members to senior positions has on the organisation;
- To establish the key management success factors that has propelled Heineken to its current status as a significant global player in the beer industry.

3.3 RESEARCH METHODOLOGY

Research methodology is the process of striking a compromise between suitability and feasibility (Neuman, 2006). The research methodology adopted depended on the available resources and the time frame.
3.4 RESEARCH PHILOSOPHY

There has to be a philosophy to each research process. Positivism and phenomenology are two views that underpin research philosophy (DeMatteo, Festinger and Marczyk, 2005). This research’s philosophy was positivism.

Positivism is associated with the thinking of the natural scientist where one chooses to work with the observable social reality. The main principle of positivism is that the end product of a research can be law-like generalisations. Positivism is deductive: it seeks to explain causal relationships between variables; it uses quantitative data; and it has a highly structured methodology that facilitates replication of findings.

3.4.1 Research Approaches/Strategies

The research philosophy informs the research strategy. Research strategies provide logic or a set of procedures for answering research questions (Bruce, 2006). There are basically four research strategies notably; inductive, deductive, retroductive and abductive.

3.4.1.1 Deductive Approach

This researcher chose the deductive approach because it is the dominant research approach in the natural sciences (Bruce, 2006). In the deductive approach laws provide the basis of explanation, permit the anticipation of phenomena, predict their occurrence and therefore allow them to be controlled. The laws in this research referred to theory that already existed. The approach also allowed for the collection of a sizeable sample that led to generalisations (Bruce, 2006).

3.4.2 Research Design

A research design is the process that links research questions, empirical data and research conclusions (Neuman, 2006; Bruce, 2007; DeMatteo et al., 2005). In this study, the research design was the general plan of how this researcher went about answering the research question(s).
The qualitative approach in this study helped the researcher to examine the complex interrelationships (Yin, 2009) in the area of succession in family businesses. This was also an exploratory research. Patton and Appelbaum (2003) point out that an exploratory approach is essential where there is no clear, single set of outcomes for creating new theory.

3.4.2.1 Survey Strategy

The survey strategy was adopted because it is the most commonly used in business and management research. It is also closely associated with the deductive approach. Based mainly on the questionnaire, the survey gave the researcher more control over the research process. The survey strategy allowed the researcher to collect data from a population in a highly economical way (Neuman, 2006; Bruce, 2007).

3.5 DATA COLLECTION PROCEDURES

3.5.1 Primary Sources of Data

The primary source of data were the Heineken executives since they interacted with the Heineken strategy on a day to day basis, hence they understood what their organisation’s background and strategic imperatives are.

3.5.2 Secondary Sources of Data

The Heineken strategy and reports were the key sources of secondary data. The obvious sources of secondary data such as business and marketing strategy books; journals and Internet documents were also used to provide an in-depth conceptual framework to the study.

3.6 DATA ANALYSIS PROCESS

The research data were manually analysed in order to draw conclusions relating to the problem. The data were analysed, interpreted and translated into statements, conclusions and summaries of the common and uncommon views of the research in order to demonstrate a clear understanding of the research problem.
3.7 POPULATION

The population of the study was made up of the Heineken executives in 70 countries. Due to resource constraints, 28 executives from the 70 countries were sampled. This was 40% of the population of Heineken Breweries. Sampling methods are classified as either probability or non-probability. The researcher used convenience sampling which is a non-probability sampling method. Convenience sampling was the easiest and most cost-effective method available (Neuman, 2006; Bruce, 2007) since the researcher simply selected for inclusion in the sample those Heineken country Brewery executives that were easiest to access. Upon clarification with SA Heineken Executive Management Team, the researcher distributed the Heineken Executive questionnaire to the HR’s in the Heineken Operating Companies (Opco’s). Twenty-four (24) questionnaires were returned representing an 86% response rate.

Table 3.1: Relationship between the research questions and the research tool used

<table>
<thead>
<tr>
<th>Research Question</th>
<th>Sub – Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To establish what the management succession model followed at Heineken is.</td>
<td>• How are you related to the Heineken Family?</td>
</tr>
<tr>
<td></td>
<td>• What is your Position in the Heineken Business structure?</td>
</tr>
<tr>
<td></td>
<td>• If Heineken was entirely family run, would it be performing better than other professionally run firms?</td>
</tr>
<tr>
<td>To establish what influenced the appointment of family members to senior positions at Heineken</td>
<td>• Are you aware of the Heineken family members who are in senior management positions in the company?</td>
</tr>
<tr>
<td></td>
<td>• What are the attributes for a family member’s promotion?</td>
</tr>
<tr>
<td></td>
<td>• Does firm performance influence the nomination of family and non-family members to top senior positions?</td>
</tr>
<tr>
<td></td>
<td>• Heineken has ensured competent family leadership across generations?</td>
</tr>
<tr>
<td></td>
<td>• The age of a family successor in company leadership impacts positively on the performance of the company?</td>
</tr>
<tr>
<td></td>
<td>• What factors influence the elevation of a family member to a senior position at Heineken?</td>
</tr>
<tr>
<td>To establish what have been the key management</td>
<td>• At Heineken, the interests of the founding family and those of dispersed shareholders are always aligned.</td>
</tr>
</tbody>
</table>
success factors that have propelled Heineken to its current status as a significant global player in the beer industry.

- At Heineken outsiders are trusted to maintain the family’s values and objectives.
- Heineken family members are trusted by public investors.
- Long-term performance will be superior with non-family successors at Heineken.
- Commitment and skills brought to the business yield company success whether it is a family owned or non-family owned.

Twenty questionnaires were emailed to regional HR managers based in Europe for onward transmission to those who were identified as Heineken family members. Only 8 questionnaires were completed and emailed back to the researcher. This was a 40% response rate.

3.8 PILOT STUDY

A pilot study/test of the data collection instruments was undertaken to enable the researcher to refine questions which respondents might have had problems answering. A pilot study was necessary since people were able to provide valuable critiques about the questionnaires format, content, expression and importance of items (Neuman, 2006, Bruce, 2006, DeMatteo et al., 2005). The pilot study was conducted on six (6) Senior Managers from Heineken Breweries, South Africa.

The pilot study enabled the researcher to assess the questions’ validity and the likely reliability of the data that was to be collected. Validity of measurement indicated the degree to which the test or instrument measured what it was supposed to measure, while reliability was concerned with the accuracy and consistency of the measuring instrument/tool (Bruce, 2007).

3.9 LIMITATIONS OF THE STUDY

The limitations of this study were, first, the study simply focused on succession in a family business. Other areas of family business could also have been investigated. The study was limited to Heineken Opco. executives only. The researcher could not travel to the different country breweries, thus willing senior Human Resources...
personnel from the country breweries were requested to conduct the research tool aspect of the study on behalf of the researcher. This severely limited the researcher’s ability to probe further the views that were raised by the respondents who were identified as Heineken family members. This study was conducted on those executives who were easily accessible and willing to participate in the study. It is therefore recommended that the conclusions presented in this study be further empirically investigated or tested.

3.10 DELIMITATION OF THE STUDY

The scope of the study was confined to Heineken Opco. executives in 28 countries.

3.11 ETHICAL CONSIDERATIONS

The researcher sought permission to conduct the study from Heineken Breweries, South Africa and Heineken International Human Resources executives. Informed consent was sought from all potential respondents. The purpose of the study was clearly explained to the respondents. Confidentiality and anonymity of respondents was guaranteed. The researcher also promised to disseminate the findings to Heineken International and Heineken Breweries, South Africa executives, if requested to do so.

3.12 SUMMARY OF CHAPTER

This chapter described the research methodology followed. Research methodology was described as the process of striking a compromise between research suitability and feasibility. The research philosophy was positivist while the approach was deductive. The survey strategy was used with both quantitative and qualitative data collection procedures being utilised.

Both primary and secondary sources of data were used in the study. The primary source of data were the Heineken executives since they interacted with the Heineken strategy on a day to day basis, hence they understood what their
organisation’s background and strategic imperatives were. Heineken strategy and reports were the key sources of secondary data. The obvious sources of secondary data such as business and marketing strategy books, journals and internet documents were also used to provide an in-depth conceptual framework to the study. The next chapter focuses on the data presentation and description.
CHAPTER 4: PRESENTATION OF FINDINGS

4.1 INTRODUCTION

This chapter presents the research findings from the survey. The findings are presented in tables, graphs and pie charts. The reliability analysis of the research tool is also discussed in this chapter.

4.2 ANALYSIS METHOD DEFINED

The Statistical Package for Social Science (SPSS) software program was employed to explain the reliability of the research questionnaire. The statistical package was used with the goal of being able to present the data in both the descriptive and inferential statistical forms. Thirty two (24 questions from the Heineken Executives and eight from the family members) completed questionnaire were returned and this data was analysed.

4.3 ASSESSMENT OF THE RESEARCH QUESTIONNAIRE

In this study the Cronbach’s Alpha coefficient was used to measure the reliability of the research tool. As per Table 4.1 below the Cronbach’s Alpha is 0.843, which is higher than the acceptable level of 0.7. This means that the questionnaire has a high reliability, so the research questions have a high correlation in what they measure.
Table 4.1: Case processing summary

<table>
<thead>
<tr>
<th>Scale: Research Tool Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Case Processing Summary</strong></td>
</tr>
<tr>
<td><strong>N</strong></td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Cases</td>
</tr>
<tr>
<td>Valid</td>
</tr>
<tr>
<td>Excluded</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>a. Listwise deletion based on all variables in the procedure.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reliability Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cronbach's Alpha</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>.843</td>
</tr>
</tbody>
</table>

4.4 PART A: HEINEKEN EXECUTIVES’ RESPONSES

In the following section the responses from the Heineken Executives are discussed.

4.4.1 Section A: Demographics of Heineken Executives

The majority of the Heineken Executives (a cumulative 14 or 58%) are in the 36-45 age group. Five (5) are in the 46-50 age-group while only two (2) of the executives are above the age of 50. Another three (3) respondents are in the 31-35 age-group. The Figure 4.1 below shows the age distribution of the respondents.
4.4.1.1 Period Served with Heineken

Six (6) of the executives said they had been with Heineken for between 1 and 2 years. Two (2) said they had served for 3-5 five years. Twelve (12) respondents said they had served for 6 to 10 years while four (4) respondents had served for over 10 years.

4.4.1.2 Respondents’ Positions/Designations at Heineken

Eight (8) respondents were Technical executives; two (2) Finance Executives; four (4) were HR Executives; six (6) Research and Development Executives and four (4) of the respondents classified themselves as Other Executives.
4.4.2 Section B: Issues of Heineken’s History

The first question in this section was on whether the Heineken history is part of the company’s induction program. Eight (8) respondents strongly agreed while four (4) agreed, giving a cumulative 12 (50%) positive responses. Six (6) respondents disagreed and four (4) strongly disagreed. Two (2) respondents were not sure whether the Heineken history is part of the induction program when they joined the company.

All the respondents indicated that they were aware that there were members of the Heineken family members who were in the company’s senior management positions. Respondents’ views on why Heineken family members occupied some senior management positions at Heineken were as follows: The majority of the respondents (14 or 58%) said the Heineken family members in senior positions were qualified in their jobs. Six (6) respondents (25%) said the appointment of the Heineken family members to senior positions was part of the Heineken family’s succession plan. Four
(4) respondents (17%) said Heineken family members were appointed to senior management positions simply because they were family.

Table 4.3: Responses as to why there are Heineken family members in the company’s senior management positions

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>They are simply family members</td>
<td>4</td>
</tr>
<tr>
<td>They are qualified in their jobs</td>
<td>14</td>
</tr>
<tr>
<td>It is part of the Heineken succession plan</td>
<td>6</td>
</tr>
</tbody>
</table>

On the question whether at Heineken, firm performance influenced the nomination of a family or non-family member to top positions, the following responses were found: Eight (8) respondents (33%) strongly agreed while six (6) (25%) agreed that firm performance influenced the nominations to top positions in the company. Four (4) respondents (17%) disagreed, while two (2) (8%) strongly disagreed. Four (4) respondents (17%) were not sure.

Figure 4.4: Responses to whether company performance influenced both family and non-family members’ nomination to senior positions

The last question in this section sought to establish whether Heineken had ensured competent family leadership across generations. The responses were consistent with the response pattern in the previous question.
Section C: Cultural, Alignment and Performance Issues at Heineken

The first question in this section sought to find out from Heineken executives whether the interests of the founding family and those of dispersed shareholders are always aligned. The Figure 4.6 below shows the distribution of responses.

A cumulative 50% of the responses were positive (33% strongly agreed and 17% agreed) while a cumulative 41% were negative. Eight percent (8%) of the
respondents indicated they were not sure whether the interests of founding family and the dispersed shareholders are always aligned.

On whether outsiders were trusted to maintain the Heineken family’s values and objectives, the responses were distributed as follows:

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>17%</td>
<td>59%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

A cumulative 76% (17% strongly agreed and 59% agreed) of the respondents were positive that outsiders were trusted to maintain the Heineken family’s values and objectives, while a total of 16% were negative. Eight percent (8%) of the respondents were not sure. On whether Heineken family members were trusted by public investors, a cumulative 20 responses (84%) were positive while two 2 (8%) were negative. Another two 2 (8%) were not sure whether Heineken family members were trusted by public investors.

On whether Heineken would be performing better than other professionally run companies if it was entirely family run, respondents were emphatic in disagreeing. Figure 4.7 below were the responses:

Figure 4.7: Responses to whether Heineken would be performing better than other professionally run companies if it was entirely family run
The next question sought to find out the views of the Heineken Executives on whether long-term performance would be superior if there were non-family successors at Heineken. An equal number of respondents five (5) agreed and strongly agreed, while 12 responses (six (6) disagreed and another six (6) strongly disagreed) were negative. Two (2) respondents were not sure whether long-term performance would be superior if there were non-family successors at Heineken.

![Figure 4.8: Views on whether long-term performance would be superior if there were non-family successors at Heineken](image)

The respondents’ views on whether commitment and skills brought to the business yielded company success whether it was family owned or non-family owned were as follows: Eight percent (8%) of the respondents strongly agreed and 83% agreed. Four percent (4%) disagreed while another four percent 4% were not sure.

![Figure 4.9: Respondents’ views on whether commintment and skills brought to the business yielded company success whether it was family owned or non-family owned.](image)
The last question on the Heineken Executives’ questionnaire sought to find their views on the notion that the age of a family successor in company leadership impacted positively on the performance of the company. The positive and negative responses were balanced as follows:

Table 4.5: Views on the notion that the age of a family successor in company leadership impact positively on the performance of the company

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>33%</td>
<td>33%</td>
<td>8%</td>
<td>18%</td>
</tr>
</tbody>
</table>

4.5 PART B: QUALITATIVE RESPONSES FROM HEINEKEN FAMILY MEMBERS

Twenty questionnaires were emailed to regional HR managers based in Europe for onward transmission to those who were identified as Heineken family members. Only eight (8) questionnaires were completed and emailed back to the researcher. This was a 40% response rate.

The first question to the Heineken family members was on how the respondents were related to the Heineken family. The table below was a summary of the responses:

Table 4.6: Relationship of respondents with Heineken family

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth generation family member</td>
<td>2</td>
</tr>
<tr>
<td>Do not exactly know how, but I am part of the Heineken family tree</td>
<td>4</td>
</tr>
<tr>
<td>Related to current Heineken family member who is a major shareholder</td>
<td>2</td>
</tr>
</tbody>
</table>

The next question sought to establish the positions of respondents in the Heineken company structure. The following figure shows the distribution of responses:
4.5.1 Respondents’ views on who holds more power in terms of business decisions – family or non-family executives.

The major views were that: Since shareholding structure is slightly above 50% family and the remainder 49.095% external investors and the fact that the Board of Directors had only one Heineken direct family member, there was a balance of power between family and non-family members. Some respondents indicated that since there were other senior management structures like the Supervisory Committee and the Executive Management Committee that had no family members, decisions therefore tended to be made from purely a professional point of view.

Table 4.7: Responses to the question on the key Heineken family business success

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Despite the business being classified as family-owned, its running is highly professional</td>
<td>3</td>
</tr>
<tr>
<td>Only the best people for the job are recruited</td>
<td>2</td>
</tr>
<tr>
<td>There is a performance culture at Heineken.</td>
<td>1</td>
</tr>
<tr>
<td>There is mutual respect between Heineken family members outside investors and various management structures.</td>
<td>2</td>
</tr>
</tbody>
</table>

On what the respondents considered as three key problems associated with a family business, the following were the three main ideas raised:
Table 4.8: Description of the key business success factors at the Heineken family

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are no visible problems at Heineken since the company is almost entirely professionally run.</td>
<td>4</td>
</tr>
<tr>
<td>There is no clash of interests since current family members are more connected to the various management structures than the founding members.</td>
<td>3</td>
</tr>
<tr>
<td>Succession management can be tricky for family members especially when the family has got no support of the various management structures.</td>
<td>1</td>
</tr>
</tbody>
</table>

On the question whether non-family executives were critical to Heineken’s business success, the responses were summarised as follows:

Table 4.9: Respondents’ views on whether non-family executives were critical to Heineken’s business success

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of course, yes. This is explained by the fact that almost 99% of the executives in the various top management structures are not family.</td>
<td>3</td>
</tr>
<tr>
<td>Since Heineken is a listed company, only the best executives are hired.</td>
<td>3</td>
</tr>
<tr>
<td>The company has experienced phenomenal growth and there is no way family members could have managed this growth alone.</td>
<td>2</td>
</tr>
</tbody>
</table>

The last item on the Heineken family members’ questionnaire required respondents to describe the Heineken family business succession plan. 80% of the respondents indicated that they were not sure of the succession plan since most of the company’s matters were handled by professional management structures. However 20% of the respondents highlighted the fact that a family member (Mrs de Carvalho Heineken) who sits on the Heineken Board of Directors has been a member of the Board of Directors since 1988 shows that there is a deliberate grooming plan for capable family members.

4.6 SUMMARY OF CHAPTER

This chapter presented the research data both quantitatively and qualitatively. There was an 85% response rate from the Heineken Executives who received
questionnaires while a 40% response rate was recorded from the Heineken members with links with the Heineken family members. The major view was that there was a healthy balance of power between family and non-family members at Heineken since shareholding structure was slightly above 50% family and the remainder 49.095% external investors and the fact that the Board of Directors had only one Heineken direct family member. The next chapter will discuss the research findings in detail.
CHAPTER 5: DISCUSSION OF RESEARCH FINDINGS

5.1 INTRODUCTION

This chapter discussed the data presented in the previous chapter. A detailed analysis of the research findings was done in the context of the literature review.

5.2 QUANTITATIVE FINDINGS: HEINEKEN EXECUTIVES

The quantitative findings of the returned Heineken Executive are discussed in this section.

5.2.1 Section A: Demographics

It is interesting to note that 58% of the Heineken executives in this study were in the 36-45 age-group. This scenario can be attributed to the fact that the company values outsiders with the requisite skills and there is potential for personal growth at Heineken. This also means there are no conflicts of interests between the professional workforce and the Heineken family members.

A total of sixteen (16) respondents (67%) had served at Heineken for periods ranging from five (5) to above ten (10) years, thus the belief of the researcher that there is stability at Heineken. This trend of long tenure can also be attributed to the fact that Heineken is professionally run and therefore those with requisite skills and can perform are sure to rise up the corporate ladder. The combined majority of the respondents were in the technical (eight) and research and development portfolios. This reflects gross alignment of the company’s business strategy with the company’s HR strategy. The increase in competition in the international beer market requires distinct competencies in terms of plant maintenance and quality processes. Research and development is a critical component in Heineken’s business in terms of both market and product development.

5.2.2 SECTION B: HEINEKEN’S HISTORY

The fact that the responses on whether the Heineken history was part of the induction program at Heineken were balanced between the positive and negative
shows that there is not much family influence in the way things are done at Heineken. Executive Management structures are more focused into generating profits for the shareholders than dwelling much on company history. This scenario can also be attributed to the fact that Heineken has undergone many changes over the more than two centuries that it has been in existence.

Despite the evident dilution of family members by professionals, all the Heineken executives who participated in this research indicated that they knew of someone in senior management positions who were members of the Heineken family. This revealed that there is still some familiness at Heineken. The majority of the respondents (58%) also admitted the fact that those Heineken family members who were in senior management members were qualified for their jobs. This puts Heineken in a very unique position in terms of succession planning – family members who are likely to take up leadership positions have the core competencies and are ably supported by a very professional team of non-family members. This scenario therefore qualifies Heineken as a learning organisation. The responses here also confirm that family owned business experience smooth transitions when successors are better prepared, there are good relationships and succession planning (KPMG, 2011).

On the question whether at Heineken, firm performance influenced the nomination of a family or non-family member to top positions, a combined 58% agreed that this was the situation at Heineken. This high positive response rate confirms Smith and Amoako-Adu (1999) findings that there is some evidence that corporate performance influences the appointment of either family or non-family members to top positions, especially when the firm is performing badly. The argument here is that if the family was performing badly with family members in top positions, then outsiders will be required to turnaround things and vice versa, when the company is performing badly with outsiders in top management positions, then family members are required to resuscitate the family’s fortune.

On the question whether Heineken had ensured competent family leadership across generations, a cumulative 58% of the respondents were positive that Heineken had ensured competent family leadership across generations. These respondents could
have been part of those executives who have served with Heineken for over five years. The response pattern is consistent with the Heineken history where successors rose through the Heineken ranks. There is therefore a deliberate succession plan which allows family members to understudy non-family professionals for long periods of time. This could be through the realisation that the appointment of a capable heir has a positive wealth effect (Shen and Cannella, 2003).

5.2.3 Section C: Cultural, Alignment and Performance Issues at Heineken

A cumulative 50% of the responses were positive that the interests of the founding family and those of dispersed shareholders are always aligned at Heineken. A significant cumulative 41% of the responses were negative. The responses point to the important advantage that publicly held family firms have in the long-run when compared to non-family counterparts, that is to count with a protective shield in the form of a small number of important shareholders whose objective will always be in the long-run. In addition, non-family shareholders tend to pay close attention to the performance of family members in top senior positions and may try to influence the change to professional management if and when the company’s performance is not at satisfactory levels.

A cumulative 76% (17% strongly agreed and 59% agreed) of the respondents were positive that outsiders were trusted to maintain the Heineken family’s values and objectives, while a total of 16% were negative. The response pattern here was exactly the opposite of the core idea presented by the agency theory that managers who are not owners will not watch over the affairs of a firm as diligently as owners managing the firm themselves. Since the interests of the founding family and those of dispersed shareholders are not always aligned, problems may emerge. On the one hand, not trusting outsiders to maintain the family’s values and objectives may cause family firms to avoid hiring professional managers who can foster the growth required by external capital, on the other hand, not trusting family insiders may cause public investors to be cautious of buying company’s stocks (Morck and Yeung, 2004).
On whether Heineken family members were trusted by public investors, a cumulative 20 responses (84%) were positive while two (2) (8%) were negative. The high percentage positive response rate reflects that the fact that the Heineken family has entrusted to outsiders with the professional running of the business. In return these outsiders have portrayed a very good image of the Heineken family to the public.

On whether Heineken would be performing better than other professionally run companies if it was entirely family run, respondents were emphatic in disagreeing. A cumulative 20 respondents (83.3%) disagreed. The response pattern was inconsistent with Agency Theory as described by Williams and Firer (2005) where they argue that managers that are the not owners will not watch over the firms affairs as diligently as mangers that are owners. This finding brings to the fore the importance of diversity in business performance. According to Rowe et al. (2005), leader succession does affect performance and that leaders do matter. Timing and selection are therefore important in succession and that leaders need time to develop organisation specific skills. This might explain why Heineken has very successful leaders who are not family members but have been with the organisation for long periods of time.

Eight percent (8%) of the respondents strongly agreed and 83% agreed that commitment and skills brought to the business yielded company success whether it was family owned or non-family owned. Four percent (4%) disagreed while another four percent (4%) were not sure. The positive reponse rate confirms King’s (2003) assertion that the successor’s potential capability was important for firm performance. Commitment and skills brought to the business were also important.

The last question on the Heineken Executives’ questionnaire sought to find their views on the notion that the age of a family successor in company leadership impacted positively on the performance of the company. The positive and negative responses were balanced at 41% apiece while 18% of the respondents were not sure. Studies point to factors at the individual, interpersonal and group levels, as well as the organisational and even environmental levels as affecting succession planning. In reality, some studies have found that the age of the successor and the
size of the company are significantly related to stock price reactions, while successor’s relationship to the controlling family is not.

5.3 PART B: QUALITATIVE RESPONSES FROM HEINEKEN FAMILY MEMBERS

All the respondents acknowledged that they were indeed related to the Heineken family. However four (50%) of this respondent category indicated that they could not explain exactly how they were related to the Heineken family. Twenty five percent (25%) of the respondents said they were fourth generation family members. Another 25% said they were related to current Heineken family member who is a major shareholder. The response pattern confirmed that Heineken has actually grown phenomenally to the extent that the term “family” is no longer significant since some family members can no longer exactly establish their relationship with the founding family.

Two members of the Heineken family respondents said they were in senior management positions; three were in middle management while another three were in junior management positions. These members appeared not to be within any of the three major decision making structures of Executive Management Committee; Supervisory Committee and the Board of Directors. This also confirms that at Heineken there is a culture of trusting outsiders since these can foster the growth required by external capital (Morck and Yeung, 2004).

The major views on who holds more power in terms of business decisions – family or non-family executives were that: Since shareholding structure is slightly above 50% family (it is actually 50.005%) and the remainder 49.095% external investors and the fact that the Board of Directors had only one Heineken direct family member, there was a balance of power between family and non-family members. Some respondents indicated that since there were other senior management structures like the Supervisory Committee and the Executive Management Committee that had no family members, decisions therefore tended to be made from purely a professional point of view. Whereas Smith and Amoako-Adu’s (1999) study concluded that long-term return on assets improves significantly more with the nomination of non-family insiders or outsiders than family members the fact still remains that the Heineken
family still holds the majority shareholding and therefore can have more power in decision making at some instances.

The responses to the question on the key factors to the Heineken family’s business success indicated there was no culture of entitlement at Heineken. This reflects that the Heineken family values performance, commitment and skills of employees regardless whether one is family or not. The response pattern also confirms that publicly held family firms have reached a high degree of professionalisation and therefore should only appoint successors who are highly competent to assume top senior positions.

On what the respondents considered as three key problems associated with a family business, they said there were no visible problems at Heineken since the company is almost entirely professionally run. The respondents further said there was no clash of interests since current family members were more connected to the various management structures than the founding members’ family. According to Bocatto et al. (2010), empirical studies appear to indicate a positive relationship between the percentage of independent board members and shareholder wealth, which indicates that independent board members may play an important role in balancing out the interests of family and non-family shareholders.

The respondents' views on what factors influenced the elevation of a family member to a senior management position at Heineken were very closely related. All the respondents highlighted elements of skills and previous performance as the most probable considerations. These views are not far from King’s (2003) findings that positive firm performance by family successors is associated with successor’s development, successor’s potential capability, commitment to the firm and successor’s business skills.

On the question whether non-family executives were critical to Heineken's business success, the respondents gave views that supported the need for non-family executives. These views are well supported by literature. As earlier mentioned elsewhere in this report, no studies provide evidence to support that family successors have a positive effect on firm performance when compared with non-
family outside successors. Heineken family members therefore agree with the company executives who are non-family that non-family executives are critical to the success of the company.

The last item on the Heineken family members’ questionnaire required respondents to describe the Heineken family business succession plan. Eighty percent (80%) of the respondents indicated that they were not sure of the succession plan since most of the company’s matters were handled by professional management structures. However 20% of the respondents highlighted the fact that a family member (Mrs. de Carvalho Heineken) who sits on the Heineken Board of Directors has been a member of the Board of Directors since 1988 shows that there is a deliberate grooming plan for capable family members.

5.4 SUMMARY OF CHAPTER

This chapter discussed the research data. Both respondent categories shared the view that non-family executives have been the cornerstone of Heineken’s success and will continue to be a critical source of competitive advantage. Although non-family members have a big say in the Heineken decision making processes, there is still a strong presence of family in the business judging by the fact that Mrs. de Carvalho Heineken who sits on the Board of Directors has a 50.005% shareholding in the company. The next and final chapter will discuss the research conclusions and offer recommendations.
CHAPTER 6: RESEARCH CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION
This chapter will present the research conclusions and establish whether the research problem and sub-problems were solved. From the conclusions recommendations that are supported by an implementation plan will follow. The literature review revealed that family business succession has never been a linear process. The succession process should therefore be viewed as a multigenerational timeframe that occurs in social, cultural, financial, legal, strategic, moral and other dimensions, hence resisting linear thinking (Jiang, 2011).

6.2 HEINEKEN AS A FAMILY BUSINESS
The research concluded that despite the fact that Heineken management has been highly professionalised with the majority of senior management structures filled with non-family members; the company is still a family business because 50.005% of the shareholding is held by Mrs. de Carvalho Heineken who is a family member. The research also observed that Mrs. de Carvalho Heineken sits on the Heineken Board of Directors. According to the Heineken Group’s 2009 Annual Report, the Hoyer family and Heineken family own L’Arche Green, a company that holds 58.78% interest in Heineken Holdings. It is therefore not surprising that Mr. D.P. Hoyer is a member of the Heineken Board of Directors. This scenario confirms earlier research findings that according to the Agency Theory, managers who are not owners will not watch over the affairs of a firm as diligently as owners managing the firm themselves (Sharma, 2004; Subhash and Rani, 2004; Ward, 2007). The placement of Mrs. de Carvalho Heineken and Mr. D.P. Hoyer in the Board of Directors is therefore very strategic in terms of maintaining the “familiness” of the Heineken business.

In terms of the Heineken strategy, the creation of the Heineken Holding in 1952 was intended to provide management and supervision to the Heineken Group (Heineken Holdings 2009 Annual Report). The execution of this strategy has seen the Heineken’s Executive Board being responsible for initiating and implementing corporate strategy as well as implementing policy principles. Strategy as described
earlier (Hannagan, 2002) is therefore critical for the sustenance of the business. It therefore fits well that a member of the Heineken family is involved in strategy formulation as a member of the Executive Board of Directors. The appointment of family members to the Executive Board of Directors ensures that these appointees actively involve themselves in the strategic management activities of the company. The involvement of family members in strategic management allows them to control the pulse of the business, hence uphold the vision of the business founders. This view is supported by Ackermann et al. (2005) who postulate that strategic management is a way of regenerating an organisation through continuous attention to a vision of what the people who make up an organisation wishes to do.

6.3 SUCCESSION PLANNING AT HEINEKEN

Although respondents were not as direct as to whether there was a succession plan at Heineken, available documents reveal that indeed there is a succession plan at the company. The mere fact that Mrs. de Carvalho Heineken has been a member of the Executive Board of Directors since the age of thirty-four (she was nominated in 1988) means that she was being groomed for the Chairpersonship. Her experience as a member of the Executive Board of Directors therefore confirms results of studies that found that positive firm performance by family successors is associated with successors’ development and intergenerational relationship, succession planning, successors’ potential capability, commitment to the firm and successors’ business skills (King,).

Furthermore, the research established that the presence of an experienced Heineken family member at the top echelons of the business brings out unique features in the incumbent (commitment, shared values, culture, trust and reputation). Habbershon and Williams (1999) state that these features provide the firm with certain strategic resources and capabilities that could account for its long-term success.

6.4 ROLE OF NON-FAMILY MEMBERS AT HEINEKEN

The research has proved that non-family executives are very critical to the success of the Heineken business. These results however point to the opposite direction of
early agency theorists who believe that family firms were the least costly and most efficient form of organisation. The resource-based view talks about valuable, invisible and imperfect imitable assets of firms that enable them to develop choose and implement strategies that firms without these assets are unable to do. Consequently, at Heineken, the highly skilled non-family executives bring these features.

6.5 RESEARCH QUESTIONS

This section of the report outlines how far the research questions were answered. The first research question was: What is the management succession model followed at Heineken? It can be concluded that although Heineken is still a family owned business (Jacobs, 2006), its succession model hinges on the Board actively partnering with the Executive leadership (International Journal of Business Governance and Ethics, 2007), to handle succession in the company. This is evidenced by well-supported leadership development, talent management and performance management programs at Heineken (Heineken Annual Report, 2012). The research established that capable and committed members of the Heineken family are nominated to the Executive Board of Directors to serve for a number of years before they ultimately assume the Chairmanship position.

The second question sought to establish what influenced the appointment of family members to senior positions at Heineken. This question was answered by the fact that at Heineken there is a performance culture whereby those who are skilled and committed will rise up the corporate ladder. This did not apply to family members only.

The third and final research question was to establish what have been the key management success factors that have propelled Heineken to its current status as a significant global player in the beer industry. Heineken's strategy success hinges on four pillars, notably: Leadership Development, Talent Management, Performance Management and Rewards. Heineken views people as the main source of competitive advantage. Heineken inspires its people and develops individuals and teams. Heineken ensures that its entire people speak in a common language and builds on its capabilities in a systemic way (Heineken Annual Report, 2012).
The research also established that Heineken valued outsiders with the requisite skills who in turn portray the company in good image. The presence of three key executive management structures in the form of the Executive Board of Directors (headed by the company Chairman); Executive Management Committee (headed by the CEO) and the Supervisory Board ensures that the company is professionally run.

6.6 OVERALL CONCLUSIONS

The quantitative and qualitative analyses done in this study and relevant literature indicate that a capable and committed successor is the only necessary and sufficient condition for leadership succession in a family business. Family businesses can survive because there are multiple capable and committed potential successors both inside and outside the family business. It is important for the founder to encourage the development of successor capabilities and commitment. If the founder recognises that there is such a successor then an explicit succession plan will increase the probability of a successful succession process.

The study has shown that past research has seldom focused on the role of successors in the succession process, possibly because researchers believe the process is more important than the outcome.

6.7 IMPLICATIONS FOR FUTURE RESEARCH

This study recommends that future research take a more successor-oriented view to the succession process since it is important to take a more in-depth look at successors’ contributions to succession since a family successor is necessary when family firms intend to keep the ownership and management within the family. The successor-centric theory of succession indicates that the successor’s capabilities and commitment to the business are the most critical factors necessary for the continuity of the family firm (Jiang, 2011).

Furthermore, Sharma and Irving (2005) suggest that different forms of commitment can be found simultaneously. Successors can join the family firms with different
types of commitment, ranging from imperative to affective commitment levels. However, by the time succession occurs, successors largely possess both affective and normative commitments to the family business despite entering the firm with another type of commitment. Future research should examine the changes in behavior that occur during the successor’s tenure at the family firm and how the changes affect outcomes like performance or succession. Future research should also explore the effects of family values and goals on the succession process.

Research has shown that a business will grow or shrink to match the leader’s capabilities (Jaques & Cason, 1994). A large portion of the family business succession literature indicates that founders value stability and control over the business, which could imply that many founders are not willing to grow the business beyond what they can comfortably manage by themselves. However, this study suggests that if the founder wants his/her children/family to continue to benefit from the business, he/she needs to grow the business as the family grows so that the goal of fully supporting future generations is possible. In view of this, future research should explore the effects of corporate entrepreneurship on family businesses.

6.8 RECOMMENDATIONS

The research has established that besides being a family owned business, Heineken is professionally run. This section of the report offers recommendations for the sustained growth of Heineken.

Heineken should continue with the current family succession strategy but should ensure that capable and committed family members are appointed to the two other Executive Management structures (Executive Management Committee and the Supervisory Board). Family members’ performance in these structures will guarantee a very strong candidate for the Executive Board Directorship and ultimately Company Chairmanship. Heineken should continue hiring professionals who are non-family members since there is no guarantee of entrepreneurial spirit and talent in up-coming generations of a controlling family. Non-family members also increase diversity in the organisation which is necessary in accompany of international stature like Heineken. In order to manage the influence of non-family members in decision
making, Heineken family members should forge more strategic alliances with other family entities as is the case with the Hoyer family. The fact that there are three distinct Executive Management structures at Heineken means there is need for a mechanism of checking for the alignment of these structures’ activities. Joint strategic planning sessions for these structures are therefore highly recommended.

The Heineken family member(s) should prioritise the appointment of family members to all the company’s Executive Management structures. This should be tabled at the next strategic review session of company’s Executive Management structures. The Heineken family should also prioritise the formation of strategic alliances with other non-Heineken family shareholders. This should be discussed after the current financial year’s results announcement. The foregoing implementation is feasible and acceptable in the sense that there are no additional financial resources required and that the Heineken family already holds an upper hand in terms of voting rights (Heineken family owns 50.005% shares and the Hoyer family member of the Executive Board of Directors will support the Heinekens.

6.9 SUMMARY OF CHAPTER

This chapter discussed the research conclusions and offered recommendations. The research questions were re-visited to establish whether they were answered. The research established that capable and committed members of the Heineken family are nominated to the Executive Board of Directors to serve for a number of years before they ultimately assume the Chairmanship position. The research established that at Heineken there is a performance culture whereby those who are skilled and committed will rise up the corporate ladder. The research also established that Heineken values outsiders with the requisite skills who in turn portray the good image of the company.

The research concluded that a capable and committed successor is the only necessary and sufficient condition for leadership succession in a family business. Family businesses can survive because there are multiple capable and committed potential successors both inside and outside the family business. According to literature, successor-centric theory of succession indicates that the successor’s capabilities and commitment to the business are the most critical factors necessary
for the continuity of the family firm. Future research should: examine the changes in behaviour that occur during the successor's tenure at the family firm and how the changes affect outcomes like performance or succession; explore the effects of family values and goals on the succession process and also explore the effects of corporate entrepreneurship on family businesses.

In terms of recommendations based on this study, Heineken should continue with the current family succession strategy but should emphasise that capable and committed family members are appointed to the three Executive Management structures. Heineken should continue hiring professionals who are non-family members since they increase diversity in the organisation which is necessary in terms of international business practice.
REFERENCE LIST
BelgianShop news - Article: Available at: 


Larsen, P.O., & von Ins, M., 2010. The rate of growth in scientific publications and the decline in coverage provided by Science Citation Index. Scientometrics, 84, pp.575–603.


www.AllAfrica.com [accessed on 4th March 2013/03/04]

www.economicsonline.co.uk [accessed on 11th July 2012]

Appendix 1: Informed Consent Letter and Ethical Clearance

N M M U Business School
GRADUATE SCHOOL OF BUSINESS

MBA Research Project

Researcher : Mr. B S. Human +27(0)82 320 1914
Supervisor : DrM.Cullen +27 (0)861 504 500
Research Office : MsL van Wyk +27 (0)861 504 500

Succession in a Family Business in the Beer Industry

Dear Research participant,

You are invited to participate in a research study that forms part of my formal Masters of Business Administration studies. This information leaflet will help you to decide if you would like to participate. Before you agree to take part, you should fully understand what is involved. You should not agree to take part unless you are completely satisfied with all aspects of the study.

Background to the Study.
Family businesses are amongst the most important contributors to wealth and employment in virtually every country of the world (Larsen and von Ins, 2010). As for Heineken, for almost 140 years, three generations of the Heineken family have built and expanded the brand and the company in Europe and around the world. The purpose of this survey is to solicit information from Senior Managers in the Heineken Operating Company’s regarding succession in the Heineken Organisation. As well as and whether the succession strategy is yielding has an impact on the performance of company.

WILL YOU RECEIVE ANY FINANCIAL COMPENSATION OR INCENTIVE FOR PARTICIPATING IN THE STUDY?

Please note that you will not be paid to participate in the study.

WHAT ARE YOUR RIGHTS AS A PARTICIPANT IN THIS STUDY?

Your participation in this study is entirely voluntary. You have the right to withdraw at any stage without any penalty or future disadvantage whatsoever. You have the right to withdraw at any stage from the interview- and questionnaire stages.
HOW WILL CONFIDENTIALITY AND ANONYMITY BE ENSURED IN THE STUDY?

Only the researcher and the supervisors will have access to the data. Your answers will be totally confidential and your identity will not be revealed under any circumstance. Also, nobody outside the study panel will be able to connect any answer to you in any recognisable way.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

Yes. The Research Supervisor (Dr. M Cullen), a published author on Family Own Business provided the research topic and academic supervision. Contact details of the NMMU School of Business as above. The questionnaire should only take 15 minutes to complete. Thank you for participating.
Annexure 2: Heineken Executives’ Questionnaire

**Heineken Executive Management Questionnaire**

This researcher is investigating the effects of succession on the performance of Heineken Brewer as a family owned business.

*Please answer all questions. Tick the appropriate box to show your response.*

*Your responses shall be treated in utmost confidence.*

**Section A**

1. **Respondent’s age group.**
   - 20-25 years □
   - 26-30 years □
   - 31-35 years □
   - 36-40 years □
   - 41-45 years □
   - 46-50 years □
   - Above 50 years □

2. **Period served with Heineken Brewer**
   - 1-2 years □
   - 3-5 years □
   - 6-10 years □
   - Above 10 years □

3. **Position at Heineken Brewer**
   - Technical Executive □
   - Finance Executive □
   - HR Executive □
   - R & D Executive □
   - Other Executive □

**Section B**

1. **Is the Heineken history part of the brewer’s induction programme?**
   - Strongly Agree □
   - Agree □
   - Disagree □
   - Strongly Disagree □
   - Not Sure □
2. You are aware of the Heineken family members who are in senior management positions in the company.
   Yes
   No

3. If the answer is above is Yes, what would attribute the appointment to such positions to?
   They are simply family members
   They are qualified in their jobs
   It is part of the Heineken succession plan

4. From your experience at Heineken, firm performance influences the nomination of a family or a non-family member to top senior positions
   Strongly Agree
   Agree
   Disagree
   Strongly Disagree
   Not Sure

5. From your experience, Heineken has ensured competent family leadership across generations.
   Strongly Agree
   Agree
   Disagree
   Strongly Disagree
   Not Sure

Section C
1. At Heineken, the interests of the founding family and those of dispersed shareholders are always aligned.
   Strongly Agree
   Agree
   Disagree
   Strongly Disagree
   Not Sure
### 2. At Heineken outsiders are trusted to maintain the family’s values and objectives.

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<td>Strongly Disagree</td>
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### 3. Heineken family members are trusted by public investors.

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<td>Strongly Disagree</td>
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### 4. If Heineken was entirely family run, it would be performing better than other professionally run firms.

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5. **Long–term performance will be superior with non-family successors at Heineken.**
   - Strongly Agree
   - Agree
   - Disagree
   - Strongly Disagree
   - Not Sure

6. **Commitment and skills brought to the business yield company success whether it is a family owned or non-family owned.**
   - Strongly Agree
   - Agree
   - Disagree
   - Strongly Disagree
   - Not Sure

7. **The age of a family successor in company leadership impacts positively on the performance of the company.**
   - Strongly Agree
   - Agree
   - Disagree
   - Strongly Disagree
   - Not Sure
Annexure 3: Heineken Family Members’ Questionnaire

Heineken Family Questionnaire

Please try to answer all questions.

1. How are you related to the Heineken family?
   .......................................................................................................................................
   ........................................................................................................................................

2. What is your position in the Heineken business structure?
   ........................................................................................................................................
   ........................................................................................................................................

3. In your view, according to the current Heineken set-up, who holds more power in terms of business decisions – family or non-family executives? Please motivate on your view.
   ........................................................................................................................................
   ........................................................................................................................................

4. Describe the key business success factors at the Heineken family.
   ........................................................................................................................................
   ........................................................................................................................................

5. What do you consider as three key problems associated with a family business?
   ........................................................................................................................................
   ........................................................................................................................................

6. What factors influence the elevation of a family member to a senior position at Heineken?
   ........................................................................................................................................
   ........................................................................................................................................

7. Do you think non-family executives are critical to Heineken’s business success? Please explain.
   ........................................................................................................................................
   ........................................................................................................................................
8. Describe the Heineken family business succession plan.