



Exploring the management succession process in small and medium-sized family businesses

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ABSTRACT

Small and medium-sized family businesses in South Africa facing unique management succession challenges, they are particularly vulnerable to the detrimental consequences of a poorly implemented management succession strategy. Many family businesses experiences with difficulty to transfer entrepreneurial commitments and capabilities from the first-generation owner to a less “hungry” second-generation owner.

The primary objective of the study is to explore the management succession process in small and medium-sized family businesses with the intention to gain a deeper understanding into elements that distinctly identify this sensitive subject.

This research study was conducted through a literature and empirical study. The primary intention is to obtain an understanding of family businesses with specific reference to the strategic significance of the management succession process in the business.

Topics covered in the literature study on family businesses include a definition of family businesses, family business success, uniqueness of family businesses, characteristics of successful family businesses, advantages and disadvantages of family businesses and challenges family businesses are facing.

Subjects discussed in the literature study on the management succession process include a definition of succession, the importance of succession in family businesses, factors that influence succession, succession planning, selecting and choosing a successor as well as mentoring and preparation of the successor(s).

The research methodology takes shape in the form of a qualitative study, a semi-structured interview schedule has been applied by the researcher to preside over the research. The interviews with the specific business owners were conducted personally in English and Afrikaans. Moreover, the interviews were exploratory by nature, thus, respondents had given their own opinion and were afforded the opportunity to propose implementation initiatives to the term “succession planning” within their specific family and business structure.

It was concluded on the basis and findings of the empirical study that the general perception is true that small and medium-sized family businesses do not have a formal written succession strategy on the table. These businesses tend to take a less structured approach which allows them to adapt quickly when dealing with the succession topic, family members strategise their decision-making around the basic principle of good understanding and mutual trust amongst family members. Family businesses with high levels of sibling rivalry tend to fail during the succession planning and management succession process.

Lastly, practical recommendations focus on the critical leadership strategy the first-generation owner should portray to help and guide the relatives in a constructive manner during the management succession process, parents should be initiators of the succession planning strategy, although they work through their own emotions concerning 'letting-go' they are the only party who has the influential power to initiate and manage the management succession process through to the second generation.

It is finally recommended to the second-generation owners to take an honest look at their future, should they stay in the family business or should they go and find a new life for themselves outside the structure of the family business. Finally, relatives who finally decide to stay should consider implementing critical policies and procedures as recommended during the final chapter of the study.

Keywords: management succession planning, small and medium-sized, business, family businesses.

DEDICATION

I devote this study to my late brother, Christo Brenkman, who passed away at the age of 23 after a tragic vehicle accident on 30 July 1996. His unique place in our family is empty and he will always be loved and remembered by our family and his friends for his kind spirit and zest for life. I would also like to mention his friend, Eduan Naude, who also passed away on that same early winter morning at the age of 21 ... too young, too soon.

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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

For centuries, family businesses have been in existence and operating successfully, according to Farrington and Abdul (2017:349). Despite this fact, these businesses have been widely overlooked prior to the eighties, after which they first became of keen interest to business researchers and investigators (Benavides-Velasco, Quintana-Garcia & Guzman-Parra; Bird, Welsch, Astrachan & Pistrui, 2002:337).

Family businesses report for the largest portion of economic activities in the greater part of communities in the west of the world, controlling the monetary scene of almost all populations (Family Firm Institute, 2015; Yu, Lumpkin, Saorenson & Brigham, 2012: 33; Sharma, 2004: 3).

Maas, Van der Merwe and Venter (2005:52) underline that, as a result of the pre-eminent part of family businesses in the South African economy, the existence of these businesses is important. Reports state that it is minor family businesses who successfully transfer ownership from the first generation to the following, and that a minor amount of family businesses continuing to the third generation (Lee, 2006:104; Bareither & Reischl, 2003:21; Venter, 2003:70; Ibrahim & Ellis, 2004:223).

According to Lee (2006:104), Bareither *et al.* (2003:21), Venter (2003:70) and Ibrahim *et al.* (2004:223), a diversity of maladies can bring about the ruination of a family business owned by more than one relatives but not any is more destructive than the absence of accurately identifying and developing new generation leaders who can replace old generation leaders when they exit the family business (Van der Merwe, Venter & Ellis, 2009). Bracci and Vagnoni (2011:9) mention that succession planning is an evolving and time-consuming process to implement. Proper planning and managing are vital ensuring a fruitful, prosperous and successful business.

Voeller, Frairburn and Thompson (2002:11) and Marshall, Saorenson, Brigham, Wieling, Reifman and Wampler (2006:353-354) denote succession planning to be an activity every family business will be necessitated to attend to eventually, so that one may break through the barrier of ignorance and complacency.

The focal point of this chapter is on defining the problem statement with regards to family businesses with specific reference to succession planning in family businesses. The principal and additional intention of the research are to be identified and described so that one could contribute towards the ongoing problem statement.

The scope of the study indicates the specific subject discipline, including the geographical area and business sector that would be covered for information gathering purposes. The research methodology indicates the research process that would be implemented as well as the chapters that will be covered to give concrete answers to the research investigation.

The study limitations will indicate possible shortcomings to this research study, the layout of the study will include a schematic representation of the study.

1.2 RESEARCH CONDUCTED ON FAMILY BUSINESSES

Farrington *et al.* (2017:349) state that, considering the significance of family businesses to the South African economy, it becomes crucial that the demands confronting it are being recognised and investigated. If the subject of family business in South Africa seeks to keep pace with the field globally, the research undertakings, contributions and publication activity of South African researchers need to be reviewed on a regular basis; firstly to assess whether the demands facing family businesses in South Africa are being researched and secondly, that its research activities are on par with global counterparts (Farrington *et al.*, 2017:349).

During time, the study topics on family businesses have made progress. During the mid-1980's the attention was specifically on succession issues (Sharma, Chrisman & Gersick, 2012:158; Casillas & Aceda, 2007:151; Zahra & Sharma, 2004:334) which had largely realistic implementation for relatives of the family business (Wilson, Whitmoyer, Pieper, Astrachan, Hair & Sarstedt, 2014: 8). During the late 1980's and early 1990's a new spotlight

emerged towards the description of a family business (Melin, Nordqvist & Sharma, 2014: 2).

Although the succession theme remained pre-eminent, the period of 1996 to 2003 witnessed a variety of other subjects receiving research attention (Zahra *et al.*, 2004:334; Chrisman, Chua, & Sharma, 2003). In fact, even during the very early days, family business researchers have explored a variety of different subjects. A shortlist would include: mutual relatives and trade vitality, disagreement, solid conduct, direction, professionalism, internationalisation, transformation, counselling for family businesses, race and nationality (Wilson *et al.*, 2014:8; Sharma *et al.*, 2012:10), support and aggressive control, industrialism and modernism, leadership and strategic planning (Chrisman *et al.*, 2003:26).

Farrington *et al.* (2017:349) mention that, during a review of related publications prior to 2012, five topical clusters were identified, providing a substantial perspective of research in the field. These are component and behavioural defining approaches (cluster 1), direction (cluster 2), aggressive control (cluster 3), governance and administration (cluster 4) and progression (cluster 5). Although “succession remains a defining feature of the field, it no longer holds the research prominence it once had” (Yu *et al.*, 2012:45).

Regarding the focus on education in family businesses, the focal point was initially on SME's (Sharma *et al.*, 2012:9). “While research in the late 1980s and 1990s continued to focus on family businesses of this size, by the late 1990s scholars had started to become aware of the influence these systems have on the behaviour and performance of many of the largest private and publicly held firms in the world” (Sharma *et al.*, 2012:9).

During the first ten years of this century, researchers have concentrated on privately controlled and publicly held family businesses. In the early years (1980s) the field had a balanced focus on trading as well as family alliance variables (Sharma *et al.*, 2012:10). Since then, majority of family business studies have been directed towards a business focal point instead of the family system (Melin *et al.*, 2014:4; Sharma *et al.*, 2012:10).

According to Zahra *et al.* (2004:337), “the primary objective of researching family businesses is to inform, lead, enrich and guide managerial practice.” As such, South African family business researchers should ponder on whether the subjects under investigation could lead

to insights that “primarily benefit the businesses and the families behind them, and in turn strengthen the economy and society as a whole” (Wilson *et al.*, 2014:12).

South African family business researchers show an astounding inclination for quantitative research methods over qualitative research methods (Farrington *et al.*, 2017:365). This finding contradicts early years in the field, researchers almost exclusively used qualitative methods, the research methods used by South Africans are according to dominant methods of more recent years (Wilson *et al.*, 2014:7).

The sampling method adopted by South African family business researchers is that of non-probability sampling with the average sample sizes being quite large (348). Although the sample sizes are large, specific problems are associated with non-probability sampling. Renewed efforts should be made by South African researchers to develop databases from which probability sampling can be drawn, enabling results of studies to be generalised to the entire family business population (Farrington *et al.*, 2017:365).

Therefore, it is intended by this study to investigate and elaborate, through scientific-based research, upon the findings and recommendations made by Farrington *et al.* (2017:363), with specific attention to the dynamics of South African family business research concerning succession planning.

1.3 PROBLEM STATEMENT

According to Venter (2003:17), it is estimated that only one in four South African family businesses successfully continue operations into the second generation, only one in ten family businesses continue business activities into the third generation in South Africa. It is reported that this high rate of succession failure in small and medium-sized family businesses has a direct negative financial influence on the South African monetary growth rate.

Venter (2003:14) elaborate on this finding that the primary reason for a high failure rate amongst first- and second-generation family businesses is their inability to effectively manage succession planning, specifically the management succession process which is critical to business sustainability.

The Literature review section of the study illustrates problematic management succession scenarios which contributed negatively to the longevity of family businesses. This study will explore the deep underlying problematic aspects of the management succession process such as:

- the definition of succession
- the importance of succession in the family business
- factors that influence succession
- succession planning
- selecting or choosing a successor
- mentoring and preparation of a successor

1.4 OBJECTIVES OF THE STUDY

1.4.1 Primary objectives

The primary objectives of the study are to explore the management succession process in small and medium-sized family businesses with specific intention:

- to achieve a deeper understanding of the elements distinctly identifying this sensitive topic.
- to contribute to the existing knowledge base through in-depth qualitative research on this topic so that one could practically conclude and recommend on planned family actions to excel the probability of fruitful integration to ensure continuity of the family business for forthcoming descendants.

1.4.2 Secondary objectives

The accomplishment of primary objectives depends on the specific selection of secondary objectives, the secondary objectives formulate the tasks one needs to do to successfully fulfil the primary objectives of the study. The following secondary objectives were formulated:

- To achieve insight into the dynamics of the management succession process in family businesses through a literature review.
- To explore the role of the management succession process with regards to the longevity of family businesses.
- To conduct informal interview sessions with small and medium-sized family businesses in a demarcated geographical area who have successfully conducted the implementation of a management succession strategy.
- To offer recommendations with regards to the management succession process which include the handing over of the family business to the successor.

1.5 SCOPE OF THE STUDY

1.5.1 Field of the study

The field of study falls within the subject discipline of entrepreneurship, with special reference to the exploration of the management succession process in small and medium-sized family businesses.

1.5.2 Geographical demarcation

Metsimaholo Local Municipality is a Category B municipality located within the Fezile Dabi District of the Free State province. Including four municipalities in the district, Metsimaholo is the smallest, making up eight per cent of its geographical area. Through the amalgamation of the previous Sasolburg, Deneysville and Oranjeville transitional local councils, the municipality was established in 2000 (Metsimaholo Local Municipality, 2018).

The influence of Sasolburg, as a result of its density of population and its closeness to the economically active city of Johannesburg, provides this area the opportunity of being announced head office of the Metsimaholo Municipality. The meaning of Metsimaholo in Sesotho is “big water” (Metsimaholo Local Municipality, 2018). The municipality covers an area of 1 717 km² in the towns of Deneysville, Kragbron, Oranjeville and Sasolburg. The main economic sectors are manufacturing, retail and community services.

Refer to Figure 1.1 for a map of the Fezile Dabi district in the Free State province.

Figure 1.1: Free State province (Fezile Dabi district)



Source: Google Maps, Sasolburg, 2018

Emfuleni Local Municipality

Situated in the Sedibeng district in the Gauteng province is the Emfuleni Local Municipality which is a Category B municipality. It is the most local municipality of the district, which covers the entire southern area of the Gauteng province, extending along a 120 km axis from east to west. The Vaal River forms the southern boundary. Emfuleni shares boundaries with the city of Johannesburg metro to the north, Metsimaholo in the Free State to the south, Midvaal to the east, and Rand West city (in the North-West province) to the west (Emfuleni Local Municipality, 2018).

The Emfuleni Local Municipality is rich in culture and history as it brings about historic movements such as the Anglo-Boer War, along with other traditional attractions like the Sharpeville monument and the liberation struggle encapsulated by the signing of the Constitution in 1996 in Sharpeville. This area covers 966 km² and includes Evaton, Sebokeng, Vaal Oewer, Vanderbijlpark and Vereeniging. The main economic sectors are: manufacturing, community services, finance, trade, transport, construction and electricity.

The Sedibeng district geographical map is presented in Figure 1.2.

Figure 1.2: Gauteng province (Sedibeng district)



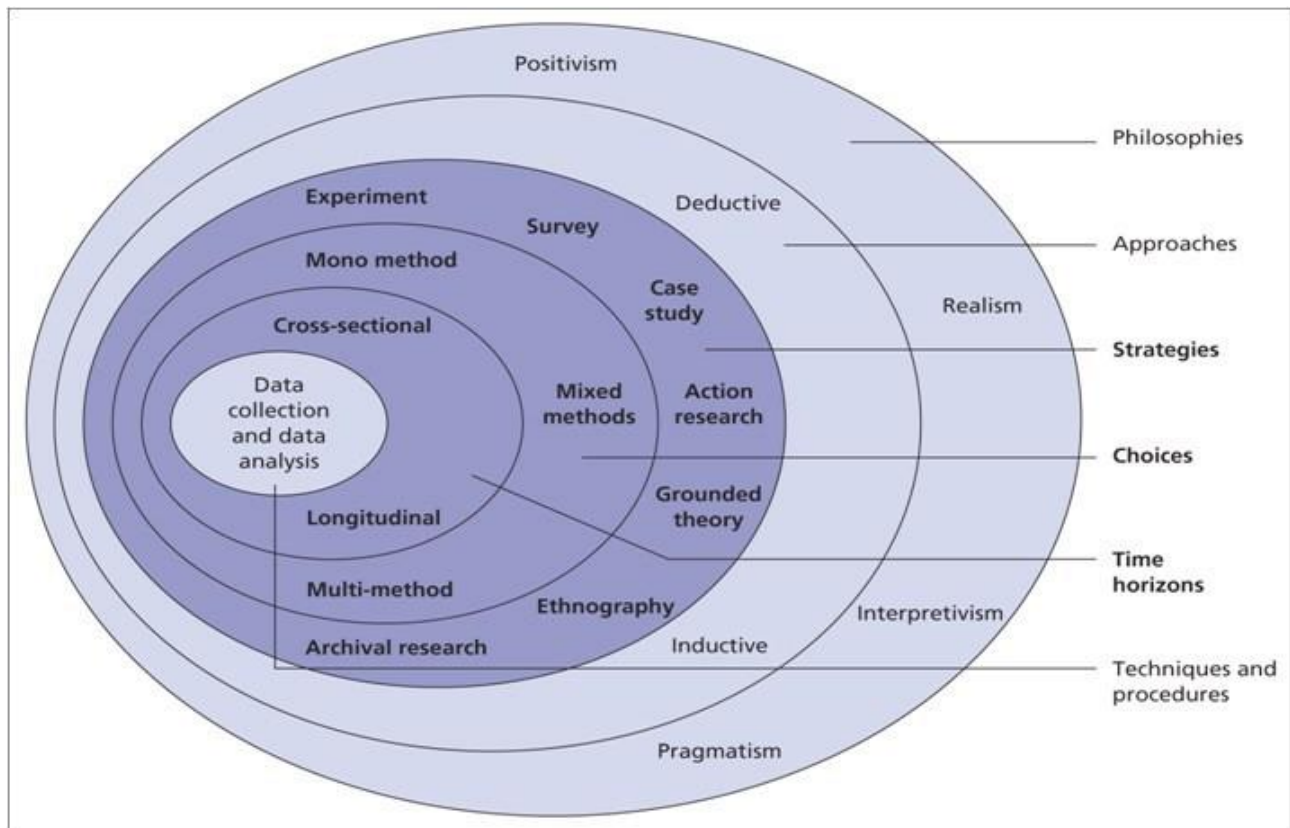
Source: Google Maps, Vereeniging, 2018

1.6 RESEARCH METHODOLOGY

Researchers identify research processes for specific research topics. These processes normally follow similar key steps which include aspects such as identifying specific research topics, defining the research problem, planning and discussing how the research study should be conducted, collecting research data, analysing this data and report writing (Nell, 2014:7).

The research onion model (figure 1.3) illustrates specific research approaches and strategies the researcher could explore to reach the objectives of the study.

Figure 1.3: Research Onion



Source: AllAssignmentHelp UK, 2017:1

1.6.1 Research philosophy

According to AllAssignmentHelp UK (2017:1), the first or outer layer of the onion deals with the appropriate philosophy which holds much significance in planning and carrying out of the research study on the management succession process in small and medium-sized family businesses. For this study, epistemology has been identified as the most effective research philosophy as the intention is to discover and explore acceptable knowledge which addresses the facts accordingly, Interpretivism is the philosophical position relating to epistemology. This philosophy allows to understand and explore the general culture of family businesses better and helps to clarify family member behaviour and emotions in this specific business setting. Interpretivism is one form of qualitative methodology which typically involves semi-structured interview sessions with participating members of the family business in an informal setting.

1.6.2 Research approach

The objective of the deductive method is help finding a satisfactory answer to the specific research question pertaining to the management succession process in small and medium-sized family businesses. The intention is not to develop a new theory on the management succession process but rather to affirm the research question and conclusion with recommendations, AllAssignmentHelp UK (2017:7).

1.6.3 Research strategy

AllAssignmentHelp UK (2017:8), states that the survey strategy often is identified with the deductive approach. This strategy proves to be one of the finest and economical research strategies available to researchers who have constraint financial or other resources. The survey strategy could be conducted through a self-completion questionnaire or a semi-structured interview session. The latter strategy proofs to be more effective as it allows to collect and compile rich and reliable data through meaningful interview sessions with participating family businesses, this strategy provides opportunity to prompt the respondent to answer more intimate questions and to elaborate more specific questions.

1.6.4 Research choice

The fourth layer of the research onion offers three distinct research methods. This research study is conducted through a qualitative mono-method research method only.

1.6.5 Time horizons

Layer five of the research onion illustrates two-time horizon methods. First is the cross-sectional method, this method is a short time research study collecting data from a specific point in time, this method is applicable to this research study. The second method is longitudinal and is applicable while doing a long-term study which is rarely used in business and management research, AllAssignmentHelp UK (2017:7).

1.6.6 Techniques and procedures

Layer six of the research onion focusses on implementing an effective data gathering strategy combined with data analysing. The data collection method is through semi-structured interview sessions with relatives in participating family businesses. The interview questions have been attentively selected with the objective to obtain information that would shed light to the research question and to meet the objectives of the study. Data analysis is conducted through the Creswell thematic approach.

Relevant to the distinct purposes, this research will be directed in two sequential phases: (a) Literature review and (b) Empirical study.

1.7 LITERATURE REVIEW

History and essential information about the study, in general, are provided through the literature review and it helps with gaining insight and wisdom into the proposition. The literature review also assists in gaining ideas and interpretations to formulate an assessment. The literature review on family businesses is broadly discussed in Chapter 2 which emphasizes the imperative part family businesses play in the certainty and well-being of the international economy (Farrington, Venter & Van der Merwe, 2011:51; Ibrahim, McGuire & Soufani, 2009:1).

This chapter continues to elaborate on defining the family business and why definitional issues in family business studies yet exist and what the primary difference between a family and non-family business are and what the term 'success' really means to them in respect of financial and non-financial terms. Family businesses are truly unique from non-family businesses because they align family interest with business interest. Successful family businesses are renowned for harnessing specific characteristics that create a sense of belonging and accountability amongst family members.

This research study further elaborates on the primary advantage family businesses have over non-family businesses. Normally, family members are more devoted to the vision, mission and business values than their counterparts, they have long-term commitments and are not being viewed as only employees but rather as part of the inner circle of the family.

According to Poza (2007:14), family businesses earn higher shareholder value and create strong financial structures, they can curb difficult economic seasons more effectively than non-family businesses and can mobilise its financial resources more decisively. Family businesses have disadvantages, which are not unique. Within the dynamics of the family business, some of these inherent forces are apparent which could determine the potential end-result and future of the business (Leenders & Waarts, 2003:692).

Disadvantages of family businesses include factors:

- allegiance and partiality within the inner circle of the family
- family conflict and emotional issues
- continuous rivalry between relatives
- boundary problems and unclear perimeters
- lack of strategic planning and poor implementation skills

Family businesses are exposed to macro-environmental challenges such as:

- population demographics and changing population density
- complicated socio-cultural forces
- political, legal and regulatory factors
- changing environmental factors
- evolution of technology
- global economic warfare and pressure

Chapter 3 conducts a literature review on management succession and deals with aspects such as:

- definition of succession
- importance of succession in the family business
- factors that influence succession
- succession planning
- selecting or choosing a successor
- mentoring and preparing a successor.

A wide span of resources on the subject had been consulted, which include academic books, accredited journals and dissertation studies as well as family business owners, relatives and

representatives. Keywords utilised in the literature search: succession, family-owned businesses, impact, small and medium-sized.

1.8 EMPIRICAL STUDY

The implementation of the research approach and strategy, for the gathering of primary empirical evidence, as mentioned in the research methodology section of this chapter and illustrated in Table 1.3 (Research Onion), will be discussed.

1.8.1 Research approach

The objective of the deductive method is to test a theory about the topic of the succession management process through a literature review on family businesses and management succession. This qualitative research approach is implemented to conduct and manage new observations at selected family businesses through a survey strategy to achieve new conclusions and recommendations.

1.8.2 Research strategy

The survey strategy is conducted through a semi-structured interview session with first-and-second generation owners of seven family businesses within the selected geographical areas of Metsimaholo local municipality and Emfuleni local municipality. The objective is to gather primary data and knowledge from family businesses who had a deep understanding of this emotional and sensitive topic.

1.8.3 Research choice

This research study is conducted through a qualitative mono research method only, it is not the intention of the study to complement this research method with quantitative data or to use a combination of both research methods.

1.8.4 Time horizons

The cross-sectional method was selected for this research study, this method allows the researcher to conduct semi-structured interviews with selected family businesses at a specific point in time.

1.8.5 Research instrument design

A research instrument is a specific method of carrying out a research method like a structured interview schedule, a self-completion questionnaire, structured interview or observation schedules (Bryman, Bell, Hirschsohn, Dos Santos, Du Toit, Masenge, Van Aardt & Wagner, 2014:382). Semi-structured interview schedules were used as background for discussion during interview sessions with members of family businesses. Refer to Appendix A and Appendix B.

1.8.6 Study population and sampling

Family-owned businesses in the small and medium-sized business sector, embody the study population who contributes to the local economies through various entrepreneurial ideas which range from manufacturing to wholesale. This group formed a single rank, from which sampling was done (Welman, Kruger & Mitchell, 2012:61). A stratified sampling method would probably be the best to use since it is the most presentational (Welman *et al.*, 2012:61; Saunders, Lewis & Thornhill, 2009:213).

However, since time constraints and access to these businesses and its owners is limited, the researcher implemented a random convenience sample technique (Welman *et al.*, 2012:70), as a result of time and monetary constraints the maximum amount of business owners the researcher was able to interview was 7 family businesses. A lack of monetary resources necessitates the researcher to administer interviews through the Creswell thematic approach.

1.8.7 Data gathering

A semi-structured interview schedule has been applied by the researcher to preside over the research. The interviews with the specific business owners were conducted personally in English and Afrikaans. Moreover, the interviews were exploratory by nature, thus, respondents had given their own opinion and were afforded the opportunity to propose implementation initiatives to the term “succession planning” within their specific family and business structure.

1.8.8 Statistical analysis

Statistical analysis was carried out as suggested by Barbour (2009). At first, interviews or dialogue were recorded with a digital voice recorder and converted into printed format (Kowal & O’Connell, 2014:71) only upon acknowledgement of a written consent letter from the participant. Refer to Appendix C. Due to the qualitative nature of the study, no attention was paid to the manner of speaking and expressive behaviour. Extra grammatical performance was also excluded from the transcriptions (Kowal *et al.*, 2014:66).

The interview questions have been carefully selected with the objective to obtain information that would shed light on the research question to meet the objectives of the study. Data analysis is conducted through the Creswell thematic approach.

1.9 LIMITATIONS OF THE STUDY

The nature of qualitative research is considered with hesitation and scepticism. In the opinion of Kowal *et al.* (2014:64), written record cannot be accepted uncritically as a true and reliable source of analysis accurately reflecting the mental, social, affective and cultural components, for it carries an inevitable risk of systematic bias.

Regarding this study, it is lesser a problem since the enquiry was not included in any psychological experiences. Accentuated words and nuances, however, were placed on record. At first, the findings of the research were contrasted with literature, and in order to check up on systematic partiality, findings were shared with interviewees with the intention

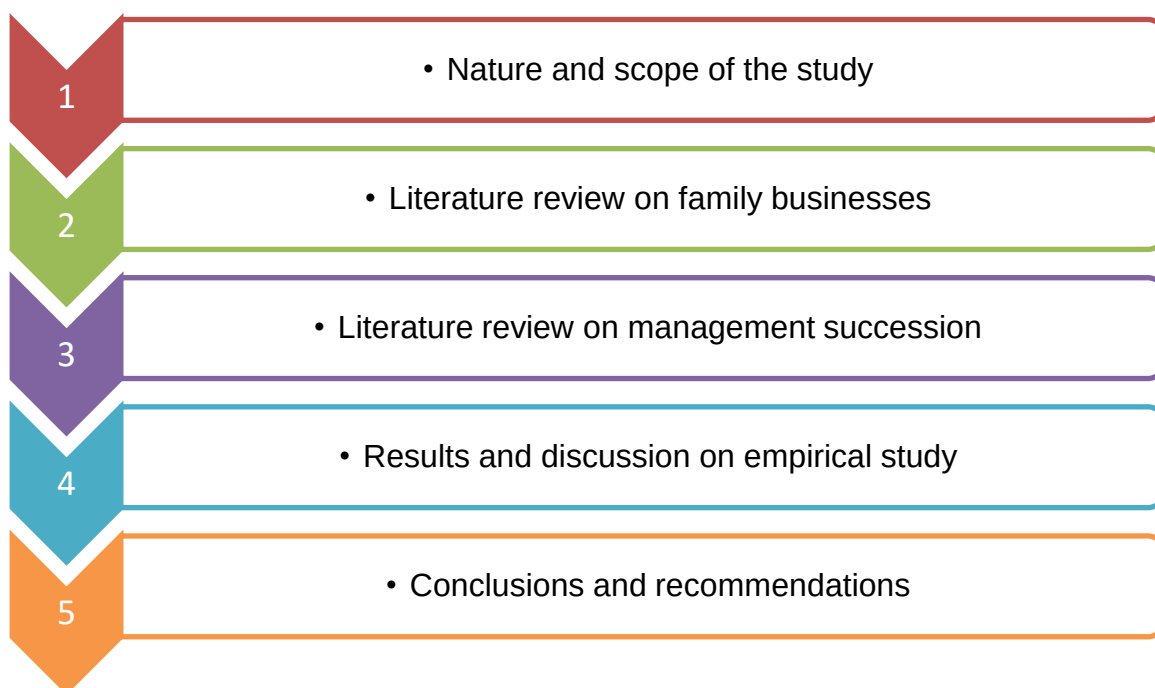
to ensure accuracy of the interpretation. This is also called member checking (Mertens, 2014:511).

After member checking, interviewees supplied additional information or amended the text where they were of the opinion it might have been out of context. Given to limitations of the study, it is advised for research in future to be extended to a larger sample. The outcome of the study should be interpreted in its context instead of being generalised to all small and medium-sized family businesses in South Africa.

1.10 LAYOUT OF THE STUDY

The research paper consists of five chapters. Refer to Figure 1.4 for a graphical representation of the study layout.

Figure 1.4: Layout of the study



Source: own compilation

Chapter 1 will cover the nature and scope of the study which includes an introduction and background on family businesses and succession planning, the problem statement, objectives of the study, scope of the study, research methodology, as well as study limitations.

Chapter 2 will cover a literature study in family businesses which includes the definition of family businesses, the importance of small and medium-sized family businesses on the economy, characteristics discussion and unique attributes of family businesses, advantages and disadvantages of family businesses as well as challenges faced with regards to business continuity.

Chapter 3 will cover a literature study on the impetus or momentum of succession planning of family businesses which include defining succession planning, factors contributing to successful succession planning in family businesses, steps of the succession process which includes but are not limited to the selection of the successor, communication to all relevant stakeholders, mentoring and preparing the successor and the transfer of management to the younger generation family members.

Chapter 4 will focus on a discussion of the construction of a semi-structured interview schedule used to gather data, the study population and discussion on the critical findings of the study.

Chapter 5 will focus on concluding the study by making recommendations on the findings, also a consideration on the accomplishment of objectives as well as making proposals for future research.

CHAPTER 2

LITERATURE REVIEW ON FAMILY BUSINESSES

2.1 INTRODUCTION

It is a well-documented fact that family businesses contribute largely to the certainty and well-being of the global economy (Farrington *et al.*, 2011:51; Ibrahim *et al.*, 2009:1). Family businesses are recognised as the most familiar and accepted type of business worldwide, they share many similarities with entrepreneurship and forms part of the sub-discipline of entrepreneurship (Rowland, 2011:17).

It is equally noted by Nordqvist and Melin (2010), Venter (2003), Zahra, Hayton and Salvato, (2004), Hoy and Verser (1994) that the action of opening and controlling a family business is entrepreneurial in nature, in fact, some investigation in the entrepreneurial subject field acknowledges direct relationship between business and family businesses.

Family businesses are exceptionally complex for numerous reasons, one of which is that they are founded by the founding member of the family but are often preserved and passed on to a successor within the family (Venter, 2003:59).

Rowland (2011:14) acknowledges that an imperative component of family businesses is that the business is much more about family than it is about business and according to Rivers (2005:2), the dilemmas and obstacles inherent in operating as well as owning the business are more human and relationship-oriented than non-family businesses, who are more technical and money orientated.

Distinguishing between family-owned businesses and non-family-owned businesses naturally considers distinctive businesses or concerns, such as the family (social function) and the family business (business function) (Sundaramurthy & Kreiner, 2008:418; Emens & Wolper, 2000:3). Both emotional and social needs as well as the need of belonging to the family structure are met by social function. The interactive pattern and decision-making process are also determined by the social function. This, however, is mostly based on emotions instead of a rational model.

The outcome-orientated elements in the family business are driven by the business function (Ibrahim & Ellis, 2004:44; Emmons, McCullough & Tsang, 2003:3). Family businesses have a “built-in” Achilles heel due to the close-knitted nature of family and business Daily and Dollinger (1991:60). The reason being that these two systems are not automatically always accordant and in sync with each other.

According to Wohlfahrt (2012:15), exploration shows that the exact distinctive aspect of family businesses can impart uncommon approval and disapproval to the well-being of such businesses to surpass non-family businesses (Leach, 2007:4; Neubauer & Lank, 1998:9). Even the early collapse of family businesses is not ruled out (Neubauer *et al.*, 1998:14).

Amann and Jaussaud (2012:207) state that family businesses curb economic slowdowns more effectively than non-family businesses and could strategically mobilise its resources better than non-family businesses. It is also mentioned by Nell (2014:17) that in economic slowdowns, family businesses have more structured financial measurements in place and will take a more conservative approach toward new financial debt than non-family businesses.

This chapter offers a literature review about succession planning in family-owned businesses as one of the most important components dictating the survival prospects of the family business going from one generation to another and whether the process of succession is correctly programmed (Neubauer *et al.*, 1998:60; Van der Merwe, Venter & Ellis, 2009:3).

Leading concerns faced by family businesses is mentioned by Giamarco (2012:59), which is how to affect a well-orchestrated transfer of the family business to the next generation. Aronoff and Ward (1995:21) advise that many entrepreneurs disapprove of formal planning. However, the probability that the shift between the generations will be achieved in the best interests of the family as well as the business is enhanced by formal planning. (Maas, 2005:54; Ibrahim *et al.*, 2004:223).

2.2 DEFINITION OF FAMILY BUSINESSES

According to Farrington, Venter and Van der Merwe (2011:55), no globally acknowledged definition of a family business in the literature or among teaching and consulting circles, the public, or even family business proprietors, exists. Sharma (2004:3) points to the fact that innumerable efforts have been implemented to articulate the conceptual and operational definitions of family firms. Sharma (2004:7) also states that the family business, as a study area, is still new which is a reason why, until now, definitional issues in family business studies yet exist.

Adendorff and Boshoff (2011:1) indicate the key differences between a family business and other forms of private economic businesses, which is determined by the fact that the matters of a family business are jointly and complexly associated with the private monetary affairs of the family and with the balance of power, biological relationship, sentimental bonds and heritage complexities within the family as well.

Research studies (Handler, 1989; Birdthistle & Fleming, 2005:731; Miller & Le Breton-Miller, 2003) have not succeeded to delimit family businesses from non-family businesses, however, one characteristic of the definition left undetermined has been by which way the consumer defines and perceives “family” business.

According to Astrachan and McMillan (2003:45), for a definition to be functional, two elements must exist, namely, first of all, it must be direct and clear in a way that it can be specified, and secondly, the definition should measure to what it claims to measure and be of service to provide valid and imitable research results.

The definition of Ibrahim *et al.* (2004:5) has been selected of the purpose of the study. They construe a family business as follows: a minimum of 51 % of the business is owned by a single family; further, a minimum of two family members are fulltime involved in the administration or operative action of the business, and the turnover of ownership to the next generation family members is assumed.

This definition will assist with identifying family businesses fitting the specific profile, which in turn will assist with analytical data and prevent skew results (Engelbrecht, 2014:18).

According to Van der Merwe *et al.* (2009:4), micro, very small, small and medium-sized businesses are classified by both the South African National Small Business Act (1996) and the National Small Business Amendment Act (2004:2) as businesses that employ less than 200 full-time or equivalent of paid employees. As defined, the focus of the study is on small and medium-sized family businesses.

Succession are defined as the process during which the ownership of the family business is transferred from one generation to the next generation. Broadly, succession is the substitution of the leader of a family business by a born relative of the same family (Maas, Van Der Merwe & Venter, 2005:54).

“Succession process” refers to noticeable action steps that occur through time, with the assumption of securing the preparedness of the successor taking over the challenging responsibility of ownership when required (Maas *et al.*, 2005:54; Ibrahim *et al.*, 2004:225; Venter, 2003:81; Neubauer *et al.*, 1998:134).

2.3 FAMILY BUSINESS SUCCESS

Directing the family business, is in many cases more about managing relationships with relatives than managing other aspects of the family business (Ward, 2004). According to Van der Merwe *et al.* (2012:17), success of family business will be determined by the value of family interactions.

The alignment of family members’ perspectives for having a meaning on “success”, might be a predictor of its success, and by aligning these perspectives it could promote an agreement on appropriate approaches of the participation of blood relatives and non-relatives in the business (Engelbrecht, 2014:34). The opposite is also true, namely, a contradiction in the interpretations of accomplishment or targets for relatives who labour towards success in the family business could be heading toward a continuous wellspring of rivalry and conflict (Astrachan *et al.*, 2003).

The definition of success in the research of family businesses can be characterised as ambiguous or inconclusive because family businesses aim to achieve a combination of

monetary and non-monetary objectives (Olson, Zuiker, Danes, Stafford, Heck & Duncan, 2003; Stafford, Duncan, Danes & Winter, 1999).

Wallace (2010:11) is of the opinion that, even though monetary objectives had been generally accepted as a suitable measure of business success might not necessarily be the only indicator thereof. Wallace (2010:11) believes that family business owners do have additional objectives which are not necessarily monetary by nature, are a way of living and have to do with individual accomplishment and fulfilment in the family business. Results for the study concluded that the way of living, individual accomplishments and fulfilment in the business have been more efficient indicators of success in business than the creation of wealth or financial accomplishment (Wallace, 2010:11).

Performance outcomes in family businesses, according to Zellweger and Nason (2009:205), have been broadly classified as financial and non-financial. Cater and Justis (2009:111), along with Short, Payne, Brigham, Lumpkin and Broberg (2009:12) argue that uneconomical targets may even supersede monetary targets such as wealth and profit.

Non-monetary goals include the providing of jobs for family members (Cater *et al.*, 2009:111; Chrisman *et al.*, 2004; Short *et al.*, 2009:12), family welfare (Chrisman *et al.*, 2004; Distelberg & Sorenson 2009:70) and trans-generational permanence, for instance preserving the family business in order to be transferred to the next generation (Cater *et al.*, 2009:120; Chrisman *et al.*, 2010:14; Short *et al.*, 2009:21).

The foundational principles on which family business is built, according to Van der Merwe *et al.* (2012:17), is formed by family values such as honesty, shared confidence and admiration, effectual communication, dispute handling and loyalty. Family values are crucial for promoting family goodwill and assuring the survival of the family business.

Ward (2004:50) states that family businesses have its name and reputation associated with products and services and therefore great efforts are implemented to sustain a good business relationship with all stakeholders.

Katz (2005:14) identifies *compensation* and *succession* as meaningful challenges that have the possibility to determine success in a family business, pertinent questions to ask are “who

is going to run the business?” and “who is going to make sure the family business assets continue to grow?”

Van der Merwe *et al.* (2012:19) linked fairness to a fair remuneration system between family members and relatives. Van der Merwe *et al.* (2012:16) suggest family forum meetings and retreats should be established and maintained by family businesses to foster family harmony and enforce trust amongst family members.

2.4 UNIQUENESS OF FAMILY BUSINESSES

Leach and Bogod (2003:10) state that family businesses are made distinctive through specific individuals involved therein. These individuals are family members who are related to each other and not just an unplanned representation of staff members and shareholders (Leach *et al.*, 2003:33).

Maas *et al.* (2005:8) state family businesses have a factor of uniqueness in a manner of family interests to be strategically aligned with business interests. A non-family business is managed on a business basis only but when family members work together, conflict arise within the family business which have a domino effect on family relations and visa-versa.

The unique atmosphere and the “sense of belonging” that most family businesses create, is the reason for its predominant nature, as argued by Ibrahim *et al.* (2004:44). It also tends to enhance the universal purpose and aspirations amidst the entire workforce (Leach *et al.*, 2003:5). Family businesses are accountable to the family (Carlock & Ward, 2001:146), it is paramount for family business owners to obtain thorough comprehension of the business as well as the family concept (Carlock *et al.*, 2001:146).

2.5 CHARACTERISTICS OF SUCCESSFUL FAMILY BUSINESSES

Family businesses are renowned for maintaining certain characteristics and attributes that would enhance and complement:

- Mutual conduct - family members as well as employees share a combined belief and value system which focus on the unbroken and consistent operation of the family business over time for the next generation (Morris, Williams, Allen, & Avila, 1997:387).
- Employees - the constant existence of family members within the business serves to inspire the employees' degree of commitment and reliability (Bork, 1993:23-24; Carrigan & Buckley, 2008:2-4; Daba, 2007:24; Poza, 2007:5; Friedman, 1998:22-23).
- Exclusive basis of information - family businesses possess sustainable competitive advantage over industry competitors which derived from the association between family, management and owners (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4; Daba, 2007:24; Poza, 2007:5; Friedman, 1998:22-23).
- Longevity – what causes family businesses to be unique is the assurance of business continuity from one generation to the next generation, as well as the level which succession planning assumes to be a vital part during the life cycle of the family business (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4; Daba, 2007:24; Poza, 2007:5; Friedman, 1998:22-23).
- Mutual dream – direct purposefulness and worth that empowers the family to realise and perceive the strategic direction the family and business are heading toward and what it symbolises as well as the affirmation of it being in possession of a clear identity which internalises its mission to be successful (Netsianda, 2008:15; Ward, 1987:56-57).
- Conversation – clear communication policies allowing the flow of information between its members and inspiring them to boldly debate their perceptions, ambitions, hopes and individual wants (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4; Daba, 2007:24; Poza, 2007:5; Friedman, 1998:22-23).
- Sense of belonging - stimulating individual improvement relating to family members to develop within the structure of the family business, confirming it being part and parcel of the business life cycle, understanding fundamental changes and making necessary contributions (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4).

- Assurance – for family businesses to succeed, a meaningful level of trust between family and non-family members is important (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4).
- Family member involvement – implementable strategies for all family members within the business – acknowledged, explained, honoured and understood – are vital for the family business to run successfully (Carrigan *et al.*, 2008:2-4).
- Accountability - family members are responsible for duties and activities within the family business and equally rewarded through fair evaluation without discrimination (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4).
- Collective appreciation – demonstrated by built-in confidence between family members, through honouring one's promises from one generation to the next generation (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4).
- Deliberation – participation of professional consultants to conduct and mentor peaceful succession, remuneration and entry criteria to provide professional guidance to leaders in making strategic decisions (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4; Netsianda, 2008:15).
- Decision making – uninformed and wrong decision making are easily taken on matters concerning the marketing of products, complaining, development, automation, modernisation and opposition as well as family relationships (Bork, 1993:23-24; Carrigan *et al.*, 2008:2-4).

2.6 ADVANTAGES AND DISADVANTAGES OF FAMILY BUSINESSES

Family businesses require to follow similar business principles to non-family businesses yet to its advantage there is little enforcement on the ability to go after these principles or lesser cause to abandon it as the case may be in non-family businesses (Chrisman *et al.*, 2006:721).

Netsianda (2008:16) indicates that every quality or feature of the family business could be an origination of both advantages as well as disadvantages to the same business owner, family and non-family members who are employed within it.

2.6.1 Advantages of family businesses

Having good and efficient small and medium-sized family businesses in South Africa has ample advantages. These businesses contribute heavily in every country around the world in many conceivable ways, not just in monetary ways but also in non-monetary ways.

Some of the primary advantages created by and for family businesses consist of:

Mutual vision and belief systems – thriving family businesses normally maintain a special focus on its principal business or trade, and family members are devoted to the success thereof (Ibrahim *et al.*, 2004:7) and therefore every member has a lot of risks in the family business regarding investing, labour and local status. For this reason, family members should be industrious to advance in the common goals and vision of the family business (Chrisman *et al.*, 2006:722; Allio & Allio, 2005:4).

Long-term commitment – members of the family are not being viewed as employees or managers and should be rewarded as owners who are part of the inner circle of the family. Family has a sense of integrity and responsibility, irrespectively, they are in it for the long run (Miller, Le Breton & Scholnick, 2008:57, 2008:58; Chrisman *et al.*, 2006:722).

Economic benefits – Poza (2007:14) states that family businesses are financially more lucrative than non-family businesses and creates more shareholder value compared to non-family businesses. Since it has a stable directorial orientation, focus is on the core business that improves business while having the tendency to re-establish income and stability in standards that might be non-existent in non-family businesses; this can be achieved.

It is concluded by Amann and Jaussaud (2012:207) that family businesses curb economic slowdowns more effectively than non-family businesses; these families can mobilise its resources more decisively and will create strong financial structures to protect the family and the business structure from any potential monetary threat.

2.6.2 Disadvantages of family businesses

Family businesses have disadvantages, which are not unique. Within the dynamics of the family business, some of these inherent forces are apparent which could determine the potential result and future of the business (Leenders & Waarts, 2003:691).

Allegiance and partiality – blind loyalty happens when contracting and assignment of staff bring about partiality (Miller *et al.* 2008:57; Allio *et al.*, 2005:8). Miller *et al.* (2008:57-58) maintain that a major risk to the family business is caused when loyalty starts to subdue rationality.

When a family member is appointed or promoted because of association or connection to the family, nepotism comes about, as stated by Aronoff, Astrachan and Ward (2002:24) and Aronoff and Ward (1995:7).

Family conflict – emotional issues uncommon to non-family businesses, usually develop in family businesses when conflict happens between the private affairs of the family and those of the business (Aronoff *et al.*, 2002:5).

Sibling rivalry - sibling rivalry is identified by Upton (2001:29-30) as a dilemma in majority of family businesses. Netsianda (2008:16) indicates aspects like comparison between relatives, method of fairness and parental responsibility in conflict management as a few factors which compromise the standard of sibling relationship.

Boundary problems – family businesses are comprised of family ownership and managerial systems and could become vulnerable and as a result suffer consequences of unclear perimeters (Poza, 2007:11). The problem occurs due to inadequate direction or certainty as to whether decisions be based on family matters or business concepts which bring about conflicting guidelines and unacceptable conclusions.

Lack of planning – according to Upton (2001:3) most family businesses requires a written family business plan, short term and long-term strategies, succession planning, financial and estate planning. PricewaterhouseCoopers' survey of 2012 shows that, from 2000

business samples, only half of family businesses had a succession plan intact and of those, only half had nominated a qualified candidate to take over the reign.

Ward (2004:3) confirms this by indicating that about half of all family businesses fail to make it to the succeeding generation due to insufficient progression planning.

Role confusion – often exists in family businesses over vague and incomplete job descriptions (Ibrahim *et al.*, 2004:9).

2.7 CHALLENGES FACING FAMILY BUSINESSES

Thompson, Strickland, Janes, Sutton, Peteraf and Gamble (2017:65) state that businesses worldwide from all industries, especially family businesses within the South African context, are exposed to macro-environmental challenges such as:

Population demographics – includes size, rate of growth and age distribution of different areas of the population. Population density could have significant consequences and difficulties to family businesses in various industries.

Socio-cultural forces – for example, family members' attitude towards gender roles and diversity in the workplace, including societal conduct, approach, ethnic forces and style of living challenging family businesses.

Political, legal and regulatory factors – these factors and challenges include political policies and processes, as well as the regulations and laws by which family businesses should adhered to. Examples include labour laws, antitrust laws, tax policy, regulatory policies, the political climate and the strength of institutions such as the court system.

Natural surroundings – this includes ecological and natural power and challenges like elements, temperature, global warming and corresponding elements, for instance, water scarcity. Factors and challenges like those could have a specific influence on family businesses.

High-tech factors – the pace of technological evolution having the potential for all-around results and challenges in family businesses and broader society; technological change could challenge the status quo of the family business and could disrupt the industry.

Universal pressure – involving state and shifts in universal trades, together with legislative affairs and procedures, respecting international business. Universal pressure could challenge and affect the level of global commerce and financing through embargo, methods to control the volume or value of incoming goods, or trade ban.

Common status – involve the economic growth rate, inflation rate, interest rate and consumer confidence. Factors like these could pose potential challenges for family business, but Amann *et al.* (2012:203) refer to the notion of management compliancy which suggests the ability of a compliant family business to take situation-specific, powerful and revolutionary steps while coming up against unanticipated and demanding events such as economic recessions.

2.8 SUMMARY

Presently, family businesses are acknowledged to be significant and distinctive entities in the global economic forum. Family businesses are globally operating and are almost certainly the oldest type of business. Its characteristic contributions to immediate societies, their business structures and challenges, however, have only been recognised and measured within the past 30 years.

The description of family business underlines its lengthy concern over several generations, its dedication to calibre and its linkage to the family brand, as well as its humaneness in the business through which the caution and concern toward workers are often likened to an extended family.

Family businesses have distinct capabilities which, in most cases, renders them a sustainable competitive advantage over non-family businesses. Family relationships are very strong in family businesses and family members are willing to walk the extra mile for one another and for the growth of the family business.

The fact that the important matter in almost all family businesses continues to remain the question of their lastingness, is of no surprise. For this reason, the successful implementation of progression planning persists of crucial magnitude to the continuation of the family business. Family members should occasionally review the succession of management within the business, which will aid in ensuring transfer of the family business from one generation to the next generation and that it is handled with the least amount of conflict within the family.

During the following chapter management succession of family businesses will be debated. The focal points regarding this discussion will be aspects like the interpretation of succession, the value of management succession, the procedure of succession as well as the appointment and tuition of a successor, preparation for succession and management transfer.

CHAPTER 3

LITERATURE REVIEW OF MANAGEMENT SUCCESSION

3.1 INTRODUCTION

Currently, family businesses are making a vital contribution to global financial well-being and growth (Basu, 2004:13; Ibrahim *et al.*, 2001:245). Maas *et al.* (2005:50-51) allege that, given the critical function that family businesses perform in the economy of South Africa, its continuance is extremely important.

A noteworthy concern is, however, that a small amount of businesses progress towards the second generation, and hardly any succeed to the third (Bareither & Reischl, 2003:21; Venter, 2003:70; Ibrahim *et al.*, 2004:223). The process of succession is, therefore, the pivot of the family business lifetime. Effective progressing strategy is vital for the endurance of the business from generation to generation (Maas *et al.*, 2005:51).

Venter and Boshoff (2007:2-3) argue that the incapability within family businesses to direct the complicated, highly emotive procedure of proprietorship and management succession planning from one generation to the following, contribute to the failure rate. Poza (2007:2) concurs that the future looks cold and bleak for family-owned businesses who do not have the vision and leadership from both generations to implement an effective succession plan.

Effortless transfer from one generation to another can be accomplished to the family's advantage as well as those of the business, through the enhancement of formal succession planning, as concurred by Maas *et al.* (2005:54) and Ibrahim *et al.* (2004:223). Improved changes for lasting gainfulness depend on simple and smooth transformation. Venter (2003:5) states that the probability of identifying a qualified offspring which result in a smooth transition of leadership between the generations is increased by strategic and intended progression.

Ibrahim *et al.* (2001:256) state that progression is not be viewed as an occurrence due to the originator's premature death, but rather appropriate formation resulting in practical continuation. This is a complicated procedure involving the initiation of a series of actions in

younger days of the intended next-in-line to be groomed for leadership. Reviewing succession planning, with the perspective to initiate and guide family businesses in the critical aspects necessary to consider is therefore critical, according to Ward (2004:3).

3.2 DEFINITION OF SUCCESSION

The precise definition of succession is a challenge in directing the study of family business, however, no globally accepted definition is available. Different descriptions came into being as a result of several attempts to formulate a working definition. Consequently, a variety of definitions are available (Venter & Farrington, 2009). Several of the definitions suggested are broad-ranged and intermingled in all aspects of possession and direction, family engagement, mutual sub-systems and generation transfer.

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

3.3 IMPORTANCE OF SUCCESSION IN THE FAMILY BUSINESS

A possible economic driver of worldwide development and prosperity is the rising accepted support of family businesses (Basu, 2004:13; Ibrahim *et al.*, 2001:245). Maas *et al.* (2005:10) argue that the value of family businesses is not only about its considerate part in promoting financial increase and advancement, but it also is valuable because of its essential input towards socio-economic soundness within South Africa.

Balshaw (2003:5) believes that an estimated 85 per cent of all businesses in South Africa's informal sector is family-owned. The commitment of family business continuity ought to be a priority discussion in the family, as it serves to support the improvement of the joined vision of the future as well as the preparation planning for family business continuation (Carlock *et al.*, 2001:54). Another possible reason for their growing importance is the invaluable and important part played by small and medium-sized family businesses in generating employment, introducing new business and pushing high-tech modernisation by discovering

clever and new manners to compete within an unstable climate (Bosch, Tait, & Venter eds. 2006:649; IDC support to SME sector, 2001:5; Lunsche & Barron, 1998:1; Sunter, 2000:23).

Comparing and analysing employment population in growing societies is an indication of a tendency towards an increase in the number of minor businesses, with a definite decrease in the quantity of greater businesses (Deaken & Freel, 2003:41; Stokes & Wilson, 2006:3). The number of small-scale businesses anticipated to increase considerably for many more years to come (Taylor, 2006:68).

The principal cause of the ceaseless combat against impoverishment in almost all the developing countries in Africa is unemployment. South Africa is no exception and for this reason, a truly significant aspect in solving the dilemma of unemployment is by giving family businesses the assistance to bring about a constant earning.

The public and private sectors within South Africa have proven incapable to approach the issue of unemployment and consequently, the interest on job creation has progressively shifted to how the small business industry could become involved and have an effect in solving the difficulty South Africa encounters (Bosch *et al.*, 2006:649). The possible explanation to several of the financial issues within South Africa certainly abides within the small and medium-sized business conditions (Bosch *et al.*, 2006:649), and the improvement of SMEs is vitally important for the financial development of South Africa.

Family businesses are thus crucially important at a society level. Prosperous and secure family businesses provide communities with work in which to operate and by that reassuring more soundness within the community (Maas & Diederichs, 2007:4).

3.4 FACTORS THAT INFLUENCE SUCCESSION

The need to identify and understand the elements that control progression in small and medium-sized family businesses in a pro-active manner should not be underestimated. The more victorious the transference of ownership, the better the possibility of business progress and continuity as time goes by (Poza, 2014:3). It is a fine procedure, and a calculated and thought-out succession will expand the possibilities of identifying a suitable replacement and

will secure a peaceful transition between generations (Poza, 2014:4; Neubauer *et al.*, 1998:133; Murray, 2003).

Each age group within a family business has their distinctive attributes in areas such as business, industry, economy and instruction, to name a few (Chrisman *et al.*, 1998; Sonfield & Lussier, 2004:174). Founding family members are categorised as very hard working, often at the expense of recreation and family time. Opposite to that the second and following generation members are considered heirs wasting money. This perception is one of several popular sayings: that a family business goes to the dogs in three generations (Lambrecht, 2005).

According to Friedman (1991:11), the progression process could likely be altered by a variety of family-related aspects. For instance, should the option for a successor amongst the relatives be portrayed as parental partiality or one-sidedness, defected combat could be released among brothers and sisters, which could slow down the succession procedure. However, families who are considerate and work well together, have a greater chance to successfully transfer the business to the following generation.

Santiago (2000:18) believes that the association between the business leader and his successor is essential, and he suggests the relationship between family members to be a crucial element for a smoother transition. According to Kets De Vries (1996), family members are often employed into the business although they lack the competency of being a successful contributor. This situation could place financial exhaustion on the business. Parents frequently tend to overlook apparent weaknesses in their offspring.

Certain issues could occur under these circumstances, such as family members working for an incompetent member, who places that individual in an unattractive position and an inequality exists between contribution and credit. The lack of fairness could result in distrust, which influences the workplace climate and affects job satisfaction, motivation and performance (Kets De Vries, 1996).

Although planning assists in the transition procedure, successful progression is not assured. The security of the family as a unit is more significant than formal planning. A prerequisite

to smooth transition is for family members to be able to get along within and outside the family business (Santiago, 2000).

3.5 SUCCESSION PLANNING

Many articles and journals have been written by numerous authors dealing with the topic of management succession, specifically concerning family businesses (Poza, 2010:22; Ibrahim *et al.*, 2001; Sharma *et al.*, 1997). The process of management succession refers to the transferring of ownership and management from the first-generation owner to the second-generation owner. It is believed that this inability could be a significant contributing factor to the high failure rate among first and second-generation family businesses (Corbetta & Montemerlo, 1998:8).

It becomes apparent and necessary to pro-actively identify and understand the detrimental contributing factors that influence management succession planning in family businesses. The more successful the transfer of ownership, the better the chances of success and long-term profitability for the business. This process is delicate and a well-considered and planned succession will boost the probability of finding a successor with the required skills and capabilities which will ensure a smooth transition between generations (Poza, 2014:4; Neubauer *et al.*, 1998:133; Murray, 2003).

Every generation in a family business brings a unique set of skills and capabilities to the table within the different business departments such as entrepreneurship, laboriousness, frugality and education (Chrisman *et al.*, 1998; Sonfield *et al.*, 2004:174). First-generation owners are frequently stereotyped as very conservative and hard-working, many times to the cost of their health, leisure and intimate time spend with family. On the contrary, the second and later generation owners are regularly viewed as spoiled heirs who spend more money than what the business can provide. This perception is captured in several popular sayings, one of which is that a family business goes to the dogs within three generations (Lambrecht, 2005).

The management succession process can be altered and influenced by a variety of family-related factors and influences. One such factor or influence is if the choice of a successor from among the relatives is interpreted or perceived as parental favouritism or nepotism.

Dysfunctional and emotional rivalries could be unleashed amongst the children, which could permanently postpone and derail the management succession process. It is true that families who are in harmony with each other and work well together, have a higher success rate of effectively transferring the business to the next generation (Friedman, 1991:11).

Santiago (2000:18) believes that a positive relationship, which is founded on mutual trust and respect, is critical for a smooth transition from the first-generation owner to the second-generation owner. Twelve years ago, a study on family-related factors that influence the management succession process was conducted by Venter *et al.* (2007) who have investigated and explored the following factors: mutual or a two-way acceptance of individual roles, agreement to continue the business as a family business and family harmony. The empirical results of the study indicate a positive and direct relationship between these factors and the perceived success of the management succession process. Santiago (2000:29) has indicated that other researchers and scholars also provide support to these findings.

Family members are often hired by the family business although the specific individual might not necessarily have the required skills and capabilities to effectively function in this job category. Emotional appointments can have negative financial implications on the business and might contribute to a toxic work environment (Kets De Vries, 1996). Non-family members working under an incompetent family member put that family member in an unattractive position when there is an imbalance between contribution and credit. The presence of foul play can result in difficult and complicated trust issues, which influence the business climate, affect job satisfaction, motivation and job performance (Kets De Vries, 1996). Young family members who were brought up in the business often have superior family and business experience (Kets De Vries, 1996).

In Max Weber's bureaucratic model of business, the primary objective and role of the business is to fully develop productivity and the primary reason why German businesses did not fully develop their performance potential was purely that potential employees were recruited based on their social standing instead of job-related qualifications and experiences. No family business should recruit and promote employees based on family relationships; these decisions should be firmly implemented from the standpoint of merit, productivity and other valid credentials. From the bureaucratic perspective, only family

members with core capabilities should be recruited and appointed as employees in the family business.

Furthermore, business and family systems should be administered separately; active family members should be treated in the same manner than other employees and they should be only hired, promoted and rewarded according to their academic qualifications and relevant working experiences. Sorenson (2000) strongly advocates for the notion that family employees whose work performance is below business standards should be reprimanded or permanently dismissed. There have been documentary trends and traditions for many family businesses to identify and appoint a second-generation owner based on a pre-determined rule such as choosing and voting for the first-born child, the first-born son or the best academic qualified child (Barnes & Hershon, 1989; Ward, 1987). This exercise, which has its origins in the ancient tradition of primogeniture, has the dual advantages of clarity and predictability.

Furthermore, gender bias towards males led families to view and appoint only their sons as potential successors. Barnes *et al.* (1989:10) indicate that in the past, there was the solemn belief that the oldest or only sons should be granted control over the major family responsibilities. Gersick, Davis, McCollum, Hampton and Lansberg (1997:56) point out two critical considerations; firstly, oldest children often are chosen because they have a head start on their younger relatives in the areas of academic qualifications and work experience. Secondly, choosing a successor by following a predetermined rule allows the families to avoid having to make a difficult choice, protecting themselves, as parents, from the often-painful feelings of guilt when having to evaluate and appoint one child over another (Gersick *et al.*, 1997:62).

The institution of primogeniture has become less apparent in recent years. Choosing a daughter, particularly in smaller family businesses, has become general practice as more professionally qualified women enter the formal workplace; yet, women face complex challenges by sceptical parents and relatives to a much higher degree than their younger brothers (Barnes *et al.*, 1989). Dumas (1998:221) has conducted a study where there was found and concluded that the road to leadership for females depends on evaluation of the daughters' interest in the family business, her set of skills, academic qualifications and her leadership ability and experience. Other fundamental considerations were whether the

daughter is the only child with a keen interest in the job position, or whether she is the oldest or only child, which either leads to a fortuitous or a limiting outcome (Dumas,1998:223). Nelton (1999) points out highly visible, successful businesses now being run by women such as Marilyn Carlson Nelson at Carlson Companies, for example, as evidence that female leadership as successor is becoming less of an issue. Chrisman *et al.* (1998) conclude that birth order and gender were the two lowest-ranking attributes, which suggests that incumbents base their choice of successor on personal qualities rather than gender, age or bloodline.

Keaten and Little (1997) found that the primary contributing factor for determining a successor was gender, with specific preference being given to males. Stavrou (1999) found that daughters are not often considered for a specific leadership position, even when she is the first-born child. Often, the family business owner or first-generation owner would rather voluntarily liquidate or sell the family business than to put his daughter in charge (Stavrou, 1999). Vera and Dean (2005) has sadly come to a fundamental conclusion that women are deliberately not being groomed for leadership positions.

For some reason, it is a general fact that majority of family businesses are highly reluctant to strategise a management succession planning process for the ultimate benefit of the family business (Ibrahim, Soufani & Lam, 2001). This topic is highly emotional to family members and the older generation see this process as the beginning of the end for them and they are not ready to deal with this important aspect of the business.

Many founders have worked so hard their entire lives that they value the ownership of the family business above anything else. Although planning helps in the transition process, it does not guarantee successful succession. All family members should deliberately acknowledge that ultimately the preservation of the family as an intimate unit is more important than formal succession planning. A prerequisite for a smooth transition is that family members must be able and agree to get along with each other within and outside of the family business (Santiago, 2000).

It is not easy for family businesses to design an implementable management succession strategy, which would enable the dynamic sustainability of the business through generations. This is because there would be a need to address the unique economic

requirements of different generations with inconsistent viewpoints among rival successors (Jaffe & Lane, 2004). Concerns regarding the management succession strategy include the strategic alliance and integration of the family, the business and clearly defining roles of business ownership. Unfortunately, when a leader lacks the skills of effective leadership, business success could also be negatively affected (Poza, 2010; Ibrahim *et al.*, 2004). This dynamic leads to a leadership challenge to balance these competing needs.

The management succession process calls for good management in five specific areas:

3.5.1 Preparing the first-generation owner

One of the greatest emotional challenges for a first-generation owner or founding member of a family business is to let go of a part of his life that has been very meaningful and rewarding to him (Aronoff, McClure & Ward, 2011:17). Succession planning plays a fundamental role in a family business, but many obstacles can get in the way, for example, formal or even informal attempts at succession planning are often perceived as a threat by the senior generation (Carlock *et al.*, 2001:17). Succession planning could not be implemented until that individual has made the life-changing decision to move on to the next phase of his life. A strategically planned and executed retirement can be a creative adventure with rewards of its own (Aronoff *et al.*, 2011:17).

The attitude of the first-generation owner towards the management succession process plays the most critical role in this process because they are harshly confronted with immortality. For many senior family members, this means sharing power and information that they would rather keep to themselves. Others object to planning because they think the future is too full of uncertainties to make the effort worthwhile (Carlock *et al.*, 2001:17).

Parents also face the possible reality that successors will not necessarily similarly manage the business, successors might have a scientific-based approach towards certain aspects of the business such as innovative technology, which might outshine the parent with a bittersweet experience (Aronoff *et al.*, 2011:19). The parent is confronted with mixed emotions, recognising that his successor is accomplishing things that are independent of him.

Parents are often troubled when successors create new strategic and operational systems which are different from proven systems of the past and the immediate question that arises from the parent, is why they would do it? Parents regularly complicate situations in the workplace purely from a point of anxiety and frustration with the mere realisation that the business system has removed him from leader central to retiree.

On the other hand, successors who support transferring ownership and leadership simply do not know what the family business expects from them. Their family's expectations can overwhelm them with self-doubt about their capability to lead the family enterprise to its next level. Sharing power with their siblings or cousins, or differences in individual's goals can also block the first stages of any planning process (Carlock *et al.*, 2001:17).

The parent must realise that the business is operating in a dynamic environment. The macro business environment is constantly changing and reinventing itself and successors can't sustainably manage the family business if they are not prepared to realign business strategies accordingly (Aronoff *et al.*, 2011:20).

A parent should carefully discern and gracefully recognise the sacred moment when it is the appropriate time for him to separate his identity from the business. Most parents had become so consumed with the relevant business activities during the years that they lack other interests or hobbies; they are most likely to have trouble later, when succession is complete (Aronoff *et al.*, 2011:20).

It is recommended by Carlock *et al.* (2001:18) to overcome senior generation obstacles in the following manner:

Table 3.1: Planning obstacles and suggested actions

Senior generation	Obstacles	Action steps
Senior generation	Doubts regarding the next generations capabilities	Create new and meaningful career opportunities for next generation

Senior generation	Loss of enjoyment from day-to-day operations	Identify a future role that contributes to the family business
Senior generation	Resistance to change in business strategy	Participate in strategic planning

Source: Carlock *et al.*, 2001:18

Parents normally stall on succession planning when they fear financial and emotional security during their retirement years; they are also not keen to let go of power and often feel that keeping control provides them with potent strength and bargaining power in addressing potential family conflict situations (Aronoff *et al.*, 2011:21). A parent should cultivate skilful wisdom and a renewed mind when considering succession planning; this momentous event should be celebrated as a significant milestone event in the life of the parent and he should, therefore, be saluted and honoured by the successor generation for his founding contributions (Prior, 2012:57).

It is recommended that parents approach the management succession process with zeal and passion. Crafting and implementing a succession plan can be enjoyable, while at the same time shaping a satisfying future for himself rather than dwelling on a wish to continue running the family business forever (Aronoff *et al.*, 2011:22). The foundational principles of a successful management succession process should be implemented long before succession could take place (Prior, 2012:58), the parents should develop three plans: 1.) A strategic plan for the business; 2.) A personal financial plan and 3.) estate plan.

It is advised to call on professional advisors or independent directors to assist with the sustainable implementation of a strategic management plan. The personal financial and estate plans must safeguard assets from taxes and other duties to ensure the parent with financial security after retirement (Aronoff *et al.*, 2011:22). Parents should strive to secure passive streams of revenue income during their active years in the family business, which would allow them to function independently from the family business when they depart for good.

A parent should, during his years in the family business, explore potential post-retirement activities which he could continue with after succession has taken place in the family

business (Prior, 2012:58). Such activities normally include and contribute to meaningful interaction with other friends and family and gives someone purpose outside of the family business. Parents should not underestimate the significance of new opportunities that might be coming their way, even after successful succession has taken place. Such an event might give the parent a new revitalising focus which should be a great gift to successors (Aronoff *et al.*, 2011:25).

Table 3.2 – The “letting go” checklist – suggests the following questions for the parent of the family business to ponder on and which might contribute to the initiation of a successful management succession process.

Table 3.2: The “letting go” checklist

# 1	Am I committed to family succession? Is it a dream I deeply feel?	Yes / No
# 2	Will my spouse and I be financially secure after retirement?	Yes / No
# 3	Is there a strategic plan in place for the business?	Yes / No
# 4	Have I chosen a successor and set a firm retirement date?	Yes / No
# 5	Have my spouse and I completed our estate planning?	Yes / No
# 6	Do I believe that there is a life after retirement? Do I have new opportunities lined up?	Yes / No
# 7	Am I willing to let the children take new business risks?	Yes / No
# 8	Am I comfortable with my successor's leadership style and his introduction of new systems into the business?	Yes / No

Source: Aronoff *et al.*, 2011:25

3.5.2 Preparing the business for succession

According to Prior (2012:72-89), the epitome of good stewardship should be to offer a sustainable family business to the next generation, which simply means that the goal is to create a family business that can sustain itself, even when the parent is no longer active in the business, this activity should be one of the highest callings for a parent to pursue before he reaches his retirement date. Table 3.3 – What buyers of businesses will pay more for gives a good indication to the parent of the condition a business should be in to consider it a sustainable family business (Aronoff *et al.*, 2011:28).

Table 3.3: What buyers of businesses will pay more for

1	Optimistic growth trends in sales and profits
2	Superior location – current and future premises
3	Superior product demand
4	Superior market strategy
5	Superior human resource capital
6	Superior financial resources
7	State of the art facilities and equipment
8	No regulatory threats or potential litigation

Source: Aronoff *et al.*, 2011:28

The strategy of the family business should have a two-fold purpose: 1.) To determine what would make the business successful and what requirements are needed to accomplish such and 2.) The skill and ability to match the talents and abilities of the new successor with the business's strategy. The next step is to determine and establish what the future role of the successor will be in the continued success of the family business. Parents and successors respectively have their strengths and weaknesses, combined with a specific leadership style; businesses normally are developed around those specific attributes (Aronoff *et al.*, 2011:28).

Shifts in management will influence the scope of the business's strategic competitive advantage and is it important not to clone "something similar to themselves". Parents should refrain from micromanagement on daily operational activities and rather concentrate on making the business ready to thrive under other leadership. Parents should continuously attend to "business effectiveness issues" prior and during the management succession process which should include the effective communication of 1.) financial goals, 2.) control goals, 3.) customer goals and 4.) strategic business goals to accommodate and ensure that the successor taking over a healthy family business (Aronoff *et al.*, 2011:30).

A healthy family business is transparent to all stakeholders and employees who can translate strategic goals into measurable actions; they have a clear understanding of the fundamental aspects of the business and demonstrate such activities voluntarily in good spirit. A family business should prevent finding itself in a position whereby the core business activities and functions constantly revolve around the parents of the family business; rather

develop a core management team of trusted individuals with different core capabilities who could safeguard the successor from potential detrimental decision making (Aronoff *et al.*, 2011:30).

Managers in the family business must focus energies on distributed authority and parents should pay continuous attention to business strategy, providing strategic direction and building teamwork. These primary activities ensure that the business functions well while becoming less dependent on the family's business leader.

3.5.3 Developing the successor

Prior (2012:88) suggest that successful management succession could only become a reality when a willing, competent and well-prepared successor or successor teams have been identified. Ideally, young children in the family with exceptional successor characteristics should be identified and gradually groomed towards becoming the next chief executive officer of the family business. Special consideration should go into the following components when developing effective successors with the major aspects of preparation being as follows:

- Rearing children for family business leadership - Raising children is a dynamic task and responsibility for any parent. Raising children in a family business environment contributes to the complexity of the task. Children do unintentionally share in the emotional lifecycles of their parents and the business and the process learn to distinguish between good business and bad business (Gersick *et al.*, 1997:24-35). It is recommended that when it is considered to pass on the family business to the children, that a balanced perspective on the joys and sorrows of the family business while they are still young, are presented. Parents should illustrate and discuss the rewards as well as the headaches associated with the family business (Aronoff *et al.*, 2011:34).
- Parents should not portray an image to their children that they have a moral obligation to take over the business in later years, but rather set their children free and allow them to explore other viable business or career opportunities outside the borders of the family business. However, parents should always set a welcoming table when children finally

decide to join the family business. Children should understand that they join the family business voluntarily, which is only one of many options available to them (Aronoff *et al.*, 2011:35).

Parents might have to consider the option of whether they want to raise successful heirs for the family business or whether they prefer raising great children. According to Ward (2004:35) raising great children has the proposed benefit of increasing the likelihood that any management succession process will be healthier because they are more likely to illustrate a higher level of business maturity and independence.

- Attitude preparation for the successor candidate – A heir often illustrates an attitude of entitlement. This attitude says that they are fully entitled to all benefits associated with his birth right and for that reason, it is fair for them to claim associated benefits. Many heirs enter the family business for the wrong reasons such as prestige, wealth, the desire to win the parents' approval, or to initiate strategic tactics to work out unresolved family conflicts (Leach *et al.*, 1999).

Parents should closely assess the heir's primary motivation to join the family business. Successful succession planning begins with developing self-awareness. According to the wise Terry Plochman (Aronoff *et al.*, 2011:36), when true motivations and aspirations emerge from the heir, the succession discussion becomes more real and alternatives manifest to the family, which might not have been anticipated before.

Some families nurture the concept of good stewardship and dedicated hard work at a young age. Children are expected to rise in every aspect of life purely based on merit; not reaping unmerited possible benefits (Miller *et al.*, 2008:25-28). Their minds are filtered to think in terms of the future and how they could make the greatest contribution to the family business and society.

- A personal development plan for the successor – This initiative should be initiated at an early stage in the career of the successor. This programme, as illustrated in Table 3.4, will help to evaluate the current abilities of the candidate to enable him to move towards the phase of leadership development.

Table 3.4: Development opportunities for successor candidates

# 1	3 to 5 years of work experience outside the family business
# 2	External coaching sessions from trusted mentors
# 3	Gain external business exposure
# 4	Additional academic training
# 5	Team building exercises
# 6	Rotation of assignments and cross-training within the business
# 7	Involvement in business processes
# 8	Exposure to business information flow and job assignments that offer the development of specific technical and management skills

Source: Aronoff *et al.*, 2011:37

It is important to grant the potential successor the opportunity to be ushered into the history of the business, the philosophy and the underlying culture of the family business so that the candidate can fully grasp the fundamental principles that hold the business together. Successors should be encouraged to learn more about their future role by attending regular entrepreneurial leadership programmes from an accredited academic institution of choice (Aronoff *et al.*, 2011:38).

- Leadership development for the successor – Leadership development could be implemented through practical learning programmes within the business, whereby successors have opportunity to manage a visible department of the business (Rothwell, 2010:257-265). In conjunction with in-house leadership training, the successor should also attend formal leadership training at an accredited academic institution of choice. It is also a good suggestion to actively meet and engage with successor candidates in other industries for mutual support activities (Aronoff *et al.*, 2011:38).
- When the successor is a team – Some first-generation owners have been blessed with more than one child with superior talents and abilities and who would like to join the family business. They might all be passionate about the family business and all in possession of senior management skills (Zellweger, 2017:204). This scenario could be a dilemma for parents when they are confronted to effectively allocate relatives according to their interests, passion and specific abilities when they have a “single leadership” model in mind. Shared leadership could be successfully implemented if all relatives are comfortable with this concept. The sibling candidates can effectively contribute to the

greater competitive advantage of the family business and this opportunity allows for them to work together as a team of equals (Aronoff *et al.*, 2011:40).

Traditionally, family businesses were handed over to the oldest child in the family, but this practice has no significant place in the day and age of living anymore (Miller *et al.*, 2003:52). Young people have shown growing interest working in family businesses due to the professionalism of these businesses and therefore more and more family businesses tend to have more than one qualified successor ready for taking over the family business (Aronoff *et al.*, 2011:41).

Parents and senior family members accommodate multiple successors through a “co-successor” programme; they are scrutinised and put through the same paces as any other candidates in areas such as attitude preparation and personal and leadership development programmes. However, they must also be trained and schooled in teamwork to demonstrate that they are an effective management unit.

Co-successors must demonstrate and practise individual and mutual ability to effectively communicate with each other and be able to effectively negotiate and resolve conflicts. Co-successors must have separate roles in the business and function separately but must have procedures and regular routines to accommodate the co-ordination needed for the family business (Aronoff *et al.*, 2011:41).

- A personal rationale for the successor – Successors often feel they are not good enough to meet the business expectations of their parents; many also may have a tough time to prove themselves and that they are doing a good job (Ward 1997:79). Parents should recognise and acknowledge such behaviour and reach out to those individuals. Successors should be guided to develop a personal rationale for being in the business and honestly ask themselves why they are doing this and why do they see this as an opportunity; encourage the successor to answer these questions thoughtfully (Aronoff *et al.*, 2011:42).

Successors should be ready to begin the transition to leadership when they have met the following challenges as stipulated in Table 3.5.

Table 3.5: Checklist for successor development

# 1	Has the successor gained worthwhile experience outside the family business? Yes / No
# 2	Has a clear personal development plan been laid out for the successor? Yes/ No
# 3	Is someone other than a parent teaching and mentoring the successor? Yes/ No
# 4	Does the successor have an opportunity to make an independent and visible contribution to the family business? Yes / No
# 5	Is the successor continuing to learn useful skills and values outside as well as inside the family business? Yes / No
# 6	Is a senior owner or mentor continually teaching the successor the business's history, philosophy and strategy? Yes / No
# 7	Does the successor have opportunities outside the business to exercise leadership and gain respect? Yes / No
# 8	Has the successor developed a personal rationale for working in the family business and does the successor spend time with other family business successors? Yes / No

Source: Aronoff *et al.*, 2011:43

3.6 SELECTING OR CHOOSING A SUCCESSOR

A fundamental step towards the implementation of a successful management succession strategy is how to peacefully disengage the founder from the business without compromising his goodwill and approval towards the succession process (Van der Merwe, 2010:123). Many first-generation owners refrain from the complex decision of choosing only one successor to lead the family business into the future. They found it highly difficult and emotionally distressing to choose one offspring over another. Some founders had deliberately channelled this emotional decision over to the business's board of directors to avoid but also to bring justice to this sensitive situation (Poza, 2012:27).

The board of directors may obtain information from applicable sources when exercising due diligence activities. When evaluating successor candidates, board members should always be able to rely on its independent outsider members to review the facts and render objective opinions and recommendations (Poza, 2012:27). The business's board translates responsibility away from the founding members; the board is in a uniquely objective position

of being able to enhance and evaluate the perception of the quality and fairness of the final management succession decision (Poza, 2012:27).

It is critically important for upcoming family business owners to establish valid credibility and legitimacy among family and non-family members. If not, they will never experience that deep founded acceptance they need from them to be able to reach their optimum potential in the family business (Van der Merwe, 2010:123).

- The process of choosing a successor: Parents find the decision to choose a new leader for the family business highly emotional and difficult (Ward, 2016:46). They are reluctant to make an early move simply because they don't want to experience unnecessary resentment of perceived favouritism from their children. Some parents bite the bullet and make a choice, either very early or after a period of competition. Other parents prefer delegating the decision through other decision mechanisms such as a board of family members or independent directors. Either way, the following alternatives come to play when these decisions are due to be revealed.

Early selection: Some parents choose successors at a very young age. This strategy works well when there is a big age and capability difference between successors; an early successor choice reduces the risk that the unexpected death or disability of parents will cause the business drifting (Aronoff *et al.*, 2011:45).

Competition over time: Many a time, parents prefer not choosing a new successor and allow candidates to compete for the job. This strategy reduces the potential risk they have of making a wrong decision and allows time for the strategic needs of the family business to influence the final selection (Ward, 2016:102). As time goes by parents even resist making the critical decision more as they value and cherish the togetherness of the family above the selection of a successor for the family business (Aronoff *et al.*, 2011:45).

The independent board of directors as catalyst: An alternative strategy for choosing a successor is to delegate the management succession process to a trusted independent board of directors with the mandate to design the selection process, create an appropriate selection plan and oversee the implementation of the succession plan

(Sharma *et al.*, 1997). Ideally, the board should consist of respected individuals who can act as a sounding board to help coaching the successor, who can also bring stability and cohesiveness into the process, especially during emotional and difficult moments in the succession process (Aronoff *et al.*, 2011:46).

The family executive team: Some senior family members introduced the concept of a “sibling task force” to the family with the primary objective to remove the burden of a succession decision from them and to encourage consensus among relatives. As the group are obliged to work together, an obvious leader sometimes emerges spontaneously. However, the potential disadvantage of this approach might risk encouraging politicking and the formation of emotional alliances that might damage the business and the family (Aronoff *et al.*, 2011:47).

Parents and members of the senior generation should take note of a strong possibility that the “task force” might not necessarily favour the notion of a single leadership model, but rather confine in the idea of team leadership whereby all participant suggestions and ideas are equally important and must be acknowledged by the team for future consideration (Aronoff *et al.*, 2011:47).

The non-family chief executive officer (CEO): Some literature and articles have indicated that certain family businesses had appointed a non-family CEO in the past and then asked that individual to identify and appoint his first-choice successor candidate (Gomba, 2014). The potential disadvantage of this approach might manifest in the CEO’s personal fear for stockholder revolt and they might not even have a deep understanding of the business’s values, business history and culture that is necessary to guide their choice of the next successor (Aronoff *et al.*, 2011:47).

The professional advisor: Some family businesses prefer to appoint a professional individual to administer the succession process; this approach is not advised as this method has the same risks as asking a non-family CEO to make the succession decision on behalf of the family (Craig, 2009).

Selection by default: Some parents refrain from choosing a successor until almost every potential successor has left the family business. The individual who happens to wait the

longest deserves the job. This approach tends to push away the most qualified and talented candidates, leaving the business to the least prospect to take charge of the family business (Aronoff *et al.*, 2011:48).

3.7 MENTORING AND PREPARATION OF A SUCCESSOR

Family businesses should grasp the opportunity to prepare children in the family for potential future roles; they should be allowed to love and grow organically into the family business (Van der Merwe, 2010:123). According to Maas *et al.* (2005:62) and (Wang, 2005:61-62) mentoring of a young family member into his/her potential new role is a critical aspect of the management succession process, given the fact that it reduces succession failure when one generation succeeds the next.

Successors should possess and illustrate the following traits and attributes to increase the probability to be successful in his/her new business role:

Successors should illustrate desirable levels of natural curiosity and interest in all aspects of the business, they must have appropriate abilities and skills combined with good academic qualifications. The new candidate should be allowed to receive appropriate and practical training and experience of the family business (Hess,2006:79).

Furthermore, the new candidate in the family business should have current involvement in the business, he/she should have naturally good personal relationships with both the founder and other family members and should illustrate personality traits of independence, integrity, self-confidence and a willingness to take calculated risks (Hess,2006:81).

It should be highly emphasised that the first-generation owner's role is imperative in the preparation of the prospective second-generation owner for the task ahead. The management succession process is an active and integrative process which is essential to the development and grooming of the prospective second-generation owner (Van der Merwe, 2010:124). Furthermore, it should be highlighted that younger generation or prospective successors' willingness to manage the family business may be influenced or altered by how well the successor's career interests and other personal needs may be strategically aligned with possible opportunities in the family business, whether the

opportunity exists to exercise influence in the family business and the potential rewards and benefits from the family business (Venter, Boshoff & Maas, 2003:3).

The family business, under the leadership of the first-generation owner, must filter and create dynamic opportunities for the prospective second-generation owner to grow, develop and explore to fulfil his/her personal and career goals in the family business (Van der Merwe, 2010:124).

3.7.1 Preparing the family for a successful transition

Families sometimes go through intense periods of conflict and hardship therefore it is suggested that family members should initiate a specific forum, which should be at a private and safe place, whereby they can let go of their frustrations and associated emotions (Neubauer & Lank, 2016:76-79). Employees in the family business should never be subjected to witness any type of conflict between family members. They should refrain from doing it and rather exercise self-control until an appropriate opportunity has come to address such issues (Aronoff *et al.*, 2011:51).

According to Montemerlo and Ward (2011:74), creating a family forum could stimulate effective two-way communication between family members, as well as between family members and employees, as each party gains confidence in each other. Spouses also gain an understanding of the business and both children and grandchildren benefit from this powerful dynamic. It provides young people with a valuable example of how a family can manage differences within the structure of unity, respect and trust.

Three types of family forums are suggested for consideration to the reader before, during and after succession: 1.) Frequent family meetings to discuss in the moment topics; 2.) A semi-formal meeting deals with core business activities and other responsibilities and 3.) A successor meeting associated with the next generation to discuss specific topics of interest. One of the most essential objectives of the family forum should be to create a trusted platform to articulate an inspirational vision and mission statement that would truly reflect and aspire the family and the business to greater heights (Aronoff *et al.*, 2011:53).

When family members gather to articulate a mission statement that pledges unity in the family and for their total commitment to business continuity, they strengthen and facilitate the management succession process (Aronoff *et al.*, 2011:55).

3.7.2 Preparing the responsible owner team

When a family business anticipates having multiple successors in the future, they should thoroughly consider the issues presented by team ownership. Business members are many times distracted by the formalities and complexities of estate planning, personal financial planning and leadership succession (Aronoff *et al.*, 2011:57). Team ownership only adds value to the family business when members are working together as owners. Successors must not only be prepared for leadership succession, but also for ownership succession as they are often intertwined. Relatives have many ownership scenarios available to them such as:

- An equal ownership structure for all active successors.
- Ownership is passed on to all active successors, only one sibling is the CEO with a 51 per cent shareholding and the rest have lesser shares in the family business.
- Ownership belongs only to active successors in the family business and inactive successors receive assets from outside the family business to work with.
- Equal ownership is distributed amongst all relatives, whether they are active in the family business or not.
- Equal ownership is distributed amongst all relatives and the family business is managed by a non-family CEO and board of directors.

According to Carlock *et al.*, (2010:25), parents should start early to educate relatives what it means to be a responsible owner; good owners should see themselves as stewards of the business while considering the welfare of the business, the family and stakeholders. Responsible ownership implies the continuous education about business ownership, understanding the privilege of stewardship with the sole intention to add value to the family business as a profitable institution (Aronoff *et al.*, 2011:60).

3.8 SUMMARY

Literature has made it clear that fully functional family businesses are playing a vital economic and social role in all spheres of society where they are situated in. It is therefore important that the continuation of these unique businesses should be assured through proper planning; the preparation of a successor is vital in respect of assuring continuity.

The first-generation owner should take ownership and accountability with regards to the training and development of the second-generation family members. a Conducive climate should be created for younger generation family members to make learning a more deliberate endeavour, exploring business management and leadership theories and skills to ultimately take over leadership and to skilfully steer the business into the next generation.

The emphasis of this chapter is on management succession of family businesses. The topics covered include definitions of succession, the importance of succession in family businesses, factors that influence succession in the family business, succession planning, selecting or choosing a successor as well as mentoring a successor.

The successful crafting and execution of a management succession strategy has a direct impact on the family members, the family business, employees, stakeholders and broader society. Small and medium-sized family businesses are encouraged not to postpone the inevitable.

CHAPTER 4

RESULTS AND DISCUSSION OF EMPIRICAL STUDY

4.1 INTRODUCTION

In the previous chapter, a literature study was carried out regarding the management succession process in small and medium-sized family businesses. The last part of the chapter focussed on the factors that influence succession planning, the criteria for choosing a worthy successor and the chapter ended with the mentoring of the selected candidate.

The primary objective of this chapter is to present and discuss the results of the empirical study in conjunction with the problem statement and the literature study. This chapter allows to present the findings of a qualitative study, semi-structured interviews were conducted privately with first-generation owners and second-generation owners.

Recommendations will be proposed on the strategic management succession process in small and medium-sized family businesses within a specific geographical segment in the South African context. In conclusion, a strategic informative discussion of the study will be conducted in Chapter 5 to determine whether the primary and secondary objectives, as set out in Chapter 1, were accomplished.

4.2 FINDINGS FROM THE FIRST-GENERATION OWNERS

The researcher reached out to numerous senior-generation owners in small and medium-sized family businesses in the geographical areas of Metsimaholo local municipality and Emfuleni local municipality. These owners were personally contacted with the invitation to participate in a semi-structured interview.

The primary objective of the discussion is to gain better understanding into the emotionally sensitive topic of succession planning with specific reference to the management succession process, which is the most important part, as one can't get to succession management until they have gone through the management succession process.

During the introduction and recruitment phase of potential participants, seven senior-generation owners indicated their willingness to share their insight and wisdom on this controversial topic. All participants fall within the generational segment “Baby Boomers” and were born during the period 1946 to 1964. Participants have confirmed that they have reached the “maturity stage” of the respective family life cycles (Lamb, Hair, McDaniel, Boshoff, Terblanche, Elliott & Klopper, 2017:138).

Participants were interviewed in a relaxed environment, normally at the owner’s office or after hours at home. The researcher introduced 12 carefully selected questions to every participant. These questions were designed by professor Stephan van der Merwe (NWU) and individual responses were voice recorded with the formal consent of selected participants. An elaboration on the following in-depth discussions will be done in the next heading.

4.2.1 Question 1: If you retire or die unexpectedly, can your family continue to run your business? If your family cannot run your business, who will?

As family businesses engage into the management succession plan, they also engage in contingency plans for the family business. A contingency plan is an emergency plan in case of a tragic or unexpected event happening to parents. A contingency plan for succession is a crucial safeguard against unforeseen or untimely forced sale or liquidation due to unexpected situations. All participants in this study indicated that, if they should retire or die unexpectedly, the family business should be able to function and continue business as usual.

Participant F-1 became acutely aware of the fact that he had become a hindrance to his son in the business. Suddenly the immediate workspace just became too narrow for both to properly function in. The primary source of regular conflict in the business was due to new technology-related subjects.

The senior owner had a sustainable business relationship with a specific service provider of vehicle tracking systems, therefore “... *why should we then change something that we know are working well for us ...*”

On the other hand, the successor was frustrated with his father *“... my father hated new stuff, he will never get over it ...”*

And then *“... One morning I spoke to my wife and we’ve decided that it was time to let my son continue with the family business. We have sat down during that week and I had initiated my retirement. The atmosphere in the room almost changed immediately and I could sense it was time; I felt so relieved at that moment ...”*

The management succession process had then started for this family; both parties had an agreement and it was for the good of the family business and stakeholders.

“... Yes, we have been discussing this matter for about ten years now and I truly believe that my son would be able to continue with business as usual ...” (Participant F-1).

“...If I should die unexpectantly tomorrow, my children would be able to continue with the business. I believe it would not be easy for them and they would most definitely experience growing pains as they are not yet familiar with all aspects of the business, especially with the ever-changing dynamics of new business development ...” (Participant F-2).

“... We are currently operating in a complex business environment; we take extreme measurements to stay alive ...” (Participant F-2).

It became apparent during the conversation with the participant that he had great concerns about his business. He had the view that succession planning has a long-term component to it and that it is not *“business wise”* to blindly implement a long-term strategy in such a volatile macro environment they are living in, yet he has confirmed business continuity if he should retire or die unexpectantly.

Participant F-3 has started a new business space in the fast food industry 11 years ago; he had a vision for his child’s future and raised his opinion that entrepreneurship was his road to success and financial freedom.

“... I have appointed a qualified operations manager. If I should die unexpectantly, I know that the daily functioning of the business should continue as any other day. This

arrangement should give the family the opportunity to strategize the way forward ..."
(Participant F-3).

"... My son-in-law and my daughter are completely in control of all aspects of the business; it is actually very convenient for me at this stage of my life. I could simply pick up the phone and within a matter of five minutes I can tell if they are still on track with the job ..."
(Participant F-4).

The participant realised at that point in time that the family business could function without him and that he could find his identity in something else, he made a conscious decision preparing a new life.

Participant F-5 clearly states that he had invested many hours and money in "in-house" training to enable his children to understand the fundamental principles of this business. The participant had worked towards a strategic plan for the business, a personal financial plan and an estate plan and is expectant to reap dividends for his hard work.

"... this business has a BEE partner. The children work in the business and for that matter both parties have a good perspective and understanding of what needs to be done should I or my husband unexpectedly dies ..." (Participant F-6).

Black economic empowerment transactions in family businesses could be a controversial topic, the various emotional dimensions between family members could create a highly explosive situation and therefore the transaction should be structured in such a way that incumbents and BEE partners should be able to part their ways if feel obliged to do so.

"... we have appointed a business coach. He is helping us with strategic decision making. My children have confronted me with the accusation that I still want to rule their lives even after my death ..." (Participant F-7).

This family has a great sense of the strategic way forward for both generations; they have flaring temperaments which are haltering the process at times.

4.2.2 Question 2: Are you willing to let go unconditionally? What will you do after retirement (scale down, move away)?

Many business founders have invested time, money and other resources into their businesses. During those early years they've started with a passion for a specific business idea in mind and have developed it over the years so that their children could also join in the successes of the family business. The sudden reality that they would have to let go at some point in time makes them highly uncomfortable and parents tend clinging on to the family business indefinitely. Even when they do let go eventually, they do it on their own terms and conditions to the frustration of relatives.

Participants responded as follows to the 'letting-go' principle:

"... Unconditionally? No never! How can anyone just give away his business unconditionally to anyone, children included ..." (Participant F-1)

"...NO..." (Participant F-2)

"...I am not ready to let go yet, but I would like to let go after a few more years..." (Participant F-3)

"... Yes, I would love to see my children take the business and run with it; that's my desire ..." (Participants F-4)

"... Not unconditionally. We have established a value system in our business; my children will have to firstly adhere to those values before I would consider letting go ..." (Participant F-5)

"... I can walk away today ..." (Participant F-6)

"... I am 55 years old. I can see that the children want to run with the business and I am not ready for that to happen yet. I am concerned that neither of them is academically qualified and I know that they are not emotionally ready to run this business alone ..." (Participant F-7)

Letting go should be a mindful act, it has the potential to offer new opportunities in life to both parties and should be grasped with enthusiasm, however, the fear of change normally overwhelms parents. We have all heard the term “white knuckles.” White knuckles occur when someone grip something so tight that the blood rushes away from their knuckles and become white.

This action is usually a response to fear of losing something valuable. Make a fist with both hands. Hang on to this grip for at least ten *slow* seconds. As your grip intensifies, are you beginning to feel uncomfortable and tense? Now release your hands into your lap. What do you feel? Relief and rest. It feels good to let go. Parents need to let go at the appropriate time because they cannot sustain their authority and grip long term as they would become exhausted.

4.2.3 Question 3: Have you (or any other family members) discussed the management succession process in the family business? Kindly explain.

When the participants were asked whether the topic of succession planning has been raised for discussion in the past, one could sense that this topic is indeed of a sensitive nature.

Participants responded as follows to this sensitive topic:

Participant F-1 took sincere action to discuss the topic with his children. He acknowledges the long-term nature of succession planning. Strategic time frames were initiated in the past but were postponed due to uncertain macro environmental factors.

“... The topic is not really open for discussion for no specific reason. I know it is my responsibility as a father to take the lead in this discussion; maybe I should just push through with it ...” (Participant F-2)

“... I told my son many times; this is your business, learn from me while I am still around ...” (Participant F-3)

Participant F-4 indicated that the family’s basic understanding of succession planning is grounded although they do not have a written succession plan on the table.

“... As a family, we had many critical discussions on different topics, however, we always strive to conduct every conversation through love and patience for each other. Our strategies are not cast in stone due to the ever-changing macro environment we found ourselves in ...”
(Participant F-5)

“... Yes, I can report that we indeed had the discussion. Every child had the opportunity given to him to engage in the business full-time, however, only my younger son is still with us, and therefore he will be the one taking the business forward ...” (Participant F-6)

Participant F-7 is very concerned with the fact that his youngest son is not interested in strategic planning.

“... As long as he can get his salary at the end of the month, he is happy...”

The problem statement and literature study conducted clearly indicated that the failure to plan and effectively manage succession is the greatest threat to the survival of a family business. Honest communication about this topic should be one of the first steps in the management succession process to find consensus on the strategy to follow, some participants indicated their fearfulness and other participants showed great courage to work through the steps. Participant F-5 illustrated the extraordinary dynamic of love and patience for each other, there is no ‘winner takes it all’ but would rather strive to find the best solution that would benefit every individual in the family business and that’s what makes family business so unique.

4.2.4 Question 4: Do you have a management succession plan in place? Are you committed to implement the succession plan?

Participant F-1 and his son made the commitment to implement a management succession strategy that would positively serve both the family as an entity, the employees and stakeholders.

“... We have no written commitment or implementation plan in a file in my drawer or elsewhere; when the time requires, they will just step up into their new roles ...” (Participant F-2)

“... Yes absolutely, I am fully committed to see him taking the business in due season ...”
(Participant F-3)

“...my children are committed and so are we; it’s a long-term process to get them to the point of succession ...” (Participant F-4)

Participant F-5 confirmed an absolute commitment towards a successful management succession strategy.

“... We are entirely committed towards the implementation of a succession plan, although we do not have a written commitment in place ...” (Participant F-6)

“... I am willing to work on an implementable succession strategy although I am not ready to let go ...” (Participant F-7)

Although both generations declared their commitment towards the management succession process, none of the parties could produce a written strategic management succession plan; they certainly have a clear understanding of the way forward, but they neglect specifics. This tendency is remarkable, participants seem to have a swift entrepreneurial thinking pattern whereby they permanently position themselves to execute quick decision-making strategies as they do not necessarily favour “cast in stone” strategies.

4.2.5 Question 5: Does your succession plan accommodate relatives with different skill levels or interest in the business?

“... I have only one child in the business. We have acknowledged certain shortcomings in him and we have appointed over a period of time trusted non-family members who are more qualified to do those jobs, however, times have brought wisdom and knowledge and my son is in a much better position to understand those disciplines now ...”
(Participant F-1)

“... Both my children are strategically positioned in the business; my son is a qualified boilermaker and is in charge of the technical aspects of the business. My daughter is in control of the financial department ...” (Participant F-2)

“... my other children are not involved in this specific business; they have developed their own careers. My son’s level of skills fit the profile of this business ...” (Participant F-3)

“... my son-in-law is an all-rounder; I have introduced him to all aspects of the business. He is more of a technical guy. My daughter deals with the other aspects of the business, so they are placed well within the business ...” (Participant F-4)

“... my children have spontaneously grown into their respective positions in the company; we didn’t force anyone into a specific setting ...” (Participant F-5)

“... my son is encouraged and allowed to gain experience on all aspects of the business ...” (Participant F-6)

“... I have three children in the business; the youngest is the entrepreneur, the two older children just hate being in the business, but they are here for monetary reasons. The youngest is perfectly placed in his role. The other two are not qualified and they are performing poor; they do not have the necessary skills for those jobs ...” (Participant F-7)

Family businesses are all about the children, the participated parents indicated high levels of love and dynamic expectations for their children, these parents also do not hesitate to show “tough love” during the successor’s introductory stages at the family business. All participants indicated that they have no formal written plan on the table but rather have a good understanding of how the family business will be conducted in the future, this understanding also includes the fact that relatives need to be accommodated in different divisions of the family business acknowledging the fact that they have different skills and talents.

4.2.6 Question 6: Explain the process that the business will follow to plan for the management succession. How will it be implemented?

The question was asked to all participants to explain the process that the business should follow to plan for management succession and how they should implement the succession plan. The answers given were vague. It is believed that it was due to the lack of a written succession plan. Participants have earlier indicated in the interviews that they did not have

a written succession plan on the table, but that they have an informal understanding between the generations. The lack of a well-documented succession strategy on the table should have a directly negative impact on the execution of the specific strategy.

4.2.7 Have you identified a potential successor? Have you communicated your decision?

“... I have four children who are globally stationed. We have had communicated the decision that my son would continue with the business in South Africa and they have accepted the decision as binding ...” (Participant F-1)

“... My son will inherit the business; it is more an understanding that he will take over the business than it is a formal and binding decision made by the family ...” (Participant F-2)

“... The successor of this business is my son, he knows it and so does every member of the family ...” (Participant F-3)

“... This business belongs to my children and they know that ...” (Participant F-4)

“... I have four children; they are all working in this business. The oldest son is the most suitable candidate to make executive decisions and they do except this ruling ...” (Participant F-5)

“... the family is at peace with the succession strategy because every child was given the opportunity to join the business and they have made their choice ...” (Participant F-6)

“... Yes, the youngest will inherit the business with the understanding that he should manage and develop the business to the mutual benefit of the family ...” (Participant F-7)

It is apparent that all parent participants are not delusional about who the next successor will be in the family business, irrespective of the fact that the family business do not have a written succession plan on the table. Communicating the decision can stir emotions easily if not dealt with in a sensitive manner especially when other relatives or family members felt that a specific family member was pulled out of the pack because he was the destined person for the position.

4.2.8 How do you develop the successor to take over the management of the business in the future?

“... my son started doing piece jobs in the workshop and many times failed and then my personnel had to do the job again but at the end of the day he gained a good understanding of the dynamics involved at floor level. In later years he joined me in strategic decision making and learnt the hard way that for every action there is a counter reaction...”
(Participant F-1).

“...You take him to the factory floor and you let him start at the bottom, he must earn his way to the top...” (Participant F-2).

“...One day at a time...” (Participant F-3).

“...You give him continuous and effective exposure to all segments of the business...”
(Participant F-4).

“...Hands of training every day, there is no short-cuts...” (Participants F-5).

“...I let my child do everything in the business, from working with suppliers to dealing with difficult customers...” (Participant F-6).

“...I am mentoring my child continuously but he is not always listening to me so I have appointed an external business coach to keep us relevant to our business environment...”
(Participant F-7).

Parent participants strongly indicated during interviews that successors should start with ground-level training in the family business and that no form of preferential treatment should be allowed. Successors should be introduced and exposed to all aspects of tasks at hand and the process should not be rushed and should have maximum exposure to all job specifications.

4.2.9 Do you think that the prospected successor will be able to manage the business successfully after your retirement?

Parent participants to this study have indicated great trust and support for the respective successors, although some senior-generation owners dislike the idea of letting go and, while some other senior-generation owners are not happy with related succession aspects of the business, they have indicated support and a deep trust in their children's competence to forward the family business to the next level. The following replies from the senior generation beautifully illustrates their confidence in the capabilities of the next generation.

“...Yes, only with the help of the existing management team, he will not do it alone...”
(Participant F-1).

“...Yes, but only if they keep communicating to each other...” (Participant F-2).

“...Yes, surely with the help of his manager...” (Participant F-3).

“...Yes, she can do it, with the help of her husband and other workers...” (Participant F-4).

“...Yes, as long as he works hard, pray, trust and keep our value system alive...” (Participant F-5).

“...Yes, because we have trained him to be a success...” (Participant F-6).

“...Yes, yes, yes absolutely because I believe in him...” (Participant F-7).

4.2.10 Will you have enough income when you retire?

Once succession is finalised, parents should be positioned to sustain the current standard of living indefinitely without being financially dependent on relatives or the family business. The general view of parent participants to this question indicates an uneasy response towards financial security, the lack of financial security seems to be the main reason why parents are not strategically in a good position to let go of the family business. The impression is created that “Baby Boomers” are a hard-working generation who would rather prefer scaling down in their work activities than go for full scale retirement. The participants replied to this question as follows:

“...Yes, I will be able to retire but will have to refine later on...” (Participant F-1).

“...Yes, I have planned retirement annuities to support me when it’s time to go...” (Participant F-2).

“...Yes, I have a pension payment plan to help me when time comes...” (Participant F-3).

“...Yes, we have something in place...” (Participant F-4).

“...Yes, with no further comment...” (Participant F-5).

“...Yes, with no further comment...” (Participant F-6).

“...Yes, with no further comment...” (Participant F-7).

The researcher, at the spur of the moment, sensed not to dig deeper into the details of this question and automatically moved on to the next question.

4.2.11 Do you have an overall estate plan in place? Have you considered the impact of taxes (i.e. estate, capital gains) on your family business?

Long before succession could take place, the family business should have an overall strategic plan combined with a personal financial plan and an estate plan. The latter two plans should safeguard total assets from taxes and ensure the senior generation’s security after retirement. Parents should preferably secure other sources of income, which are not part of the family business, to provide post-retirement comfort and financial confidence. Some parent participants indicate the existence of an overall estate plan, but they also acknowledge that the estate plan lack specific details and careful planning with regards to taxes.

Participants comment as follows to this question:

“...Hopefully I have covered all aspects...” (Participant F-1).

‘...No, not really as we went through a terrible financial period in our business, but I believe the time will come to have a good estate plan in place...’ (Participant F-2).

“...How much is enough? I don’t think I have enough to cover for my old day...” (Participant F-3).

“...We should be able to keep our heads above the water...” (Participant F-4).

“...We took care of that aspect, it is part of our belief system to save money and prepare for darker days when they come...” (Participant F-5).

“...I hope so, can one ever have enough money for old days...”? (Participants F-6).

“...No, not at this stage, I just have the answer to that question yet...” (Participant F-7).

4.3 FINDINGS FROM THE SECOND-GENERATION OWNERS

During the interview sessions with the first-generation owners, permission have been asked by the researcher for second phase interview sessions with relatives in the family business. Seven second-generation owners indicated their willingness to share their insight and wisdom on this sensitive topic. These successors were friendly and appeared less reserved than their parents during the interview sessions.

Six successors fall within the generational segment of “Generation X” because they were born during the period of 1965 to 1980 and only one successor falls within the generational segment of “Generation Y” because the individual was born during the period of 1981 to 2000 (Lamb *et al.*, 2017:138). All successors were interviewed in the exact same setting as their parents. The researcher introduced 12 carefully selected questions to every participant, however, these questions were not the same as for their parents, these questions were designed by professor Stephan van der Merwe (NWU) and individual responses were voice recorded with the formal consent of selected participants. An elaboration on the following in-depth discussions will be done in the next heading.

4.3.1 Why did you decide to join your family business instead of pursuing a different career path (e.g., a regular corporate career or starting your own business)?

“... I was a full-time student during the early 2000s; I have started a paintball business during those years and it became a moderate success. My fellow students loved the game, but when they went on holidays the business went dead quiet. The trading hours were irregular, especially over weekends. I had no time for other activities in my life. As I became older my priorities changed. The family business became the obvious choice for me and my father cannot stay in the business forever. I asked him to join and he happily accepted me ...”
(Participant S-1)

“... I am a qualified boilermaker. I have been working for an international business for eight years where I had a managerial position. The 2008 recession made me nervous, but then my father asked me to join the family business ...” (Participant S-2)

“... I have studied B.com at Potch. After my studies I took a flight to London and worked there for a few years. I have also met my wife in London. Then I decided to get my life in order and my father gladly accepted me in the family business and for that I am grateful ...”
(Participant S-3)

“... I have always dreamed of managing my own company. My father bought this business from my grandfather several years ago. When I was not playing rugby I was always working at the business, where I really enjoyed the business activities. Today, I am in the business full-time and I have no desire to work anywhere else ...” (Participant S-4)

“...My parents started this business when I was still in primary school, so I grew up in a family business environment. I did not really have an appetite to work in the business because my father and I are not always on the same page, so after school I went overseas for a while and when I came back I was in a better shape mentally and emotionally to effectively deal with him and other daily business activities ...” (Participant S-5)

“... As a little girl I had always worked next to my mother at our small nursery business in town. She sold the business during my high school years. I have started at my father's business as an administrative assistant immediately after I have finished school. I never had the desire to work for another company ...” (Participant S-6)

“... My dad sold his shares in a company when I was still young. Shortly after that transaction he started the current family business and I became one of his first employees. I am responsible for administration and finances ...” (Participant S-7)

This question is challenging. The reality is that children have an option to labour in the family business, although parents would certainly hope to have them in the family business. They could easily follow a different career path, so it is important that children are being allowed to conclude for themselves that a career in the family business is the most beneficial way forward. This independent decision-making process should produce a child who has made up his mind about his future.

4.3.2 In your opinion, what is the best thing about working in the family business as compared to working outside of the family business?

“... I am enjoying and thankful for the financial stability in my life. I am married and have twin babies, so I would not be able to sustain my family without this opportunity ...” (Participant S-1)

“... You are just a number in big companies. I know I have a purpose and a higher calling in life and in this business ...” (Participant S-2)

“... The financial and emotional pressure can be overwhelming during times but this business gives me a great sense of freedom and a higher quality of life ...” (Participant S-3).

“... I really felt proud when my sister was in financial trouble and the business could help her to get back on her feet again; that was such a rewarding personal experience for me ...” (Participant S-4).

“... No, I am just a number in this place. My father is the boss and he is in control of this business; everything goes via him. Maybe the tide will turn in future ...” (Participant S-5).

“... I have started working at this business straight after school; I can’t really compare the outside world with my current environment, but I guess I have a certain degree of freedom and authority as a co-owner in this business ...” (Participant S-6).

“... I am grateful for having flexibility in my work situation. We have great employees and especially the ladies in the office are very capable, which allows me to move freely. We look after each other and I always return the favour; it promotes motivation in the workplace ...” (Participant S-7).

A family business has characteristics such as great loyalty, trust and family spirit. One specific family has changed the term “trust” to “love”. They believe that trust is a meaningful element to keep the family business intact, but the power of love conquers all weapons formed against the family business. The term “trust” is more applicable and appropriate in non-family businesses, but “love” is the foundation of a family business which brings an essential and strong dynamic to the inner circle of the family business.

4.3.3 What were the biggest personal challenges you faced when joining the family business as a family member?

Understanding and managing family tension is a complicated task; many families mistakenly assume that all family members share the same values, which could not be further from the truth. On the contrary, children might not have similar value systems and beliefs. Birth order normally have a significant impact on children.

The respondents replied as follows to this question.

“... Conflict in the workplace. I find it very challenging to deal with family conflict. I don’t like it when we fight in an open space in the workplace; I prefer to fight in private, but many times the situation does not allow us the privacy we need to sort out the problem; I am always concerned that employees read more in the situation than what was said. My dad’s not fond of technology; he gets very frustrated and intimidated with the idea and we just can’t continue working with old school methods ...” (Participant S-1).

“... Knowledge. I am a qualified artisan; I know and understand my job, but there is so much more to understand. Our business is complex; one needs to understand the fundamental aspects of the industry in which we are operating. Product knowledge is important, but you also have to have a deep strategic and operational understanding of the business ...” (Participant S-2).

“... I am very concerned what the negative consequences of the current political situation might have on our business. BEE is a difficult challenge and I feel that we are selling our souls to stay in business; why are we still doing it? My dad moved away from a narrow high-value customer base to a broader medium- to low-value customer base; I support his decision ...” (Participant S-3).

“... My personal weakness is arrogance. Yes, I admit it and I have paid a dear price for my arrogance in the past. I am in a much better place today. I have always challenged my dad on almost every decision he has made in the past and that was so wrong of me. Another personal challenge for me is to close the communication gap between me and my brother and sister; I am just passionately involved in this business and I don’t get the same attitude from them ...” (Participant S-4).

“... My dad and I have the same temperament which easily create intense conflict situations between us which create uncertainty amongst our employees at times and then employees start taking sides, which create a division between them. It is also a huge challenge for me to deal with the stress when we do not have enough money to pay people on time ...” (Participant S-5).

“... Conflict with regard to different working methods. My dad has been an experienced business owner for many years and I acknowledge it, but does it mean that I am not allowed to have my own way of thinking? He shouldn’t be so stuck in his own mindset and he gets really angry at me; this attitude creates high emotional tension between us. I almost left the business in the beginning of this year because of these kind of conversations ...” (Participant S-6).

“... Since day one I was part of the business and every time it hits me when a trust relationship is going wrong between us, an employee or a supplier or a customer. Life happens and many times trust was broken due to poor communication issues. It is very

difficult to fix those relationships, but we are all human and mistakes do happen ...”
(Participant S-7).

This dilemma has been witnessed with a participating family, the youngest brother has great entrepreneurial capabilities who understands the dynamic contribution of strategic management and the older relatives do not illustrate the same keen interest in these topics.

Some families experience “role conflict” as a significant strain on their relationship. The business relationship often expects brothers to hold each other accountable for specific deadlines. They normally find it obscure to communicate with each other in a corporate manner. They would often resist or refrain from this practice, which could easily be viewed as disrespectful towards other relatives, which could easily explode into more family tension.

4.3.4 Have you (or other family members) discussed the management succession process in the family business. Kindly explain.

“... We don’t have a formal written plan, but we have an understanding and the announcement were made by my dad that succession will take effect in the future, although we don’t have a specific date in time. We are living in uncertain times and somehow I understand his dilemma between when, where and how he should implement such a plan. In the meantime, we do what we need to do ...” (Participant S-1).

“... No, we don’t talk about this topic; I think we all know what will happen when my dad is no longer with us ...” (Participant S-2).

“... Yes, we have communicated a transitional plan between me and my father. My brother indicated his decision not to be part of this business and we have respected his decision. The official take-over was scheduled but was then postponed for a period of six months to accommodate certain first-generation employees with the transitioning process. Today we look back and everybody is happy with the outcome of the process ...” (Participant S-3).

“... Succession is not really on the table yet; we have strategic and operational meetings and discussions, but there are no succession strategies on the table ...” (Participant S-4).

“... We have the basic understanding that I will eventually take over the business at the appropriate time, but specifics we don’t yet have. We will decide as time goes on ...” (Participant S-5).

“... I believe I will eventually run the business, but at this stage I am just a normal worker; hopefully it will change soon ...” (Participant S-6).

“... My dad has occasionally made certain comments, but I hate to think about the fact that, in order to gain a business, we first have to lose a father ...” (Participant S-7).

According to Astrachan *et al.* (2003:1) many family businesses failed to grow to the next generation because they do not effectively communicate the management succession process with each other; communication provides the support for sound family relationships as well as conflict resolution according to Maas *et al.* (2005:119). The way succession is communicated to family members plays a central part due to the sensitivity of both the family and business. Every possible measure should be taken to ensure that no family member feels inferior to the chosen candidate.

4.3.5 Explain the process that the business will follow to plan for the management succession. How will it be implemented?

“... The initial timeframe for take-over was five years and then we hit a real low in the business and succession plans were put on hold; we even thought at some stage that the business will not survive, but eight months later we’ve managed to pull it through. The initial time lines did not realise at all and from that we knew that the business might not be financially strong enough to pull through a succession strategy. Succession is still on the table, but financial growth and stability is now first priority for us ...” (Participant S-1).

“... I don’t think we have a written process in place, however, my dad gives me exposure to strategic matters of the business. He allows me to do financial costing and other managerial aspects on certain new projects ...” (Participant S-2).

“... We have discussed realistic time frames. We have included the senior managers on this topic and then we realised that we would have to postpone specific milestone dates purely

to accommodate certain senior managers' retirement dates. It was not only my dad leaving the business; senior managers from his generation were also ready for retirement and we had to promote and appoint specific individuals in those vacant posts ..." (Participant S-3).

"... We have appointed a business coach to assist us with various strategic topics; the process is still in the planning phase, but I think the greatest challenge will be to accommodate family egos. We have strong individual opinions and that needs to be addressed. I trust my father, but I don't share the same sentiment with the other relatives ..." (Participant S-4).

"... There is no major process to be implemented. Succession is not even a real discussion in this house. I am cemented in the business, my father will stay active in the business and when he is no more, I will just continue with his activities ..."
(Participant S-5).

"... I know my parents have a testament or will document and we don't have a specific process for succession. When the time has come I will just continue with the business; we have a 25 % BEE partner to consider, but we get along well ..." (Participant S-6).

"... We have no specific succession strategy on the table, therefore we don't really have a cast in stone process to follow; we simply continue the business and make decisions when necessary ..." (Participant S-7).

Participating families do not have a formal succession strategy in place, although they have a good understanding of the way forward. The result is thus that the participating families do not have a formal implementation plan ready for execution which again confirms the stated research problem that most family businesses do not have a formal succession strategy on the table but rather a formal family bond that would take care of this situation when it occurs.

4.3.6 Do you think that you will be able to successfully manage the business after the transition?

“... I come a long way in this business and the business has an excellent operations manager combined with other skilful personnel. The idea of taking over is an intimidating prospect, but I am rooted in this business, I can only give it my best shot ...”

(Participant S-1).

“... I am a qualified tradesman. My dad allows me to have access to all aspects of the business, so therefore I believe that I can do it. My sister will keep the finance department running and I will focus on the operations ...” (Participant S-2).

“... When I look back over the years, I can truly understand and grasp the value of working in the business as a child. I have learned so much from regular guys on site, I even had the opportunity to drive certain vehicles, which was illegal, but I have been exposed at a very deep level to the core activities of this business and I am grateful for those experiences. I also have a deep gratitude towards our employees who have actually become my extended family ...” (Participant S-3).

“... I don't want to be arrogant again, but I have learned so much over the years and every day has a new set of challenges. I believe, however, that I have a good understanding of the fundamental business concepts and that I can take this business to the next level ...” (Participant S-4).

“... Well I am so used to it; I do it every day of my life and this is all I know. I am not looking forward to the day that I might have to run this business without my dad, but I will be able to keep the wheels going ...” (Participant S-5).

“... Yes, I should be able to control the business in a sustainable manner. Luckily I have a strong business support structure and together we will be able to continue with business with the help of my wife and all employees involved ...” (Participant S-6).

“... I don't wish for that day to come when we would have to continue business without my parents, however, I am capable and have enough business experience to continue with the business ...” (Participant S-7).

Succession planning could only realise when the family has an enthusiastic and skilled successor at hand, the development of successors should start as young as possible as the succession process will deepen when they reach adulthood. The coaching of relatives for family business leadership is crucial, the successor's attitude should also be groomed to a point that he is mature enough to take over the reign of the family business.

4.3.7 Do you (or the business) have a management succession plan in place?

"... We have made a decision in principle; the understanding is dynamic and factors like the macro environment are changing. We have no succession plan in writing ..." (Participant S-1).

"... We have no written succession plan in place, but we have an understanding with our parents regarding our future roles in the business ..." (Participant S-2).

"... We've been through the first succession process successfully and I have learned tremendously through the experience. I already do have a clear idea of how I would implement a succession plan with my kids someday. Even if they are still young, I will have a management succession plan in place ..." (Participant S-3).

"... Not yet but ask me this question next year again and I will be able to show you the plan ..." (Participant S-4).

"... We have an understanding, but no written management succession plan on file somewhere ..." (Participant S-5).

"... We don't really do written plans, especially succession plans, but we have discussed the general idea and that's it at this stage ..." (Participant S-6).

"... We don't have a succession plan to the letter of the word, but we do have – more or less – a verbal plan, or rather an understanding, in place ..." (Participant S-7).

"The succession conspiracy" is a term used whereby all members in the family have concluded that it is the best for everyone not to discuss succession-related topics.

Succession means that someone will die or retire from the family business and to prematurely focus on someone's death, diminishes them. Children feel that they don't want to be considered selfish, key managers resist from this topic as they don't want to deteriorate their relationship with senior family members.

Avoiding this topic does not mean that the inevitable will never happen, however, the lack of succession planning might have the opposite effect and key employees in the family business might decide to leave and rather join a business where strategic planning is more solid.

4.3.8 Can you describe how you are being prepared to take over the family business?

"... My father allowed me to into the business with the basic understanding that I would have to start at a very basic operational level. My general attitude and ability to learn and master things would open the door to the next level of operations. Today I am working shoulder to shoulder with my dad and his senior managers ..." (Participant S-1).

"... There is really no easy method of doing it; I have started in the workshop and I was introduced to every aspect of the business in every department ..." (Participant S-2).

"... I was thankful for the opportunity to start in the family business; everybody in this place know that I will become the new owner of the business and they treat me a bit different, but my father had no mercy on me. He pushed me hard and I am grateful for his persistence of doing it ..." (Participant S-3).

"... I chose from the early foundational days to be part of this setting. Yes, as a schoolboy I didn't always take it seriously, but my dad played open cards with me and allowed me to explore every aspect of the business ..." (Participant S-4).

"... Again, I was just part of the furniture from day one. You take every day by the horns and you do what you always do; you go and get practical experience. That's the best method to prepare yourself for a business take-over ..." (Participant S-5).

“... I have started my first day with tools in my hands; there’s no fame in doing this, just hard work ...” (Participant S-6).

“... I have worked at the dining room table for the first year. It was chaotic at times, but we’ve just started the business and money was scarce. That was tough, but I have managed to just do what I had to do ...” (Participant S-7).

Many successors assume that previous business successes from parents will automatically be bestowed upon them, but parents and successors do not have the same risk profiles and business goals. Family businesses sometimes find it difficult to pass entrepreneurial capabilities to the less hungry second-generation owners as the latter feel entitled to get the family business rather than to explore new entrepreneurial opportunities.

Participating families follow a great strategic concept which allows the child to explore every aspect of the family business; children are exposed to the typical work environment so they could obtain first-hand experience.

4.3.9 What do you do from your side to prepare yourself for the management of the family business?

“... I work hard and cultivate good working relationships with employees, suppliers and customers. I am just being authentic, oh and I have an academic qualification ...” (Participant S-1).

“... There is no secret recipe that you could buy that would prepare you for this business. Although I am a qualified artisan, I still have to work hard, focus on the business and always be honest ...” (Participant S-2).

“... I have a B.com degree and I have made sure to surround me with very capable employees because I surely need them. I like to do industry benchmarking, which is always a good indication whether I am steering the business in the appropriate direction. This exercise allows me to do introspection, which always contribute to personal development ...” (Participant S-3).

“... I love reading books on business management. I have no tertiary academic qualification and my dad feels strongly about studying further to enable me to make better informed business decisions. At this stage I gain from reading business-related articles and books, and then obviously my committed hard work in the business ...”

(Participant S-4).

“... I have no academic qualifications apart from my high school certificate. I have committed myself to the family business over the years to the best of my ability ...” (Participant S-5).

“... Apart from my technical qualification and dedicated hard work on a daily basis, my parents insist me going to industry-related expo's and seminars during the year. I also have to attend on-line feedback sessions from our corporate customers. I am also obliged to network at supplier-related conventions and expo's ...” (Participants S-6).

“... I have offered my commitment and hard work over many years. I have completed a short course in accounting which has helped me with the preparation of management statements at the end of every month ...” (Participant S-7).

Children could never act in the same manner as their parents, both generations have unique leadership and management styles, participants portrayed great wisdom through skills transfer sessions which gives the younger generation the opportunity to develop and build their own set of skills to take the family business to the next level.

4.3.10 Do you think that the senior generation family members are ready to let go of the management of the business? What will the senior generation family members do after the transition process (i.e. retire, scale down, move away)?

“... My dad has already let go to a certain degree, he travels to New Zealand on a regular basis. It has happened on more than one occasion that he wouldn't contact me for more than three weeks at a time. In the past he'd come back from a similar trip and when he then walked in, he would immediately start managing as always; he created havoc in this building on more than one occasion, but we have managed to jump that hurdle ...” (Participant S-1).

“... My dad has no immediate intention to retire from this company. Yes, I know he would love to take long holidays on a regular basis, but retirement is not part of his DNA. We almost lost this business about four years ago during those massive nationwide strikes. The company took a huge financial loss and I believe it’s a contributing factor to the fact that he’s not ready to let go ...” (Participant S-2).

“... My dad has retired at the beginning of this year; he is much more relaxed than ever before, and he visits us on a regular basis ...” (Participant S-3).

“... Personally, I think my dad is too young for retirement; he is in his early 50s. I think we are in a very early stage of the management succession process; he’s not ready to let go, absolutely not ...” (Participant S-4).

“... My dad loves to go on short holidays. And then, the following week he will be back on the job again. He enjoys the freedom of still being in circulation, but also enjoys the freedom to go away whenever he feels to. He enjoys the best of both worlds at this stage ...” (Participant S-5).

“... My mother would love to let go of the operational side of the business and rather concentrate on the broader management of the business. My dad, on the other hand, is a hands-on guy; he’s a ground level type of guy and wants to know exactly what’s going on. Both my parents are in their late 50s; it’s just too early for them to go ...” (Participant S-6).

“... My dad made this comment on a few occasions: retire is to expire. I am sure he would love to scale down but will never retire. I think it’s a generational thing ...” (Participant S-7).

Letting go gracefully is a difficult concept for most senior owners; they grasp the concept and normally like to live in two worlds where they exercise the freedom to go on a holiday and upon their return visit the business to continue in their leadership role as always. Children get confused when parents visit the business and continue with business as usual. Parents should avoid returning to the business after succession had taken place; they should rather use the opportunity to explore new opportunities. Children should acknowledge that parents certainly go through a potential grieving period when succession had been finalised.

4.3.11 What is your advice to other next generation members who are getting ready to join the family business?

“... I would strongly recommend potential successors to test your motives before you make a decision to join the family business. The family business can offer you the best of both worlds. You must commit to work hard, treat your employees with dignity and respect and be consistent in your rulings and decision making. Consider the fact that you might work for a lesser remuneration package in the family business, are you OK with it? If not, think twice about working in your family business. Are you prepared to cut your holiday short when it is expected of you? Remember, non-family employees are entitled to take leave according to the SA Employment Act; you are in a different employment category. When you are called upon, will you be ready to respond irrespective of the personal priorities? (Participant S-1).

“... Consider the dream. To follow this dream with all of your heart is a life-time commitment. You must be willing to pay the price of extreme endurance and patience, you will have highs and lows which will test your emotions to almost unbearable levels. Switch on your entrepreneurial juices and think outside the box. You should constantly and wholeheartedly explore new business opportunities, grasp every opportunity to develop yourself, but above all, make sure love never leaves the family ...” (Participant S-2).

“... Be honest with yourself; are you going to stick for the long run or is this an experiment to see whether you'd like it or not? At the end of the day it is a choice; if you don't feel the connection, move on, trust me, it is for the better, do not feel obligated to stay ...” (Participant S-3).

“... I am frustrated with my situation in the business, because I can do so much more. I feel emotionally trapped because I see the holes in the business and I am not allowed to fix those holes because of family. My advice would be to earnestly consider the broad family structure of the business and confront yourself with the undeniable hard facts. Are you willing to accommodate weaker family members or not? Think carefully before you answer that question ...” (Participant S-4).

“... My advice to potential successors would be to go and explore business opportunities outside the family business. Do it wholeheartedly until you are exhausted. If none of those

opportunities had filled that empty place in your heart, you might be ready to enter the family business. Go and sort yourself out before you come and make everyone miserable in the family business ...” (Participant S-5).

“... Avoid feeling obligated to join the family business; an emotional burden to join the family business could easily be portrayed unto a potential successor, try not to be manipulated into the business, which is easier said than done ...” (Participant S-6).

“... The choice is yours; you could choose to build a family legacy, or you could follow a different dream outside the family business. Be honest with yourself and with your parents ...” (Participant S-7).

Succession planning is everyone’s business as every stakeholder will be affected through the decisions that will be made, participants clearly has one aspect in common and that is the importance of honesty to themselves and to other family members. Succession is a highly complex stage in the life cycle of a family business and brutal honesty should make or break such a hand over period.

4.4 DISCUSSION

Family business are continuously confronted with business-related threats entering the business through the external business environment. Small and medium-sized family businesses are found to be vulnerable when a founding member unexpectedly die or retire due to unplanned circumstances. During the interviews, participants were introduced to the brutal reality of an unexpected event pertaining the death or forced retirement of the founding member of the family business.

Founding members are the heart and soul of the family business; those individuals took the first brave entrepreneurial steps towards the establishment of the family business. Those individuals identified the business opportunity and firmly believed in their capabilities; they have crafted the vision and mission statements and courageously implemented the formulated strategy.

The unexpected death or forced retirement of a founding member could be detrimental to the sustainability of the family business and the immediate question arise whether the family

and business structure could accommodate business continuity. During the interviews all participants of the study confirmed sustainable business continuity.

However, majority of founding members indicated that they would not support the notion of “letting go unconditionally”; they would rather like to explore the freedom and enjoyment of scaling down. The participating founders seem to have a firm and passionate connection towards the family business; they have indicated their absolute wish to see their children taking the family business to the next level. A fundamental reason for the parent to not let go is that they have not figured out how to continue their standards of living, including their need for security, without the annual salaries from the business (Rivers, 2005:116). Successors need to understand that, when a parent retires from the business, he will still incur expenses on a monthly basis. Potts, Schoen, Loeb and Hulme (2001:86) urge that ensuring financial stability is a fundamental issue when owner-managers consider withdrawing from the family business.

Participants seemingly confuse the concept of “management succession process” with “managing succession”. The “management succession process” initiates a step-by-step process to be followed for the successful implementation of the succession plan. The greatest value of “managing succession” comes from keeping the succession plan current. Participants indicated a tendency toward informal agreements regarding succession during the respective interview sessions; no written succession plans by the participants could be produced during the interview sessions.

The participants of the study strongly indicated that, although they might not have a formal, written succession plan on the table, they have a strong understanding of what needs to be done to keep the family business intact. Family members acknowledge the value of having various levels of technical and managerial skills in the family business although this might have a negative impact on the effective functioning of the business. Participants indicated perceived favouritism as the single greatest challenge and test they are facing on a continuous basis in the family and business. The parent does not want to be implicated in unfair succession practices and finds it emotionally difficult to make sound business decisions regarding this topic.

Successors who participated in the study received the opportunity to be developed and trained into their new positions for periods of more than five years. They were afforded compulsory in-house training in every aspect of the family business; the intensity of the training is high which would ensure capable successors for the future. The family business affords the potential successor great opportunities, but the choice to start a career in the family business belongs to the successor.

So then, why is it going wrong with the majority family businesses and the succession process? Walsh (2011:3) is of the opinion that far too much attention continues to be paid to the technical component of succession for example: tax minimization, estate freezes, family trusts, buy-sell agreements and wealth management with far too little attention being paid to the people or the non-technical component of the succession process such as family communication, family expectations, family values, family competencies and family dynamics.

4.5 SUMMARY

The empirical study in this chapter was conducted in the South African context of small and medium-sized family businesses. Seven family businesses participated in this study by means of semi-structured interviews. All questions were open-ended and both parents and relatives gave their insights into succession planning.

Literature studies were undertaken as follows: in Chapter 2 – Literature review on family businesses, and in Chapter 3 – Literature review on management succession.

Chapter 5 will specifically focus on the final conclusions and recommendations of the study. The primary objective of this chapter is to encourage more in-depth research into the management succession process in small and medium-sized family businesses.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This research study presented the literature review, as well as empirical findings on the exploring of the management succession process in small and medium-sized family businesses; the findings in Chapter 4 bring about the conclusions and recommendations presented in this chapter.

The reader is first presented with the conclusions and thereafter recommendations for the successful implementation of the management succession process. Every recommendation is followed by an implementable action plan. The achievement of the research objectives is discussed, followed by recommendations for further research study.

5.2 CONCLUSIONS ON THE EMPIRICAL STUDY

An empirical study was conducted by interviewing seven established family businesses located within the boundaries of Metsimaholo local municipality and Emfuleni local municipality. Of the total participating family businesses, one business is operating from the Free State province and the remaining six businesses are operating business from the Gauteng province. Based on the study presented in Chapter 2 (literature review on family businesses), Chapter 3 (literature review on management succession) and the findings obtained in Chapter 4 (results and discussion on the empirical study), it is possible to draw final conclusions and recommendations on the management succession process in small and medium-sized family businesses.

This study concludes the perception that family businesses, in general, do not have formal succession plans on the table, they rather implement a strategy of good understanding and mutual trust amongst family members to see this topic through.

5.3 RECOMMENDATIONS TO FAMILY BUSINESSES

5.3.1 Practical recommendations to senior-generation owners

Based on the literature review and empirical studies, the analysis of the empirical study and the conclusions, management recommendations made are listed below. Arteaga and Menéndez-Requejo (2017:320) articulates the implementation of a family constitution as positively related to multiple aspects of the family business, including ownership and succession planning. Amongst others, a family constitution includes an approved succession plan which details the management succession process, which are specifically designed to guide both generations during this process. Recommendations for a principle outline of the management succession process should be incorporated as follows:

- **Leading the way forward** – It is important for the senior generation owner to accept the fact that succession is not easy to implement. The attitude of the first-generation owner is one of the single most important key success factors during the management succession process. According to Van Der Merwe (2010:310), parents work through many emotional obstacles themselves during the management succession process and for that reason a new frame of mind is recommended. The new frame of mind should be that passing on a solid family business on to the next generation is a tremendous achievement which is a good enough reason to let go of the family business. Participant F-5 made a brilliant comment during the informal interview session and it is therefore recommended that both generations should always adhere to the values and standards that have been agreed upon.
- **Inspire or birth a new vision** – The first-generation owner's strategy should be focused on determining what relatives cares about, what drives and motivates their actions and where their passion and commitment lies (Van Der Merwe, 2010:294). It is recommended investing time to think and brainstorm with the next generation about future business prospects and promote their pride in what they contribute. The objective of a new vision should primarily include and foster a sustainable relationship between the business and good family harmony, one without the other is futile (Hutcheson, 2013:13).

- **Challenge the process** – It is recommended for parents to challenge the implementation of the management succession process constructively but never force the family business on an unwilling successor or give it away to an incapable successor (Hutcheson, 2013:13). Participant F-1 creatively simulated a sudden death situation in the family and challenged the relatives to act decisively, they were scared and felt vulnerable during this orchestrated exercise but they've learned valuable lessons how to seek experiences and sets of skill outside their comfort zones. It is recommended that relatives should be challenged to evaluate and learn from mistakes through regular 'lessons to be learned' family feedback sessions.

- **Facilitate and empower relatives to act** – It is recommended to frequently repeat and enshrined the shared goals that they are all striving towards, the shared values and the large purpose of which everyone is a part. Make sure relatives understand how they are collectively interdependent with one another. Establish leadership first and then figure out ownership (Hutcheson, 2013:13). Parents should refrain from micro-management practices, they should allow relatives to make choices about how they do their work and serve stakeholders. Also,
 - Relatives should know what is expected of them.
 - Let relatives know they are trusted, not just in words but also in action.
 - Make saying 'thank you' a natural part of everyday life in the family and the business.
 - Parents should get personally involved in as many recognitions and celebrations as possible in the family business.

It is further recommended that parents should rather earlier than later consider answering questions that would deal with "what is the business valuation" when counting them out and visa-Versa. A parent should creatively initiate sustainable strategies that would foster the successful transfer of technical skills and business relationships to the new management team (Aronoff *et al.*, 2011:26).

It is recommended that potential successors should be motivated and encouraged by parents to stretch their wings and explore opportunities outside the family business structure

to gain alternative business or career experience. They should be encouraged to not only survive, but to thrive outside to demonstrate to themselves and the family that they can be successful on their own. This succession technique fosters new technical and managerial skills which could lead to fresh ideas to the family business and it is making the candidate feel as though he is in the family business by choice and can contribute in a positive way (Aronoff *et al.*, 2011:37).

5.3.2 Practical recommendations to second-generation owners

Based on the literature review and empirical studies, the analysis of the empirical study and the conclusions, management recommendations made are listed below. The following recommendations are in no specific order and the importance will differ between family businesses, based on perception of these recommendations.

- It was recommended by participants during interview sessions to identify and develop skills complementary to those of parents and other members in the family business. This approach should bring new core capabilities to the family business that hopefully might strengthen its competitive advantage in the business market. It is recommended parents should only appoint successor candidates into existing job vacancies when they qualify for the specific job, this measurement helps to determine the performance standards and salary scale for the candidate to be appointed in (Aronoff *et al.*, 2011:38).
- It was recommended by the next generation participants during interview sessions the necessity to be honest with themselves about their future in the family business. Is a position in the family business the position they desire or should they be honest to everyone in the family business and move on to other career opportunities somewhere else? It is recommended for relatives staying in the business, only when they are fully convicted to do so, otherwise, it is better for them to explore other opportunities elsewhere.
- Rivalry during the different stages of the management succession process should be avoided at all cost. It is highly recommended that relatives should strive to keep

emotions in check and keep communication channels clear from obstruction (Avloniti, Atridou, Kaloupsis & Vozikis, 2013:666). Relatives should refrain from pride but should rather focus to build family harmony during this process. Toxic family relationships could result in a negative impact on the family business and often family members may disrespect each other and this will create a toxic culture which might eventually lead to poor business performance and mediocre financial results (Aronoff *et al.*, 2011:38).

- In cases of more than one second-generation owner, it is recommended that provision should be made in the family constitution to address the necessity for a '*sibling code of conduct*' aimed at defining ownership rights and responsibilities. It is recommended to the second-generation owners to prioritise the implementation of the following policies to guide and maintain sound family and business relationships amongst relatives and non-family members (IFC Family business governance handbook, 2008:15).

The following important business policy for second-generation owners is the *family member employment policy*. This policy stipulates the requirements for a new family member to obtain a position within the family business and defines how family members will be treated. Many family businesses that didn't stipulate a clear employment policy for family members could end up with more employees from the family than the business needs (IFC Family business governance handbook, 2008:23).

The next policy to consider is a *compensation policy*. This policy defines how family members will be remunerated for their employment within the structure of the family business as well as service to the family. It is recommended this policy should address how family and business-related expenses are reimbursed (IFC Family business governance handbook, 2008:27). The *conflict of interest* policy is highly recommended for implementation by the next generation, the primary objective of this policy is to establish pre-determined measurements what to do if family members or their spouses have a potential conflict situation in the family business.

The *family decision making policy* are recommended for implementation by the next

generation, this policy outlines who may participate in the family decision process and what procedure to be followed, for example through consensus or majority voting. When the family holds joint assets outside the family business, it is recommended a *policy on usage of shared family assets*, for instance, secondary property or luxury goods can be very helpful. This policy addresses all practical arrangements regarding these assets.

5.4 CRITICAL EVALUATION OF THE STUDY

The purpose and success of the study should ultimately be based and measured upon the achievement of the respective primary and secondary objectives, as discussed in Section 1.4 of the study.

5.4.1 Primary objective revisited

This study was mainly directed to gain a deeper understanding, through a qualitative research method, into the elements that distinctly identify the management succession process.

Contribution to the existing knowledge base through in-depth qualitative research on this topic was the intended aim of the study so that one could practically recommend on planned family actions to excel the probability of fruitful integration so that continuity of the family business for forthcoming descendants be secured.

5.4.2 Secondary objectives revisited

To be able to deal with the primary objectives, the subsequent additional purposes must be addressed:

- To gain insight into the dynamics of the management succession process in family businesses employing a literature review.
- Applying a literature review as a medium for gaining comprehension into the progress and smooth transitional succession in family businesses.

- Analyse and assess the role of successful succession planning with regards to the longevity of family businesses.
- To conduct informal interview sessions with small and medium-sized family businesses in a demarcated geographical area who have successfully conducted the implementation of a management succession strategy.
- To offer lasting recommendations with regards to the management succession process which include the successful handing over of the family business to the successor.

5.5 RECOMMENDATIONS FOR FURTHER RESEARCH

In all empirical studies, limitations should be identified and considered when making final recommendations and conclusions. Only family businesses located in the Emfuleni and Metsimaholo regions participated in this study, owing to the use of semi-structured interview sessions with parents and their respective successors. Therefore, the sample cannot be considered representative of all small and medium-sized family businesses in South Africa. As a result, the findings reported cannot be generalised to the general family business population.

Small and medium-sized family businesses contribute greatly to employment and growth in any given economy. However, they face numerous management succession challenges based on the intertwinement of the respective needs and wants of individual family members and on the other hand, the business; the major concern is the survival of family relationships to the next generation.

Future research should include family business studies over substantial longer periods and multiple generations with an emphasis on the importance of each generational phase in the management succession process. The fact that critical differences have been identified between the research outcomes found in Chapters 2 and 3, serves as acceptable motivation that continuous scientific research on family businesses is needed.

5.6 SUMMARY

In this chapter, conclusions and recommendations were made based on the selected factors influencing the management succession process in small and medium-sized family businesses.

The construct was identified in the problem statement, studied employing a literature study in Chapters 2 and 3, examined through an empirical study in Chapter 4.

The empirical study was conducted employing a field study using a structured questionnaire. The purpose of the literature study was to gain insight into the management succession process in family businesses and then to align the selected factors influencing the success of small and medium-sized family businesses.

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APPENDIX A

QUESTIONS TO THE SENIOR GENERATION BUSINESS OWNER-MANAGER

1. If you retire or die unexpectedly, can your family continue to run your business? If your family cannot run your business, who can?
2. Are you willing to let go unconditionally? What will you do after retirement? (scale down, move away?)
3. Have you (or other family members) discussed the management succession process in the family business. Kindly explain.
4. Do you have a management succession plan in place? Are you committed to implement the succession plan?
5. Does your succession plan accommodate siblings with different skills or interest in the business?
6. Explain the process that the business will follow to plan for the management succession. How will it be implemented?
7. Have you identified a potential successor? Have you communicated your decision?
8. How do you develop the successor to take over the management of the business in the future?
9. Do you think that the prospected successor will be able to manage the business successfully after your retirement?
10. Will you have enough income when you retire?
11. Do you have an overall estate plan in place? Have you considered the impact of taxes (for example estate, capital gains) on your family business?
12. Anything else you want to add?

APPENDIX B

QUESTIONS TO THE NEXT GENERATION SUCCESSOR

1. Why did you decide to join your family business instead of pursuing a different career path (for example a regular corporate career or starting your own venture)?
2. In your opinion, what is the best thing about working in the family business as compared to working outside the family business?
3. What were the biggest personal challenges you faced when joining the family business as a family member?
4. Have you (or other family members) discussed the management succession process in the family business. Kindly explain.
5. Explain the process that the business will follow to plan for the management succession. How will it be implemented?
6. Do you think that you will be able to successfully management the business after the transition?
7. Do you (or the business) have a management succession plan in place?
8. Can you describe how you are been prepared to take over the family business?
9. What do you do from your side to prepare yourself for the management of the family business?
10. Do you think that the senior generation family members are ready to let go of the management of the business? What will the senior generation family members do after the transition process (retirement, scale down, move away)?
11. What is your advice for other next generation members who are getting ready to join the family business?
12. Anything else you want to add?

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APPENDIX C

18 September 2018

INFORMED CONSENT TO PARTICIPATE IN AN INTERVIEW

To: The Participant

From: Riaan Brenkman

Subject: Informed consent to participate in study

Date: 18 September 2018

Dear sir

My name is Riaan Brenkman and I am an MBA student at the NWU Business School, North-West University. The aim of this study is to explore the management succession process in small and medium-sized family businesses in the Sedibeng and Metsimaholo regions in South Africa.

This study forms part of a mini dissertation to be submitted in partial fulfilment of the requirements for the degree Master in Business Administration at the North-West University. It is an internationally accredited degree that requires adherence to strict ethical standards as a prerequisite to conduct this research.

Thank you for your willingness to participate in the interview. Your participation is voluntary. You do not have to answer any questions you do not want to answer. If at any time you do not want to continue with the interview, you may decline. Your time and involvement is

profoundly appreciated. The entire interview will take approximately 30 minutes. To maintain the essence of your words for the research, I will record the information. At any time, you may request to see or hear the information I collected.

The interview will be recorded however, your name will not be mentioned. The interviewer will take notes. This is done for data analysis. The recording will be transcribed by the interviewer and kept confidential in a password-protected computer. All individual identification will be removed from the hard copy of the transcript. Participant identity and confidentiality will be concealed using coding procedures. Please note that excerpts from the interview may be included in the final dissertation report or other later publications. However, under no circumstances will your name or identifying characteristics appear in these writings.

Limited biographic information will be collected with the purpose to form a profile of the participants but will not be used to make comparisons between groups or for further statistical analyses. If, at a subsequent date, biographical data were relevant to a publication, a separate release form would be sent to you.

Your input is of great value to this research and I appreciate your help in providing this information. I would be grateful if you would sign this form on the line provided below to show that you have read and agree with the contents.

Your signature above

The study has been approved by the Scientific Committee of the NWU School of Business and Governance. The Chair of the Scientific Committee is Dr Joseph Lekunze. He can be reached at the following email address: joseph.lekunze@nwu.ac.za.

Ethical clearance has been obtained by the Faculty of Economic and Management Sciences Ethics Committee (FEMSREC) and the following ethical clearance number is allocated: **[0000-0002-0392-9857]**. The Chair of the Ethical Committee is Prof Bennie Linde. He can be reached at 018 299 1427 and his e-mail address is bennie.linde@nwu.ac.za.

The supervisor of the dissertation is Prof Stephan van der Merwe. He can be reached at 018 299 1414 (Email address: Stephan.VanDerMerwe@[nwu.ac.za](mailto:Stephan.VanDerMerwe@nwu.ac.za)) for further questions or concerns about the research project.

Yours sincerely

Riaan Brenkman

NWU Business School

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APPENDIX D

Interviewer: Daar is 12, gemaklike vrae. Die tipiese vraag waarmee ons gewoonlik begin om 'n kliënt of besigheidseienaar te vra, is:

Sou jy besluit om môre af te tree, of om een of ander rede nie meer betrokke te wees in hierdie besigheid nie – kan die besigheid funksioneer sonder die eienaar?

Interviewee: Ja, ons het al 10 jaar gelede begin werk hieraan. Ons het dit voorsien en begin om die jonger geslag gereed te maak hiervoor. Wel, ek is nou op die stadium dat ek gaan aftree, en ek dink hierdie jaar het dit al so gebeur dat ek myself meer en meer begin onttrek het aan die besigheid.

Interviewer: O, goed.

Interviewee: Ek dink daar het bietjie van 'n konflik ontstaan, omdat die jonger ouens gevoel het hulle is in staat om die besigheid te hanteer, en my insette is, met die dag tot dag bestuur van die besigheid, dat ons begin om te dupliseer en op mekaar se tone te trap. Ons het 'n eerlike gesprek gehad, en toe het ek net gesê wel, ek wil terugstaan. Ek het ook besef dat my tyd wat oor is, nie meer baie is nie, en ek wil graag my lewenstyl verander. So dit het my goed gepas, en ek het my begin onttrek. Omdat ons oorsee bly is ek vir lang periodes weg van die besigheid, sodat hulle dit in elk geval moet doen. Ons is daaglik in telefoniese gesprek met mekaar, asook deur e-pos. Ek was nou vir ongeveer twee maande weg gewees en daar was minimum kommunikasie tussen ons. So die besigheid het die stadium bereik waar dit eintlik klaar oorgegee is. Strategiese goed sal ons nog oor moet besluit. Die uitkoop van die besigheid - daar is ander erfgename betrokke wat ook nog uitbetaal moet word en, uit die aard van die saak moet my pensioen uitbetaal word, asook dié van die senior personeel. Ons het ook al reeds oor hierdie saak onderhandel, nou moet ons maar net wag totdat die

besigheid meer winsgewind raak, voordat die planne tot uitvoer kan kom.

Interviewer: Is jy op 'n punt waar jy sal sê dat jy sal “let go”, onvoorwaardelik?

Interviewee: Ek dink nie ek sal sê onvoorwaardelik nie. Dit sou ook nie regverdig wees teenoor hulle wat nie in die besigheid betrokke is nie. Jy kan nie onvoorwaardelik wil gaan nie, want basies gee jy dan die besigheid weg. Maar wat ek wel agtergekom het - en ek het al met baie mense gesels – is, hoe ouer hulle raak, hoe meer half desperaat raak hulle, sodat hulle in 'n posisie kom waar hulle omtrent onvoorwaardelik wil gaan, net om daarvan ontslae te raak. Maar nee, ons is nie op daardie stadium nie.

Interviewer: Julle het op 'n punt gekom waar julle gepraat het oor 'n bestuurs opvolgproses. Is dit op die tafel?

Interviewee: Ek dink ons het dit 10 jaar gelede al bespreek toe ons 'n eerlike gesprek gehad het. Toe die jonger ouens, waarvan my seun een is, in die besigheid ingekom het, het ons die ding uitgestippel, waarheen ons beweeg, en wat ons beplan. Ons het dit nie in die beplande tyd reggekry nie, omdat die resessie en die korrupsie in die land dit verder uitgerek het, maar ons het by die basiese begrippe daarvan uitgekom, en dit bereik.

Interviewer: Fantasties. Sou jy sê daar was van die begin af “commitment” van beide partye vir die beplanning van 'n opvolg strategie?

Interviewee: Ja, beide partye het besef dat, juis in die Suid-Afrikaanse opset, 'n besigheid die enigste plek is waar 'n blanke man nog sy merk in die sakewêreld kan maak. As gevolg van swart bemagtiging, is baie deure vir die blanke toegemaak, en dit is waar die behoefte, of die bewuswording van die jonger geslag definitief na vore gekom het. Die “commitment” was daar. Hulle het die geleentheid raakgesien om hulle loopbaan te kan ontwikkel en om verder te gaan.

Interviewer: Julle het gepraat van verskillende vaardighede. 'n Pa weet oor watter vaardighede elke kind beskik.

Interviewee: Ek het nou net één kind in die besigheid, maar aangesien dit 'n eenmansbesigheid is, het ek baie funksies self hanteer. Maar ek het nie familieleden ingeneem met sterk punte wat my seun bv nie gehad het nie. En so het ons die ding ondervang en take verdeel volgens elkeen se sterk punte. Maar soos 'n mens in die besigheid groei, vorm almal 'n breër basis en elkeen kry 'n beter verstandhouding van die besigheid. Gevolglik beweeg elkeen naderhand oor in mekaar se velde in. Ons het daaglikse operasionele vergaderings gehou om sake te bespreek, dus was almal op hoogte van wat aangaan. Daarom verstaan almal elkeen se veld. Ons poog ook om altyd 'n plaasvervanger te kry wanneer iemand moet weggaan vir een of ander rede, of tydens siekte of 'n ongeluk, dat so 'n persoon in sy posisie kan instap. Dit het veroorsaak dat die ouens mekaar baie oorvleuel, wat goed is.

Interviewer: Is dit deel van die implementeringsplan? Hy word blootgestel aan die alledaagse take, al die uitdagings, en daardeur kan jy onderskei dat hy óf sekere vaardighede nooit sal hê nie, óf dat hy oor die potensiaal beskik om dit aan te leer. Indien wel, kan jy vir hom 'n ondersteuningstruktuur skep om hom te ondersteun sodat hy vorentoe kan gaan.

Toe julle begin het met die opvolgstrategie, het julle 'n potensiële opvolger geïdentifiseer? Het julle dit ook met die hele familie gekommunikeer, dat hierdie die persoon is wat sal voortgaan met die besigheid, en dat julle onaktiewe familieleden sal bly. Julle behou julle aandeelhouding maar julle is nie aktief betrokke in die besigheid nie. Was daar so 'n gesprek?

Interviewee: Ja, ons het daardie gesprek gehad waar ons het gesê dat, aangesien dit 'n eenmansbesigheid is wat jou volle aandag verg, moet daar 'n strategie wees waar ons die stok kan oorgee, voordat ek my enigsins kan losmaak van die besigheid. En uit die aard van die saak, die ander

kinders is oorsee so hulle kan nie betrokke raak hierin nie. Maar hulle was altyddeur bewus daarvan dat ons werk aan 'n strategie om die stok oor te gee.

Interviewer: Die ontwikkeling van die opvolger - die tweede generasie eienaar - as 'n mens praat van 'n beraamde tyd, hoe lank is julle al besig om hom te ontwikkel en op te bou?

Interviewee: 10 jaar

Interviewer: 10 jaar. Sou julle sê die periode was lank genoeg vir hierdie besigheid?

Interviewee: Ja, dit was die regte periode. Toe ons die jonger geslag in die besigheid geneem het, het ek vir hulle gesê 5 jaar. Maar na 8 jaar in die besigheid het hulle besef dat hulle eintlik nou eers besef waaroor die besigheid gaan.

Interviewer: Die laaste 2 vragies. Sal jou inkomste voldoende wees wanneer jy aftree? 'n Mens sal seker nooit regtig genoeg hê nie, maar die volgende generasie sal kan aangaan?

Interviewee: Ja, ek glo so. 'n Mens probeer altyd om voorsiening te maak na die beste van jou vermoë, maar die ekonomie speel nie altyd saam nie, sodat die spesifieke beplanning nie noodwendig realiseer nie, soos almal in die land maar besef. Dan hersien jy maar jou strategie en jy pas daarby aan. Maar daar is 'n nalatenskap.

Interviewer: Laaste vraag: In retrospek – 10 jaar is verby en julle het 'n tweede generasie opgelei. Wat sou julle anders doen, en watter advies kan julle dalk vir 'n ander besigheidseienaar gee as dit kom by hierdie tipe van ding, om 'n kind op te lei. Was dit wat julle vir hierdie besigheid gedoen het, die regte strategie?

Interviewee: Hierdie 'n verskriklike moeilike vraag, omdat die besigheid omgewing waarin ons beweeg ontsettend vloeibaar is, en daar nie eintlik bestendigheid in ons land is sodat jy werklik langtermyn beplanning kan doen en groei nie. En aangesien ons gekoppel is aan 'n sektor wat baie

nou gekoppel is aan staatsbesteding, is dit vir ons eintlik 'n groot grys area. Ek weet nie of ek dit eintlik anders sou gedoen het nie, ek glo nie. Ons het maar met die tyd, soos dit aangegaan het, aangehou om ons planne aan te pas. Dis 'n ding wat maar met die tyd reggeskoei is. Jy moet heeltyd op jou voete dink en beplan in watter rigting om te gaan. Dit het miskien langer gevat om dit te bereik, maar ons het daar uitgekóm.

Interviewer: Baie dankie vir die tyd. Dit was 'n kort en kragtige onderhoud. Ek waardeer dit.