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A Review of Factors Affecting Family Business Succession (FBS) and Generational Transfer

Nkasl, E. Ernest
Department of Accountancy
School of General Studies and Management Technology
Federal Polytechnic, Bali, P.M.B 05 Bali, Taraba

ABSTRACT: *This paper focuses on a review of factors affecting family business succession and generational transfer. Family business is one of the special group issues that contributes substantially to the economic growth and development of any economic nation. Thus, the objective of this study is to identify factors/challenges affecting family businesses and generational transfer. Succession in family businesses has been a key challenge especially the issue of intergenerational transfer. Some theories that explains why family business choose certain sources of financing would be highlighted as well. This paper adopts a thorough literature search linking family businesses and transitional succession from past research. The major findings of this study reveals that, only 30% family businesses survived into the second generation whilst 15% survived into the third generation. The paper recommends that, family business succession plans should be put in place. One of the limitations or implications of this paper is that, lack of good coordination and working relationship among the family kinsmen has negative effect on family business transitions and this leads to poor business performance and conflict amongst family successor. However, the outcome of this paper would assist family businesses to put in place plans for successful and smooth generational transfer of the family business.*
Keywords: *family business, succession, generational transfer & transition processes*

INTRODUCTION

Little attention has been given to the investigation of family business-owned firms not to talk about the factors affecting family business succession (Morris, Williams, Allen & Avila, 1997). Studies on family businesses is however unevenly to their number and the immense contribution to economic growth of almost every economic of the world. Similarly, Ghee, Ibrahim & Abdul-Halim (2015) opines that family enterprise plays a pivotal role in boosting the gross domestic product as well as the creation of job opportunities in both developing and developed countries. According to (Morris et al., in Duman 1992; Kets de Vries 1993) between 80% and 90% are family owned businesses out of the more than 18million business enterprises in the United States. Consider for example, research carryout by Miller and Le Breton-Miller (2005) stated that large corporations like Michelin, Armani, Walmart, Home Depot, and the likes were established, owned and operated by families. Such family-owned businesses are still controlling and dominating majority of the world's economies and continue as a key source of entrepreneurship notwithstanding being under-researched, and especially in a cross-cultural manner. It is quite obvious worldwide that family-owned and -managed business contributed to more than 50% of the total job opportunities as well as of the gross net product (GNP) in the United States (Dyer & Handler, 1994). The dominant strategic issue shared by these firms is the question of succession, which is reflected in their survival rates over time. The available evidence suggests that only 30% of these firms survive into the second generation of family ownership, and 15% survive into the third generation (Kets de Vries 1993; Ward 1987). Thus, the key to unlock family business success and sustainability lies in effective succession and generational transfer. Succession issues must be addressed by the newly installed leader(s) as well as the generation reducing its involvement in the family business. Once the succession process starts in the family business, a sequence of consistent problems can appear. These issues can be distilled into six often-heard quotes in family businesses that have "successfully" completed a succession process. These complaints are expressed to coworkers, outside stakeholders, consultants, and family members (Harvey & Evans, 1995). More to that succession in family firms can create many tension and havoc. This is the central theme of this paper. Thus, the next focus of this paper is to examine the factors affecting family business succession and generational transfer to family successors.

LITERATURE REVIEW: CONCEPTUAL REVIEW OF FAMILY BUSINESSES

According to Handlers (1994) family firms, regardless of the scale of operation, legal entity, industrial activity, and level of socio-political and market development have been the pillar of corporate life, across countries, which remains a basis of socio-economic development. From historical records, family firms are for the most part, enduring institutions. Their importance parallels socio-cultural advances, technological advances, and the so-called new market order associated with globalization. Though, there is no generally acceptable definition on the concept of family business López-Gracia & Sánchez Andújar (2007) since there is no general consensus amongst various researchers on the literature of family business. Though, various definitions are usually establish in the literature of family business review. In general terms, the following three benchmarks are normally adopted in defining family business. The first benchmark focuses on the people who practically manages the business unit and thus wield unlimited influence to key managerial decisions. While the second criteria is mainly on the real people who own the operating capital. Nonetheless, the number three criteria on family business has been on the likelihood of passing the business venture onto the next generation which indicates the readiness and willingness of family members to carry out the business should the circumstance called for that (Mcconaughy and Phillips, 1999). These criteria were used as a yardstick to define family businesses. Though, some researchers based the concept of family business on the business life cycle (***BUSLIC***) as a basis for defining a family business (Briozzo and Vigier, 2012) in Astranchan and Shanker, 2003).

However, Morris et al., (1996) defines a family business as a kind of business unit in which family members control both ownership and strategic decision making. They argued that a peculiar characteristic existing between family and non-family firms is the possibility of generational transition from one generation to the next by family businesses. Nafziger, (1969) look at a family business as unit comprising of a father, mother with a married son, wife and siblings in Nigeria. While, Romano et al., (2001) defines a family business as a type of business having three dominant traits or characteristics: 50% of shares or more being held by a single family or multiple-members of a number of families; a single family groups controlling the firm effectively and lastly a substantial percentage of top managers being drawn from the same family. Similarly Chua, Chrisman & Sharma, (1999) defines "family business as a business that is directed and/or managed with the intent of shaping and pursuing the vision of the business held by a dominant alliance controlled by members of the same family or a small number of families in a manner that is potentially sustainable

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across generations of the family or families". Emerole (2015) found that 51.5% family businesses in Nigeria comprise of 200 largest listed firms Africa countries. Several factors are likely to affect family business succession, among these is the intentions or perspectives of the next generation. A number of recent studies have found that the quality of interpersonal relationships inside the family influence successful business processes (Royer, Simons, Boyd, Rafferty, 2008). It is important to note that Succession in itself is a key challenge to family businesses for a number of reasons, including the need to address the issue of intergenerational handover. Several factors are likely to affect family business Succession, these include the intentions or perspectives of the next generation. However, there must be a nucleus to survive into this generational transfer. Family clashes may result due to differences over growth targets, succession plans, offer of products, or sometimes over seemingly conventional issues such as those relating to times of operation (Ghee et al., (2015). Briozzo and Vigier (2012) assert that, the life cycle of the family firm could have a negative or positive impact on financing decisions as well as succession issues. They consider a family business if the owners and controlling stakeholders are affiliates of a one distinct family. There are three distinguishing phases in the family business lineage: the founder-owner period, the second generation stage where brothers and sisters act as associates, as well as the third generation stage whereby close kinsmen or relatives are shareholders (Morris, Williams, Allen & Avila, 1997).

Typically, first generation owners are assumed to be innovative and risk-takers which implies to have a positive impact on the use of debt financing. Nonetheless, these features are unnecessarily pass to succeeding generations, which are thus likely to use less debt. While, López-Gracia and Sánchez-Andújar (2007) ; Romano et al., (2001) asserts that family businesses prefer passing up growth to the next generation in order to avoid losing control of the firm and creating difficulties in management. Successfully directed the attention of the field toward the importance of focusing on next-generation family members and understanding their perspectives. According to Handler, (1990) research has focused in three general directions: desirable successor attributes from the perspective of leaders; performance enhancing factors; and reasons these family members decide to pursue a career in their family firms. According to López-Gracia and Sánchez-Andújar (2007), this finding highlights the impact that behavioral influence has on capital structure or financing decisions which in turn affects transitional process of the family business.

DOMINANT FACTORS AFFECTING FAMILY OWNED BUSINESS SUCCESSIONS

Ghee et al., (2015) cited above identify factors affecting family business succession as follows; an examination of the management practices of family businesses, relationships between family members, values and beliefs upheld in family businesses and successor training approaches. As cross-generational ownership succession constitutes one of the main challenges family businesses face, it was observe that succession issues and experiences encounter by successors as mediators in this study. Sharma et al., (2003) states the incumbent's inclination to step aside, the successor's willingness to take over, agreement among family members to maintain family participation, the acceptance of individual roles and succession planning (positive influence). They refer this as the satisfaction with the succession process while, Morris et al., (1997) well-prepared successors, the positive relationships (trust, shared values) and the succession planning and controlling attempts (positive influence). While, the latter is called the Effectiveness of the succession process.

RELATIONSHIPS BETWEEN MEMBERS, VALUES AND BELIEFS, AND SUCCESSOR TRAINING

According to Ghee et al., (2015) past studies on succession transitions are far from systematic and all-inclusive. Perhaps, it is challenging to pinpoint an effective transition. Nonetheless, a range of essential factors that affect family business succession or generational transfer can be summed -up as follows (Morris, Williams, & Nell, 1996). The primary factor requiring special attention, is known as personal relationships between family member employees and between family and non-family member employees of a business. The most common mentioned issue in this respect relates to epitome of trust and communication between family members (Bigliardi & Dormio, 2009; Brockaw, 1992). Conflicts, jealousy and sibling rivalries worsen such relationships and affect business stability levels. In this sense, relationships between family and business members are affected by factors such as communication, trust, commitment, loyalty, family turmoil, sibling rivalries, jealousy/resentment, conflicts, shared values and traditions. Royer et al., (2008) research found that the quality of interpersonal relationships inside the family influence successful business processes. Nonetheless, Handlers, (1992)other possible factors that affects successful family transfer is the capability to acquire the predecessor's strategic knowledge and skills and the commitment to the family business as key factors affecting whether family business succession happens. Dascher and Jens, (1999) are of the view that the desire to pass on a family business, the capability to carry out the aspiration and desire, as well as the willingness of heirs to accept responsibility is another positive effect or impact on family business succession plans.

TRANSITIONAL FACTORS: SUCCESSION ISSUES AND EXPERIENCE

Previous studies show that several strategic factors are related to effective succession, including succession planning (Ibrahim Soufani & Lam, 2001a; Kets de Vries, 1993), offspring grooming (Ibrahim, et al., 2001b; Danco, 1997) and several more factors. According to Harvey and Evans (1995) family succession can create a lot of disorder in the management of the family firm. Further Succession in family owned firms has produced substantial understandings; the need for participation of the next generation in the succession process, the problems of selecting successors and managing the succession process from the founder's viewpoint. Similarly, the Intentions or perspectives of the next generation could be another possible factor affecting family business succession (Royer et al., 2008). A number of recent studies have shown that the quality of interpersonal relationships inside the family influence successful business processes (Cabrera-Suárez, 2005). While most second generation successors are more highly educated and learn to adapt to competitive environments, new technologies, new markets and new customers with ever changing expectations, knowledge acquired through college or university training may be too general to serve as a reference point when manipulating dynamic changes that occurs in the market. However, according to Royer, Simons, Boyd, Rafferty (2008) the capability to acquire the predecessor's strategic knowledge and skills and the dedication/commitment to the family business as key factors affecting whether family business succession occurs. Family Successors may think that they know how to run a business but may not know how to expand one. Thus, Chung and Yuen (2003) made a number of observations and created a matrix of performance measurement that dictates how a successor can cultivate skills needed when addressing changes in personnel, processes and systems in Chinese family-owned (Wee Yu Ghee et al., 2015) business organizations early enough to avert business losses. The incompetent or unprepared successors is a negative impact on family succession Kets De Vries and Miller, (1987). However, Handler, (1990); Handler, (1992) suggests that past positive succession experience, satisfied career, psychosocial, and life phase opportunities in the framework of the family enterprise, the ability to exercise personal impact in the family business, mutual respect and understanding with the incumbent and high degree of dedication and commitment to the continuity and sustainability of the family business (positive influence). While there are a wide range of conventional issues or effect of family succession outline by various scholars.

Chung & Yuen, (2003) stated a host of issues concerning generational transfer and fears commonly cited by second generation owners. Amongst are; Difficulties and Concerns, a controlling owner in the family business, board of directors for family members only, favoring a family members over a dedicated employee, lack of experience in that particular family business, lack of working knowledge to run the business, incapable of exercising the power of authority with siblings, Inequity/equity of rewards among family members. Others issues mention are communication problem between family members, lack of competence and capability to run the business, lack of sustained interest, inadequate and improper training skills, male and female imbalance in terms of preferential treatment reluctance to relinquish power and control, inability to develop talent and resource, different business expectations between father and son, father working style different from son, trust between family members. Thus, expectations for future growth are influenced by various factors. These include environmental factors, personnel characteristics (that is owner-managers) and enterprise practices. Faced with numerous challenges and depending on the readiness, capabilities and competencies of the successor, not every entrepreneur is willing to expand or grow a family business (Handlers, 1992).

CONCLUSION

From the above review of factors affecting family business succession (FBS) and generational transfer, the paper has examine and identify the following factors affecting family business succession as the key issues that impede a smooth and a hinge free transitional process. However, the capital structure also affects the financing decision undertaken by close family members, this often result to crisis and mistrust among family members. In conclusion, this paper shows that successful transitions that lead to better business performance are fuelled by strong family member relationships, work and family values, and successor training and experiences. The paper also concludes that only 30% of family firms survive into the second generation of family ownership, whilst only 15% survive into the third transitional generation.

RECOMMENDATIONS

Based from above review of this paper the following recommendations are made;

- For a successful and smooth family business transition there should be planned successors put in place right from the beginning of the family business.
- There should be a synergy between the family members and the managers of the business
- There should be Sequence, appropriate skills and experience of successor, timing, that is effective passing, baton passing.
- There should be techniques, succession details and the communication. This perhaps would create a positive impact at the long range.

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