A Conceptual Framework of Family Business Succession: Bane of Family Business Continuity

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Abstract

Despite the abundant studies that exist on succession in family business there are still many evidence of family business failures, this is due to the fact that the issue of succession and how it affect family business continuity is still yet to be addressed. Hence, studies on how succession leads to family business continuity are very limited and scarce. Therefore, this study explores and examines succession in relation to family business continuity. This study proposes an integrative conceptual model on how true succession could ensure family business continuity.

Introduction

In the recent time, the family business has emerged as one of the highly concern agenda in the global entrepreneurial development. For instance, Ramona, Hoy, Poutziouris, Steier (2008) assert that family business is an emerging aspect of entrepreneurship which has evolved over the decades and still in its developing stage. Today, most of the businesses we see are family businesses and these businesses have been noted to account for the largest percentage of the businesses in many nations (Kuratko and Richard, 2004). Past study has asserted that nearly 92% of the businesses in the United States are all in the control of one family or the other (Kuratko and Hodgetts, 2004; Lam, 2009). Davis and Harveston (1998) suggested that family businesses are the most dominant form of business in the United State and they represent nearly 90% of the total businesses in U.S. The importance of family business cannot be undermined. They are visible in the employment generation, economic growth and transformation and wealth creation. For instance, Kuratko et al., (2004) reported that family business generates about 59% of the jobs in the U.S and 78% of all new employments. The report also indicates that the family businesses produce about 50% of the nation’s gross domestic products. This is an awesome contribution and is expected to happen to most countries in the world considering the contribution and development of small firms in the recent years.

Accordingly, Bird, Welsch, Astrachan, and Pistrui (2002) posited that family business has been the strength and the power since the ancient economies. The family business plays vital role in the economic development of the nation and is an effective engine for every economy in terms of job creation and tax collections. Moreover, family business has the same characters with the small firm characteristics where the family businesses are flexible and agile that enable them to be controlled or maneuvered by owner-managers who are mainly family members. The family business has been in existence a long time ago, and has been known to water the economy most especially during the dry days. In the recent years during modern business environment, Winter, Fitzgerald, Heck, Haynes &Danes (1998) posited that family business is very essential in the economy and social unit building. Klein (2000) reported that family businesses are very much relevant in Germany economy. Therefore, family business is a contributor to the economy growth of any nation. Past studies on family business have concentrated on diverse perspectives. For instance, Brid et al., (2002) examined family business with respect to its academic research and recognition whereas Ramona et al., (2008) investigated the emerging paths of family entrepreneurship research.
Looking at the perspective of research work of recent work and work of twenty years ago, it is observed that the studies capitalize on the challenges of the family business and advocate for further research on other areas of family business. It can be said that, even though the research on family business has started many years ago, the family business research is still at the nascent stage. Accordingly, Hoy & Verser (1994) examined the family business by concentrating more on the entrepreneurship context. The authors focus on the distinction and overlapping between entrepreneurship and family business domains. The researchers provide six general perspectives of strategic management issues, which comprises of; leadership, culture, boards of directors, life cycles, strategic management processes, and ethics and value. Another report by Kuratko et al., (2004) also offered a general idea about family business. However, their idea was limited to the factors that affect family business as presented in their model. It can be noted that the academic field of family business has not received considerable attention as it deserved. Hoy et al, (1994); Ramona et al., (2008) argued that researches on family business are very slow if not being neglected by researchers in the field of entrepreneurship and business. Thus, more studies need to be conducted in this domain in order to increase and advance our understanding of the family business.

Looking at the other past studies concerning family business particularly on the business continuity, it is evidenced that more researches are needed to support the knowledge enhancement in family business domain. For instance, Davis et al., (1998) has argued that studies on family business continuity only focus on the event itself with the major concern whether the founder has appointed a successor to replace his position. Davis et al., (1998) claimed that other studies that have concentrated on family business performance and succession plan process indicate that succession has been one of the major banes of family business. These researches tend to address issues such leadership transfer and business continuity but yet no concrete suggestion being made for business continuity process. In fact, the research framework is not being clearly presented in their work. Again, although one might claim that a considerable number of researches have been conducted to address the issue of succession in family business yet many family businesses continue to fail, either cease operation before being lead by the successors or no successor to take over. For instance, Davis et al., (1998) have reported that just 30% of family business sees the light of the day beyond the first generation while about 10% to 15% go beyond third generation. Similarly, Lam (2009) reported that the high possibility of family business failure has made the issue of succession the most critical one. He further noted that the effect of family business discontinuation is very dangerous and devastating as it could lead to loss of jobs and family assets as well as family relationships.

However, in spite of the importance of succession to the continuity of family business, studies solely focusing on succession and how it affects continuity of family business seem to be very limited and scarce. For examples, the only studies found are by Lam, (2009); Ramona et al., (2008); Davis et al., (1998); Jose, (2009); Matthew, Moore & Fialkco, (1999); Westhead, (2003); Handler, (1994); Sardeshnukh & Corbett, (2011); and Stavrou, (1999). This shows the issue of succession and how it affects family business continuity is crucial to be addressed. Most of the above researchers have urged to foster greater understanding of family business by looking into its other aspect such as the continuity of the family business in relation to succession. Moreover, succession only is not enough and it should come together with the continuity of the business as this is clear evidence that more often people are concern with who to succeed the owner of family business while the issue of family business continuity is left unaddressed. As a result, this paper addresses the issue of succession in relation to continuity of family business with a view to provide a framework in guiding toward better findings and enhance our knowledge in this area.

2. Literature Review

Although, the concept of family business is historical that is prehistoric in origin yet it has been regarded as an emerging field in the entrepreneurship development. For instance, Hoy et al., (1994) noted that family business is an emerging concept. They argued that the concept is just recently receiving attention in the academic field. However, several arguments on what really constitute family business are still on top gear. Thus, until this time, authors and researchers in the field of family business are yet to agree and strike a balance on a specific definition of family business. However, many researchers (Lorna, 2010; Handler, 1990; Churchill & Hatten, 1987) and host of others have made frantic effort to arrive at certain definition particularly in the social science research domain, though offering different view on the definition of family business. For instance, Hoy et al., (1994) put this forward “What is a family business? People seem to understand what is meant by the term family business, yet when they try to articulate a precise definition they quickly discover that it is very complicate phenomenon.
Therefore, the following situations suggest the definition of family business: “a business is owned by a family but run by non-family managers. A business is owned by a large, multi-national corporation but run by a local family. A business is jointly owned by two unrelated partners, each of whom has a son in the business”. Lorna (2011) defined family business as “as one that will be passed on for the family’s next generation to manage and control”. All these give impression and basic understanding of what family business mean. Handler (1990) defined it as “a business run by at least one family member”. Churchill & Hatten (1987) also explained family business as “a founder-operated business where there is anticipation that the business will be passed to the next generation”. However, in a more directional and precise form, family business suggest solely businesses that are owner and manage by family either by the founder or any of his child in most cases the eldest or first son.

In order to assess the empirical and theoretical relevance of past studies to the framework proposed in this study, several works of Lorna, 2011; Lam, 2007; Miller, Steier and Breton-Miller, 2003; Kurakto et al., 2004) that offered family business models were examined. Lorna (2011) examined the implications for family-owned business successions: a multiple perspectives review and suggestions for further research. The study provided an integrative model of multiple stakeholder outcomes on succession. The framework indicated that factors such as: individual, organization, family and environment affect succession process. One of the major weaknesses of this study is that it argued that each of these factors could independently predict or affect the succession process. Additionally, some of these factors noted by this study are not critical factors hence may not play a major role in the determinant of family business successor. Secondly, the study only talks about succession process without addressing how process succession could bring about family business continuity. Miller et al., (2003) examined the lost in time: intergenerational succession, change, and failure in family business. The study argued that factors such as strategy, organization, government and culture affect three major succession patterns, which they classified as conservative, wavering and rebellious successions.

Hence, the study offered an intergenerational succession. Although, this study tends address two major issues, first, succession and second failure in family business, however, the study failed to provide us with how intergenerational succession could bring about family business succession and continuity. Another interesting study that provided critical factors that affect family business is Lam (2007). The study asserted that both father and son in other words, the founder and the successor are major factors that affect family business succession. However, the study failed to include factor such as environment as one of the key factors. Any family business succession plan or process that failed to include or neglect environmental factor should be seen as incomplete. Therefore, this study could not be said to have presented complete factors that affect family business succession, though both father and son are very crucial in determining family business succession and continuity. In examining family business succession planning and the factors to be considered by business owners in succession plan, Castillo (2009) offered a model or framework outlines for an effective succession plan for a family owned business. The model provided factors such as; manage relationships, create a team to lead, look for leadership and prepare successor.

These so called factors may not be relevant to family business and they do not form the key factors that affect family business. The elements provided are more of a succession process than succession plan and do not address family business continuity. Kurakto et al., (2004) presented one of the interesting models of the family business. In the model, environmental factor which the study grouped into family members and nonfamily employees and on the other hand, internal and external factors was seen to be the only key factor that affects succession in family business. Although this study has provided a crucial factor, the environment, however, the model seems to be limited and not comprehensive enough to address the crucial factors that really affect succession plan or process in family business. Summarsing these arguments, it is crystal clear that none of these models provided by these authors offered the clear and adequate key factors that affect family business succession and consequently how it leads to family business continuity. Hence, the present study does, it offers the three key factors that bring about a true succession and how a true succession could lead to family business continuity.

In order to provide more evidence on family business, several other works that investigated family business in different perspectives were examined for broader understanding of the family business. For instance, Hoy & Verser (1994) examined family business in relation to emerging business, emerging field: entrepreneurship and the family firm. They examine the definition of family business and then presented a broader definition and views of family business. Ramona et al., (2008) investigated family business in relation to family system and entrepreneurial behaviour. The study noted that majority of the businesses today are all family businesses.
They contended that researchers have neglected this area of research which has shown in its slow move. However, they called for more studies on this aspect of research. Matthew, Moore & Fialko (1999) examined family business in relation to leadership. The study developed a common leadership succession model process with the parent leader and child successor inclusive. They argued that the cognitive categorization adopted in their study influence the process of succession as the parent leader prepares the child leader for succession. However, this model did not address the issue of continuity. Westhead (2003) in his study explored both the internal and external environmental factors that affect family business succession decision-making. The study argued on the actual retirement period of the chief executive officer (CEO) and who the CEO nurse in mind to succeed him or take over from him. The study further addresses the need for a succession plan by the CEO. The study found that external environment contributes the success of succession plan in family business. However, like any other study, this study failed to address the issue of how succession could ensure the continuity of the business. Ting (2009) examined succession in family business. The study noted that the function of family business in the development of enterprises.

The authors argued that succession has been one of the major problems and challenges of family business which has been on debate in both practical and academic field in the past years. Although, this study succeeded in raising the issue of succession and continuity of family business, “how to deal with succession in family business issues will be directly related to the continuing operations of enterprises?” yet the issue was not resolved or addressed in the study. The study suggested that succession plan should be earlier than expected in family business, and should anchored by a team who will be charged with the responsibility of developing and training the successor. Handler (1994) only reviewed past studies on succession in family business and therefore, presented five major issues in family business, they include; process of succession, the function of the founder, the viewpoint of the incoming generation, multiple levels of analysis and characteristics of effective successions. Issue relating to succession and continuity was not mentioned in this study.

Similarly, Sardeshmukh & Corbett (2011) examined the duality of internal and external development of successors with respect to opportunity recognition in family firms. It specifically, investigated the intersection of the succession and opportunities with respect entrepreneurial behaviour in family business. Successor’s factors such as self-efficacy, education, and work experience and perception of entrepreneurial opportunities were included in the study. The study found that successor and opportunities are significant in family business. However, the study did not touch the issue of succession and continuity. Jose (2007) investigated succession in family business in Canada. The study focused on succession process in Molson family business. They claimed that succession is a new area of study in family business. They adopted a longitudinal approach to identify and evaluated the crucial activities and processes that have assisted facilitated succession in the Molson family business. The study argued that it is only when succession plan is effective, that is only when conflict could be avoided in among the family members engaged in succession. Continuity in family business is still be neglected in this study. Bocatto, Gispetr, & Rialp (2010) examined family-owned business succession: the influence of pre-performance in the nomination of family and nonfamily members: evidence from Spanish firms.

The study specifically focused on the relationship between preperformance and succession. Using agency and the resource-based view theories, and stepwise logistic regression with a bootstrap procedure, the study posited that positive firm performance would no doubt lead to the selection potential successor while the other hand negative performance would indicate otherwise. Finally, the study found that performance prior to succession does not affect these nominations, while directive experience does. In another study, Reay and Whetten (2011) argued on the core issues on what actually constitute a theoretical contribution in family business research. The study focused on some of the important aspects of family business research that could offer more understanding in this area. The study contended that many studies in this area lack solid and significant theoretical contributions. They further argued that researchers in family business domain should always give serious consideration to the contribution their paper research and then link their research question to the theoretical gap. Despite the fact that this study presented important areas of family business, however, the area of succession and how it affects family business continuity is somewhat left untouched. Lorna (2011) has asserted that family business continuity is important areas in succession that must not be neglected since it provide substantial proportion of employment in so many nations. Lack of true succession in family business has become the bane of family business continuity. On this note, this paper focuses on how true succession could lead to family business continuity.
2.1 Conceptual Framework

Based on the various arguments and reflections found in the literature on how true succession could lead to family business continuity, a comprehensive conceptual framework was developed and advanced in order to expand our understanding of true succession and continuity in family business. In the conceptual framework, we posited that a true succession in family business would include the three key variables; founder, successor and environment, and this would go along way to guarantee family business continuity. The conceptual model begins with the three key factors (founder, successor and environment) that affect and bring about a true succession. In between the founder and the successor exist three cases. Case 1 indicates that the founder is the major influential, he initiates the succession process, pressurizing the potential successor to succeed him even when the potential successor is not ready or interested, this form of succession is conservative in nature (Miller, Steier, & Breton-Miller 2003) since the founder wants the preferred successor to take over, therefore there is likelihood or possibility that the successor would follow the owner or founder’s method and approach in managing the family business.

In case 2, it is the successor that initiates the succession process, exerting pressure on the founder to relinquish his power and control to him so as to take over the leadership of the business, the potential successor could be seen as “wavering or rebellious in nature (Miller et al., 2003)” this is because he wants to demonstrate and exert his influence on managing the business, thus, he may be characterized by indecisions since he tends to use his own initiative and approach in driving the family business and on the other hand, the potential successor may inherit and ascend the family business leadership by force, therefore doing things in a different way, precisely in his own way while in case 3, it indicates a mutual agreement and discussion between the founder and the successor on how the founder would relinquish the leadership and management of the business to the potential successor, in the model, “the preferred or preference successor”.

In this case, both the founder and the successor know that the time is ripe for succession to take place, thus, they would mutually agree on the succession plan and process. This is in line with argument of Handler (1989) who proposed a mutual agreement between the leader and the successor; the sole operator and the successor; and the predecessor and the next generation. He noted that a situation like this could warrant where the leader “gives up authority and power and becomes a consultant, while the successor assumes the leadership role and becomes chief decision-maker”. Based the argument above, we argued that the three key factors presented in the framework are of equal important in ensuring succession and continuity in family business since they jointly affect true succession in order to guarantee family business continuity. This conceptual model posits that in the issue of family business succession and continuity, the key factors; the founder, the successor and the environment must be seriously considered. In the case of the environment, both the internal and external environments must be look into that is the employees, relative and family members who form part of the internal and external environment. It is only when these factors are considered that a true succession could take place and then ensures family business continuity. Therefore, in summary, we argued that a true succession is jointly determined by the three key influential factors presented in this paper which then guarantee family business continuity.

Figure 1: The Conceptual Model
Based on the various arguments and the conceptual framework above, the following propositions are formulated;

1. Founder, successor and environment will jointly affect family business continuity
2. True succession will mediate the relationship between Founder, successor and environment, and family business continuity.

3.0 Methodology
3.1 Population
The population of the study will include all family business in Lagos state, Nigeria. Due to the problem of unorganized association of family business in Nigeria and lack of access to information from the database, the study will rely on the local Lagos business directory to sort out the family businesses that will qualify for the study. As noted, 60% to 70% of business and industrial transactions in Nigeria is being concluded and finalized in Lagos. For instance, Lagos state alone account for over 60% of the industrial value investment among other six main industrial zones or centres in the country (Lagos state Government, 2010; Akande & Ojukuku, 2008; Adelakun, 2010). Keeping in line with the definition of family business according to Handler (1990) and Churchill & Hatten (1987) “a business run by at least one family member and a family business operated by the founder where there is anticipation that the business will be passed to the next generation” the following criteria will also be applied in selecting the participating family business for this study;
1. Existing for over 3 years
2. Run by the family member(s)
3. Evidence to pass the business to the next generation

3.2 Sample
Several sampling techniques exist such as simple random sampling, stratified random sampling, systematic random sampling and clustered sampling. However, Hair, Money, Samouel & Page (2003) have argued that the choice of any sampling techniques highly dependent on the theoretical and practical issues within the context of that research study. Therefore, based on the theoretical and practical issues in this proposed study, a simple random sampling will be adopted to select 400 participants in trading sector from the population of the study which will be identify from the local Lagos business directory as indicated earlier.

3.3 Unit of Analysis
The unit of the analysis of this study will include all family business owners as well as the employees in the family business. Thus, utilizing them as the unit of analysis would no doubt improve the findings of the study (Stock & Black, 2002).

3.4 Data Collection Method
A cross-sectional study of questionnaire survey research design approach will be adopted based on the previous work of Klein (2003); therefore, a drop-off and pick procedure of data collection will be applied in this regard.

3.5 Data Analysis Techniques
The following data analyses techniques will be utilized in this study. They include descriptive, factor analysis, correlation analysis and multiple regression analysis. The data collected was from the main survey was subjected to data cleansing and data cleaning in order to identify the missing value, sample characteristics and meet the assumptions of normality. Descriptive analysis will be utilized to summarise the profile of the participants. Factor analysis will equally be employed to reduce the data and choose those items that actually measure the constructs in this study. In this case, the component factor analysis with varimax rotation will therefore be conducted on all the variables to extract factors from the scales of each construct. Based on the previous works of Hair, Black, Anderson and Tatham, 2006; Hui et al., 2009; all items loading below 0.50 will not be retained and those having a loading factor limit of above 0.50 and Eigenvalue larger than 1 will be principles to choose factor (Daud, 2004, Hui et al., 2009). Equally, the variables will be subjected to validity test. The validity of the instrument in this study will be measured via Bartlett’s Test of Sphericity (Muhammad, 2009). Within this study, the authors will ensure that the KMOs for all the constructs be above 0.6 as indicated as recommended by Chakraborty (2010), Trent, Justen & Anastasios (2009), Nuradli, Hanifah, Shahida & Hairunnizam (2008) and Dahal (2004). Both correlation and regression analyses will be applied to test the strength and nature of the relationship among variables respectively.
4.0 Conclusion
The paper explores and examined succession in relation to family business continuity and thus, offered a conceptual framework on succession in relation to family business continuity, we therefore proposed that; 1. Founder, successor and environment will jointly affect family business continuity and 2. That true succession will mediate the relationship between Founder, successor and environment, and family business continuity. Family business is a component of entrepreneurship development and important aspect of economic development and economic transformation offering jobs and creating wealth for families and other people working in family business. The paper argued on the true succession in family business and how true succession in family business could lead to family business continuity. Based on this, the paper presents three key factors; founder, successor and environment that jointly affect succession in family business which in turn guarantee family business continuity. Therefore, the presence of these three key factors reflects a true succession which would ensure family business continuity. Thus, a succession without any of these key factors could jeopardize the future and continuity of family business. The key factors would serve as essential ingredients to the true succession as well as to family business continuity. With respect to this, the paper offers two major implications. First, as one of the pioneer studies to examine succession in relation to family business continuity, the paper has added to the body of knowledge in this area of study. Equally, it provides a springboard that will act as an impetus for empirical research in this area. Second, the conceptual model presented in this paper would go along way to provide a guideline for all the stakeholders in family business on how best they can handle the issue of succession by emphasizing on true succession with the aim of ensuring the continuity of the business.

5.0 Limitation and Suggestion for Future Study
The limitations of this study are, first, the study only focused on how a true succession could ensure family business continuity, however, other areas of family business can also be investigated. We intend to limit or cover only trading sector in collecting data from the participants, this implies that any findings from this study would be limited to this area. Therefore, future studies in this domain should endeavour to include other sectors such as the manufacturing and service sectors as they are also very essential in the economy.

Second, this study will be conducted in a unique problematic environment and economy like that of Nigeria and as such may also limit the findings of this study. We recommend that the propositions presented in this paper should be empirically investigated or tested. Thus, empirical study is needed to the test the propositions presented in this paper.

References


