

A RESEARCH ON SUCCESSION MANAGEMENT IN FAMILY COMPANIES

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Abstract

The world economy depends heavily on the continuity and success of the family business. It is unfortunate, even alarming, that such a vital force has such a poor survival rate. Less than one third of family businesses survive the succession from first to second generation ownership. Of those that do, about half do not survive the succession from second to third generation ownership. There are four basic reasons why family firms fail to transfer the business from generation to generation successfully: 1-lack of viability of the business; 2-lack of planning, 3-little desire on the owner's part to transfer the firm; 4-reluctance of offspring to join the firm. These factors, alone or in combination, make transferring a family business difficult, if not impossible. The primary cause for failure, however, is the lack of planning. With the right plans in place, the business, in most cases, will remain healthy. (Bowman, 2010:3).

Key Words: Family Business, Succession Management, Succession Planning

JEL Classification: M10

I- GENERAL LOOK AT THE TERM “SUCCESSION MANAGEMENT”

As we look at the family companies, we can see that three main subjects come forward. These are, 1- The ownership and control of the company shares, 2- The intervention of the family to the management, 3-The changeover of the ownership and leadership of the company to the next generations. (Athanassiou, Crittenden, Kelly, Marquez, 2002: 140). Here in this article, all these three subjects will be mentioned, and the main subject will be handled from a totalitarian perspective.

1.1.The Succession Management Concept and Its Importance

Succession management is a process that provides, the definition of the critical management positions on the top of the organization; the selection and the preparation of the candidates who will take part in these positions; the determination of the time and terms of the retirement of the current managers; pre-

determination of necessary actions to be taken in an adverse assignment and the consistent fulfillment of the manager, regarding the future of the family and the company, their cultural characteristics, possible progressions in the family and the company (like appearance of an illegitimate child, divorce, marriage, death). This process takes the organizational needs, skill inventory of the current managers, the evaluation of their skills, the needs that will appear in the progressing and developing business into consideration, and it is up to the presence of four main facts. These facts are: 1- Sequence, 2- Timing, 3- Succession of the positions, and 4-Communications.

1.2. The content of the Succession Management

A successful succession process consists of, ownership succession based on a legal basis, management succession where family and business powers are separated, and the changeover process of retirement between successor and predecessor.

1.2.1.The Succession Management for the Ones Taking Part in the Changeover

The age of the successor, the age of the generations in the company, the size of the company, gender, (Kellermanns, Eddleston, Barnett, Pearson, 2008: 3), the changeover claim of the entrepreneur, the presence of a new business after the changeover and living standards after the changeover are points that need to be handled under this topic.

1.2.1.1.Retirement Planning

In the retirement plan, the age, terms and form of the retirement; the monetary conditions of the entrepreneur and his/her wife/husband after retirement, the financial conditions of the counterpart after his/her death; the extent and shape of the entrepreneur with the company, need to be clarified. Besides, a second plan has to be produced, regarding the facts like, the preparation of the inheritor until the retirement time; the readiness of the inheritor at the scheduled time of retirement, his/her death, his/her reluctance; the appearance of better educated family members etc.

1.2.1.2.Successor Planning

Planning the successor consists of stages like, selection of the successor and preparing the team; determination of the candidates, determination of the selection criteria (performance in different businesses other than family business, compatibility to what the business needs, personal development, acceptance and

support of the family etc.), and strategies (selection of young ages-old ages); preparation of the selected candidates; assessment of their performances; clarification of the time and shape of assignment. During these stages, subjects like, management transfer between father-son or father-daughter; transfer of the management to the oldest son, or in case of an absence of a son or his reluctance or incompetency; transfer from one generation to another as a part of the necessity of business socialization process, must be taken into consideration.

1.2.1.3.Succession Planning as a matter of Transfer Subjects

Succession is used as transfer of management and/or ownership. As the succession of ownership consists of clarification of the future owner of the enterprise, the timing and form of the ownership process, the succession of management consists of the determination of the manager for the enterprise. (Griffeth, Allen, Barrett, 2006: 491).

1.2.1.4.Management Assignment

Management assignment, which can be defined as the transfer of authority from one generation to another, can either be from older generation to younger generation or vice versa. But, transfer from young generation to old generation can be named as reverse management transfer. Management assignment consists of, determination of the business to be transferred, things to be done and responsibilities to be taken during this business, authorities to be used; preparation of the people for the related position, progressive assignment of the authority, form and time of the assignment. This assignment process, taking place in the family constitution, and this constitution being attached to the articles of association, makes it easier for the judge to decide in case of a judicial process, because of reflecting the ideas of the entrepreneur, and also creates the suitable conditions for the entrepreneur's desires to be realized (Griffeth, Allen, Barrett, 2006: 496-500). Besides, if the strategies of the previous generation were not successful enough, the management assignment can be supported by shareholders and it can be perceived as a progression in reputation by financial institutions. (Cater, Schwab, 2008: 34).

1.2.1.5.Ownership Transfer

For ownership transfer, which can be defined as the transfer of the ownership of the enterprise, transfer of smaller shares can also be spoken as well as the bigger shares. Ownership transfer is one of the most important milestones for the enterprise. Especially, when a transfer of a big amount of share is in question, the importance is much more bigger. Ownership transfer consists of the conditions of

time and form of the transfer of the share; the time and form of the delivery of the money corresponding to the shares transferred by the one who transfers his/her shares; the conditions of the time and form of ownership transfer if it causes management transfer. Subjects about ownership transfer should take place in the family constitution and the constitution must be attached to the articles of association of the company. Finally, considering the possibility of a conflict between the owners of majority and minority shares, special clauses to protect the rights of the minorities must be prepared and put into the articles of association, and transparency and justice principles of the corporate governance must be operated (Andres, 2008: 444).

1.3.Succession Management Process

It is possible to study the succession management process under three main topics: period before succession (Pre-Succession), succession period (Succession) and after succession period (Post-Succession). The stages of this process are defined below:

Period before succession (Pre-Succession): Appointment of a team responsible of succession management under the supervision and direction of the family; having the family commitment; the determination of the vision and mission of the company; determination of the strategic goals of the company; analyzing the current situation of the company and determining the target structure in the future; determination of the current and future inside and environmental conditions, and changes and progressions in these conditions; determination of the skills that the executive manager should have, regarding the future organizational structure and environmental conditions; determination of the duties, responsibilities and authorities of the executive managers; clarification of the timing; determination of the strategies of inheritor selection (early selection strategies, delayed selection strategies); setting the strategies for the preparation of the inheritor to acquire company management skills; selection of the future executive management group, making up the politics for the education of the group; comparing the ideal features and current features, to determine the programs to eliminate the gaps between them and elimination of them; planning the retirement times of the entrepreneur and the current executive management team; determination of the conditions of their retirement; determination of earnings that they will acquire during their retirement period; making up the heritage plan; preparation of the testament; making up the emergency plan; integration of the emergency plan and testament plan to the family constitution; attachment of the family constitution to the articles of association; determination of the professional managers (Trusts) who will take

over the management during the death or incapacity of the entrepreneur until the inheritor to be at the proper age for the management of the company; determination of their responsibilities, authorities and working conditions; setting the technological infrastructure for the system; managing the risk and making the necessary arrangements for a probable case of reverse succession; providing feedback in every stage and making the evaluations;

Succession Period (Succession): Succession of the management; succession of the ownership;

After succession period (Post-Succession): Increasing the family support following the process; brief explanation of the family constitution and the succession process in the annual family forum.

2.RESEARCH

2.1.Purpose and importance of the research

Maintaining the subsistence of a family company for ages is important for country economics in macro basis, and is important for family economics in micro basis. Moving on from this point, the main purpose of the research can be defined as the determination of the families in the content, to examine how much importance they give to succession planning and the applications they carry out for this purpose.

2.2.The Main body and Sampling of the Research

In the research, family companies, which have B1 License for passenger transportation (companies doing international and inter-cities passenger transportation) are taken as basis. B1 Licensed company list is taken from Directorate General of Land Transportation, which is under the control of the Ministry of Transportation. The number of B1 Licensed companies in our country is 64, as of 29/01/2010. In other words, there are 64 companies in the main body. As there are limited number of companies in the main body and as the level of institutionalization in the sector is low, whole count method is the moving point in the research. Face-to-face interview method is used in the research. The number of companies that could be reached is 32. 14 companies rejected the demand. 18 companies did not answer their registered phone numbers.

2.3.Data Collection Tools and Statistical Methods

An inquiry form, made up of three parts, was used in the research. In the first part, there are 3 open-ended questions, in the second part there are 40 scale questions, and in the last part there are 9 close-ended questions. While evaluating the results

of the research, NCSS (Number Cruncher Statistical System) 2007& PASS (Power Analysis and Sample Size) 2008 Statistical Software (Utah, USA) program was used for statistical analysis. In the analysis, data taken from 32 participants are used. Also, in order to find out that the questions affecting the alpha factor; “Alpha if Item Deleted” was measured. The mentioned values show the inner consistency of rest of the variables, if a variable is deleted. In the “Determination of Level of Succession Management” research Factor Analysis was used by using Varimax Rotation application. Evaluations for company durations, company types and company employees are done by calculating results of factors found for the scale. In order to evaluate the relations between parameters, Spearman’s correlation analysis for evaluations according to the company types Student test was used. Relevance was evaluated as $p < 0.05$ level.

2.4. Findings

2.4.1. Analysis Results for Demographic Characteristics

When the data was analyzed; the average operation period was determined as 27, 90 ± 19 , 44 years, according to the answer gathered from 32 companies, which have establishments for periods between 4 to 84 years. The average employee number is found as 311, 07 ± 464 , 68, as the number varies from 3 to 311.

2.4.2. Results of Factor Analysis

In the factor analysis of the research, 4 questions are excluded because they had very close factor coefficients. With the remaining 36 questions, the questions for factor analysis done to determine the Level of Succession Management were collected in 5 main groups. While calculating the results for the sub-dimension, average point was found by adding the question points and dividing them to the item numbers, as each sub-dimension contained different number of items. The Inquiry to determine the Level of Succession Management had 36 items, 5 sub-dimensions. The sub-dimensions are as follows.

Chart 1: Factor Analysis Demonstration Chart

	<i>Questions</i>	<i>Sum of Characteristics</i>	<i>% of the Variance</i>
<i>Factor 1 (Ownership and Management Assignment)</i>	7,8,11,13,15,22,27,32	9,14	25,39
<i>Factor 2 (Death and ownership assignment)</i>	10,17,19,24,29,33,37,39,40	5,86	16,28
<i>Factor 3 (Characteristics and Performance of the Inheritor Candidates)</i>	4,5,12,25,30,31,35,36	5,01	13,93
<i>Factor 4 (Related people/units about inheritor selection)</i>	3,9,20,28,34	3,38	9,40

Factor 5 (Systems about Inheritor Selection)	2,6,14,16,23	2,89	8,03
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When Varimax rotation was applied to the scale of determination of Level of Succession, and it was applied to factor analysis, it was found that the questions could be collected under 5 factors. These 5 factors explain %73 of the scale variance.

Chart 2: Factor Analysis Matrix

FACTOR 1: Ownership and Management Assignment		FACTOR 2: Death and ownership assignment		FACTOR 3: Characteristics and Performance of the Inheritor Candidates	
α : 0,922 Aver: 1,91\pm0,95 % Var: 25,39	Factor Coefficient	α : 0,904 Aver : 2,35\pm1,03 % Var: 16,28	Factor Coefficient	α : 0,867 Aver : 2,95\pm0,96 % Var: 13,93	Factor Coefficient
inheritor.38	0,920	inheritor 39	0,769	inheritor .36	0,795
inheritor .22	0,892	inheritor .33	0,731	inheritor .33	0,766
inheritor 7	0,850	inheritor .29	0,683	inheritor .29	0,722
inheritor 15	0,800	inheritor .37	0,647	inheritor .37	0,532
inheritor .8	0,790	inheritor .17	0,615	inheritor 17	0,454
inheritor .32	0,730	inheritor 10	0,555	inheritor 10	0,398
inheritor .11	0,641	inheritor .24	0,506	inheritor .24	0,329
inheritor .27	0,627	inheritor .19	0,487	inheritor .19	0,319
inheritor .13	0,358	inheritor .40	0,413		

FACTOR 4: Related people/units about inheritor selection		FACTOR 5: Systems about Inheritor Selection	
α : 0,832 Aver : 2,87\pm0,97 % Var: 9,40	Factor Coefficient	α : 0,729 Aver : 2,65\pm0,84 % Var: 8,03	Factor Coefficient
inheritor .34	0,858	inheritor 23	0,863
inheritor 28	0,831	inheritor .2	0,472
inheritor .3	0,585	inheritor .14	0,464
inheritor .9	0,466	inheritor .6	0,364
inheritor .20	0,404	inheritor .16	0,330

In the inquiry questions, 1 point is given to the ones who absolutely do not agree, 5 point is given to the ones who absolutely agree, and so the calculation is done by coding. While calculating the scale points; the points that each sample gets for each dimension are collected, and because that each dimension is made up of

performance of the inheritors ($p < 0,05$). Also, there is not a positive, statistically consequential relation between the operation period and the related ones among the inheritor selection ($p < 0,05$). There is a positive, statistically consequential relation around %44,7 between the systems for inheritor selection and the operation period ($p < 0,05$). As the operation period increases, systems for inheritor selection points increase.

Evaluations as the Type of the Company

As 16 of 32 companies (%50) taking part in the research are group companies, %50 are not.

Chart 5: Evaluation of sub-dimensions of Inquiry about Determination of the Level of Succession Management According to the Company Type

	Company Type		p
	Group Company Aver±SD	Family Company Aver±SD	
Ownership and Management Assignment	2,11±1,09	1,72±0,81	0,283
Death and ownership assignment	2,39±9,47	2,15±0,96	0,490
Performance of the Inheritor Candidates	3,06±1,00	2,77±0,91	0,399
<i>Related people about inheritor selection</i>	3,13±0,91	2,51±0,92	0,045*
<i>Systems about Inheritor Selection</i>	2,79±1,06	2,43±0,43	0,236

Student t test is used

As company types, for group companies, it is determined that “related ones for the inheritor selection” point is consequently high among the ones that are not group companies ($p < 0,05$). It is determined that the points for “Ownership and Management assignment”, “Death and Ownership assignment”, “performance of the inheritor candidates”, “systems for inheritor selection”, which are the sub-dimensions for inquiry of determination of succession management level as company types, do not show statistically consequent differences. ($p > 0,05$).

3. CONCLUSION

As we take a general look at the results of the data of the research, it is understood that a great part of the companies taking place in the research have not established their succession policies, and they do not pay the necessary attention to the subject of the succession management. In order to establish the succession management process and put it into action, first of all the entrepreneurs have to assimilate the succession process and feel at ease for the management and ownership assignments; clarify the applications for ownership and management assignment,

and put them into the articles of association of the company; be persistent for the protection of family ownership; be sure about the family to resist the stress during the succession process; create the agreement among the company owner managers about the management of succession process and assign the management to the next generation. Besides, they have to consult to specialists; include the other shareholders to the process; organize regular meetings in order to reach a consensus regarding important subjects and help the successors create an authority among the company and the family. The entrepreneur also, has make sure that the family members understand the rights and responsibilities their roles will bring; inform the customers, suppliers, banks etc. about the succession process of the company; make an alternative planning considering the risks to minimize the uncertainty for the future of the company.

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