



Succeeding Generations

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Family Owned Businesses (FOBs) have a strong desire to stay family owned. Because of this value, the 2nd, and successive generations of owners share some interesting characteristics that set them apart from nonfamily firm successors.

The following article is more of a list of ideas, than an end all and be all for assessing the quality of a successor. In order for an idea to be listed below it has to have some sound empirical grounding, therefore there may be other good idea out there, but they have not yet received enough empirical support. This is not to say those are ideas are wrong, just that there is still a lot more research to be done, and as this research is completed we will more than likely find other important ideas.

Facts and Figures for Succession

The Raymond Institute/MassMutual American Family Business Survey (2003) (a national survey of family owned businesses) has found that nearly 88% of family businesses will continue to be family owned over the next five years. From the 2007 American Family Business Survey, 40.3 percent of business owners expect to retire within the next 10 years, creating a significant transition. Of that 40 percent, less than 1/3 have chosen a successor. Meaning there is much work to do and potential sources of instability for our economy. Of those who have selected a successor, the successor's median age is about 18 years younger than the current chief executive.

The average successor is a 40-year-old male college graduate. Because of the difficulty in planning transitions and the fact that many successors (25.1%) have had no full-time work experience outside of the business, successors face a number of challenges.

Characteristics of Successful Successors

One line of research has tried to understand differences in leadership characteristics and management choices between 1st, 2nd and 3rd generations. Studies in this area have found very few differences between generations (Sonfield & Lussier, 2004; Sonfield & Lussier, 2005; Sonfield et al., 2005). Within these studies only one difference seems to stand out. And that is that the second (and successive generations plan better for successions than the founding generation. But this difference is only seen in the United States (Sonfield et al., 2005). When this study was expanded across multiple countries, there were no significant differences between generations in succession planning (Sonfield et al., 2005).

A second line of research has attempted to understand the qualities of successful successors. Chrisman, Chua & Sharma (1998) began this trend with a large study of business managers within FOBs. This study asked family and non-family managers to rate the qualities of the successor. Successors who were rated higher on integrity and commitment to the business,

were rated the highest by the firm managers for success during and after the transition. This study was repeated across multiple countries and Sharma & Rao (2000) found that integrity and commitment were rated highest in owners who were perceived as running a successful transition. In a similar study Ibahim et al. (2004) also found that integrity and commitment were important, but so were, the successor's capacity to lead, and managerial skills and competencies of the successor. This study expanded the previous findings by adding the importance of the successor's skill level and leadership capacity.

The overall importance of these findings is that there are some important characteristics of successors. Successors should possess some leadership and managerial knowledge and skill level. But they also require an integrity and commitment to the organization. These last two seem exponentially important, the longer the tenure of the leader and the older the organization (Sonfield & Lussier, 2005).

Navigating the Transition

One study by Steier (2001) looked at all the possible ways in which succession happens. He grouped these into four *modes* for transferring leadership: 1) unplanned sudden succession, 2) rushed succession, 3) natural immersion, and 4) planned succession or deliberate transfer. A similar attempt at understanding transitions comes from Morris et al (1997). From these two studies, (and other like them) the following points seem valid:

1. Transitions are better when heirs are more prepared,
2. Transitions are smoother when family relationships are trust based and affable.
3. Post transition performance is greater when the successor has an appropriate level of education
4. Post transition performance is higher when successors work their way up the organization.

Therefore, successors need to possess the following qualities:

1. A commitment to both the business and the family sides of the system
2. Engender integrity as a person and as a leader
3. Possess experience in the company
4. Possess experience outside of the company.

The following is a list of ideas that have gained support in the research for predicting a good transition:

1. Succession should be "planful". Successors should have ample time to learn the objective and intangible (i.e. gain social capital, inherit social networks) operations of the business.
2. Family relationship should be supportive and affable (Family relationships can make or break the process) (Venter, Boshoff & Maas, 2005).
3. Successors should be chosen based on the four points listed above (and not out of obligation or tradition).

Investing in all three of the following areas prior to a succession will be a valuable investment these areas actually increase growth and profits post succession (Morris et al., 1997; Steier, 2001; Venter et al., 2005).

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