TURBULENCE IN FAMILY BUSINESS SUCCESSION PLANNING DUE TO UNEXPECTED EVENTS

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ABSTRACT

The most difficult decision that family business patriarchs or matriarchs have to make, concerns the future of the company after their retirement and more specifically who will be the successor. Unfortunately, this inability to manage the succession process is regarded to be one of the main reasons for the high failure rate among first and second generation family businesses. Succession becomes even more complicated when the predecessor's retirement is not voluntary, but the result of an unexpected event, e.g. death, disease, etc. The scope of this study is to examine the differences between a voluntary and a forced succession.

INTRODUCTION

Succession planning is crucial to the success and continuity of a business (Miller, 1993, Ocasio, 1999, Pitcher, Cherim & Kisfalvi, 2000) and is particularly crucial for family businesses, where few survive more than one generation (Birley, 1986, Kets de Vries, 1993). Only one third of all family businesses survive the first generation (Beckhard & Dyer 1983) and no more than 15 percent makes it to the third generation (Birley, Ng & Godfrey 1999). This means that 67 percent of family businesses do not make it to the second generation. Few first generations want to let go of the helm, yet this inevitable succession is driven by the "biological clock" (Langsberg, 1999) and cannot be avoided. Succession in an organization can be defined as "handing over the leadership baton". In family–owned businesses that definition means succession between two successive generations (Barry, 1975; Beckhard & Burke, 1983a), and involves both the leadership succession and the ownership succession (McGoldrick & Troast, 1993; Flören, 2002). Family-owned business succession thus, also includes a "business transfer" that can consist of a transfer to someone within the family, to a third party, or to another company, as well, as management buy-ins and management buy-outs. Consequently, an incumbent that wants to decide the company's future can choose among the following alternatives:

- Transfer (or sell) ownership and management to family members
- Transfer management to family members
- Transfer management to a non-family member

- Transfer management to a non-family member and transfer ownership to family members
- Transfer management to a non-family member until ready family members take over
- Transfer management to a non-family member and transfer ownership to family members until a family member is ready to take over
- Sell or liquidate the business

FACTORS THAT DRIVE THE BUSINESS SUCCESSION

An important element in the succession process is the intention to leave the responsibility of the business to a successor among family members (Handler, 1989a; Hulshoff, 2001; File, 1995). However, founders are usually emotionally attached to the business they have created and/or have difficulty turning the responsibility over to others (Churchill & Lewis, 1983, Dyer, 1986, Greiner, 1972, Kaplan, 1987, Kets de Vries 1985, Levinson, 1971, Schein, 1983, Shein, 1985). Sometimes the owners-managers postpone the succession because it reminds them of their own mortality (Lansberg, 1988; Hamilton, 2003), and because, according to Lansberg (1988), they fear losing control and are concerned that retiring from the firm will means a demotion in their role within the family. That is why family transitions and company transitions usually occur together. Another important element in the succession process is the availability and the suitability of the successor during the selection process of the successor. Not all potential successors intend to take over the business nor all successors are capable of running the business. All businesses can have great difficulty in finding or choosing the right successor (Stavrou, 1999; Stavrou & Swiercz, 1998; Venter, Boshoff & Maas, 2003) but this holds especially for family businesses where aspects in the private lives of the successor and the predecessor can also play a major role (Venter, Boshoff & Maas, 2003). An additional aspect apparent in family businesses is the family influence of the selection process. If the family does not support and/or trusts a specific family member about to assume the leadership role, succession is unlikely to occur (Birley, 1986). After the selection of the new successor, the successor and the predecessor need to share information and get external assistance such as training to successfully ensure a complete and positive succession process (Ayres, 1990; Seymour, 1993). Because the family is intricately tied to the selection process it is important to include their participation in appropriate efforts. Another very import element in this phase is the preparation of the family. Open communication and information of the family is essential in this phase to ensure the ease of the succession (Handler, 1989b; Ayres, 1990; McGoldrick & Troast, 1993). But even when the successor becomes fully in charge of the business, the predecessor may still have a role in the business (Aronoff, 1998). The interim or transitional role the founder holds after turning over the management of the firm to a successor may vary significantly. The founder might be out of operational management but continue to serve as *chair emeritus*, in an advisory capacity on new projects or on overall policy matters (Lansberg, 1988).The succession is only successfully completed if all the key stakeholders in the firm accept the succession and their new role (Harvey & Evans, 1995) if the business survives, the key stakeholders are accepting of the transition and the effect on post succession business performance. Thus, the outcome of the succession is influenced by three factors: the willingness of the predecessor to step aside, the availability and suitability of a successor and the family relationships that mediate between the two.

THE EMERGENCE OF AN UNEXPECTED EVENT

An unfortunate event such as disease, illness, or death may unexpectedly thrust the business onto a successor. In this case there is either no succession plan or the succession plan is disrupted. Of all the directors of family businesses in the Netherlands who retired before they turned 55, more than 30% were forced because of an illness or death (Flören, 1997). In that case it is very well possible that the successor does not have the chance to make an informed decision about taking over the firm. Sudden death or illness may cause a high level of uncertainty, anxiety, and conflict in the family business (Harvey and Evans, 1995). According to Sherman (2003) the reasons for the exit of the founder may affect the choice of the primary strategy in succession. The family may feel differently about who should step into his/her shoes in the event of an unexpected death versus a gradual and voluntary retirement. The sudden events can also usher changes in planning, although not all issues can be anticipated (Gersick, et al. 1997). Kirsch (1990) also states that the evolution of a business can be deliberately organized only to a certain degree. The actors can leave their own imprints, but in order to fulfil their goals they are confronted with the slowness and the self-dynamics of the system. The scope of this study is to find out and measure the differences between a voluntary and a forced succession, and investigate whether the factors that influence the decision-making in the first place exist in the case of a forced succession, whether new factors emerge, or whether the significance of these factors changes. The theoretical implications illustrated above are operationalized by developing a matrix that measures the significance of the elements influencing the factors having an impact on a family firm's succession outcome. The weighted average for each factor is calculated by multiplying the significance of the factor with the sum of products (value *significance) of all the elements that constitute the specific factor. The weighted average for each factor is calculated by multiplying the significance of the factor with the sum of products (value *significance) of all the elements that constitute the specific factor, according to the following formula:

$$F_i = SigF * \sum_{j=1}^{n} SigEl_{ij} * Val_{ij}$$

Where: *n* = Number of elements of each factor
SigF = Significance of the factor
SigEl = Significance of the elements
Val = Value

CONCLUSION

An emergency can occur at anytime and its serious implications should be discussed at all stages of the family firm's development. The existence of a contingency succession plan that would provide continuity for the family firm in case an unexpected event occurs to the patriarch or matriarch, will have positive consequences for the firm's business side, since succession will not be the result of rushed moves and decisions. The family side also benefits since any drastic changes and transformations in the family hierarchy affect relationships and may upset the existing delicate equilibrium and the sense of balance in the family.

(References available upon request by the authors)