Developing a Successful Succession Model for

Family-Owned Businesses

by

Muhammad Naveed Kabir

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Dr. Renee Surdick

Dr. Bob Meyer

Dr. Tom Lacksonen

The Graduate School

University of Wisconsin-Stout

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The Graduate School
University of Wisconsin-Stout
Menomonie, WI

Author: **Kabir, Muhammad N.**

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ABSTRACT

The purpose of this paper was to investigate into causes that result in failure of family businesses when they go through transition to a new generation. This was done by analyzing the family businesses in detail and describing different characteristics of such businesses that make them unique and different from other forms of businesses. A very high failure rate of family-owned businesses makes this topic important while realizing the utmost importance of these businesses in the economy of the country. In order to investigate on this topic, a detailed literature review was done to identify and describe the important elements of the family businesses and they way these businesses handle their important operations. A hypothesized model/plan was then developed using this literature as foundation. The owners of family businesses were then interviewed according to a questionnaire developed in light of the literature review and the hypothesized model. The interviews were then analyzed in detail to identify

different themes that were important to the process of succession and result in success or failure of the succession of family business. Using these themes, the hypothesized model was then corrected and improved upon to be able to used by potential family businesses.

The Graduate School

University of Wisconsin Stout

Menomonie, WI

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Chapter I: Introduction

Small entrepreneurial businesses make up a significant part of any country's economy. Many of such businesses are owned by either one family or a few families and therefore are known as family-owned businesses. In contrast with the other forms of businesses, family-owned businesses find it difficult and very challenging to have a successful succession when the business is transferred to the next generation. Many times the succession is not successful and results in a failed business having decline in its profitability or efficiency. Thus, the business suffers because of an unsuccessful succession.

This paper investigates some of the causes of unsuccessful succession through a study of family-owned businesses and other related information. This research recommends a model to the family-owned businesses and related professionals which they can use in order to make sure that the succession to the next generation is successful and help the business to keep growing and maintain and improve its efficiency.

Statement of the Problem

What are the key elements/major areas that should be addressed in a business succession plan/process of a family-owned sole proprietorship business?

Purpose of the Study

The purpose of this study is to

- Investigate the elements that play a crucial role in the successful succession process of family-owned businesses

- Help the family-owned businesses to understand the succession process while they coordinate with Northwest Wisconsin Manufacturing Outreach Center (STTI) professionals
- Produce a succession model that family-owned businesses can use as they go through the succession process

Assumptions of the Study

The important assumptions of the study are as follows:

- The succession process of family-owned businesses is independent of the nature of the business.
- The cases of family-owned businesses to be interviewed in the study have similar succession issues as those of an average family-owned business.
- Small scale family-owned businesses have similar business operations as sole proprietorship family-owned businesses. Hence the studies and theories developed about small scale family-owned businesses can be applied to sole proprietorship family-owned businesses.

Definition of Terms

Family-owned business. A form of business organization in which one or more family members play an active role in investment and operations of the business.

Sole proprietorship business. A business structure in which an individual and his/her company are considered a single entity for tax and liability purposes. This single owner invests in the business and is responsible for running the operations of the business most of the time.

Small scale business. Little company with low turnover and few employees. Company with at least two of the following characteristics: Turnover of less than $ 4.13m, a staff of fewer than 50 employees, net assets of less than L975,000 (Dictionary of Business, 2000).

Stout Technology Transfer Institute (STTI). The UW-Stout Technology Transfer Institute (STTI) promotes technology transfer between the University of Wisconsin-Stout and industry. The Institute is part of UW-Stout's College of Technology, Engineering, and Management (CTEM) and draws upon UW-Stout's technical resources making the expertise accessible to industry through multiple STTI's technical centers.

System. An interconnected set of parts that act as if they were a single whole.

Successful succession. Successful succession refers to the succession process that achieves its objectives and goals set before the beginning of the succession process. The predecessor and the successor both agree upon these goals and objectives and have these in written form. Such objectives and goals can include profitability, costs, revenues, market share etc.

Failed succession. This refers to the succession process that doesn't achieve its objectives and goals set before the beginning of the succession process. The predecessor and the successor both agree upon these goals and objectives and have these in written form. Such objectives and goals can include profitability, costs, revenues, market share etc.

Limitations of the Study

Following are some limitations of this study:

- The results of this study will be limited to only small scale sole proprietorship businesses
- The results may not apply in very small scale businesses where no formal organizational structure or processes are in place and business relies totally the individual skills of the entrepreneur who transfers these skills to the next generation simply by engaging them in daily operations of the businesses. Hence the training takes place in a very simple environment.
- Since phenomenological study methodology is being used in this research, cause/effect relationships between the variables cannot be established.
- Significant cultural changes might affect the applications of this study. This includes cultures where family communication and norms are significantly different requiring a certain obligation either from the successor or the predecessor to take certain action irrespective of what this study might suggest.

Methodology

The methodology that will be used in this study will consist of the following steps:

- Decide on the specific outcomes and products of the study in coordination with research team members from STTI.
- Develop a detailed succession plan and its template through the study of related literature and other information resources.
- Decide on the interview structure and questions in coordination with research team members from STTI.

- Select a sample of family-owned businesses to be interviewed in coordination with research team members from STTI.
- Conduct and document the interviews. The total time of the interview will be less than 45 minutes.
- Process and compile the interview information and use that information to reach a successful succession plan model for family-owned businesses.

Following criteria will be used for selection of the sample for this study:

- Family-owned businesses will be small scale sole proprietorship businesses.
- Number of businesses in the sample will be between 10 to 20 businesses.
- The sample will include a mix of different kinds of businesses with respect to their nature (i.e. manufacturing, financial services, retailers etc.).
- The sample of businesses will be selected from western part of Wisconsin and eastern part of Minnesota state.

Chapter II: Literature Review

In the economy of any country, family-owned businesses play an important role. These businesses make up most of the small size businesses that are initiated by one or more than one family members. Many economic experts emphasize that it is important for an economy to keep these small scale businesses in good and efficient running position because they attract investment in the economy while at the same time provide employment opportunities for many people. The owners have more vested interests in the business which persuades them to achieve higher level of efficiency in the business operation, thereby producing efficient revenue generation units within the economy.

Importance of Family-Owned Businesses

Family-owned businesses play an important role in the capitalistic economies. These businesses dominate the U.S. businesses from 80% to 90% (Dumas, 1992; Kets de Vries, 1993). Family businesses are also responsible for generating half of all employment and half of the gross domestic product (Dyer, 1986; Rosenblatt, de Mik, Anderson & Johnson, 1985). These statistics indicate the family-owned businesses have an utmost importance in today's economy which is leaning towards capitalism more and more.

According to Jaffe (1990), family-owned businesses make up

- Over 90% of all US businesses
- Over half the GNP
- 175 of the Fortune 500
- Employment source for 40 to 50 million people

Vision, mission and the family charter

Vision

When a family business starts, the owner has a vision of the future of the business (Jaffe, 1990). Sometimes the owner might share this vision with other members of the family. As the new member enter into the family business, they must share this vision in order to understand the core values of the business. It is important to point out that visions are not associated with just the large corporations. Family businesses must have a picture of what they want the business to be. Some of the basic characteristics of such a vision

- Incorporate and add to the shared family values
- Specify the kind of business the family is in
- How the family will do the business
- Where the family wants the business to go
- What the family wants the business to mean to others

Such vision is not just a static vision but it can grow and change as the individuals and family go through changes (Jaffe, 1990). Thus the vision that is formed by one generation may not work for the next generation. Core values and some key elements may remain the same but vision will grow and evolve as the business goes through the transition from one generation to the next generation. Vision of a family business can be formed by shared values of family members involved in the business. Family members can have some disagreement on this vision in terms of where they want to see the business in next 10 or 20 years but they can still agree on the core values of the business through mutual agreement on the critical components of the business. Thus, vision can help to get people to share what they value the most.

According to Jaffe (1990) the following guidelines are utilized to guide the development of a family business:

1. The owner can start with taking a few moments of personal reflection on where he/she wants the business to be in some indefinite future. They should let their thoughts wander while keeping away from any criticism or judgment. They will have time to assess, evaluate and amend the changes.
2. The owner then has to imagine his or her family sometime in the indefinite future when the family is operating the business while treating other members with dignity and respect. They are open to exchange of information and allow individuals to grow and develop to the highest limits of their abilities. Using such imagination, the owner should draw out as much details of his or her vision as possible.
3. Then the owner should imagine some indefinite time in the future when the family has answered most of the questions regarding the business purpose. Everyone in the business works with harmony while the business keeps growing. Employees, customers and community have respect for the business as a model of its kind. The business reflects highest values of the family. The owner imagines the best possible future for the business in as much detail as possible.
4. After this reflection, the owner should write down the major elements of this vision. He/she should identify the key qualities of this vision and then be willing to share this vision with other members of the family or the successor. At this

time it is important to resolve the differences with others in this regard as much as he/she can.

Mission

After a vision has been formed in a concrete manner, it can then be transformed into a business mission statement which is a short statement of core purposes and values of the business (Jaffe, 1990). The owner can also develop a family mission statement which expresses the family purposes and core values. A clearly written draft of the two mission statements will greatly help the issues that can arise in future. Therefore the owner should try to compare and contrast these two statements through a thorough examination and criticism of both statements. It is the right time to set priorities between these two systems. By comparing and contrasting the two statements, the owner should try to answer some of the very critical and important questions like

- In what manner do the family or the business comes first?
- What is more important? Profit or family member's well being?

Since the mission statement can be very helpful in addressing some of the major problem areas, therefore the owner should take time to thoroughly examine these statements (Jaffe, 1990). He/she should go through a couple of drafts and may talk about it with other family members to take their input as well. The owner should be open to introduce changes in these statements through the input of other family members but should try to avoid leaving any gray areas which can give rise to major conflicts or problems with the family and the business.

Characteristics of a good mission statement. A good mission statement will help the family business to address problem areas (Jaffe, 1990). Formulating a mission statement is a process rather than just a slogan to hang on wall. The family can always refer to it during times of crisis and use it as a guide. Not only to the family but it also provides help for customers, employees and the community. Here are some of the important qualities of a good mission statement:

1. Mission statement should be concise and specific. It is suggested to keep it under 100 words.
2. It should express the deep and most important purpose of the business. It should be emotionally moving and should give you "goosebumps."
3. Whenever possible, the mission statement should also be shared with any employees and get their input on it.
4. Mission statement should include
    a. What the owner wants to do and achieve
    b. How he wants to do that
    c. What the owner values and stands for
    d. The major principles behind the governance of the family business
    e. It should also address different groups like owner, management, employees, customers and public.

Here is an example of a mission statement:

Our business is about service – to family, employees, customers and to the community. We want to grow ourselves and the company in order to provide 'home base' employment base for everyone. A thriving business will create opportunities for the growth, community involvement, and fulfillment for everyone.

Family Charter

After the owner has formulated a vision and mission statement, his/her next step is to define the philosophy of how he/she will do the business while describing or listing specific rules and expectations (Jaffe, 1990). This kind of document is known as "family charter." This document will serve as a source for governing a constitution that defines and describes the family and its relationship with the business in present and future as well. Family charter lists the policies, expectations, rights and responsibilities of the family members involved in the business. A clearly written family charter is helpful for the family members to identify and explore their future by knowing what they can expect from the family and the business. A family charter is a source for providing guidelines to answer questions in areas like the ones listed below:

1. What is the family's commitment to the business?
2. What are the reasons for that commitment?
3. What are current family values?
4. What are family priorities, resources, and strengths?
5. What are the contributions made by family members to the business?
6. What are the contributions of the business to the family?
7. What are the expectations and responsibilities of family members?
8. What are the major rules for family members to be able to participate in the business?
9. How the profits or dividends will be distributed?
10. What are the main guidelines for succession and inheritance of the business?

Important Elements and Characteristics of Family-Owned Business

In contrast with other forms of business organizations, family-owned business organizations have distinct characteristics. It is important to understand the nature of family-owned businesses and these characteristics in devising a better succession plan.

The family-owned business has its own set of rules, values and methods of communication (Bork, Jaffe, Lane, Dashew & Heisler, 1996). These characteristics can have either a positive or negative impact on the business. The family-owned business system is impacted by two different worlds. One is family which involves emotional issues. The other one is business which involves rationality and results. These two systems are demonstrated by the following diagram:

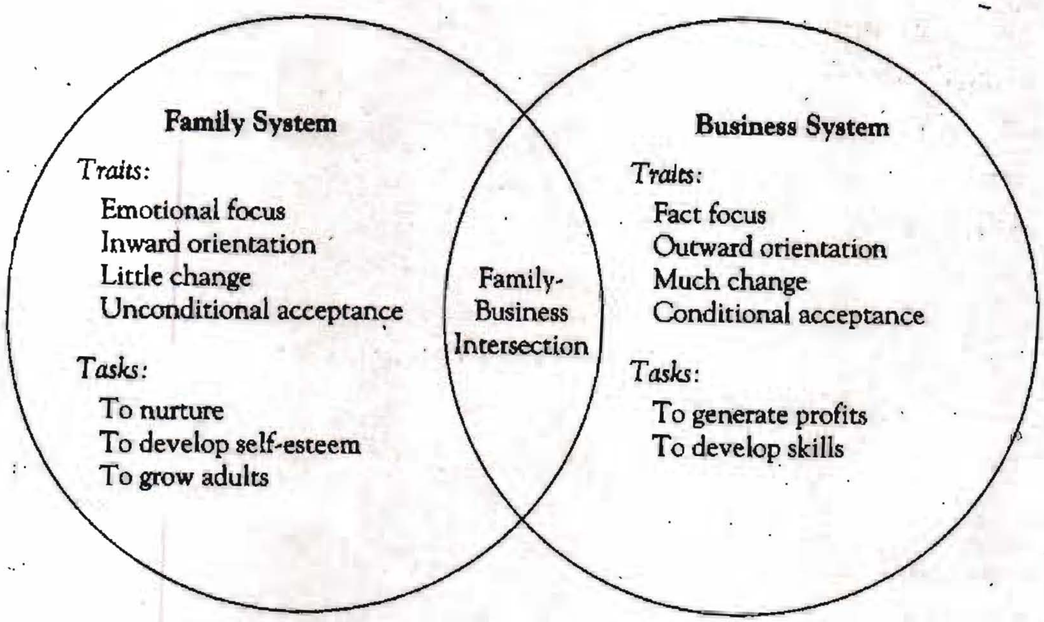

Figure 1. Intersecting Family Business System

Source: Bork, Jaffe, Lane, Dashew & Heisler, 1996, page 39

The needs and objectives of the family can easily conflict with the business system (Bork, Jaffe, Lane, Dashew & Heisler, 1996). The family relies on caring for each other while the business depends on generating profit through working efficiently in a competitive environment. Family needs can supersede the business needs in certain situations when family members expect the business system to operate on the same rules as within the family. The opposite situation can occur also. The intersection area in the circle includes those decisions that have their implications on both the family and the business.

The owner/manager of a family business has to develop a strategy that creates a balance of his/her power to exercise his/her control both internally in the business and externally in the family (Holland & Boulton, 1984,). In some family businesses, the ability of the manager to manage the business in an effective manner depends heavily on the manager's position and power in the organization as well as the family system. Such power has its influence in both directions and it determines the manager's capability of influencing family business decisions. The manager's business power is associated with his/her designation in the family business while the family-related power is derived from his/her status in family seniority or ability to influence the senior members of the family.

Jaffe (1990) also described certain characteristics of the family and business systems. He identifies the family as an "emotional support system" while business has to "produce tangible results".

The contrast between the two systems is mentioned as below:

Table 1

Differences Between Family and Business Systems

Family System	*Business System*
Raise adults	Make profit
People caring	People producing
Unconditional acceptance	Performance demands
Generational authority	Role authority
Expressive, emotional bonds	Rational bonds
Blood ties forever	Temporary relationships
Informal relationships	Formal relationships
Generational time frame	Limited time frame

Source: Jaffe, 1990, page 56

These two systems can impact or influence each other in any family business. Adding the qualities of one system to the other can have positive as well as negative impacts (Jaffe, 1990). For example, take the family system characteristics like caring for each other while developing effective and controlled informal relationships and adopting long term time frame can help to develop effective work environment in the family business. On the other hand, if the family business involves too much paternalistic authority, informal relationships and family loyalty, the business can become an oppressive and inefficient place to work. Therefore in order to have an effective family business, a family should try to capitalize on bringing the positive qualities of the family into the business while controlling or limiting the negative qualities of the family system.

The owner of the family business has to keep in mind some of the human needs that do have an important role in making the business more efficient (Jaffe, 1990). Although such qualities are not the primary focus of the family business but the owner should pay attention and address these needs in an appropriate manner. Some of these needs are listed below:

Intimacy. In a family system, people care about each other and provide their unconditional emotional support for well being of the other members of the family. As these members share aspirations, desires, and feelings they come to know each other more closely and feel loved by the other members. The demands of the business can strain caring and intimacy. The members of family can care for each other in the family business but it should not happen at the cost of the suffering of business in terms of its efficiency.

Dependency. Family members have trust in each other to take care of the other members for their welfare. This kind of trust and dependency does not happen very often outside the family system. However in the business world, dependency has entirely different meanings. It is important to have trust, commitment and loyalty in the business but these things are conditional and limited to a certain extent in the professional business world.

Power. Within a family system, parents have most of the power to make decisions while children are growing but as children become adults, some of the powers might be shared and divided. However there can be situations where power may remain with elders no matter how old their children might get. In contrast, a business needs to give power in the hands of those individuals who have the abilities and requisite skills. In fact having such a transparent but effective system within the business ensures removal of major conflicts and clear identification of responsibilities without any overlaps.

Independence. The parents in a family system teach their children to become independent as they grow up. As these children become adults, they might separate from family to start their own family and develop their personal identity which is quite a natural process. In fact, the future success of these children greatly depends upon how well their parents have provided them with training in this regard. However, if these children step into the family business, they might find it very difficult to develop their own identity where the business was initiated by the predecessor. They will have to put up with some elements that have been a part of business since the beginning and have a critical importance to the existence and growth of the business. On the other hand, the successor still has to come up with a unique style of management and dealing with the issues that is consistent with his/her personality while still ensures the efficiency of the business operations.

Growth. People in a family system grow, mature, and die. Thus, families will always have some challenges to face no matter how much they might try to keep in control or not change. Business has its own challenges in the same regard. It has to keep its growth, deal with uncontrollable elements of the external environment and maintain its existence while moving in the direction of its strategic goals. The business cycle and the developmental demands may not completely synchronize with the family system and therefore the job of family members is to be aware of such factors and maintain a balance for these two systems.

Idiosyncratic element. Most of the family businesses are idiosyncratic (Williamson, 1979). Idiosyncratic is a form of human specific asset that is attained from learning by doing (Klien, 1988; Williamson, 1979, 1981). Because of such knowledge, there is a lack of institutionalization in family businesses. This form of knowledge is individual specific instead of firm specific (Castanias & Helfat, 1991; 1992). It may only be accessed by the family members involved in the business or most trusted employees. Ultimately, the profitability and efficiency of the family business depends upon the degree of passion of such knowledge by the head of the business (Barach et al., 1988; Rosenweig & Wolpin, 1995).

Such knowledge can include

1. Important personal business contacts and networks (Bruderl & Preisendorfer, 1988; Nooteboom, 1993b).
2. Ability to capitalize on the firm's workforce, and knowledge about local conditions (Pollack, 1985).
3. Internal operations of the business (Nooteboom, 1993a).

The owner of the business might develop a network of trusted family members, colleagues, accountants, customers, local politicians, suppliers, and banks (Nooteboom, 1993b: 289). Such network might become an important asset of the family business (Bruderl & Preisendorfer, 1998). For a successor to be able to run the business successfully, it is important to get an exposure to such idiosyncratic knowledge (Barach et al., 1988). In addition to this, the successor should work in different departments of the business (Neubauer & Lank, 1998). This can help the successor to gain credibility and build a respect for themselves in the eyes of key stakeholders of the business (Osborne, 1991).

Why Is Succession Planning So Important?

Succession planning plays a very crucial role in success and survival of any business (Miller, 1993; Ocasio, 1999; Pitcher, Cherim, & Kisfalvi, 2000).Very few family businesses survive over one generation (Birley, 1986).

Many family-owned businesses have a different working environment and business operation as compared with the other forms of businesses. An example of this is lack of formalization of businesses operations or processes. Such elements make it difficult to have a smooth and successful succession when the business is transferred to the next generation. This results in the suffering or inefficiency of the business and ultimately the business goes out of profit. According to Kets de Vries (1993) 70% of the family-owned businesses go out of the businesses when they are transferred to the next generation and when it comes to the third generation, 90% of the family businesses go out of the business. This argument is further supported by the research that shows a mere 30% of family businesses survive from first to second generation (Beckhard & Dyer, 1983a; 1983b; Dyer, 1986) while only 10% to 15% survive when business is transferred to the third generation (Applegate, 1994). The expected life of family businesses is estimated to be 24 years which equals to the tenure of their founder (Morris, Williams, Jeffrey, & Avila, 1997).

The most dangerous time period during the life of a family-owned business is when the family-owned business is transferred from one to another generation (Bork, Jaffe, Lane, Dashew & Heisler, 1996). It is estimated that 85% of the crises in family-owned businesses arise from the issue of succession. In order for family business to survive and be passed from one to another generation, family businesses must address the critical problem of transferring the leadership for the purpose of continuing family ownership (Applegate, 1994; Handler, 1994).

Businesses That Survive Succession

What factors play an important role in successful succession and what makes these 30% businesses survive through the succession process compared with 70% businesses that do not survive? According to Professor David Ambrose at the University of Nebraska at Omaha there are some common key factors of businesses that survive (as cited in Lea, 1991). These factors are listed below:

1. Surviving businesses are generally perceived by the family members as financially and organizationally sound and profitable. Family members think that it is fun to own and operate such business which also meets some of their psychological and emotional needs along with providing for their living.
2. Family members are involved quite actively in the operations of the business. They are kept informed about business situation and they provide encouragement and support during ups and downs of the business
3. If the family members get prior training and experience for ownership responsibilities and management jobs, it increases the probability of continuation of the business. Before family members assume their full responsibility and authority, they can be trained through several ways which includes:
    - Formal education in business administration or relevant area

- Attending professional and specialized seminars
- Experience elsewhere in the industry
- Apprenticeship in the family business itself

4. The business is likely to be stable if the incoming family member gets a chance to earn their respect of the company employees rather than being handed over the top job on a silver platter.
5. The most important element in this survival of family-owned business is a flexible and forward looking leadership. The probability of business survival will dramatically increase if the owner carries out a thorough analysis of the business in preparing a long rang plan of succession of the business while he/she manages and monitors the transition of the business in a humane but businesslike fashion.

In above mentioned elements, the last element shows how important it is to make a comprehensive plan of transition well ahead of the actual transition of the business.

Businesses That Do Not Survive Succession

Businesses that do not survive do not fulfill above mentioned criteria while at the same time they have some common negative features which are listed as below:

1. The family members of such businesses perceive the business as marginal in terms of its revenue, profit, and efficiency of its operations and management. The business is a source of tension rather than family pride. Family members show a lower level of enthusiasm in joining the family business.
2. Succession is likely to fail when there is overt family pressure on the upcoming successor to take over the business. "Daddy's old and tired and sick, but if he has to give up the business, it will break his heart. He has done so much for you."

Such monumental guilt will force the successor to continue operating the business with the worst possible motivation.

3. Non surviving businesses do not take into account the non business needs of the successor while providing little or no allowance for their personal interests or refreshments. The predecessor thinks that his/her way of running the business is the only one to keep it going which happens to be a schedule of 16 hours a day and seven days a week. With such restriction, the business can not be marketed to next family member because no matter how loyal they are to the family, they can not sacrifice some dimensions of their personal life for the business.
4. The successor should not see the future of the business as too easy and unchallenging. He/she has should be able to realize that in order to run the business, they have to be just as smart as their predecessor was for developing and running the business. If the answer to this factor is no, then the young generation is likely to not take over the family business.
5. One of the common themes of non surviving family businesses is the reluctance of predecessor to let go of the business with his/her authority. They are tempted to stick around even after the succession has taken place and still believe that the successor has not figured out important things. This conveys a message that the successor lacks in confidence for running the business. This also shows the lack of accurate planning on behalf of the predecessor as well as their choice of timing and the successor.
6. The last but not least factor is that the predecessor decides to retire or leave the business without careful thoughts about time line. They take the decision quickly

and expect the successor to be able to run the business efficiently. Such scenarios can also occur in another way which is the accidental death or departure of predecessor. Thus there has not been any plan in place for a smooth and successful succession with careful planning and preparation for the succession of the business.

	High Probability	Low Probability
Owner-Driven	Sound and profitable business Business satisfying to run Flexible, forward-looking leadership Analysis/planning for succession	Marginal business Pressure on family members No allowance for nonbusiness needs No planning for succession Retiring owner won't let go
Family-Driven	Family members work in the business Family knowledgeable and supportive Family successors trained and experienced	Business appears unchallenging

Figure 2. Factors influencing the probability of successful succession

Source: Lea, 1991, page 12

When to Start Succession Planning

According to Lea (1991), the probability of the success of succession planning will increase if the owner starts the planning earlier. This is evident from a documentary survey of 42 family-owned businesses which showed a direct relationship between the continuity of family-owned business and planning lead time. From this sample of 42 companies, 14 companies initiated a succession plan 10 years or more before the actual transition of the business. Twelve of these companies made the transition successfully which accumulates to 86% of companies starting the succession plan 10 years or before.

In the same sample, eight companies started the succession plan less than two years before the actual transition (Lea, 1991). Six of these companies failed to survive for 15 more years. These companies either got broken or were sold out in pieces. This was a result of poor management in the business organization. The other 22 companies started the succession planning between two to 10 years prior to the actual succession. The survival rate among such companies was almost 50%. Among these companies, the one that survived started the succession planning earlier than the other companies.

The above data and analysis shows that earlier the owner initiates succession planning the more likely is the business to survive after the succession. Some authors have tried to define this planning time period with more accuracy (Lea, 1991). They have either advised to start planning before a certain number of years or according to the age of the successor. However, it makes more sense to initiate such planning when the owner of the business realizes that business has gotten a sound and strong footing and will be able to maintain its existence and growth in future.

Some of the owners of family-owned businesses see succession as an event rather than a process (Bork, Jaffe, Lane, Dashew & Heisler, 1996). They forget about many of the important things that have to happen before the actual transition of the business and expect the succession to be successful through an overnight transition of the business.

Important Aspects/Elements of Succession Planning

As mentioned before, the owner of a family business has to develop a comprehensive and well thought plan in order to increase the probability of the success of succession. According to Lea (1991), there are several characteristics that a good succession plan has to have in order to be effective and efficient. Some of these characteristics are mentioned as below:

Objectivity. Since the owner of the family business has spent a lot of effort and energy in establishing and running the business while providing the material needs of his/her family therefore the owner develops an emotional attachment to the business. This can very easily cause the owner to start making the decisions with his/her heart instead of head. Therefore, the owner of the business should realistically think when he/she sets the reward or salary of the successor. The owner might be tempted to set a higher reward or salary for the successor because of the emotional element. This can put extra burden on the business which may not be able to afford high set reward. The owner of the business should consider the open market conditions for running such a business. This would mean taking into account the fact that if an experienced executive is hired for the same position, what salary and benefits would be offered to such a candidate.

The owner of the family business might have unrealistic expectations from the next successor (Lea, 1991). He/she might see the next successor coming into the business with extra ordinary results. This can mean that the successor will run the business through managing operations efficiently while taking bold decisions, having excellent strategic plans and maintaining solid financial conditions. The reality might be different where the successor performs good in some areas but still has a different style of management in other areas because of his/her personality traits. Therefore a good succession plan should capitalize on the actual strengths of the successor by analyzing his/her personality and then set more realistic expectations.

Planning realistically. A well thought succession plan is supported by the fact of how realistic it is. This is an indication of the effective pre-planning analysis. This analysis will have some characteristics mentioned below.

1. Determination of some family and business facts that are crucial to the success or failure of the family business.
2. Identification of the family members who possess the required skills, talents and competencies in order to perform as the future leader of the family business.
3. Assessment of the required training and qualifications before being given the responsibilities as the manager of the business.
4. Development of a smooth plan that will help to transfer the power, responsibility and benefits to the successor.

Planning realistically includes taking into account the expected future growth of the business and then taking certain decisions with respect to the succession (Lea, 1991). If the owner wants to expand or diversify the ownership of the business then he/she should make sure that the future of the business will support that number of owners and will pay some dividends. Otherwise, there will be continued conflicts of interests and periodic pitched battles that will harm the management's ability to control and smoothly run the operations of the business.

Planning strategically. The succession of family businesses is greatly affected by unpredictable human choices and behaviors. Therefore, planning strategically for a family-owned business involves more complexity. However, the owner can clearly layout the long-term and short-term goals of the business and then develop a series of actions that will ensure the attainability of these goals. The process and rationale for such a strategic plan is almost the same.

Stating clear goals. It is very important to state the succession goals very clearly and precisely because this directly effects the probability of the success of the succession. While stating these goals, the owner must answer the following three questions:

1. What are the needs of the business under the next management?
2. How those needs can be met?
3. By what time or when those needs should be met?

If an owner has the succession goal of having the business keep making profit under the management of the successor then he/she needs to clearly describe the meaning of some ambiguous terms like what is meant by profit. The more clear and detailed such goals are, the easier is to determine the degree of success of the succession. An example of such goal can be "Following my retirement, my daughter will become the chief executive of the company with 52% shares of the company."

Setting priorities of the goals. After the owner has stated the goals clearly, it makes perfect sense to prioritize those goals. It is very natural for the owner to set higher priority for goals like ensuring the control of business operations and benefits. However, the owner has to remember that controlling certain areas of the business will do no good if the business is suffering and threatened for its survival or existence. Therefore, when prioritizing these goals, it is important to remember to set higher priorities for the continuous growth and profitability of the business.

Listing actions to meet goals. Each of the clearly defined goals must be followed by a series of actions that will help to achieve those goals. Again, just like these goals, the actions should also reflect the element of a realistic image of the situation. Such elements should be free of inaccuracy caused by unpredictable human behaviors and choices. For example, the choice of a certain life partner can not be incorporated as a keystone in succession process. A couple of examples of such actions can be as follows:

"A committee of department heads from finance, marketing and operation will meet on weekly basis to advise of the smooth transition of the business to the successor."

"A financial management consultant will be brought in to advise on the tax issues related to the succession of the family business."

Right timing. Choosing the right time is also an important characteristic of a sound succession plan. It is the job of the owner to put different actions and anticipated events into a logical sequence that takes into account the critical variables and elements of the business operations. If this sequence is not right then it will lead to confusion, loss of time for replanning, or even disaster.

This logical sequence of events should be realistic. For example, the successor should not be expected to head the financial transactions with mastery just after joining the business in a couple of days. Rushing towards certain objectives can lead to critical problems in the operation of the business under the management of the new owner of the business.

Problems in Succession

Family businesses are different from the traditional businesses in the way that they are owned and controlled by the family members therefore they can easily be influenced by such family members (Davis & Harveston, 1998). Due to the potential of influence by family members, family businesses face many problems that are unique to them but not found in other traditional businesses (Davis & Stern, 1980; Handler, 1989).

Most of the businesses that go through the succession process of transitioning the business from one to another generation have similarities in terms the nature of different kinds of problems that they face. It is important to be aware of such problems and plan ahead of time to address these areas in order to come up with a sound strategy of succession plan for the business. Some of these problems are discussed below.

Successor decision to join the business. Many successors join the family business almost unconsciously without having a strong sense of why they are involved in the business or where they are going (Jaffe, 1990). They do not give much thought to the idea of other alternatives. Many times they either leave from another job or simply do not have a job. This contributes to the lack of commitment and devotion to the business for which the predecessor has put in so much energy.

The successor has to make sure that he/she joins the business with a positive commitment and a clear, conscious knowledge that the decision they make is the right one rather than realizing a decade later that they are burnt out and find themselves asking

"Why I am here?" Therefore, while making such decision, it is important to stay away from emotions that might ignite a wrong decision.

Successor's grooming in a family business. The successor grows up in a family business environment where he/she feels that problems, joys and reality of business hover over the household. Business seems to have number one priority. This makes it difficult for the children to develop their personality and find themselves within the settings of the family. Sometimes they feel neglected and find it hard to have the attention of the parents.

Struggling for personal identity is always painful but it is especially true for a family business. If the successor can not match the role of a perfect leader and the now-idealized achievements of dad, he/she is considered as a failure. On the other hand if he/she thrives then some people can make argument that the whole thing was handed over to the successor by the predecessor.

Coping with inherited wealth. The inherited wealth for a young successor can be burden as well as a gift (Jaffe, 1990). It is fine to earn money from your business but not to have money from your family. A recent article on "affluenza," the struggle for identity among people born into wealth and status, talks about the costs, benefits and parameters of the struggle to forge an identity when someone is handed over a lot of wealth in inheritance through a family business.

John Levy, a consultant who works with heirs of family businesses, mentions that such phenomena of inheriting wealth can cause significant psychological distress in the heir through infantilizing him/her. He describes it as a syndrome where an heir has a hard time having a sense of their own capacity, a sense of meaningful commitment, or an ability to come to terms with who they are and what they want to do.

Quite often the heirs get involved in drugs, confusion, or destructive relationships unless they are able to deal with their inheritance in a positive manner. Other times they feel deprived of the opportunity to make it themselves, because of the success of the parents or grandparents.

Entrepreneur's dominant personality influence. Most of the time, the entrepreneur has a vision for the business and he is used to having his or her way. The successor finds it difficult to come to terms with his/her powerful personality. The entrepreneur sets the tone of the household and also defines what is important. It seems obvious that he/she has a hard time listening to others. The successor thinks that his/her relationship with the predecessor was more lectures than exchanges.

Many times the successors find themselves in a never ending cycle of always yielding to the approval from the "dad." They think that they will get that approval once they take on the business but it does not happen and the cycle of invalidation continues.

Business value. Family's money can put a coercive pressure on the successor to go with the family business. The successor feels threatened by the withdrawing of money in scenarios of not continuing with the business. He/she also feel attracted by the starting salary for a person of his/her age compared with other available alternatives.

Clash of values. The successor is not the entrepreneur as his/her parent has been. The business was started by the entrepreneur who has a certain vision of the business. As the successor joins the business, the family ways of doing business can become a painful burden. Even though the successor might have his/her own direction but he/she will still be expected to continue the family tradition. Some successor think that they are strictly bound by such boundaries and business is known by these already set limits and they wish if they can do more anonymous. For successor, the business has always been there and the most critical decision that the successor made was to join the business.

The American business is being redefined by the new generation of business leaders. These "kinpreneurs" who elect to move in management positions and become owner/managers differ profoundly from their parents, who were children of Depression, World War II, and the fifties. The baby boomers bring a new set of values to the work place. They have been educated more broadly both in school and work/life experience. As they join the family business they face challenges like

- Heightened competition
- Pressure to increase productivity
- Cut costs
- Defining a strategy on global scale

The shift of new generation's workplace values causes a battle of conflicting values with the old generation. Thus the predecessor and the successor have a continuous fight over business innovation in the workplace and when it comes to family business, the battle becomes more personal and difficult. Some of the qualities of old values and the new vales are listed below:

Traditional business

- Business was patriarchal, generally passed to the eldest son.
- Founder would keep the power and control until the time of his/her death.
- Business cycle and operations were more predictable and slower.

- Women had a role of more of a helper while keeping at home and men worked in business.
- Issues were dealt with in a silent and secrecy manner while avoiding any direct discussion.

Today's business

- Successor can be any member of family like son, daughter, in-law, or outsider.
- Succession can occur during the life of predecessor.
- Business goes through continuous change and pressure that demands more efficiency in business operations.
- There are different goals and values for the business, work, and life.
- Women have an active role in both home and work place and likely to have influence in management of family business.
- It is very important to communicate and share the values, feelings and issues to the family members in the business.

Differences such as the one mentioned above are too often acted out as a battle for control over which way is right or wrong. Even though the new generation expresses their feelings more frequently in the business dealings, still it does not support the idea that one way is better than the other.

Family nepotism. Many times families hand over their family business to their offspring because of nepotism (Barach, Gantisky, Carlson, & Doochin, 1988; Beckhard & Dyer, 1983). However, it should be noticed that nepotism can cause serious problems for the family business (Pollak, 1985). This nepotism is not in the interest of the firm's shareholders (Barach et al., 1988). Such focus of the family while transitioning the business to next generation is likely to introduce irrational approach while being blind about the real picture of the business. This makes the succession very vulnerable to serious problems and ultimately leading the organization to be ineffective and business to fail.

Building the Next Successor

It is important to market the family business to the next generation. However these children grow up in an environment where they have been listening about stories of work environment in the family business (Jaffe, 1990). If the predecessors have been making comments about the stupidity of employees working in the company then the successor is likely to resist for joining or becoming a part of the business. Therefore, the owner has to realize what messages he/she is giving about the business to the next generation and how such messages will motivate or demotivate them from becoming a part of the business.

Involving successor in business early. The Marriott family involves its heirs in the business in early stages. Bill Marriot started going to business trips with his father when he was eight years old. In his teens, he started becoming part of the operations of the business. This way children can be taught to associate pride and achievement with working in the business. They get the chance to understand what their parents are doing in the business. Contrary to this, if the children hear about stealing by employees, customers not paying, and government taking every penny from the business but they do not get the chance to see the business then it is easy to imagine the sense that they will develop about the business.

Sharing business information. In some cases, the owner tries to keep his control on the business by keeping the information only to himself or herself. They find it hard to share the information with anyone. This keeps the successor generation in isolation while he or she knows nothing about the different aspects of the business. If the owner shares the information in an appropriate manner this can help the successor to be able to relate to the business as he/she grows up.

Jaffe (1990) talks about his friend John Connelly who took custody of his three sons after the divorce. He would talk with his sons on the dinner table about what has been going on in his furniture business that day. This seemed to also provide enjoyment along with the learning for his three sons. The result was that each son entered one of the family business after their college. His middle son Steve works with his wife in the family furniture store while the other two sons joined another family business recently started by John.

Heirs' personal identity. It is important to realize that heir must establish their own separate identity in a way that their leadership style can be distinguished. Some heirs might try to create their identity which is in conflict with the predecessor. For example, the grandson of R.J. Reynolds worked for a company against smoking. Similarly John Robbins, the heir of Baskin Robbins ice cream is a critic of processed food. Other people might find different ways of doing the same thing. Robert Kennedy's son worked for a decade to create alternate energy company in Massachusetts before he joined family business of politics. Similarly, president Bush created an oil company before entering into the politics.

Successors who fulfill themselves while doing well with the inherited business, create a new business from the old one. The technique is to come up with a new challenge, see a new initiative or select a new task. Fortune ran a cover article about how some CEOs did not give more than a modest inheritance to their children until they were of middle age. They wanted to give a chance to these children to create their own identity.

Psychologist Jody Barber, who is an expert in the area of providing counseling for personal relationships to money, mentions four factors that can describe the heirs who are able to come to terms with their inheritance. These four factors are mentioned below:

1. Heirs have role models or mentors and they can talk to them about their personal feelings or dilemmas.
2. They have a chance to choose their own professional advisors. Thus, they go through the process of creating their philosophy and methods of investment.
3. When these heirs face a specific question about a situation, they can take the help of a supporting group of peers. There are networks of inheritors formed around the country who work on personal struggles as well as ways to define a socially responsible approach to investment.
4. The heirs realize that work is not to just to make money and they find ways to contribute to the society. They can make these important contributions through a number of ways like finding a new meaning or reason for commitment to the family business. Thus if they did not earn their fortune, they can still use it a productive and meaningful manner. (Jaffe, 1990)

Process Model of Succession Planning

Davis & Harveston (1989) presented a process model for succession planning of family businesses. This succession planning process model has four major levels as listed below:

1. Individual level
2. Group level
3. Organizational level
4. Resource level

Individual level. The individual level examines how certain demographic characteristics of the owner/manager can impact critical organizational processes (Hambrick, 1989; Helmich & Brown, 1972). Such demographic characteristics can include owner's age, education, financial stake etc.

Owner/manager age. The older the owner will be, the more comprehensive the succession planning will be. There have been several studies examining the role of owner/manager and the organizational impact on the work environment. Pfeffer (1983) argued that the demographic composition of organizational leader can impact the managerial succession. According to the research, older business leaders are more risk averse as compared with the young leaders (Carlsson & Karlsson, 1970). The commitment of an individual also increases with his/her age (Becker, 1960).

Owner/manager education. There is not a lot of research on examining the owner/manager education and training in relation with succession process. However, some studies have found a positive relationship between owner's education and the ability to innovate (Kimberly & Evanisko, 1981). Other studies have found a relationship between owner's education and implementing changes in the organization (Datta & Guthrie, 1994). Yet Seymou (1993) found that there is no relationship between successor training and formal succession planning. However, he did not investigate the impact that the educational level of the owner will have on the successor training or the succession planning.

Owner/manager financial stake. The discussion on the relationship between a manager's ownership and consequent commitment to the organization suggests that family business owners want to see the business succeed while having high intentionality in terms of their level of commitment (Cyert & March, 1963). Davis (1982). Marino and Dollinger (1987) studied some computer firms and found that manager's financial stake plays an important influential role in the succession decision. Thus it is logical to say that as the manager's financial stake increases in the family-owned business, he/she is likely to create a more extensive succession plan while keeping close tabs on different variables associated with the succession like the choice of successor, training methods to be used etc (Davis & Harveston, 1989).

Group level. Group level describes how certain family members who are actively involved in operations of the family business, by dint of their functional or occupational roles, be part of the family business's "upper echelon" (Bluedorn, Johnson, Cartwright, & Barringer, 1994). Therefore such member can be very influential in the process of choosing and preparing the next successor. Even though different family members may not hold a specific designation or positions of influence yet they can greatly influence the succession process via "kinship responsibility" (Price & Mueller, 1981). The underlying assumption of such kinship responsibility is that relatives who live in the same community and work together are more likely to be involved in family matters (Iverson & Roy, 1994, p. 25). This phenomena can even cause influence of those family members on the family business who are not directly involved in the family business.

Some management experts have argued that the family involvement in a business can be antithetical to effectiveness of business practices (Parrow, 1972; Dyer, 1994). There can be a contrary argument to this by saying that family members are more likely to trust each other than the unrelated individuals and therefore it can give a competitive advantage to the firm (Davis & Harveston, 1989). Keeping this aside, family business owners are still more likely to employ family members in the business and such a decision can have influence on the owner/manager, the business, and the family.

There is some evidence that suggests that as the number of family members increases in the business so does their influence in the family business. Thus, family members can play an important role in decision making processes of the family business (Gundry & Welsch, 1994). There are two things that can monitor the influence of family members in the business which are

1. Number of family members employed in the family business
2. Number of family investors

As the above two mentioned number will increase the family business will become more "family intense."

Harvey and Evans (1995) found through their research on family succession that appointment of new business leaders in the family business needs to have an approval from various stakeholders, including key employees and family members. The same stakeholders will also have a great influence on the transformation process of the family business through the succession. It is important to note that the insider, managers who are family members, are more involved in ensuring the maintenance of cultural foundation during the succession compared with other stakeholders (Beckyard & Dyer, 1983; Dyer, 1986).

Burt (1992) notes that the managers take part in a variety of interpersonal groups for some major domains of life. Owner/managers exert their influence on the family-business relationship because they are at the connection point of these two social networks (Carroll & Teo, 1996). As the two social networks will overlap with each other, it can cause a greater pressure on the owner/manager of the family business (Reynolds, 1992,). It happens because the family members involved in one social network (family business) get their power reinforced through the involvement in the other social network (family relationship). If such membership is higher in terms of hierarchy then such a person will have greater influence on important organizational decisions like succession decisions. Thus a person with a close family relationship and high managerial position in the family business can exert tremendous influence on the succession planning process.

Organizational level. There are two major organizational level characteristics that can impact the succession process: size of the organization and formality of organizational processes. These two are described below.

Most of the time, family businesses are thought to be small scale businesses. However, there are some family businesses that are among the largest companies e.g., Cargill, Ford, M&M/Mars (Litz, 1995). In the case of large scale organizations, the succession planning can be more extensive as compared with the smaller organizations.

There are certain features and resources in larger organizations that provide them an edge for developing executives. They have access to more opportunities for training and developing their top management personnel which will make their training program more complex and in detail compared with small organizations (Helmich, 1977). Larger organizations can also hire the services of professional advisors or consultants to get assistance in their succession planning (Chaganti, Chaganti, & Malone, 1991).

Such factors as the one mentioned above enable the large organizations to have more qualified and experienced candidates as the potential successor of the business. Smaller organizations that might have competent potential successors might still lose such a candidate because of the potential development and growth in career in the larger organizations.

There has been some research done in order the find the relationship between structural dimensions of organization (e.g., centralization, formalization) and the futurity and formality of planning behaviors (Rue, 1973; Robinson & Pearce, 1983). Contrary to the other forms of businesses, family businesses lack in having a formal structure to organizational processes and functions.

Owners' reluctance to formalize the organizational processes often tremendously affect the success of the family business (Kets de vries, 1977). Barach (1984) noted that some external resources that have influence on the organization can be of some help to introduce formalization and structure in the family business. Stakeholders like the external board of directors may push for the need to have formal and structured process for deciding the future direction of the business. Thus, it is logical to assume that the formality or structure of processes will help to increase the extensiveness of the succession planning.

Resource level. As the family businesses prepare for the succession, they should consider the sources of funding which include both internal and external sources (Davis & Harveston, 1989). Most of the time, family businesses rely on internal sources of funding such as the funds provided by the family members. It is expected that the resource availability and the sourcing will have a positive impact on the extensiveness of the succession planning.

Access to capital enables the organization to maintain its growth. Family businesses are normally less likely to gain access to external capital (Kets de Vries, 1993). In order for family businesses to be able to use such an advantage, they must adopt a strategy that makes them attractive for external sources of funding. Thus, having a clear succession plan will help the family businesses to achieve such an objective. This will build up the trust of resource providers while ensuring the consistency of business and achievement of family objectives.

Research shows that family businesses that have family investors and family employees have a greater concern for the growth and survival of the family business (Gundry & Welsch, 1994). As the family adopts to the role of providing more and more of the capital sources, they will exhibit a greater tendency to have a comprchensive and more extensive succession plan which can ensure the growth, survival and continuity of the family business.

Defining Successful Succession Criteria

In order for any business to decide about the degree of success of a succession process it important to set the succession goals so that in light of these goals the succession process can be evaluated. Some guidelines being provided to set such a criteria and assess the success of a succession process.

As we try to set this criteria, we treat the succession as a change in the organization and then analyze whether the organization is being effective after this change. Effectiveness can be defined as the degree to which an organization achieves its goals (Daft, 2001). Using this definition, the current owner can set a criteria that will check the effectiveness of the organization in different areas. Depending on the size of the organization and the complexity of its operations, this process can be divided into two different approaches described as follows.

Simple criteria for analyzing the succession. In this approach, the sole proprietor can develop a simple list of indicators that can monitor the performance of the business in important areas. The sole proprietor can use one or a combination of such indicators. Some of these indicators are as below

- Profitability
- Number of sales
- Number of orders / Customer inquiries
- Financial assets and liabilities
- Product quality and reliability
- Growth
- Market Share

A complex and more systematic criteria. In this approach, the sole proprietor analyzes the operations of the business in more detail before setting up the criteria for successful succession. After this analysis, the sole proprietor defines the criteria for successful succession in more detail. In the analysis part, the sole proprietor examines different factors of the business in the following three categories:

1. Input
2. Process
3. Output

The sole proprietor may choose to use only one or two of these categories. However, it is suggested that the owner should use all three categories in order to set a more comprehensive criteria for analyzing successful succession. Daft (2001) describes these kinds of approaches as

- Resource based approach
- Internal process approach
- Goal approach

The match of these categories with the above mentioned categories is illustrated by the following diagram

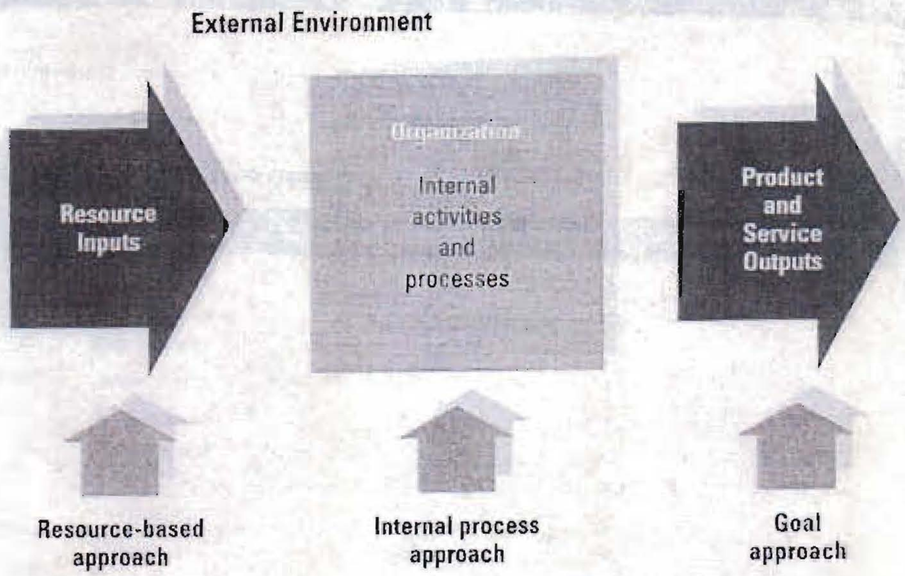

Figure 3. *Measuring organizational effectiveness*

Source: Daft, 2001, page 65

Harrison and Shirom (1999) describe the same process while mentioning multiple items under each category and giving specific examples of such indicators. There is one more category mentioned that relates to the assessment with respect to multiple stakeholders. Thus these four approaches along with specific examples are described as below:

Output goals. The sole proprietor should clearly define the output goals of the business and what needs to be accomplished as the overall objective of the business. The sole proprietor has to add appropriate details to these goals with respect to the quantity and quality of the output. Criteria based on output in terms of quantity can include items like productivity, profit, revenue, etc. Criteria based on output in terms of quality can include product reliability, customer satisfaction, number of errors, or faulty products etc.

Internal system state. Internal system state includes the domains related to internal operations of the business. These domains can include

a. Operations efficiency and cost, including items like wastages, cost per unit of output, etc.

b. Human/employees outcomes includes items like quality of work life, employee health and safety, organizational image, etc.

c. Continuity of work and information flow includes work coordination, accurate and quality information, and easy and timely access to the required information.

d. Employee involvement and interpersonal relations with the employee can include employee empowerment, ability to input in critical decisions, and ability to incorporate creativity and efficiency.

System resources and adaptation. System resources and adaptation refer to the input resources, which are considered in terms of the size, quantity, quality, efficiency etc. Both the tangible and intangible resources must be taken into account.

a. Resources – quantity. Examples include size of employees, physical, financial and capital assets. Flow of resources like budget allocations

b. Resources – quality. Examples include training and experience of work force, staff reputation, knowledge base, etc.

c. Adaptation. Examples include ability to deal with external changes and uncertainties, crisis management capabilities.

d. Proactiveness. This can include the impact of the business on clients, competitors, suppliers, regulators, etc

e. Innovativeness. This refers to technological and administrative innovation in order to implement new ideas, techniques or trends.

f. Legitimacy. This includes the support by community and by public agencies or regulators, compliance with the standards set by legal, professional, and regulatory standards.

g. Competitive position. Business comparison and contrast with the competitors i.e. market share. Business reputation for being a leader in the particular business or industry.

Multiple stakeholder assessments. This refers to making an assessment from the point of view of different stakeholders. These stakeholders include owner, employees, customers, creditors, community, suppliers, and government.

a. Standards. This refers to assessing the business with respect to different standards set by the stakeholders. Different stakeholders can have different views on these standards therefore those standards should be selected that are crucial to business and commonly agreed upon by different parties.

b. Satisfaction. This refers to the level of satisfaction by different stakeholders on each of the standards. These individual standards can add up to analyzing the overall level of satisfaction with the business.

By using the above mentioned four categories, the sole proprietor can narrow down the specific criteria that he/she can use in order to determine the degree of success of the succession. The sole proprietor can choose the relevant items in each of the category that he/she thinks are the most important. It is highly suggested that when finalizing such criteria, the successor should be made aware of this criteria. The mutual agreement of predecessor and the successor will make sure that no major conflicts arise when assessing the succession which could generate strong difference of opinion on how business should be run in order to be successful.

On the other hand, by defining this criteria in specific terms, the successor will be aware of the expectations from running the operations of the business which will direct his/her effort into the right direction and protect the resources from being used in wrong direction or unproductive activities. It is also suggested to keep the criteria in the same form as above mentioned four categories which will help to keep it clear and organized for involved parties.

A Hypothesized Model for Succession Plan

Based upon the discussion in literature review, a hypothetical model for the successful succession of sole proprietorship family-owned businesses is presented. The purpose of the development of this model is to provide a comprehensive guideline for the family-owned businesses which they can use as a roadmap for a successful succession of their business. As suggested by some previous researchers, the succession plan should not look like "Ten Commandments." It should rather look like a process of sequential and logical steps that would make sense with any business irrespective of certain features of the business like size, number of employees, etc.

The succession planning model is broken down in three major categories. The categories will help the owner to take certain actions depending upon where the business lies currently in the succession process.

Therefore, the model outlines the steps under the following three categories

1. Before the succession takes place
2. During the succession process
3. After the succession has taken place

The model is presented below and following are the details for each of the steps involved in the process.

#	*Before the succession takes place*	*During the succession process*	*After the succession has taken place*
1	Business Description	Adjustments for detour	Performance Evaluation
2	Business Analysis	Directing, controlling and alignment	Backup sources of information
3	Family and Business	Mentoring through simple exercises	Strategies for current trends
4	Dealing with taxation issues	Performance Evaluation	Succession Analysis
5	Succession Goals		
6	Succession Decision		
7	Successor choices		
8	Successor training needs		
9	Training the successor		

Before the succession takes place. The owner of family business should realize that succession is a process not an event. Therefore they should not think that it can be performed overnight in a quicker manner. Even though they don't see as the succession taking place in near future, it is recommended that they should have such a plan in place in case of scenarios like the accidental death of the current owner. Each of the steps should be accompanied by a time line.

Following are the actions that should be taken before the succession has taken place

1. Business Description

Define the business in terms of its

a) Objectives

b) Mission

c) Strategic Goals

d) Organizational Structure

2. Business Analysis

Analyze the current situation of the business in terms of

a) Major current competitors

b) Market position

c) Critical reasons for the success of the business

3. Family and Business

Describe the family and its relationship with the business. This can include a formal description of

a) Family members that are involved in the business

b) Designation of family members

c) Area of responsibility of each family member

4. Dealing with taxation issues

While the succession of any business takes place, it should always be remembered that the taxation issues can affect the succession tremendously. Since the rules and laws with regard to taxation are very complicated and technical therefore it is recommended that the owner should contact a good financial consultant and explain the consultant about prospective succession options. The financial consultant can then give his/her input to how the taxation issues should be dealt with. It is quite possible that the consultant might have to be involved in the later steps of the succession process. (Waldo, 2004)

5. Succession Goals

The owner should describe the outcome of a successful succession. This might seem simple but it is very critical to the succession process (Bufalo, 1999; Lea, 1991; Dyer, 1986; Herbert & Gregory, 1998). The owner should compare and contrast the succession goals versus personal goals. For this purpose it is suggested that the owner must clearly think about his/her personal goals and document these goal in a formal manner. The owner has to answer the questions like "Does he/she wants the business to keep doing the current level of sales by retraining the customers?" or "The business has to produce a certain Return on Investment (ROI)"

6. Succession decision

In this step, the owner has to critically analyze the decision of keeping the business in the family. He or she should consider the options like selling the business to a third party versus keeping the business in the family. The owner has to carefully analyze the financial and emotional aspects of the business before thinking about the next successor. The owner's experience with the business can make a significant contribution to such a decision. (Herbert & Gregory, 1998; Waldo, 2004)

7. Successor qualifications

The owner of the business should list the business needs honestly and objectively. This list will give an idea about the required qualifications of the successor. The owner should try to describe these qualifications in as much detail as possible through dividing the qualification in categories like education credentials, specific experience and special training courses. (Herbert & Gregory, 1998)

7. Successor choices

Once the owner decides to keep the business in the family, he/she should

a) List all the possible options for the successor
b) Analyze each of the options according to their abilities and competencies
c) Rate each of the options according to the required competencies of performing the critical operations of the business
d) If any family members have already been working with the business then the owner should also take into account their performance and potential for being a successful successor.

As a special note in this process, it is recommended that the owner must analyze the personality traits of the successor carefully and make sure that they agree with the required leadership skills of the business. This phenomenon can be crucial towards a successful succession.

8. Successor training needs

After a successor has been chosen, the owner must

I. List and describe the competencies required by the next successor of the business in specific areas like

   a. Management knowledge of the business

   b. Required public relations skills with respect to customers, suppliers and investors

   c. Knowledge of business functions like Marketing, Sales, Finance etc.

II. Assess the current level of abilities of the successor in areas like the one mentioned above.

III. The difference between I & II will give an idea of the training needs of the successor i.e. "II – I"

10. Training the successor

According to the training needs of the successor, owner must set up a comprehensive training schedule for the successor along with a time line. Since this step is very critical to a successful succession, therefore a well outlined training program in the light of detailed training needs is essential. There must be well balanced evaluation of each training phase along with coaching of the successor which will ensure the achievement of required competencies of the successor. The direct involvement of the owner in training and mentoring process can greatly affect the efficiency of the training phase. (Jaffe, 1990)

11. Communication Plan

The owner of the business should put together a communication plan that includes all the major stakeholders. These stakeholders need to be informed about important aspects of the succession taking place especially in the areas where they might have to work with or deal with the successor. Employees and related customers are critical in this regard. They need to be updated about the transfer of authority to the successor in order to keep the operation working smoothly. This plan should also include the regular meetings between the related personal to keep a close supervision on the advancements and achievements of the succession process.

During the succession process. While it is essential to have a comprehensive succession plan before the actual succession process starts, it is equally important for the owner to mentor certain activities during the actual succession. Some of the major actions to be ensured during the succession are as follows:

1. Adjustments for detour

One of the important things to remember during succession process is to be prepared for unforeseen circumstances. People can change their mind and things can take unexpected turns due to accidents. Therefore the owner has to be ready for such scenarios and make the adjustments accordingly. However such minor things should not change the overall course of action and there will be still a chartered course or road map to follow with the overall objective be still the same. (Lea, 1991)

2. Directing, controlling and alignment

The current owner will also be expected to issue certain directions and control the process according to the succession plan. The current owner will have a good idea about the outcome of certain activities. Therefore if outcomes deviate from the planned activities then he/she will have to perform controlling function or alignment in order to keep the process within reasonable specifications. (Smigel, 2003)

3. Mentoring through simple exercises

It is suggested for the owner that he/she should use a simple exercise method to help the successor to develop the required skills of the business. In order to do so, the owner can create simple exercises or games like a simulation of the actual business operations i.e. managing a certain module of the business according to its finances. The owner can closely monitor the actions of the successor and make sure that he/she is following a sequential and logical process. The owner can watch for the crucial points or aspects of the business to be learned from the activity and keep them like a check list. (Herbert & Gregory, 1998)

After the succession has taken place

1. Performance Evaluation

The owner of the business will have to perform periodic evaluation of the successor according to the succession plan. There should be specific actions to be taken appropriate to these evaluations. The owner can also associate any kind of reward based on these evaluations. The owner can also plan on alternative actions or detours for special circumstances.

2. Backup sources of information

In many businesses, when people leave the organization then the successors have a difficult time in finding crucial information to the operations of the business. The owner has to develop a list of reliable and accessible sources of information that the successor can access during certain circumstances. The owner must make sure that these sources cover all of the major areas of business operation that can affect the continuity of these operations.

3. Strategies for current trends

As the next successor takes hold of the business, he/she is expected to implement strategies that will help the business to keep up with the latest trends and business practices i.e. use of new technological developments in business operation such as modern machinery/equipment or use of web based tools. The owner should closely monitor introduction of such strategies in the business by the successor and make sure that they align with the business operation in such a manner that they improve the efficiency of the organization while at the same time having to contradiction to the business philosophy of the organization.

4. Succession Analysis

The owner has to perform a periodic analysis of the succession based on predefined criteria. He/she should discuss this analysis with the successor and address the issues or concerns with the successor in a one to one meeting. The owner can also coach the successor for dealing with these issues wherever he/she feels it necessary. The owner should make relevant notes to this process and keep that as part of the business so the successor can take guidance from these notes when passing the business to his/her next generation.

5. Letting it go

Finally the owner of the business needs to realize that it is important for the successor to take full charge of the business in order to develop his/her confidence and create his/her own identity. Therefore the current owner has to let the successor take the control of the business. It is very natural for any owner to resist for letting this control go off his/her authority. After understanding the importance of this issue, the owner should put together a simple plan for this item. Putting a plan together will give a road map to this item and will help to predict or foresee the future circumstances and outcomes. The owner should decide about the appropriate control that needs to be transferred and the deadlines to keep the process on track.

A proposed template was developed from synthesized literature (Appendix C).

Chapter III: Methodology

This chapter details the steps involved in information collection procedure while detailing about the sample selection and the criteria used for the subjects. The objective of the study was to explore the key elements/major areas that should be addressed in a business succession planning process of a family owned sole proprietorship business.

In order to find those key elements, a phenomenological study methodology was used. In this study, both the successful and the non-successful cases of the succession of family owned businesses were studied. Through an interviewing process of these cases, common themes were located that resulted either in successful succession or the failure of the succession of the family business. Using these themes, those critical elements were determined that can be critical to the success or failure of the succession of the family owned business.

Following is an overview of the sequential steps that were undertaken in this study:

- Specific outcomes and products of the study were decided in coordination with research team members from STTI.
- A detailed succession plan and its template were developed through the study of related literature and other information resources.
- Interview structure and questions were determined for both successor and successes with input from research team members.
- The sample of family owned businesses were identified through contacts with research team members, faculty/staff, graduate students, and Executive Directors from Chamber of Commerce within each of the communities.

- Majority of the interviews were conducted over a five week period, one to one with semi structured interview format with some conducted by telephone.
- Each interview followed a protocol utilizing the established questions with each interview lasting less than 45 minutes.
- Interview scripts and notes were checked against tape recording for completeness and accuracy.
- The scripts were processed and coded into themes. The information was then organized into categories of prior to, during and after the succession planning process to identify a proposed succession planning model for family owned businesses.

Subject Selection and Description

The following criteria was used to select the sample of family owned businesses that were interviewed

- Family owned businesses that were interviewed were small /medium scale sole proprietorship businesses.
- The total sample interviewed consisted of 18 Successors and 15 Successes from 18 different family owned sole proprietorship businesses.
- The sample included a mix of different kinds of business sectors representing i.e. manufacturing, real estate, retailers etc.
- The sample of businesses were selected from Midwest states

Instrumentation

Both the successor and the predecessor were interviewed. For this purpose, questionnaires were developed for both the interviews. Interview questionnaires were followed when interviewing both the successors and the predecessor Appendix B-C.

Data Collection Procedures

The prospective businesses were contacted through either by phone or by written invitation. Once they agreed to participate in the study, a time was scheduled with the predecessor and successor to be interviewed. Both the predecessor and the successor were interviewed while using the above mentioned questionnaires. In all the cases, each interview didn't last more than 45 minutes. The interviews were recorded (individuals were asked beforehand if they felt comfortable with it) and typed in order to locate specific themes that lead either to the success or failure of the succession of the family owned business.

Data Analysis

A draft of the interviews was typed in order to trace specific themes common in the cases studied. The purpose was to locate specific items/activities that resulted in the success or failure of the family owned business. Themes that were consistently present in all the successful cases were considered as those elements that were critical to having a successful succession of family businesses. On the other hand, common things, that these businesses avoided or recommended to avoid which were also present in failed cases, were considered as the elements that need to be taken care of in order to prevent the failure of the family owned businesses

Limitations

Following are some limitations of this methodology:

- The results of this study will be limited to only small scale sole proprietorship businesses
- The results may not apply in very small scale businesses where no formal organizational structure or processes are in place and business relies totally the individual skills of the entrepreneur who transfers these skills to the next generation simply by engaging them in daily operations of the businesses. Hence the training takes place in a very simple environment.
- Since case study methodology is being used in this research therefore research can't establish cause/effect relationships between the variables.
- It is advisable to foster the limitation that significant cultural changes might effect the applications of this study. This includes cultures where family communication and norms are significantly different requiring a certain obligation either from the successor or the predecessor to take certain action irrespective of what this study might suggest.
- The findings of the study can be cautiously extended to family owned businesses that may not be sole proprietorship businesses.

Chapter IV: Results

It was important to make sure that enough family owned businesses are able to participate in the study. Therefore, some businesses that either have gone through at least one succession or they are in the final stages of the succession process were also given invitations to participate in the study. In a couple of cases the predecessor had recently passed away or was not in a good condition to be interviewed. This made it difficult to conduct the interview with the predecessor. However as long as the successor was able to provide the information on behalf of the predecessor, the business was still given the chance to participate in the study.

Item analysis

After transcription of the interviews, similar themes were located in the interviews to trace the critical factors in the succession process. Here are the results of this process. Since both the questionnaires of predecessor and the successor addresses the same area of the information, therefore the results are being presented with reference to the items on the predecessor questionnaire. A graphic representation of the data related with these items is represented in Appendix D as the results statistics.

Item 1: This item is included in the questionnaire to analyze the emotional attachment of the owner or predecessor with the family owned business. 55% of the cases studied started the business themselves. The owner was involved indirectly into the same profession by working for some other business and decided to either buy that business or start their own business. In the other 45% cases studied, the owner acquired the business from his/her parents or in laws through either buying the majority of the business shares or receiving the same as a gift. 83% of the owner or predecessor showed a serious concern for ongoing operations of the business and how they still keep in touch with the business operations.

Item 2 & 3: In 88% of the successful succession cases, the successor was already involved in the family business for a significant amount of time. Therefore, the successor was already aware of the formal description which included the goals, objectives and mission of the family business. The successor was aware of the target customer. Similarly the successor also had an exposure to competition and knew about the business analysis which included the major competitors and market share of each competitor.

Item 4: In 77% cases of the successful succession business did not encounter any major issues in relation with separation of family matters with the business matters. They were able to convey an understanding of the succession process with the family business among all the family members.

However 23% of the successful cases had mixed feelings among their family members about the succession of the family business. Such businesses went ahead with what they thought was best for the business and couldn't totally resolve the emotional issues among the family members.

Item 5: It seems as if the taxation issue didn't affect the succession except one business. All (100%) of the businesses had the services of professional accountants available on a permanent basis to deal with the taxation related matters and it didn't concerned any of the businesses like a big issue to deal with. In more than 94% of the cases studied, the ownership was transferred to the next person through gifting the shares of the business to the next person.

Item 6: In all (100%) the family businesses where the successor was already involved in the family business, it was very simple to make that decision because the chosen successor was the only choice for having the potential of successful successor. In two cases where there were more than one family member involved in the family business, the successor volunteered as the next leader of the business while the other family member didn't show any interest for being the next successor.

Item 7: In 55% cases of the family businesses, the predecessor went through a process of identifying the training needs through a formal approach. The other 45% did use this concept but in a very informal approach. Some family businesses used a manual that listed the major operation of the business and then listed required competencies in order to be able to perform such operations.

Item 8: On this item, the responses varied from one to another business depending upon the nature of the business. All (100%) of the businesses that were able to have a successful succession emphasized on "on the job training". They involved the successor in the family business for a significant amount of time before the succession and had the successor go through different routine operations on a variety of jobs. In 33% cases, the successor was given the responsibility to completely overlook one unit of the business for a certain time period.

The important elements of such training included

- Identifying and approaching customers
- Customer satisfaction
- Alertness and vigilance on business operations
- A deep understanding on the technicalities of critical business operations

Item 9: All (100%) of the businesses emphasized on the need for having an open communication in a way that every stakeholder has appropriate information as to what is going on in the business and what will happen next. Another important element in this regard was to let the successor know about the business expectations very clearly so that he/she has a clear vision of the future of the business and his/her strategy to achieve that vision.

Item 10 & 11: During the actual transaction, 77% of the successful cases recommend to let the successor witness the process of business deals and closing of business deal very closely. The successor should get a personal contact with the customer in presence of the owner in order to maintain the trust of customer on the business while getting acquainted with the successor. The owner should also make reasonable accommodations that can ensure a good relationship environment between the successor and the employees while making sure that there are no major grievances among them.

Item 12 & 13: In 66% of the successful cases, it was noticed that the business involved a continuous presence of the predecessor for a certain time period even after the succession had taken place. The purpose behind was to have an insurance against scenario like major catastrophe. This involved a continuous evaluation by the predecessor while predecessor was seen a back up source of information.

Item 14: It was noticed that 88% of the businesses used a simple approach to analyze the succession which included looking at sales, cost and profitability of the business. However, they also used the comprehensive approach of customer satisfaction and owner-employee relationship through an informal manner.

12% of the cases studied used a clear and comprehensive approach for analyzing the succession. In such cases, the criteria used for analyzing the succession included the following factors:

- Profitability
- Cost of input materials and inventory
- Market share
- Owner employee relationship
- Customer satisfaction
- Efficient organization of resources and operations

Chapter V: Discussion

This chapter lists the important findings of this study. It describes some limitations that will apply to the results and their future implications. This chapter also includes the important conclusions that are drawn on the basis of predominant themes found during the analysis of information obtained through the interviews. The chapter also suggests some recommendations to be considered while doing any further research on this topic or a related area.

From the information collected through interviews, it seems that one of the most critical elements in successful succession of family owned business is the decision to keep the business in family. This decision should be based upon a very rational approach while considering the specific personality determinants of the person who is being considered as the next successor of the business. If the owner takes this decision just for the sake of keeping the business in the family while ignoring the successor's personality and his/her personal objectives and goals, such a decision is very likely to result in a non successful succession of the family business.

Once the owner of family owned business decides to keep it in the family, then the next critical decision is the choice of the successor. It is very obvious from the interview information that the owner of the business should keep the emotional family matters separate from the business matters at all cost. With this approach, the owner has to avoid the common mistake of dividing the business equally among all the inheritors. This task is challenging in the sense that some of the family members will not be happy about it. However, it is one of the most important factors in determining the success of the succession process. The owner has to realize that the business shouldn't suffer because of any emotional decisions.

In order to avoid the family conflicts, the owner should devise a comprehensive strategy to compensate the other family members through alternative ways. It is also important to keep an open and clear communication about such decisions so that all family members are aware of it and not after the actions have been taken.

It was also noted that in many family businesses that were able to have a smooth succession, the successor was involved directly in the same business or indirectly in some other business within the same profession for a good number of years (almost 3 to 5 years) before becoming actively involved in the management of the family business. This seemed to help lay down a strong foundation for understanding the family business and its important operations.

Limitations

- While a stratified sample process was originally identified for this study, locating participants that fulfilled the criterion and self-reported success was challenging. The final sample was identified through personal contacts with graduate students, faculty/staff and various community organizations. Generally, participants included the successor and predecessor from each organization.
- The extent of findings reported from this research is limited to total sample of subjects that participated in the study.
- The full sample size was identified to capture both the depth and richness of experiences of participants. As a result of fewer participants in the study the depth of results may have been impacted.

Conclusions

The findings from the interview support the hypothetical model formed on the basis of literature review. Even though quite a few of the businesses didn't use some of the items from the hypothetical model, yet they fully supported the idea of having those items in the succession process like business description and business analysis. Some of the very important and most common themes contribute to the following conclusions

1. In all the cases studied, there is a lot of emphasis on communication between the older and younger generation. A clear and open communication between the two generations can contribute largely to the success of the succession process. Some of the important characteristics of such communication are
    a. Clear listing of goals and objectives of the business
    b. Clear description of expectations from the successor on behalf of predecessor
    c. Open communication to the family members about the succession process and related events
2. The earlier the successor is involved in the business, the better it is for the success of the succession. There is nothing that can compensate "on the job training" of the successor. It not only gives a hands on training to the successor but also enables him/her to understand the culture of the organization and develop an understanding with the employees. At the same time, this also helps the successor to develop his/her own personal identity in the family business.
3. The predecessor has to be flexible and open to the new ideas brought into the business by the successor. Predecessor has to realize the importance of up to date

technology and latest business practices that improve the efficiency of the business operations.

4. The predecessor has to decide on the choice of the successor among all the potential successor while keeping the emotions separate from the business. He/she has to carefully analyze the person who is best for the business. If more than one person is involved in the business, then their compensation and reward should be tied with their span of responsibilities
5. Predecessor has to use the concept of "on the job training" very effectively. For this purpose he/she should make a plan which rotates the successor in the critical areas of the business with an appropriate amount of time spent in each of those areas. During this rotation, again the communication plays an important role. The successor should clarify his/her doubts or concern in a very open manner and the predecessor should be able to address all those concerns to the best of his/her ability.
6. It is important that the predecessor establishes a system for back up sources of information. He himself can serve as one of these sources but he has to make sure that the continuity of the business operations is not affected because of unavailability of some important information when he/she has left the business.
7. It is also very important that both the predecessor and successor talk openly about the business goals and objectives after the succession has taken place. They should agree upon a well outlined criteria for assessing the business performance while covering all the major areas of business operations. A confused and

ambiguous criteria seems to have a very bad impact on the success of succession process.

8. 55% of the family businesses highly recommended that the successor should have complete independence and authority to make decisions. In all these cases, the successor felt that the previous owner was still interfering in the business matters and sometimes he/she was not given the authority to make certain decisions. This limited his/her ability to be able to run the business operations in the way he/she wants to run.

Using the above mentioned themes, in conjunction with the hypothetical model based on the literature review, the sole proprietor succession plan model is represented below. The items, that are italicized, represent the most dominant themes found in the family businesses studied. The Sole Proprietor Succession Planning Template, in conjunction with this model, is presented in Appendix E. This model includes two more items as compared with the items mentioned in hypothetical model based on literature review. These items were among the most dominant themes found in the interviews. In order for the sole proprietor to be able to use this template effectively, some tips are being given in the Appendix F.

#	*Before the succession takes place*	*During the succession process*	*After the succession has taken place*
1	Business Description	Adjustments for detour	Performance Evaluation
2	Business Analysis	Directing, controlling and alignment	*Backup sources of information*
3	*Family and Business*	*Mentoring through simple exercises*	*Strategies for current trends*
4	Dealing with taxation issues	Performance Evaluation	Succession Analysis
5	*Succession Goals*		*Letting it go*
6	Succession Decision		
7	*Successor choices*		
8	Successor training needs		
9	*Training the successor*		
10	*Communication plan*		

Recommendations for future research

From the experience of conducting this research, the investigator learned a few things that could be considered while doing any further research on this topic or related area. Some of the recommendations are as follows:

1. It was noted that being a small / medium scale sole proprietorship business, the nature of the business also seem to have an impact on the succession process. Therefore doing a further study by narrowing down to one particular kind of business might give even more accurate results.
2. Similarly the results of the study can be more accurate by finding businesses in sample selection which are more homogeneous in terms of
    a. Number of employees
    b. Financial position of the business
    c. Size of operations
3. Further research can also be done on one particular area of the business. This might also increase the accuracy of the results by relating the succession process with one or two areas of the business like "Criteria for selecting the successor"

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Appendix A

Succession Planning Template

Business Description

1. Legal Description

a. Current Owner's and investor's Name:________________

b. Officer's name and designation

	Name	Designation
1.	______________________	__________________
2.	______________________	__________________
3.	______________________	__________________
4.	______________________	__________________

c. Organizational Description

i. Organizational Chart: Produce a most up to date organizational chart which should identify different lines of supervision?

ii. Job Description: Briefly describe the duties and responsibilities of key jobs

1. Owner:____________________________

2. Executives:_________________________

3. Managers:__________________________

4. Other key jobs:______________________

2. Strategic description

a. What needs to be accomplished through the business?

b. How the business intends to accomplish its objectives?

c. What are the three most important goals of immediate and long term future of the business?

i. Goal 1:____________________________________

ii. Goal 2:____________________________________

iii. Goal 3:____________________________________

Business Analysis

1. What are the revenue-producing activities of the business?

____

____

2. List the major competitors and their approximate market share

Competitor	Market Share
Competitor A	
Competitor B	
Competitor C	
Family business	

3. List five reasons that are critical to the success of the business?

1. ____
2. ____
3. ____
4. ____
5. ____

Family and Business Relationship

List and describe the family members and their area of responsibilities in the business?

Family member	Designation	Responsibilities
1. ______________	___________	___________________________
2. ______________	___________	___________________________
3. ______________	___________	___________________________

Succession Goals

1. Describe the goals of the succession with respect to different areas of the business

Area	Succession Goals
Operations	______________________________________
Cost efficiency	______________________________________
Customer satisfaction	______________________________________
Owner-employee relationship	______________________________________

2. Describe a simple plan of action for achieving each goal.

Goal	Action Plan	Target date
Goal 1:	___________________________	___________
Goal 2:	___________________________	___________
Goal 3:	___________________________	___________
Goal 4:	___________________________	___________

Successor Qualifications

1. List and describe critical skills that are needed from the next business owner?

Professional skills

a.

b.

c.

Personal Skills

a.

b.

c.

2. Required qualifications

Education:________________________________

Experience:________________________________

Other training needs:__________________________

(If family members are being considered for different positions then same template can be used for other positions to identify successor's qualifications)

Successor choices

List all the possible family members being considered as the future generation of the business:

Name	Possible future position
1.______________	______________
2.______________	______________
3.______________	______________

Identify each member and their current level of skills

Name	Professional Skills	Personal Skills
1.______________	______________	__________
2.______________	______________	__________
3.______________	______________	__________

Successor training

List each of the family member and their training needs by comparing required qualifications with successor's choices

Name	Training needs
1.______________	1. ____________________
	2. ____________________
	3. ____________________
2.______________	1. ____________________
	2. ____________________
	3. ____________________

3._____________ 1. _____________________

2. _____________________

3. _____________________

Describe a training plan that will address each of the training needs mentioned above:

Name:____________________

Training needs	Training Plan (Workshops, seminars etc.)
1._____________	1. _____________________
	2. _____________________
	3. _____________________
2._____________	1. _____________________
	2. _____________________
	3. _____________________
3._____________	1. _____________________
	2. _____________________
	3. _____________________

During the succession

Identify the role of current owner and other key job holder's responsibilities during the succession:

Name	Designation	Responsibilities in Plan
1._____________	__________	____________________
2._____________	__________	____________________

3.______________ __________ __________________

List some of the possible scenarios that might be a hindrance in the succession process and propose an action plan to address those scenarios:

Possible scenarios	Action Plan
1.______________	______________________________
2.______________	______________________________
3.______________	______________________________

After the succession

Identify different areas of information that are crucial to the continuity of the business operations and a source of information that will be available to the successor:

Area of information	Backup source
1.______________	______________________________
2.______________	______________________________
3.______________	______________________________

Evaluate the achievement of the succession goals through identifying the indicators to be used for evaluation:

Goals	Indicators	Time period/Target
Goal 1:	______________________	__________
Goal 2:	______________________	__________
Goal 3:	______________________	__________

Goal 4: ______________________________ __________

Through the analysis of achievement of the goals, write down appropriate notes and future precautions and identify an area of the business that will make this information available in future:

Goals	Notes	Area recording information
Goal 1:	______________________________	__________________
Goal 2:	______________________________	__________________
Goal 3:	______________________________	__________________
Goal 4:	______________________________	__________________

Appendix B

List of Questions for the Interview Predecessor

1. How did you start this business? or What ignited the idea of this business?
2. Did you have a formal description of the business to use during the succession process of the business? Did it help / Would it have helped?
3. Did you have an analysis of the business to use during the succession process of the business? Did it help you?
4. Did you encounter the need to separate business matters from emotionally related family matters during the succession process of the business? If so, how?
5. How and when did you deal with issues related to taxation in the succession process?
6. What process did you adopt for selecting the successor?
7. Did you list the training needs of the successor prior the training? If so, what process did you take?
8. What processes did you use with the actual training of the successor? What were the major or important components of that training?
9. What other important tasks/processes must be done before the succession takes place?
10. From your perspective, what are the most important activities that you encountered during the actual transition of the business?
11. Do you have any recommendations for the activities to be watching for during the actual transition of the business?

12. What were the important activities that you did after the actual transition of the business?

13. Do you have any recommendations for activities/things to be watching for after the actual transition of the business?

14. What criteria did you use for analyzing the success of the succession? Do you have any recommendations/suggestions about setting up such a criteria?

Appendix C

List of Questions for the Interview Successor

1. Were you given a formal description of the business in the succession process of the business? Did it help you / Would it have helped?
2. Were you given an analysis of the business in the succession process of the business? Did it help you / Would it have helped?
3. Did you encounter the need to separate business matters from the emotionally related family matters in the succession process of the business? If so, how did you separate the two?
4. What was the process that was adopted for selecting you as the successor?
5. Did you receive any training before becoming the owner of the business? What were some of the major components of the training that you received?
6. What other important things/processes must be done before the succession takes place?
7. What were some of the important activities/aspects that occurred during the actual transition of the business?
8. Do you have any recommendations for things to be watching for during the actual transition of the business?
9. What were some of the important activities/aspects after the actual transition of the business?
10. Do you have any recommendations for things to be watching for after the actual transition of the business?

11. What criteria was used for analyzing the success of the succession? Do you have any recommendations/suggestions about setting up such a criteria?

Appendix D

Results Statistics

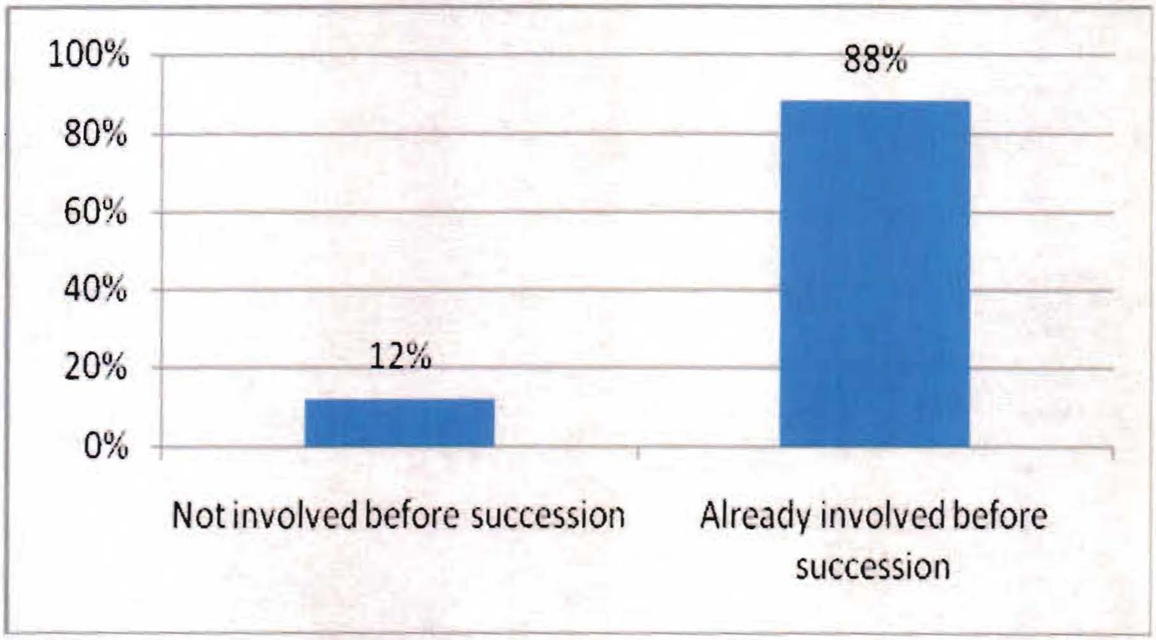

Figure 4. How the predecessor started the business

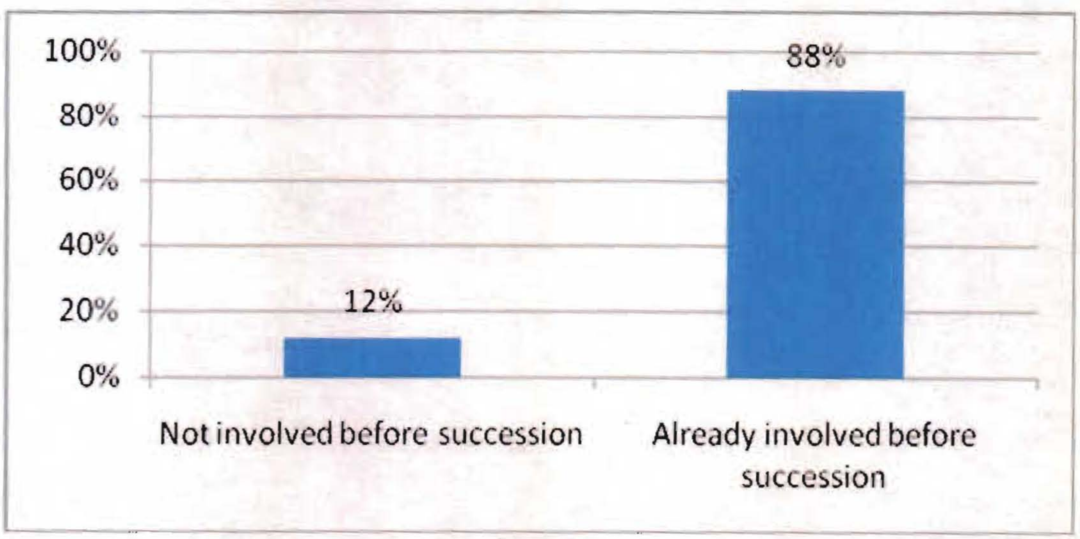

Figure 5: Successor's involvement in the business before the succession

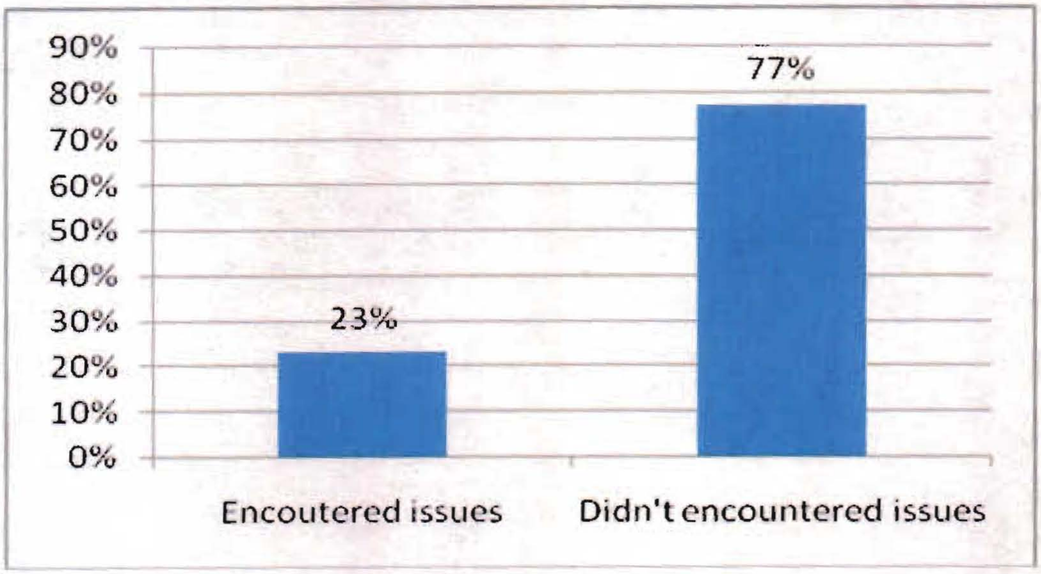

Figure 6: Proportion of businesses that encountered emotional family issues

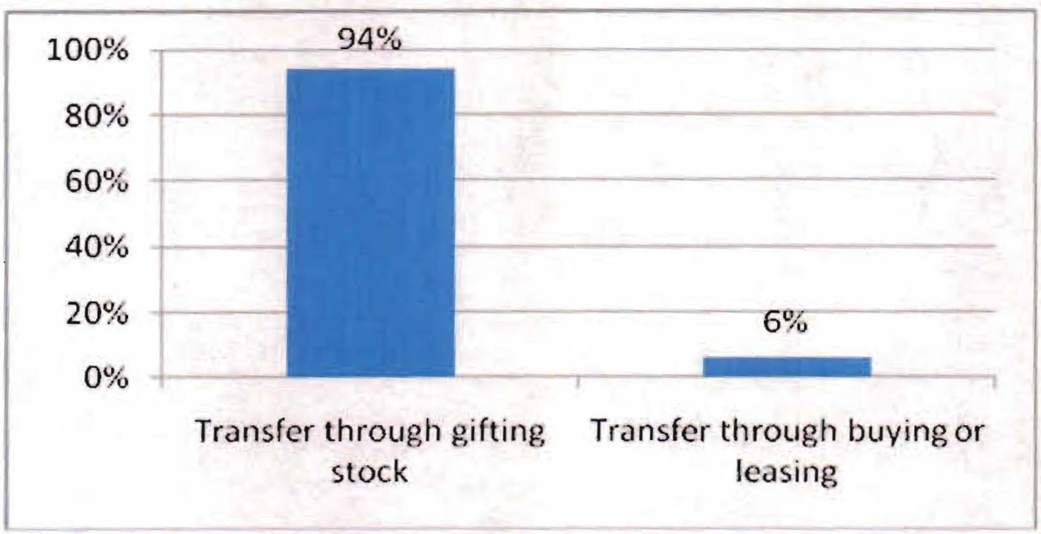

Figure 7: Transfer of ownership stock

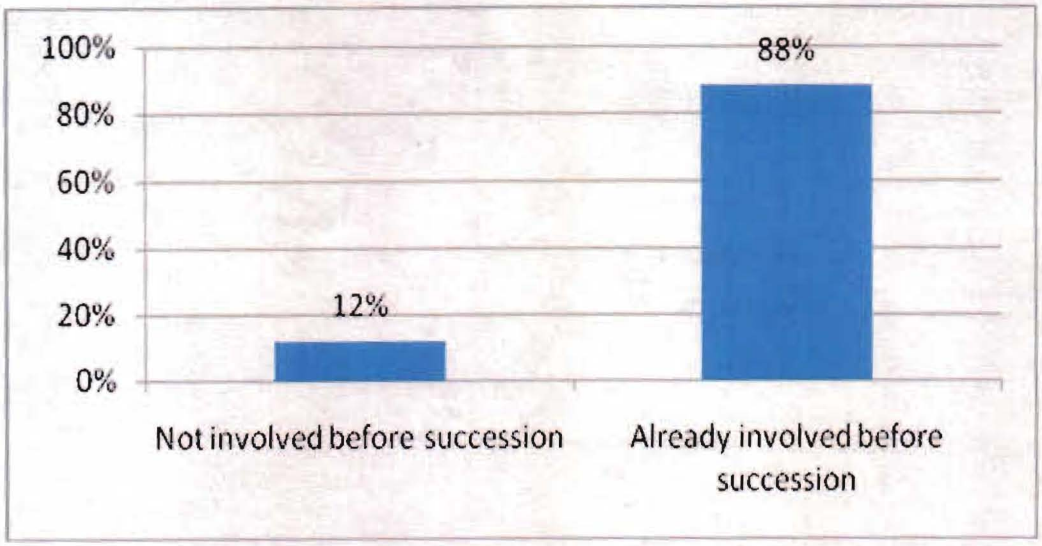

Figure 8: Choice of the successor

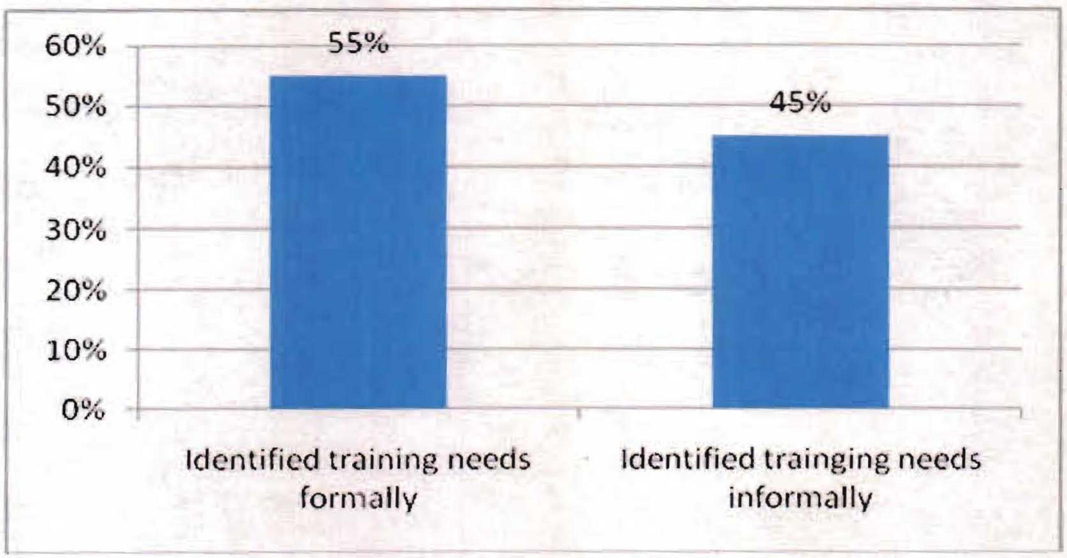

Figure 9: Identification of training needs

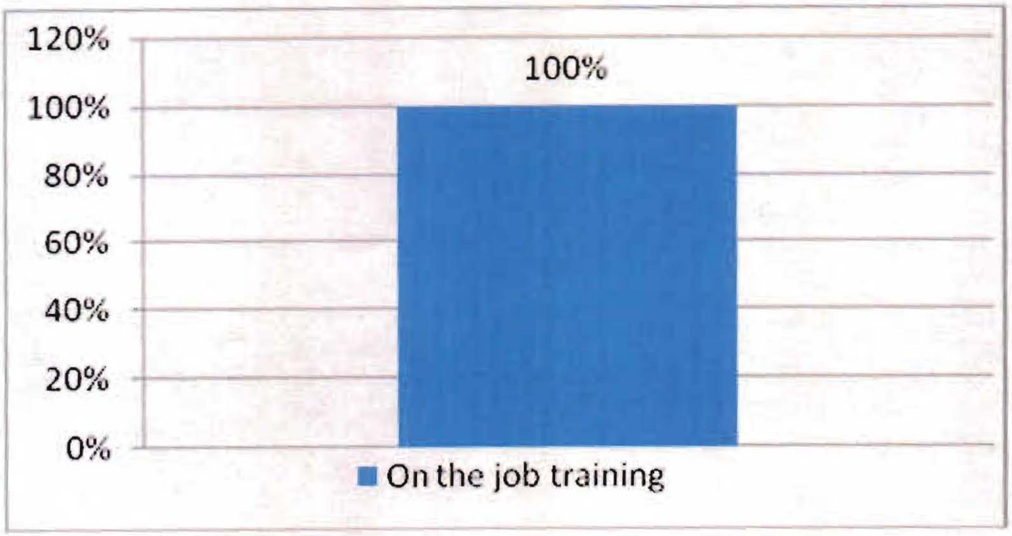

Figure 10: Process for actual training

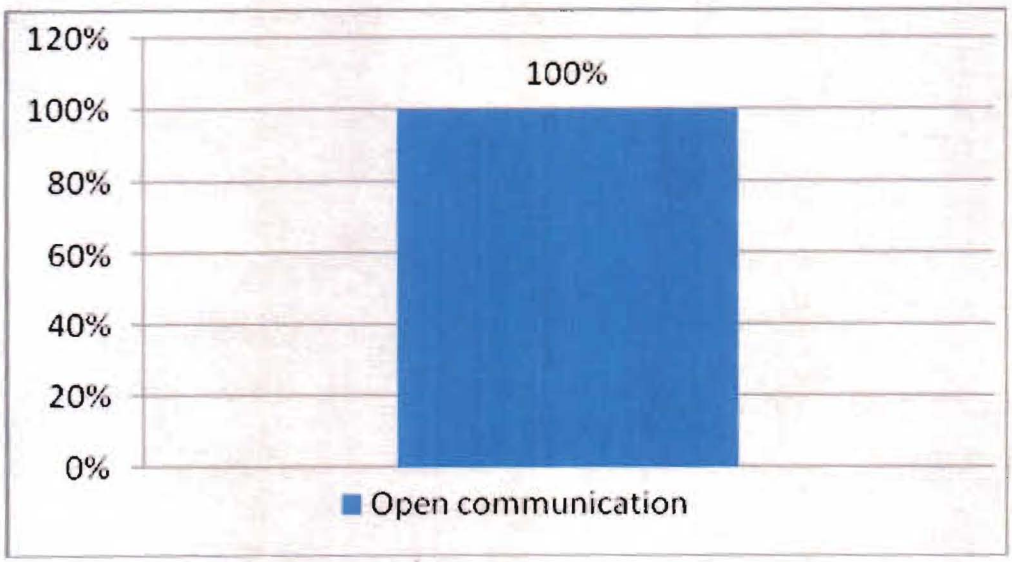

Figure 11: Other recommendations: Open communication

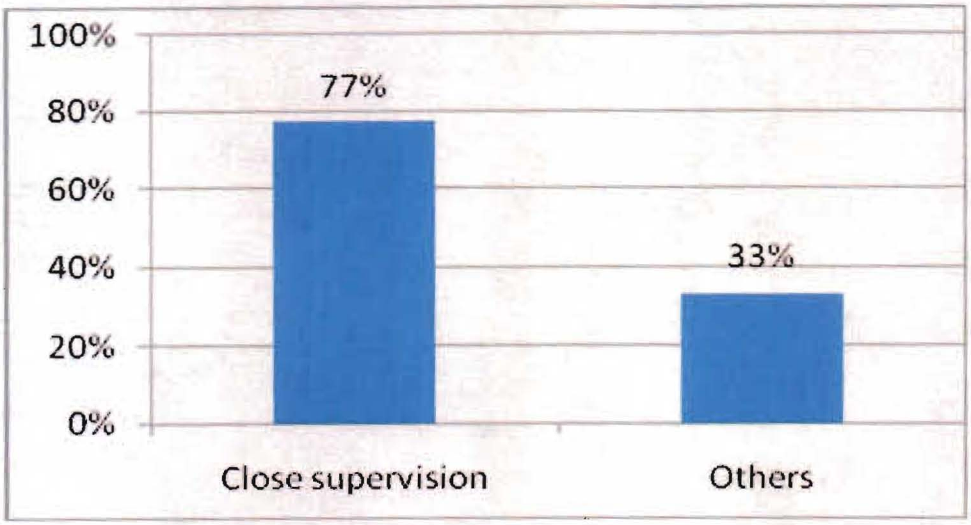

Figure 12: During the succession

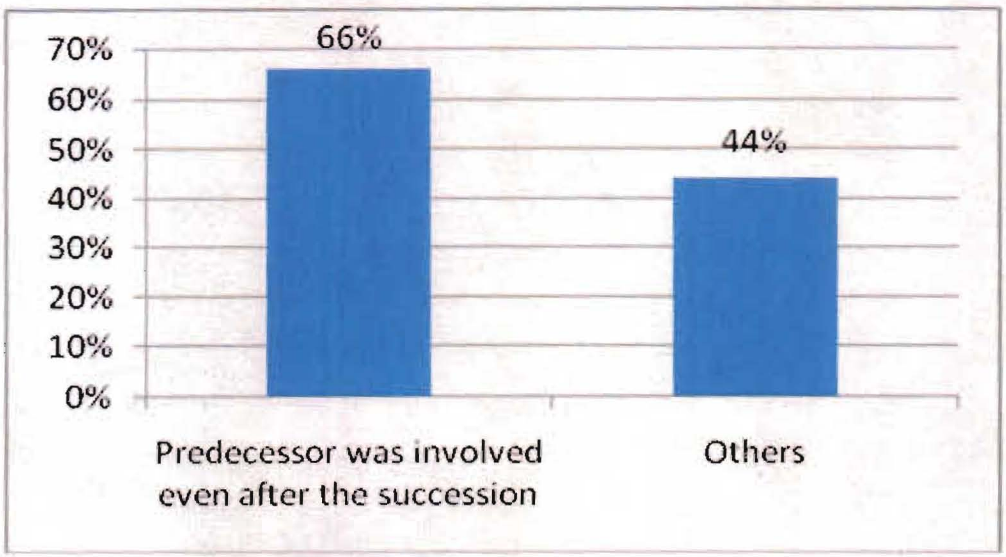

Figure 13: After the succession: Predecessor's involvement

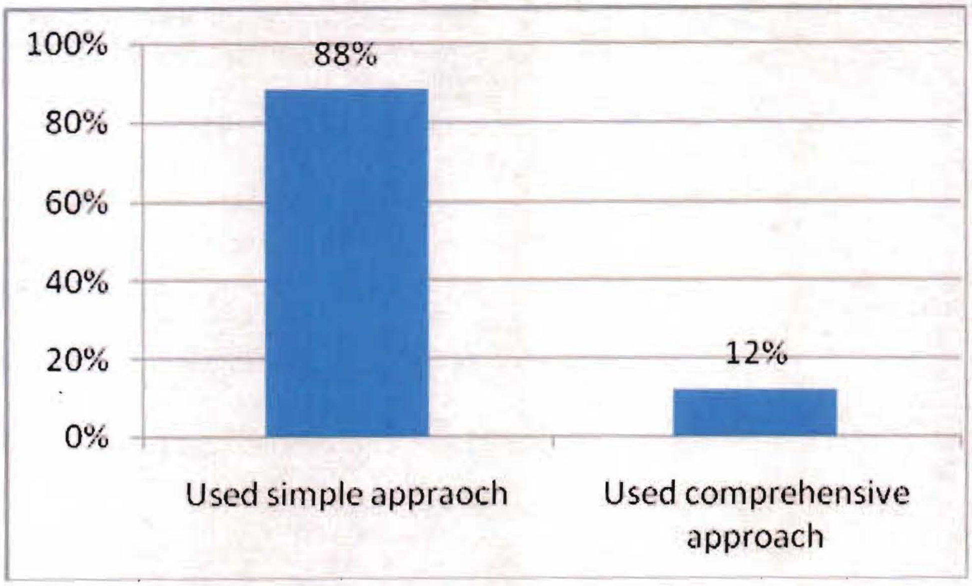

Figure 14: Criteria used for assessing the succession

Appendix E

Sole Proprietor Succession Planning Template

Business Description

1. Legal Description

a. Current Owner's and investor's Name:_______________

b. Officer's name and designation

Name	Designation
1.____________________	________________
2.____________________	________________
3.____________________	________________
4.____________________	________________

c. Organizational Description

i. Organizational Chart: Produce a most up to date organizational chart which should identify different lines of supervision?

ii. Job Description: Briefly describe the duties and responsibilities of key jobs

1. Owner:___________________________

2. Executives:________________________

3. Managers:_________________________

4. Other key jobs:_____________________

2. Strategic description

a. What needs to be accomplished through the business?

b. How the business intends to accomplish its objectives?

c. What are the three most important goals of immediate and long term future of the business?

i. Goal 1:____

ii. Goal 2:____

iii. Goal 3:____

Business Analysis

1. What are the revenue-producing activities of the business?

____

____

2. List the major competitors and their approximate market share

Competitor	Market Share
Competitor A	
Competitor B	
Competitor C	
Family business	

3. List five reasons that are critical to the success of the business?

1. ____
2. ____
3. ____
4. ____
5. ____

Family and Business Relationship

List and describe the family members and their area of responsibilities in the business?

Family member	Designation	Responsibilities
1. ______________	__________	______________________
2. ______________	__________	______________________
3. ______________	__________	______________________

Succession Goals

1. Describe the goals of the succession with respect to different areas of the business

Area	Succession Goals
Operations	______________________
Cost efficiency	______________________
Customer satisfaction	______________________
Owner-employee relationship	______________________

2. Describe a simple plan of action for achieving each goal.

Goal	Action Plan	Target date
Goal 1:	______________________	__________
Goal 2:	______________________	__________
Goal 3:	______________________	__________
Goal 4:	______________________	__________

Successor Qualifications

1. List and describe critical skills that are needed from the next business owner?

Professional skills

a.

b.

c.

Personal Skills

a.

b.

c.

2. Required qualifications

Education:________________________________

Experience:_______________________________

Other training needs:________________________

(If family members are being considered for different positions then same template can be used for other positions to identify successor's qualifications)

Successor choices

List all the possible family members being considered as the future generation of the business:

	Name	Possible future position
1.	________________	________________
2.	________________	________________
3.	________________	________________

Identify each member and their current level of skills

	Name	Professional Skills	Personal Skills
1.	________________	________________	____________
2.	________________	________________	____________
3.	________________	________________	____________

Successor training

List each of the family member and their training needs by comparing required qualifications with successor's choices

	Name	Training needs
1.	________________	1. ________________________
		2. ________________________
		3. ________________________
2.	________________	1. ________________________
		2. ________________________
		3. ________________________

3.________	1. ________________
	2. ________________
	3. ________________

Describe a training plan that will address each of the training needs mentioned above:

Name:_______________________

Training needs	Training Plan (Workshops, seminars etc.)
1.________	1. ________________
	2. ________________
	3. ________________
2.________	1. ________________
	2. ________________
	3. ________________
3.________	1. ________________
	2. ________________
	3. ________________

Communication plan

Communication Goals

Goal 1.____

Goal 2.____

Goal3.____

Regular Meetings

Personnel Involved	Date/Time	Agenda
1.________________________	______________	____________

2.________________________ _______________ ____________

3.________________________ _______________ ____________

During the succession

Identify the role of current owner and other key job holder's responsibilities during the succession:

Name Designation Responsibilities in

Plan

1.______________ ___________ ______________________

2.______________ ___________ ______________________

3.______________ ___________ ______________________

List some of the possible scenarios that might be a hindrance in the succession process and propose an action plan to address those scenarios:

Possible scenarios Action Plan

1.______________ ______________________________________

2.______________ ______________________________________

3.______________ ______________________________________

After the succession

Identify different areas of information that are crucial to the continuity of the business operations and a source of information that will be available to the successor:

Area of information	Backup source
1.________________	____
2.________________	____
3.________________	____

Evaluate the achievement of the succession goals through identifying the indicators to be used for evaluation:

Goals	Indicators	Time-period/Target
Goal 1:	______________________________	____________
Goal 2:	______________________________	____________
Goal 3:	______________________________	____________
Goal 4:	______________________________	____________

Through the analysis of achievement of the goals, write down appropriate notes and future precautions and identify an area of the business that will make this information available in future:

Goals	Notes	Area recording information
Goal 1:	______________________________	__________________
Goal 2:	______________________________	__________________
Goal 3:	______________________________	__________________
Goal 4:	______________________________	__________________

Letting it go

Control Transfer Goals

Goal 1.____

Goal 2.____

Goal 3.____

Transfer of Authority

Area:	Deadline Date
1.__________________	____________
2.__________________	____________
3.__________________	____________

Appendix F

Tips for the sole proprietor/ owner of the business for using the template

1. In order to find details on one or more specific element. Please refer to the related area in literature review section. You can also go to the related references mentioned in the reference list which can give you a lot of details on any area that you want.
2. When filling in the template, if you do not know where to begin with then put your thoughts on a separate piece of paper while listing some key words. Then use this work to explain your thought as best as you can.
3. You can take the help of a business professional for checking the accuracy of your written thoughts in certain areas where you think you are struggling. Use the work done in step 2 while working with the business professional.
4. While listing the objectives and goals, keep in view the big picture of the business and its future.
5. For elements like successor's choice and their skills level, make sure that your estimates are biased free. If appropriate, use the services of a third party.
6. If you think that you business or organization doesn't involve certain categories or steps, skip those one and fill in the template as much as you can.
7. While describing any element, it doesn't have to be in a perfect business terminology. You can try to describe it as simply as you want to. Since you wuill be the one using the template so it is important that the terms that are understandable and easy for you should be used.

8. In areas like market share, where you may not have the best figures, use your best estimate.
9. Since the template is in a logical sequence, therefore try to work on the sections in the same sequence.