

## **Impact of Family Business Characteristics on Succession Planning: A Case Study in Tehran Industrial Towns**

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### **Abstract**

Successor planning process in family businesses is recognized as one of the most important phases of family business lifecycle. Family businesses play a vital role in developing regional and global economy and fuel the creation of new jobs, new business growth and increase in entrepreneurial activities. In this study, it was attempted to investigate the impact of family business characteristics on successor planning process in such businesses in Tehran industrial towns in Iran. The data were collected from the study sample by using questionnaires. Statistical population of this research consists of managers or supervisors from 68,000 industrial units in Tehran. Industrial Towns are selected and sample population is identified as 120 samples. The findings indicated that there is a positive and significant relationship between business family characteristics especially the tendency of trusted people to succeeding and successor planning. In the meantime, constituents such as family commitment to business and the tendency of trusted people to succeeding affect successor planning directly.

### **Keywords:**

Family business, Family business characteristics, Industrial towns, Succession planning.

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## Introduction

Family businesses are recognized as an important resource for technological innovation and economic progress. Family businesses play a vital role in creating and utilizing innovative technology and improving individuals' life quality (Zahra *et al.*, 2004). Researchers believe that the most important issue in managing family business is successor-planning process that rarely happens in family businesses. Length of successor planning is one of the most important issues in successor planning in family businesses. Another issue in successor planning in family businesses is finding a successor who is both interested in joining the family business and has the capability and capacity of managing a family business. Therefore, it is important who is going to be selected as a successor. There is a belief that the characteristics of successor impacts successor planning efficiency and effectiveness. The successor should be sensitive to founder's needs, should be patient, should understand organizational culture, and should make a balance between the successor's capabilities and capacities in family and in business (Sharma *et al.*, 1997). Regarding the importance of family businesses and the role of successor planning to keep the family business, the present study tries to examine the relationship between both variables more deeply.

The purpose of this article is to investigate the determinants of succession planning in family firms. Following the suggestions of Stavrou (1999) and Dyck, Mauws, Starke, and Mischke (2002), this paper studies the constituent components of succession planning individually in an attempt to gain further insights that would be unavailable if those components were combined.

The paper first discusses the family business characteristics as it impacts the determinants of succession planning. It then develops the hypotheses, based on the theory of planned behavior, about how family characteristics influence succession-planning activities in the family firm. A discussion of the methodology used to test the hypotheses, research findings, and conclusions follow.

## Theoretical Background

As an academic issue, successor planning emerged in 1960 and is

defined as transferring the leadership form one family member to another one. Carol (2004) defines successor planning as a systematic process by which personal and professional breedings are combined and one can achieve this confidence that organization is ready to fill any vacancy by right people with right skills and insights, and at the right time. Such definition involves all skills, knowledge, attitudes, and behaviors that are necessary in performing various roles (Christie, 2005).

Patan (1986) explains that successor-planning programs allow identifying managerial performance functions and standards as well as distinguished candidates to fill managerial jobs and to meet employees' needs to progress in their careers. Christensen (1953) considers successor planning as a process that identifies a set of talented successors, selects the successor, and announces the selected successor. The most important advantage of successor planning is that it facilitates human resource effective planning and by using it, right people inside the organization fill the right job at the right time to achieve business goals. The essence of a successor planning process is to identify, train, and develop the people who can acquire key jobs by possessing necessary knowledge and skills (Taylor *et al.*, 2004). Successor planning roots in family business goals and such businesses pursue successor planning for two reasons. First, successor planning-related activities in family businesses are a part of successor planning process. Second, family businesses believe that successor planning increases the possibility of family business success (Poutziouris, 2000). Mayos (2002) considers successor planning as a long term process which involves the following variables:

**Selecting and training a successor:** it clarifies that talented employees should be identified and a list of them should be prepared and then they should be trained for future roles in business.

**Developing a vision or strategic plan for the company after succession:** it refers to the fact that a successor should have a right perception of business strategies.

**Defining the role of the departing incumbent:** it shows that the successor should have a plan for his/her role and responsibility as well as a clear understanding when he/she is considered a successor.

**Communicating the decision to key shareholders:** it clarifies that

the successor should communicate his/her decisions to employees and family members (Pitcher *et al.*, 2000).

Five rules are provided for successor planning success upon which next rules are based. The first rule is to focus on development. Successor planning should be a resilient system based on developmental activities whose aim is to prepare successor candidates via in-service training and such activities as authorization to acquire target jobs. The second rule is to focus on key jobs; it means necessary jobs for organizational long-term health. The third rule is to reveal the system and avoid the ambiguities. Successor planning should be executed clearly and the people should be informed of their situation in any moment. In such a system, procedures and laws are transferred to all organizational members. The fourth rule is continuous measurement of progress and avoidance of successor planning traditional mindset. The fifth rule is to keep the system flexible so that system designers can remove its deficiencies and improve it continuously based on implementers' feedback (Conger *et al.*, 2003).

By studying family business dimensions, researchers enounce that compared to non-family businesses; family businesses enjoy better performance because they keep their competitive advantage through intellectual knowledge of family members. Holland and Bolton (1984) define family businesses as: company's CEO should be entrepreneur or founder of the company, his/her family members should be employed in the business and the managers should consider the company as a business (Motwani *et al.*, 2006). Chive *et al.* (1999) say that a factor to distinguish family businesses from non-family businesses is that familial aspect is simultaneous to business aspect (Sharma *et al.*, 2001).

Holland and Bolton (1984) have studied family business aspects and have said that family orientation is the first aspect that distinguishes family businesses from other businesses. Birley (2001) has identified family related aspects including the contribution of children in business, successor planning, family income, and share distribution. The second aspect is business orientation that relates to value generation in the company. File and Prince believe that business orientation falls down due to familial problems such as familial successor in current management or business problems like poor

financial management (Pardo-del-Val, 2009). Two separated aspects of family businesses are merged and shown in the diagram below. In the most bottom right cell, one can see a business space called “family life tradition”. Such businesses are characterized with strong family orientation and weak business orientation. They feel that family members’ contribution strengthens business and personal networks and trust among family members is seen on the context of business. The most upper right cell includes organizations with highest levels of family orientation and business orientation. Therefore, value generation and family are important for such firms and they are called “family money machine”. The most upper left cell outlines the companies with weak family orientation and strong business orientation; they are called “business home”. In such companies, external networks and economic motivation play a vital role. Finally, there are companies with low levels of both family orientation and business orientation called “entertainment hall.” Entertainers and friends play an important role in such companies and nonfinancial issues and communication openness are seen in them (Leenders *et al.*, 2003).

Table 1. The Family Businesses Space

<b>Business orientation</b>	House of business	Family money machine
	Hobby salon	Family life tradition
	Family orientation	

Although there are common barriers to family business successor planning (Hubler, 1999), family businesses support successor planning for several reasons. A part of these reasons argue that successor planning helps family business strategic plans. Since successor planning is not conducted in vacancy, as a tool to train, educate and grow successors, it helps family members to understand their career plans (Rothwell, 2005).

Handler (1989) identified two interactional aspects of successor planning as satisfaction of successor planning and the effectiveness of successor planning process and he provided a framework which categorized affecting factors on successful successor planning in business (Handler *et al.*, 1988). In the same line, Piaromalis *et al.* (2006) represented an approach on family business successor planning and stated that three important factors affect both aspects namely

process satisfaction and family business successor planning effectiveness (Pyromalis *et al.*, 2006). These three factors include:

1. Successor's willingness to take over which depends on three variables: commitment to the family, the maturity of the successor, successor's degree of responsibility. The more strong these three variables, the higher the tendency of the successor to take over.
2. Positive family relations and communication. It is obvious that satisfaction will be increased and assignments will be conclusive if family members share the common values and respect each other mutually.
3. Successor's appropriateness and preparation that refers to successor's knowledge, skills and records. The successor is selected not only by gender but also by his/her capabilities, entrepreneurial, managerial and leadership skills, and the level of education. There is a positive relationship between successor's appropriateness and preparation and business successor planning process effectiveness (Pyromalis *et al.*, 2009).

### **Research Model and Hypotheses**

Figure 1 shows the research model of this study. The framework assumes three family business characteristics including Incumbent's desire to keep the family business, Family's commitment to family business, Propensity of a trusted successor to take over have effects on succession planning. In fact, the main purpose of this study is to determine the influence of these factors on succession planning. So, for each of these three factors, we determined some indices which are shown below:

Some authors have mentioned the impacts of family business characteristics on successful successor planning. They include:

1. Incumbent's desire to keep the family business: this is a criterion on the tendency degree to successor planning. The first reason on incumbent's desire to keep the family business is personal purposes impacted by perceived desire to forecast the outcomes since successor planning is a tool by which a family can keep

the control on their business. The second reason is incumbent's desire to protect family business from psychological and affective problems through successor planning. Some authors believe that addressing successor planning is too difficult due to paramount psychological barriers.

2. Family's commitment to family business: it is a benchmark to accept successor planning. Family's commitment to keep the business shows that family members tend to make business everlasting in the family. Family's commitment to business confirms successor-planning program (Sharma *et al.*, 2003). Carlock and Ward (2001) state that family's commitment to business is an important measure in business culture; in addition, they believe that vital factors of commitment include personal belief, supporting business aims, and visions, desire to tendency to contribution and relationship to business (Astrachan *et al.*, 2002).
3. Propensity of a trusted successor to take over: it is an indicator of succession planning feasibility (Sharma *et al.*, 2003).

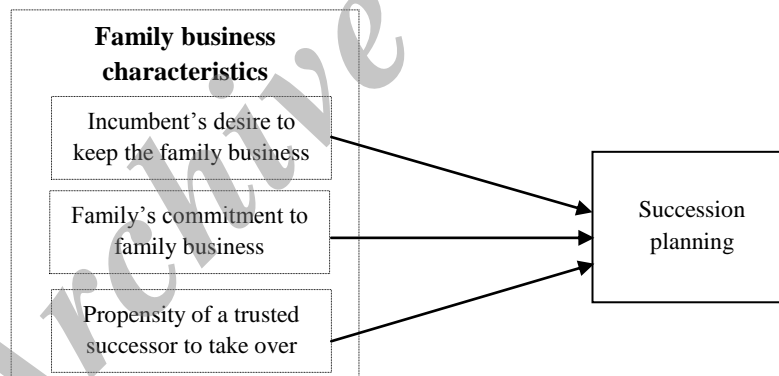


Fig. 1. The Conceptual Framework of the Research

Therefore, we suggest the following hypotheses based on above:

**Major hypothesis:**

Family business characteristics impact successor planning process.

**Minor hypotheses:**

**H<sub>1</sub>:** Incumbent's desire to family business causes successor planning.

**H<sub>2</sub>:** Family's commitment to business causes successor planning.

**H<sub>3</sub>:** Propensity of a trusted successor to take over causes successor planning.

According to the hypotheses above, the research conceptual model is provided as follows.

### **Methodology**

This study is a descriptive-survey study, examining the relationships between three aspects of family business characteristics related to succession planning in 000 industrial units in Tehran Industrial Towns. To test the study hypotheses, the questionnaire developed by He *et al.* (2012) was used to collect data. The items were scored on a 5-point Likert-type scale (ranging from 1= completely disagree to 5= completely agree). Data collection was conducted by the standard questionnaire. In this line, Sharma *et al.*'s (2003) scale was used for the Characteristics of family businesses and successor planning. Thus, in the mentioned questionnaire, 9 items were considered for three aspects of family business characteristics and 12 items for succession planning. Overall, a 21-item questionnaire was developed and the content validity of the questionnaire was evaluated and confirmed by several professors in management. Based on Chronbach's alpha, questionnaire reliability was 0.87.

The population considered in this study consisted of the managers or supervisors on family business from 68,000 industrial units in Tehran Industrial Towns. Statistical population is a 120 sample is identified by using unlimited sampling formula in 90% confidence level and 0.1 precise estimation. The sample was selected by judgment sampling (due to the lack of access to statistical framework).

First, to confirm the significance of the correlation between variables, Pearson correlation analysis was performed. Finally, regression relationships among variables of this study were investigated by standardized coefficients and provided significance levels in spss software by which hypothesis is rejected or accepted.

### **Research Findings**

Spearman's correlation test and SPSS 16 were used to test the hypotheses.



Table 2. Spearman's correlation coefficients among research variables

	Succession planning	Incumbent's desire to keep the family business	Family's commitment to family business	Propensity of a trusted successor to take over
Succession planning	1			
Incumbent's desire to keep the family business	0.066	1		
Family's commitment to family business	0.433	0.161	1	
Propensity of a trusted successor to take over	0.626	0.286	0.400	1

All coefficients are significant in 99% confidence level.

Spearman's correlation coefficient was 0.512 between family business characteristics and successor planning and this rate was significant in 99% confidence level. Table 2 outlines the results of Spearman's correlation test between successor planning and family business aspects.

Coefficient of correlation Propensity of a trusted successor to take over has the most amount among all coefficients (0.626<sup>\*\*</sup>) and is higher than the average. On the other hand, coefficient of correlation of Incumbent's desire to keep the family business belief has the least amount (0.066<sup>\*\*</sup>). In general, this study shows that all relationships between variables are positive and significant and approximately coefficients of correlation of all variables are average and more than it. As seen, there is a significant correlation among all variables.

Then, regression test was applied to study the casual relations between family business Characteristics and successor planning. In Table 3, squared correlation coefficient is 0.499 which means that 49.9% of changes in successor planning can be explained by family business Characteristics.

Table 3. Model description

Model	Correlation coefficient	Squared correlation coefficient	Moderated correlation coefficient	Standard error of the estimate
1	0.670	0.499	0.435	0.37859

ANOVA Table is used to study the certainty of the relationship between family business characteristics and successor planning. As seen, sig rate is less than 0.05 which shows that regression model has been able to explain changes in the dependent variable (successor planning).

Table 4. ANOVA Table

Model	Squares total	Df	Mean Square	F	Sig
regression	13.553	3	4.518	31.520	0.000
remained	16.626	116	0.143		
Total	30.180	119			

Ratios and significance of variables are outlined in Table 5. According to figures in Beta column, one can say that among the mentioned variables, the propensity of successor to take over has the highest impact on successor planning. In fact, one unit change in this variable creates 0.575 changes in successor planning. Therefore, it has a significant impact on successor planning. Likewise, family's commitment to family business has the second rank of importance after the propensity of successor to take over. Its significance level is less than 0.05. Hence, one can say that these results confirm the 2<sup>nd</sup> and the 3<sup>rd</sup> hypotheses empirically.

Table 5. regression analyses

Model	Non-standardized changes		Standardized changes	t	Sig
	B	Std. Error	Beta		
constant	0.983	0.386		2.546	0.012
Incumbent's desire to keep the family business	-0.113	0.060	-0.135	-1.878	0.063
Family's commitment to family business	0.251	0.084	0.225	2.992	0.003
Propensity of a trusted successor to take over	0.472	0.064	0.575	7.416	0.000

## Discussion and Conclusion

This study used the theory of planned behavior to investigate the determinants of succession-planning activities in family firms. The theory suggests that Incumbent's desire to keep the family business, conformance with social norms, and feasibility of the behavior determine the intentions of an individual and that intention is the best predictor of the propensity of the individual subsequently to engage in that behavior. Respectively, we measured Incumbent's desire to keep

the family business, conformance with Family's commitment to family business, and Propensity of a trusted successor to take over.

Research findings are compatible with previous studies on family business characteristics and successor planning. Research findings show that at 99% confidence level, there is a positive and significant relationship for succeeding and successor planning. They also indicate that family's commitment to family business and successor's propensity to take over impacts on successor planning directly. It means that one can observe the changes in successor planning process by changes in these variables. Furthermore, first-generation family businesses were found to be more likely to develop a post-succession business strategy and determine the post-succession role of the incumbent. However, the most important finding was that the feasibility of succession, as evidenced by the propensity of a trusted successor to take over, was the primary driver of succession- planning activities. Feasibility was significantly related to every succession-planning activity examined, providing strong and consistent support for our third hypothesis.

Conformity with Family's commitment to family business was found to be a significant predictor of communication.

Pervious research showed positive family relations and communication to satisfaction with succession and succession process is confirmed. This research showed that the intra-firm relations can either facilitate or hinder the succession process, depending on family's commitment and the quality of family relations as well as bringing into focus the importance of communication quality among the family firm's members (Ward, 2008, 2009).

On the other hand, desirability, as measured by the incumbent's desire to keep the business in the family, was not related to succession planning in any of our regression analyses, refuting our first hypothesis in every instance. The literature strongly emphasizes the critical role of incumbent leaders in the succession-planning process. Although our findings do not invalidate these arguments, they point toward considerable position power that rests in family member successors. The lack of the necessary resources to train and develop potential or resources

to engage outside advisors that incumbent would not tend to keep the family business (Williams, 2008). Previous research showed that the incumbent's willingness to keep the leadership of the family firm is positively associated with succession process. This finding is in line with previous research results that found the incumbent's refusal to let go could be the cause of a problematic succession. It also confirms that the succession process is largely affected by the attitude and actions of the incumbent (Handler, 1990, 1991). Likewise, the relatively low percentage of the incumbent's willingness to leave confirms the results of past studies which found the incumbent of a family business to be reluctant to pass over control (Davis, 1982). Additionally, psychological barriers and the existence of significant financial and emotional stakes in the family business for the incumbent even after the succession has occurred (Harveston *et al.* 1997), and they have been found to be serious deterrents for the incumbent to let go. Similarly, here and for the same reasons outlined above, we can safely assume that the corresponding percentages would have been lower if firms that ceased to operate after an unsuccessful succession process had been included in the sample (Kets de Vries, 1988).

Although incumbents make the ultimate decisions related to timing and mode of succession in family firms, our findings suggest that these decisions seem to be made largely because of feasibility of the situation, which is availability of a willing and trusted successor, rather than a genuine desire of incumbents to retain the business in the family. This basis of making the leadership transition decision can lead to negative consequences in the longer term as incumbents who leave due to a push from below rather than a desire to leave may spend their retirement planning a comeback.

In previous research, it was shown that the successor's eagerness to take over positively affects the succession process. It was revealed that the higher the level of overall satisfaction with a family firm's succession process, the higher the level of overall effectiveness of the firm's succession process. The majority of the firm member respondents claim that the successor was willing to take over the leadership of the company. Empirical data confirm the notion that the fulfilled career, psychological, and life stage opportunities that can be

found in a family business context positively affect the succession process both in terms of the overall satisfaction and in terms of effectiveness (Handler 1990, 1992).

Future search should proceed in the following directions. First, after refining some of the scales in this study that indicated lower reliability, it is important to conduct follow-up studies using different samples to ensure that the findings here are generalizable to the broad population of family businesses in the world. For example, does feasibility of succession drive the planning process in other countries and other cultures?

Second, it would be useful to determine which factors lead to more effective succession- planning processes. This paper suggests that the desire of the incumbent is vitally important for effective succession planning, but more research is necessary to determine whether this statement is valid.

Third, research is needed on the relative importance of the various components of the succession-planning process to succession satisfaction and effectiveness. For example, few studies have informed us how much succession sequencing, timing, technique, and communication matter to succession success.

Fourth, it would be important to understand the effect of relative power between incumbents and successors in family firms and the influence of these dynamics on the departure style of the parting leader.

Fifth, research focused on investigating the part that other family-related variables such as traditions and norms play on the succession planning in family firms would enhance our understanding of this process.

Finally, whatever direction future research takes us, to accumulate a more consistent body of knowledge, it is important that scholars in the field build their research programs on theories of behavior or theories of the firm. Although there are many possibilities, we suggest that the theory of planned behavior is a good fit for studying many of the critical issues, such as succession and professionalization, facing family businesses in the new millennium.

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