

Chapter 22

Succession Planning in Family-Owned Business Evidence From an Emerging Economy

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ABSTRACT

Family-owned businesses (FOBs) play an important role in the economy of a country through the creation of jobs. However, most FOBs lack strategies regarding succession planning in both developed and developing economies. This study explores the strategies that are used by FOBs to prepare future leaders. Drawing on qualitative research design, this study employed a multiple case study approach and selected 13 cases by employing a purposive sampling technique from the FOBs of Pakistan. Semi-structured interviews were conducted with the successors of FOBs. The findings reveal that succession planning is pivotal for the development of business and the successful transition of FOB from one generation to another. Most of the respondents fully understand the importance of succession planning for the sustainability of the business. However, in some cases, socioemotional aspects of generational succession planning require strategies that concurrently focus on successor suitability, the consensus of the family, mode of transition, leadership, and challenges faced by the FOBs.

INTRODUCTION

In the last decade, the phenomenon of the family owned businesses (FOBs) have received growing attention from academics and consultants. These FOBs are acknowledged as a fundamental and discrete organizational form. In many countries, FOBs are important for the creation of jobs and represent majority of companies (Aamir & Sohail, 2006). On the other side, the human resource management in any organization is struggling to maintain the workforce within the organization (Pandey & Sharma, 2014). In addition, researchers also found that many FOBs fail due to lack of succession planning (Mehrabani & Mohamad, 2011) and human capital development. In similar vein, Pasban and Nojehdeh (2016) argued

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that human resources are pivotal in gaining sustainable competitive advantage and efficiency for any organization due to communication and knowledge with customers. Therefore, labor force is considered as productive asset rather costly assets (Hendricks, 2002). Succession planning has been acknowledged as one of most pivotal processes to increase the survival of FOBs from one generation to next generation. Griffeth, Allen, and Barrett (2006) documented that small FOBs play an intensifying part for the economic stability of any country. Williams, Zorn, Russell Crook and Combs (2013) argued that family businesses contribute 57% towards GDP and generates 75% of all new jobs in US. Therefore, the continuation of FOBs, generation after generation, is pivotal for businesses and economy as a whole and succession planning is the most important decision (Molly, Laveren, & Deloof, 2010). In contrast, the succession failures can cause conflicts among family relationships that lead to the destruction of businesses (Experts, 2012). Hall and Hagen (2014) argued that FOBs have an increased chance of failing without proper succession planning. Statistics reveal that 41% Canadian SMEs owners plan to exist their business within five years while only 35% of Canadian SMEs have informal and unwritten plan for their future succession (Checkley, 2010; Wang, Watkins, Harris, & Spicer, 2004). Lyon and Hollcroft (2012) and Hoch (2013) argued that many FOBs are vulnerable and in danger of failing due to lack of appropriate succession planning both in developed and developing countries.

According to a report of Small Medium Enterprise development authority, there are 3.2 million small FOBs in Pakistan that contributes 30% of its total GDP. Moreover, FOBs generate approximately 80 percent of employment within Pakistan, therefore, the well-being and continued growth of these FOBs is imperative for a developing country like Pakistan. According to tax ordinance of Pakistan, businesses having equity up to Rs. 25 million and turnover of Rs. 200 million are termed as small businesses. FOBs are those which are run or owned by a member/members of a single family. Ward (2016) documented that FOBs need assistance in development and implementation of succession planning. Sharma, Chrisman, Pablo and Chua (2001) documented that fewer than 30% successful FOBs make it to third generation while less than 15% of FOBs can make through third generation. Similarly, researchers found that, in case of retirement or death of owner of FOBs, less than one third of businesses sustained up to second generation (Lobley, Baker, & Whitehead, 2016) and less than 10% of FOBs sustain till third generation (Breton-Miller, Miller, & Steier, 2004). Though, researchers stressed the vitality of succession process to ensure the success of FOB (Brockhaus, 2004; Poza, 2013), but still, longevity of FOBs is alarmingly low despite substantial research (Abdille, 2013; Wang et al., 2004). These failures of FOBs can have severe implications for the developing countries whose economy is heavily dependent on these FOBs. The successor makes long term or short-term strategies and takes decisions that can lead business towards prosperity or decline. The longevity of FOBs depends on the strengths of the relationships which exist among members of families upon whose skills and experience the businesses depend. Whether they act as representatives, their dedication and motivation are essential for the accomplishing of congruity in privately owned businesses. In addition, the researchers found that succession planning is quite different in large firms as compared to small family owned businesses. The large firms have proper policies of succession planning and it is quite wider, however it is limited to only family members in case of FOBs (Tatoglu et al., 2008). As many researchers who have conducted studies of FOBs have pointed out, intergenerational mobility is a key factor for their prospects of survival. Consequently, responsibility among the members of the families establishes one of the important components which ensure viable and smooth succession in FOBs (Björnberg & Nicholson, 2012). Similarly, a survey conducted by PricewaterhouseCoopers (2007) revealed that 25% of the organizations which were included in the review were likely to change hands within the next five years. It was also found that 51% of the respondents who

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