

## Chapter 8

# Strategies for Sustainable Succession Planning in Family Business

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### **ABSTRACT**

*This study investigates the extent of influence of succession planning on Thai FOBs focusing on SMEs, and the attributes/characteristics of the successors to achieve a successful family business. SMEs were identified using Thai government classifications. A total of 449 usable questionnaires were obtained from Thai FOB owners/managers in Bangkok and vicinity. Most of the firms surveyed were small FOBs. The results show that there is a higher degree of success between FOBs that have succession plan and those that do not. The results also revealed five new factors concerning Thai family-owned businesses (SMEs) succession planning. The five factors are shown in this chapter.*

### **INTRODUCTION**

Family-Owned Businesses (FOB) or Small and Medium-Enterprises (SME) contribute significantly to every nation's economy. According to Smyrnios, Tanewski and Romano (1998), Family

businesses (FB) have a major impact on the growth of the economies as employers, producers, and innovators. Despite this significance, most FOBs hardly last beyond the founder nor survive beyond the third generation. Many attribute this to lack of succession planning on the part of FOBs.

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Succession planning, a unique problem faced by FOBs, is the explicit process by which a firm will be passed on to the family's next generation to manage and control. Successful succession for chief executive officers (CEOs) is a crucial goal for these firms; without the next generation's leadership and direct management, the firm cannot survive as a family-owned firm, let alone maintain its character. Several research studies have indicated that when owners/managers retire, less than one third of family-owned businesses are continued by the next generation.

Many Studies have long stressed succession planning's importance in ensuring the continuity and prosperity of a business. Some have even gone to the extent of stating that dealing effectively with the issue of succession planning is the single most lasting gift that one generation can bestow upon the next. Unfortunately, despite cautions, succession planning appears to be left to chance by many family-owned firms especially in Thailand. Some studies attribute this apparent neglect of succession planning to the emotions generated by the process; it forces incumbents to face their mortality and makes other family members confront the need for change.

Most of the extant studies on the succession planning of FOBs have been based on Western and some Asian countries. Not much literature was found on the Thai FOBs.

The purpose of this paper is to investigate the extent of succession planning of Thai family businesses focusing on small to medium enterprises, and the attributes and characteristics of successful family business. Increasing interest has been shown in family business succession planning through regular articles in the newspapers as well as business magazines, and the empirical results from the research could be used as references for the Thai business environment in respect to succession planning, and the direction in moving this field forward in the Thai business environment.

## **LITERATURE REVIEW**

Family-Owned Businesses (FOB) or Small and Medium-Enterprises (SME) contribute significantly to every nation's economy. They are an important aspect of most nations' economic landscape, as a result, family business studies is attracting more attention from the academia in the recent years (Chrisman, Chua and Sharma, 2005).

Various studies have shown that ninety per cent of all enterprises in the united States are family businesses, that contribute between fifty and sixty per cent of the gross domestic product (Francis, 1993). Family businesses in Western Europe represent seventy-five to ninety-five per cent of all registered corporations thus contributing significantly to the respective countries' economies (Lank, 1995).

In Thailand, FOB accounted for sixty five percent (65%) of nominal GDP in 1997 (Suehiro, Akira & Wailerdsak, Natenapha (2004). Family-owned Businesses (FOB) in Thailand comprise ninety-five per cent of the total number of industrial entities of the country and employ over twenty per cent of the industrial workforce on average (Madden and Kelly, 2004). In addition, about seventy to seventy-five per cent of the businesses are family run (Sriwipa Siripunyawit, 2007). Thai SMEs accounted for over seventy-five per cent of total employment, contributed to thirty-eight per cent of Thailand's GDP in 2005 and accounted for twenty-nine per cent of total exports by value in 2006 (Thamrong Mahajchariyawong, 2007). Family businesses account for about eighty per cent of companies listed on the Stock Exchange of Thailand (Pornnalat Prachyakorn, 2009). Virasak Sutanithavibul (2009) stated that Small and Medium-Sized Enterprises (SMEs) make up around ninety-six per cent of all business enterprises in Thailand. SMEs are Thailand's major corporate tax payers with 278,191 small businesses paying 31.36 billion Thai Baht in 2008 out of the total of

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