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CHAPTER 1.             INTRODUCTION

Section 1. 1.    Background of the Study

Succession planning has been defined as the deliberate and formal process that facilitates the transfer of management control from one family member to another (Marshall, et al., 2006, citing Sharma, 1997).  It has always been a common perception that the management of a family business unit goes hand in hand with the concept of succession.   Family-owned enterprises account for a huge percentage of employment, revenues, and gross domestic product for most capitalist countries (Marshall, et al., 2006, citing Sharma, et al., 2001; Morck and Yeung, 2004).

Once the founder of the family-owned enterprise turns over the control and management of the business, the family business may continue to exist, but in many cases it loses its family character (Lambrecht, 2005).  In many family-owned organisations, incumbents end up trying to perpetuate their legacy and ensure continued family control through generational transition  (Miller, Steier, and Le Breton-Miller, 2003).  The average life span of a family-owned business has been estimated to be 24 years, which coincides with the estimated number of years that the founder of the family-owned enterprise has remained in control of the business (Lambrecht, 2005). Unfortunately, previous studies on family-owned enterprises have indicated that less than 30% of family firms are passed on to the next generation, while only 10% make it to the third generation (Lambrecht, 2005, citing Lansberg, 1999).  In other words, statistics have shown that the 30% survival rate of family businesses beyond the first generation indicates that succession fails soon after the second generation takes control of the company (Miller, Steier, and Le Breton-Miller, 2003, citing Davis and Harveston, 1998, Handler, 1990, 1992, Sonnenfeld, 1988; Ward, 1997).

The failure of generational transition or succession has resulted in the failure of many family businesses which may in turn have potential drastic effects on the economy of many capitalist countries.  Thus, this dissertation will seek to investigate the issues and challenges which plague effective generational transition in family-owned organisations.

Section 1. 2.    Research Objectives

The dissertation has the following objectives:

* To examine the impact of generational transition in family businesses.
* To analyse the impact of restructuring of the family business after the death or retirement of its founder or patriarch/matriarch heading the company.
* To compare the advantages and disadvantages of family-owned or controlled companies which opted to go public, and those which opted not to.
* To comment on the extent of government protection and limitations on family businesses.

Section 1. 3.    Research Questions

Subsection 1. 3. 1.       Primary Research Question

The primary research question for this dissertation is as follows:

“ How can family firms adequately prepare for smoother transition and restructuring in order to effectively manage the impact of generational transition?”

Subsection 1. 3. 2.       Secondary Research Questions

Based on the research objectives presented in the preceding section of this chapter, the primary research question will then be broken down into the following research questions:

* Research Question # 1 – “ What are the challenges and issues in effective generational transition of management in family-owned businesses?”
* Research Question # 2 – “ What are the steps that the business can take to ensure smooth generational transition of management?”
* Research Question # 3 – “ What are the problems that may arise in restructuring the family business after the death of the patriach/matriach/founder from the perspective of both the founder and the next generation?”
* Research Question # 4 – “ What are the conflicts that may arise between the founder and the next generation in the process of restructuring?”
* Research Question # 5 – “ What are the advantages and disadvantages for the family-owned business in going public?”
* Research Question # 6 – “ What possible alternative modes would they have in raising capital aside from an initial public offering?”
* Research Question # 7 – “ What steps can the family-owned business take to ascertain whether an IPO is their best option, and to pave the way to effectively prepare for the process of going public?”
* Research Question # 8 – “ What steps has the UK government taken in order to afford more protection to family-owned businesses?”

Section 1. 4.    Organisation of the Thesis

Chapter 1 of this dissertation presents the background of the study,  the dissertation’s research objectives and research questions, and the organisation of the thesis.  Chapter 2 discusses the research methodologies and strategies used for the study.  Chapter 3 covers the literature review on generational transition of management, while Chapter 4 discusses the impact of the death or retirement of the founder of the family-owned enterprise.  Chapter 5 examines family-owned businesses which opt to go public as a mode for financing the business, while Chapter 6 examines the government regulations which may affect family firms.  Lastly, Chapter 7 presents the conclusions of this study.

CHAPTER 2.             METHODOLOGY

Section 2. 1.    Qualitative Research Methodology

The research study will make use of the qualitative research methodology, which involves the analysis of data such as words (from articles, books, and/or interviews), pictures, or objects (such as artefacts) (Creswell and Plano Clark, 2003).  For purposes of this dissertation, the data to be analysed will be primarily derived from articles, books, and other related literature based on previous studies on the subject.

Quantitative research will be used as opposed to quantitative research which tends to focus on the collection and analysis of numerical data, such as statistics, and draws conclusions by using random sampling techniques to draw inferences from a sample population.   Surveys and questionnaires are the most typical types of data-gathering methods used for the qualitative research methodology (Yin, 2002).    This dissertation will not be making use of surveys and questionnaires, and will not look into statistical variables, as such, the qualitative research methodology will not be an appropriate research approach for this study.  Thus, the qualitative research methodology was selected as the research approach for this dissertation.  The objective of this study is to identify the factors that affect successful generational transition of family businesses.  To achieve this objective, it is necessary to gather data from previous studies and other related literature such as journal articles, white papers, scholarly papers, and books, in order to get a better understanding of the subject of the dissertation.  For these reasons, the dissertation will use the quantitative research methodology.

Section 2. 2.    Secondary Research

In attempting to meet the research objectives of this study, it is necessary to make the distinction between primary research and secondary research as sources of data.   Primary research pertains to original or first-hand data from interviews, surveys, and questionnaires.  It involves the study of a subject through first-hand observation and investigation, such as through the analysis of a literary or historical text, or through conducting surveys or interviews, as mentioned.   Primary sources also include statistical data, historical documents, and works of literature or art, and other original documents like manuscripts and other unpublished works (Creswell and Plano Clark, 2003).

On the other hand, secondary research involves data which has been previously published, usually by somebody else, or second-hand data.  It involves the examination of studies that other researchers have already made a subject of and written about before.   Secondary sources interpret primary sources, and thus can be described as one step removed from the event, issue or phenomenon which is the subject of the study.   These secondary sources include books and articles about certain issues, historical events, debates, or literary works (Creswell and Plano Clark, 2003).

This dissertation will mainly make use of secondary sources, and will only refer to primary sources as supplementary sources of data, if applicable.  Secondary research was selected as the main source of data since these cost less than primary research, and time constraints and fiscal limitations have prevented a full-blown investigation involving surveys, questions, and interviews with family-owned enterprises.   It is also difficult to use primary sources since these, being records of events as they are first described, are often without any interpretation or commentary (Creswell and Plano Clark, 2003).  Thus, secondary sources will be used as the data from which the discussions and analysis of the research objectives will be based.

Section 2. 3.    Research Strategies

There are several different research strategies under the qualitative research method, which is the research approach selected for this dissertation as previously mentioned.  In particular, this dissertation will make use of the following research strategies: the descriptive research strategy, content analysis method, and collection and analysis of other archival, administrative, and performance data.

Subsection 2. 3. 1.       Descriptive Research Strategy

The descriptive research strategy falls under the case study method, which is a common research approach falling under the qualitative research methodology.   The descriptive research strategy is used to develop a descriptive theory at the start of a research study, since this strategy provides historical insights as to what happened, how it happened, and why it happened.  The purpose behind the descriptive research strategy is to describe something through conclusive research.   This is accomplished through gathering data from multiple sources in order to bring out the details that are relevant for the objectives of this study.   The data will be taken from sources such as books, white papers, academic papers, and journal articles (Yin, 2002).

Subsection 2. 3. 2.       Content Analysis Method

This research strategy involves content analysis of pertinent documents, and is a non-intrusive form of research (Yin, 2002).  It involves the review of documents, memos, and other written information.  The examination of these documents – such as journal articles and white papers – will allow for a determination on what data should be used and integrated in the analysis and discussion of this dissertation.

Subsection 2. 3. 3.        Collection and Analysis of Other Archival, Administrative, and Performance Data

Similar to the content analysis method, this research strategy is also a non-intrusive form of research.  In this strategy, information that has been previously collected, or secondary data/secondary sources, will be reviewed to gain a better understanding of the topic (Creswell and Plano Clark, 2003).

Section 2. 4.    Purpose of Literature Review

As mentioned in the preceding sections, this study will make use of the qualitative research methodology, specifically by employing the following three research strategies: descriptive research, content analysis, and collection and analysis of other archival, administrative, and performance data.  Given the selected research methodologies and strategies, secondary sources will be the main source of data and information in order to present the issues of the thesis, and to answer the research objectives.   The presentation of the secondary sources will be through a literature review as presented in Chapters 3, 4, 5, and 6 of this dissertation.

To reiterate, the primary research question that this dissertation seeks to answer is as follows: “ How can family firms adequately prepare for smoother transition and restructuring in order to effectively manage the impact of generational transition?” In the related literature reviewed in this chapter of the study, the purpose is to uncover inferential and descriptive findings gleaned from secondary sources and how these findings may be applied to answer the 6 secondary research questions presented in Section 1. 3. of Chapter 1 of this dissertation.

CHAPTER 3.             GENERATIONAL TRANSITION OF MANAGEMENT

This section will attempt to address the following secondary research questions:

Research Question # 1 – “ What are the challenges and issues in effective generational transition of management in family-owned businesses”

Research Question # 2 – “ What are the steps that the business take to ensure smooth generational transition of management?”

Much of the related review examined for this dissertation have focused on drawing up a timely succession plan wherein financial, fiscal, legal, and emotional issues are drawn out and resolved  (Lambrecht, 2005).  One major challenge that emerged in effective generational transition is the complex relationships and competing norms that exist within a family firm which may not otherwise be present in non-family enterprises.   If traditional employee-employer relationships can be difficult in any regular company, imagine when the employee-employer happen to be father-and-son, or nephew-or-uncle, or when the subordinate is the owner’s son while the supervisor is a non-family member (Sharma, Chrisman, and Chua, 1997).

The founder and/or incumbent may also clash with the successor in terms of management strategies, values, and objectives for the company.  After all, passing on the business to the next generation marks an end to a familiar system and signifies change for the entire organisation.  Unfortunately, with change often comes resistance and confusion, especially when the employees, partners, and other stakeholders in the family-owned enterprise are not properly prepared for the change in management (Lane, 1989).  Without addressing the complex and oftentimes emotional-laden challenges that commonly accompany the process of succession, family firms may eventually decline or even collapse (Ip and Jacobs, 2006).  Due to the inherent difficulties of running family-owned businesses, previous research indicate that 7 out of 10 family businesses fail to make the transition to the second generation, while only 1 of 10 make it to the third generation, with generational transition trends indicating an approximately 60% failure rate per generation (Vera and Dean, 2005).

Section 3. 1.    Challenges and Issues in Generational Transition

Marshall, et al. (2006) in their study simplifies the issues in transition into the following paradigm:  they involve conflicts on who gets the cash, stock, leadership, and power, and who gets left out (citing Bentayou, 1999).   Other conflicts may also emerge due to unresolved family differences, communications problems, conflicting expectations, role confusion, and inability to shift roles (Marshall, et al., 2006, citing Freudenberger, et al., 1989).   This conclusion in the Marshall, et al. (2006) research is further supported by a perusal of previous studies on succession planning which show that succession fails due to a variety of factors such as, but not limited to, informal and vague succession plans, incompetent or unprepared successors, and family rivalries (Miller, Steier, and Le Breton-Miller, 2003, citing Dyer, 1986, Lansberg, 1999, Morris, et al., 1996).

According to the study by Lambrecht (2005), there are three key players in generational transition: the individual, the family, and the business.   The concept of the individual includes the incumbent (or transferor), the successor (or transferee), and other family members who have a controlling interest in the company without necessarily playing an active role in its day-to-day operations.  The family itself, in its entirety, also plays a key role.  The third player, the business, represents the object of the transfer.   Potential problems may arise since these three key players have strategies or foster values that may differ with each other’s.   For instance, the strategy of the incumbent at the individual level may involve watching over a shared family dream based on fundamental values and wishes of the family (Lambrecht, 2005, citing Lansberg, 1999).  On the other hand, at the business level, a board of directors may provide for business strategies that may not necessarily be aligned with the family’s values.  Lambrecht (2005) provides that it is important to link the values of the family with the strategy of the family business simply because, unlike a non-family enterprise, the family character of a family business will always be a force to reckon with and will always remain a firm characteristic of the family-owned enterprise.

Lambrecht’s (2005) research shows that the issue of ownership is something that all three key players must deal with, and raises many questions, such as who from the family can hold shares, on whether ownership and management should be transferred simultaneously, whether the transferor maintains a certain amount of ownership control, or whether ownership should be collectively shared.  In a study of 400 family businesses by Lansberg (1999), it was shown that a majority of owner-managers of family businesses have shown their desire to keep the family business within the family by handing it down to several children in the next generation.   The personal values of these owner-managers may likewise seep into the business itself.  Studies have shown that company values are often attributed to the founder of the business (Lambrecht, citing Cappuyns, 2002).  These same values may even place a permanent stamp on the continued existence of the business even after it has been transitioned to the next generation (Lambrecht, 2005).

Family dynamics play an important factor in successful transition, according to the study by Miller, Steier, and Le Breton-Miller (2003).  Family dynamics, as manifested in parent-child interaction patterns, exist within a family even before succession planning takes place, and may even be lodged in the family history of the heir apparent and his or her parents.  These parent-child interactions may influence how the successor will ultimately end up running the family business.  According to Miller, Steier, and Le Breton-Miller (2003), the successor’s interactions with his parents during his early life may have an enduring impact on the personality, values, and behaviour of the child.  During the normal process of development, children will alternately identify themselves from their parents, with the child either adoring or rebelling against especially strong and forceful parents.

By the time these children enter their late adolescence, these interactions would have stabilized into enduring patterns of interaction (Miller, Steier, and Le Breton-Miller, 2003, citing Boszormenyi-Nagy and Spark, 1973, Minuchin, 1974, Stierlin, 1974, Winnicott, 1971).  These patterns of behaviour may become an issue during succession planning since the founders of many successful family firms are usually very strong, forceful, and imposing personalities.  The children of these founders often have to compete with a powerful ego and the business itself to get attention from their parents.   Research on family psychodynamics have shown that children may have a hard time establishing their own independent identities under the shadows of these powerful parental figures.  To make matters worse, some business leaders regard their company and their children as extensions of themselves, and end up trying to control both.  The result is a child and heir apparent who is too weak to pursue his own course, especially in matters which concern the family business  (Miller, Steier, and Le Breton-Miller, 2003).

Miller, Steier, and Le Breton-Miller (2003) point out in their research that the reverse can happen in these parent-child interactions: instead of a highly dependent child, a rebellious child may emerge from these family dynamics, resulting in a rebellious adult successor.   These children may have initially undergone periods of parental idealization at a young age, but then come to realize that this may cost them their freedom and egos.  When their parents show disappoint or distance to these children, the latter may opt to mark out their own paths, and the earlier idealization may turn to opposition as the child attempts to gain independence.  This attempt can engender rebelliousness to the extent that the child may rebel completely against the family business itself.   Appointing a rebellious child as the successor may result in the wholesale dismantling and rebuilding of the family firm under the helm of such success who is hell-bent on doing things differently from his or her parent.   Succession represents the opportunity for the successor to show his independence, competence and originality – distinct and separate from the founder (Miller, Steier, and Le Breton-Miller, 2003).

#### Subsection 3. 1. 1.       Kinds of Succession

The study by Miller, Steier, and Le Breton-Miller (2003) identified 3 types of successions which may take place under a particular leader: 1) conservative succession; 2) wavering succession; and 3) rebellious succession.

Conservative Succession

In this type of succession, the successor remains in many way dependent on his predecessor, even after the latter has resigned, retired, or died.  The successor thus remains under the shadow of the transferor, guided primarily still by the founder’s values, vision and strategies.  This kind of succession is most commonly seen in the case of a forceful parent and a dependent child who eventually succeeds the parent in the family business.  The problem with this type of succession is that family business will undergo very little change in their goals, business scope, product lines, or markets.  Management will tend to focus on addressing internal problems rather than seizing opportunities for growth and expansion.  In many cases, even the founder himself stays on the board of directors, checking up on his successor or even second guessing the decisions of the latter.  Unfortunately, this type of succession have can dire results, especially in the changing environments in which the family business find itself in (Miller, Steier, and Le Breton-Miller, 2003).

Conservative succession may reject free-thinking employees, and alienate customers wanting new products.  This kind of succession happens most frequently in family firms which have been strong and steady performers throughout many years, with ample market power and no major competition.  Conservative succession may also be more common in cases where the founder had been a very prominent and powerful business leader in his day, and has retained financial control even after he or she has retired from the business (Miller, Steier, and Le Breton-Miller, 2003).

Wavering Succession

This kind of succession is characterized by indecision of the successor who wants to leave his or her mark on the compact, but are uncertain as to how.  They respect the policies and traditions of their predecessor, but at the same time they want to exert influence and show their independence.   Their decisions are thus marked by much indecisiveness, by starting and stopping business strategies midway, resulting in wastage of resources and confusion among the employees.   Usually, the old organisation left by the predecessor remains in place, with the wavering successor adding new units or divisions often composed of recently hired employees as attempts to inject new blood into the organisation.   According to Miller, Steier, and Le Breton-Miller (2003) however is that these new units or divisions are usually not well integrated with the rest of the company, and often ends up in conflict with the “ old guard.”   The mix of veteran employees, managers, and board of directors with the number of new, usually younger recruits, often causes conflicts across the board room.  The most glaring consequence of this type of succession is that the family firm is never able to converge on a sound new strategy, due to the uncomfortable mix of old and new employees and strategies which upsets both employees and clients, and wastes resources of the company  (Miller, Steier, and Le Breton-Miller, 2003).

###### Rebellious Succession

With rebellious successions, the successor rejects in entirety the legacy left by the predecessor.   There is wholesale dismantling and rebuilding of the past and its practices by introducing far-reaching changes in the company, as to its product-market scope and its functional business strategies.   This type of succession is rarer than conservative or wavering succession, as rebellious children often decide not to go into the business or are themselves discouraged from doing so by their parents.  However, if rebellious children do decide to ascend to power, their focus is to do things differently from their predecessor and to maintain an independent identity complete and separate from that of the prior generation.  Unfortunately, the far-reaching changes oftentimes introduced by rebellious successor may have drastic effects on the organisation.  Changes in values, goals, roles, reporting relationships, patterns of communication, information systems, compensation and hiring may result from this kind of succession.  The changes may not necessarily relate to the needs of the business and may end up merely being radical upheavals which ultimately deplete company resources  (Miller, Steier, and Le Breton-Miller, 2003).

Section 3. 2.    Recommendations for Effective Generational Transition

The succession planning process has many components which include selection and training of a successor, and development of a succession plan (Marshall, et al., 2006; Sharma, Chrisman, and Chua, 2003).  Studies conducted by Marshall, et al. (2006), has also shown that relational leadership has been the most effective type of transition as compared to rebellious or wavering succession.  Relational leaders promote family harmony, positive relationships (Marshall, et al., 2006, citing Goldberg, 1996: Malone and Jenster, 1992; Morris, et al., 1997, Seymour, 1993), and informal and formal succession planning.

The literature on family dynamics presented in this chapter has also shown the important role that parent-child interactions play in the development of the successor’s sense of identity and personality.   The kind of upbringing that children receive at home is crucial for a future career in the family business (Lambrecht, 2005, citing Gallo, 2002).  The successor learns about the values, history, and culture of the family firm as a child, since this is the period during which he or she gets to observe how the family deals with the problems of the organisation that develop over time.     Whether the child ultimately embraces or rejects the family firm as an adult depends on a large part on the example given by his or her parents and other family members (Lambrecht, 2005).

Lambrecht (2005) further provides for 5 recommendations for successfully transferring the family business from one generation to the next:

* The first way is when the successor or successors took the lead. The succeeding generation took the initiative in the continuation of the business, based on their own interest, ambition, or sense of motivation.  These factors make these successors feel that they are empowered to continue the family firm as suitable successors.
* The second way is at the explicit request of the founder. The founder or owner-manger prefers that the family firm be continued by family members, or want their family members to grow or maintain the health of the business.  These founders should directly ask potential successors directly whether or not they want to join the family business.
* The third way arises from a moral sense of duty among the successor who may chose to remain involved with the family-owned enterprise in order not to disappoint a parent or predecessor. These successors would also not passively stand by and watch the family business get wasted away or abandoned.  According to Lambrecht (2005), oftentimes these successors had other individual plans – studying, developing their own skills, starting a career outside the family business – but circumstances (such as illness of predecessor) caused them ultimately to end up in the family business.
* The fourth way involves predestination – the successors are predetermined. They have been tried and tested in the family business by having been employed therein for a sufficient number of years.  These successors in their early years lent a hand in the business during vacations, weekend, even on school evenings.
* The fifth way is founders giving possible successors an indirect soft push from behind, urging them to join the family business without necessarily pressuring them to do so.

The study by Lambrecht (2005) also identifies 6 stepping stones for the effective transfer of the family firm from one generation to another: 1) entrepreneurship; 2) studies; 3) formal internal education; 4) external experience; 5) official start in the family business, beginning at the bottom of the career ladder; and 6) written plans and agreements for succession.  These 6 stepping stones are more specifically discussed as follows:

* Step 1: Entrepreneurship . This involves the transfer of professional knowledge, management values, entrepreneurial characteristics, and the soul of the family business to the next generation.  Lambrecht (2005) distinguished 3 life stages of the child that influenced the transfer of professional knowledge to the future successor.  Up to age 11 years old, the business was a playground and a plaything for the child.  By age 11 to 15 years old, the possible successors start performing light activities in the family business during their weekends and school breaks.  This way, potential successors, even at such a young age, learn the secrets of the product and the tricks of the trade.  It is important at this point that the child is not pressured or coerced by the parents to participate in the business, otherwise the young family members would perceive the family firm as a burden which they might feel compelled to shake off later on in life.   Management values are transferred through the way the child is brought up, and it is important that the potential successor shows enthusiasm for the family firm.  Family dynamics and the parent-child interaction, as earlier discussed in Section 3. 1. of this chapter play crucial roles at this stage.   Family values such as honesty, respect, partnership,  hard work, and perseverance are entrepreneurial characteristics central in rearing a child to become a potential successor.  In addition, symbols such as the family home, portraits of predecessors, and other reminders of the family tradition and heritage may help to forge the relationship between the family and the firm, and between the different generations (Lambrecht, 2005).
* Step 2: Studies . It is advisable for successors to earn an advanced degree before full-time entry into the family-owned enterprise.  According to the research by Lambrecht (2005), in a number of cases, the studies of the successor were oriented toward the sector of the family business, while in other cases, potential successors were free to choose a discipline.  In either case, the diploma should be a condition for being able to work in the family business, in order to dispel notions by non-family members, board members, and other employees that the successor is qualified for the position.
* Step 3: Formal Internal Education . Providing formal internal education for family members at a young age can help potential successors to learn about the figures of the business, its future, and its values during organized training sessions and attendance at meetings of the board of directors.  Apart from teaching the potential successor on the operations and conduct of the business, this step also allows the incumbent to identify the brighter and more promising members of the next generation.  It also allows the board of directors to become familiar with potential future managers.  Formal internal education is best achieved through mentoring, with the mentor either being a family member or non-family member (Lambrecht, 2005).
* Step 4: External Experience . This step involves the acquisition of outside work experience in other companies, whether or not abroad.  This allows the successor to gain knowledge and worldly wisdom, and thereby gain self-confidence (Lambrecht, 2005).
* Step 5: Official Start in the Family Business . Lambrecht (2005) makes a distinction between the successor beginning at the bottom of the ladder in the family business, and freedom for and by the successor.  Before the potential successor holds a management position, it is advisable to pass through the different departments in the business.  This way, the successors can prove themselves, win the confidence of employees, and discover the business, the sector, and the customers.   Leadership by the next generation means acquisition of credibility, thus it is important for successors to receive the necessary breathing and manoeuvring room from transferors so that the successors may learn from their mistakes, and to discover who best assumes the respective responsibilities within the company.  On the other hand, freedom for the successor involves taking responsibility, respecting the previous generations, asking for advice from the incumbent owner-manager, and understanding that the past of the firm denotes its very foundations.
* Step 6: Written Plans and Agreements . According to Lambrecht (2005), the successor and transferor must collaborate together with the board of the directors, and the rest of the key players in the company, to prepare plans and agreements, and other measures, in the event of certain doomsday scenarios, such as the death or retirement of a family member.  These written plans are not an absolute guarantee for a successful transition of management, and poor planning may be disastrous to the company in succession, but for the sake of maintaining family peace, and in order not to encourage fear and confusion within the business during transition, timely written agreements and plans would help to ensure that everyone is at least on the same page with regard to the succession of the business.

CHAPTER 4.             DEATH OR RETIREMENT OF THE FOUNDER

This chapter will discuss the impact on restructuring the family business after the death or retirement of the founders or patriarch/matriarch.   It will seek to address the following research questions as outlined in Chapter 1, Section 1. 3. of this dissertation:

Research Question # 3 – “ What are the problems that may arise in restructuring the family business after the death of the patriach/matriach/founder from the perspective of both the founder and the next generation?”

Research Question # 4 – “ What are the conflicts that may arise between the founder and the next generation in the process of restructuring?”

Section 4. 1.     Problems in Restructuring the Family Business After Death or Retirement of the Founder

In the study by Marshall, et al. (2006), it was shown that approximately 70% of founders of family-owned enterprises have shown resistance to the process of preparing for transition.   In the same research, it was indicated that only 28% of all family firms surveyed had a success plan (Marshall, et al., 2006, citing Lifeline of Success, 1999).  Despite the fact that 80% of the family businesses surveyed in the Marshall, et al. (2006) study indicated that they want their business to stay in the family, 25% of the owner-managers of those companies have not even completed any other estate plan apart from the mere preparation of a will.   The estate plan these owner-managers prepare tend to refer simply to their own personal will, and does not necessarily cover all the important aspects of the family firm itself.   Thus, even though owner-managers indicate the desire or intention to transition the family business to the next generation, this intention is not always coupled with action or adequate preparation to make the transition actually possible.

Sharma, Chrisman, and Chua (2003) identified two dimensions  in successful generation transition in family-owned businesses.  The first dimension involves satisfaction with the process, while the second dimension involves performance of the firm after succession.   The research by Sharma, Chrisman and Chua (2003) showed that incumbents and successors differ significantly in their perceptions about each other and about relationships.  It is important to take note of these different perceptions since generational transition must prepare for accommodating these different perceptions and views.

According to Sharma, Chrisman, and Chua (2003), incumbents and successors agree that succession planning and family members’ acceptance of individual roles in the business contribute to their satisfaction with the succession process, and that the decision by family members to continue the business is not an important determinant of their satisfaction.  However, incumbents and successors differ in terms of whose attitude is more important in determining their own satisfaction with the process.  The founder or owner-manager believes that the willingness of successors to take over is a significant contributor to their satisfaction, but that their own propensity or willingness to step aside is not an important factor.   On the other hand, successors believe that the founder’s propensity to step aside strongly affects their satisfaction, and that their own willingness to take over has no effect  (Sharma, Chrisman, and Chua, 2003).

The study by Sharma, Chrisman, and Chua (2003) also emphasizes the importance of investigating more than one stakeholder group when studying succession in the family business.  As such, this dissertation deems it relevant to investigate these conflicts between the generations by examining the perspectives of both the founder (incumbent) and the successor.

Section 4. 2.    Conflicts Between Generations

Subsection 4. 2. 1.       Perspective of the Founder

The problem perhaps is that there is an assumption that just because the owner-manager is getting older, he or she automatically plans for succession.  According to the research by Marshall, et al. (2006), aging of the founder actually increases the likelihood of disability or death, with an increase in the desire to retire.  The children or heirs apparent may exert pressure to wrangle control from the founders, or to force their parents or elders to at least initiate succession or estate planning.  Additional pressure on the founder to prepare for succession may also come from the board of directors or professional advisors.  Yet as earlier indicated, only about 25% of family-owned enterprises have succession plans, with previous studies indicating that most owner-managers actually fail to plan for transition even when they approach retirement age (Marshall, et al., 2006, citing Sorenson, 2000a).

The study by Lambrecht (2005) identified 3 key reasons why founders found it important for the family to continue the family business and to keep management and control within the family:

* Fulfilment of Values . According to Lambrecht’s (2005) research, three values formed part of the family heritage: wanting the best for the work team, love for the product, and the independence of the family business from outside control.
* Preservation of the Family Name . The family name has great emotional and symbolic significance since it represents the rich history of both the family and the business.  The achievements, and sacrifices of the previous generations, as well as the authenticity and excellence of the product, are all intertwined in the family name.  Since the family name stands on the product, the family, and most of all the founder or owner-manager, feels responsible for it.  Thus, the family name summons up a feeling of pride and reassurance that the founder wishes to maintain for the family business even after transfer of management (Lambrecht, 2005).
* Exploitation of the Advantages of the Family Business . This means taking advantage of long-term vision, versatility, and life engagement, as well as retaining the influence of the family on the business and particular industry in where it participates (Lambrecht, 2005).

According to the study by Marshall, et al. (2006), founders may neglect planning adequately for transition due to a number of reasons.  The primary reason identified in the study was that founders often feel a sense of hesitancy when confronting their own mortality.   This hesitancy is rooted in the fact that their life and sense of personal purpose is often very closely intertwined with the family business they built from scratch.   The family business provides for a steady income for the founder, his sense of identity and purpose, and his feeling of prominence as attached to his position.  The desire to build the business into a legacy likewise contributes to the founder’s sense of immortality which is closely tied to the business (Marshall, et al., 2006, citing Sonnenfeld, 1988).

Marshall, et al. (2006), further explored two types of leadership among founders of family-owned enterprises: autocratic and relational leadership. Autocratic leaders retain key information and decision authority, and basically pressure or force others around him or her to agree to whatever he or she imposed (Marshall, et al. 2006), Bass, 1990).  Previous literature further cited by the Marshall, et al. (2006), study showed that the predominant kind of leader in a family firm has been characterized as autocratic or paternalistic.  Unfortunately, this type of leadership has had negative impact on transition planning, as autocratic founders may agree to forming succession plans, but not necessarily put work into actually developing a formal succession plan that would include other people (Marshall, et al., 2006, citing Sorenson, 2000b).  It may be because the mere fact of relinquishing control to anyone else is something that the founder may not quite be ready to accept.

On the other hand, relational leaders focus on maintaining positive social and emotional ties, developing trust and open communication, and inviting other key players in the family firm to participate in succession planning (Marshall, et al., 2006, citing Bass, 1990).  Research has shown that relational leaders produce high satisfaction and commitment, and high group cohesiveness which ultimately lead to smooth and effective succession planning, oftentimes preceded by a formal succession plan (Marshall, et al., 2006).

The research study by Lambrecht (2005) pointed out that although the acquisition of credibility is identified with leadership by the successor, nevertheless, leadership means the ability of the founder to let go.   Founders who are adept in the art of letting go significantly increase the chance of a successful transfer.  The owner-manager has the responsibility of giving the successor a certain amount of freedom, confidence, and opportunity to discover and cultivate their own responsibilities and to learn from their own mistakes.  According to the Lambrecht (2005) study, “ successors indicated that by receiving room to move, they in turn learned to give room” (p. 379), this helped to pave the way to a successful transition.  On the other hand, “ if the successors were held tightly in the transferors’ grip, they could act destructively when they suddenly gained their freedom.  Some would not even recoil from dragging the business down with them” (Lambrecht, 2005, p. 379).

Lambrecht’s (2005) study also emphasized the role of the wife/mother, whether or not she was active in the family-owned enterprise.   The wife/mother may serve as the guardian of the family values, advisor to her husband, and the cohesive agent between the family members themselves, and between the family and the business.  She could put a negative stamp on the family business as well, depending on her attitude towards the business which her children may pick up on and adapt.  The active cooperation of the wife/mother in both the business and the family has a positive impact on the successor  (Lambrecht, 2005).

#### Subsection 4. 2. 2.       Perspective of the Successor

The choice of successor is usually predetermined by blood, then it becomes a matter of identifying the problematic outcomes of transition, and in helping the incumbent to deal with them, since the choice of a successor has already been predetermined (Miller, Steier, and Le Breton-Miller, 2003).

The research conducted by Ibrahim, et al. (2004), suggests that there are 3 critical factors to an effective human resource strategy concerning the selection process of a successor.  These three factors are discussed as follows:

* Leadership Attributes . Ibrahim, et al. (2004) identified a number of leadership traits and skills in their study.   These include the capacity to lead and influence others, the ability to motivate, communicate, and resolve conflict effectively.   Leadership is “ the most important element in the success or failure of organisations” (Ibrahim, et al., 2004,  476, quoting Bass, 1990), and plays a critical role in the family business’ ability to respond competitively to changing environments.   45% of firms’ performance is attributed to its leadership (Ibrahim, et al., 2004, citing Day and Lord, 1986).  The ability to resolve conflict effectively is a key personal attribute of successful leaders, with motivation and communication also playing critical attributes for effective successors (Ibrahim, et al., 2004, citing Fiedler, 1986, and Foster, 1995).
* Management Skills and Competencies . According to Ibrahim, et al. (2004), successors need the following management skills and competencies to ensure not only effective transfer but also successful performance after the retirement or death of the founder:  strategic planning, market positioning, financial and general management, and industry-specific existence.  These findings by Ibrahim, et al. (2004) are further supported by research evidence in entrepreneurship, strategy, and general management literature (Ibrahim, et al., 2004, citing Mintzberg and Waters, 1982, Ibrahim and Kelly, 1986, Ibrahim and Goodwin, 1986, Hambrick and Mason, 1984, Pfeffer, 1983).   General management skills are necessary for successful performance by the successor, including managerial skills in strategy making.  The successor’s skills should include managerial skills such as knowledge of various functional areas, such as industry-specific knowledge (Ibrahim, et al., 2004, citing Foster, 1995), which should include knowledge of industry characteristics, strategic groups (Ibrahim, et al., 2004, citing Tsoukas, 1996), and the ability to improve the financial performance of the family business (Ibrahim, et al., 2004, citing Churchill and Hatten, 1987).
* The Successor’s Commitment and Respect . The Ibrahim, et al. (2004) study also identified the successor’s commitment, motivation, and respect to family and non-family members as critical attributes for an effective successor.   The founder’s reluctance to let go of the family business may discourage offspring from participating, and may make them lose interest in assuming the leadership role in the family business (Ibrahim, et al., 2004, citing Stavrou, 1996, 1999, Lansberg, 1991, Handler, 1989).  On the other hand, previous studies cited by Ibrahim, et al (2004) indicate that offspring intention and motivation to join the family firm and to take control of the business has a positive impact on successful transfer (Davis and Tagiuri, 1989; Ward, 1987).

Sharma and Irving’s (2005) research identified 4 shades of successor’s commitment to the family business, which represent 4 distinct mind sets of the successor which may make or break the family-owned business after generational transition.  The 4 shades of commitment are as follows:

* Affective Commitment . This is based on a strong belief in and acceptance of the organisation’s goals, combined with a desire to contribute to the company’s goals, and the confidence in one’s ability as a successor to achieve these goals.   In other words, a successor with affective commitment “ wants to” pursue such a career in the family business (Sharma and Irving, 2005).
* Normative Commitment . This shade of successor commitment is based on feelings of obligations to pursue a career in the family business.  By pursuing a career with the family-owned enterprise, the successor attempts to foster and maintain good relationships with the older generation.  In this type of commitment, the successor feels that “ ought to” pursue such a career, not necessarily because they want to (Sharma and Irving, 2005).
* Calculative Commitment . This is based on the successor’s perception of substantial opportunity costs, and threatened loss of investments or value if they do not pursue a career in the family firm.  In this case, the successors feel they “ have to” pursue a career in the family business (Sharma and Irving, 2005).
* Imperative Commitment . This is shade of successor commitment is based on a feeling of self-doubt and uncertainty of the successor in his or her ability to successfully pursue a career outside the family business.  They feel as if they lack alternative to a career outside the family firm, and thus feel that they “ need to” pursue a career in the family-owned enterprise (Sharma and Irving, 2005).

CHAPTER 5.             GOING PUBLIC

This section will seek to address the following 3 secondary research questions as outlined in Subsection 1. 3, Chapter 1 of this dissertation:

Research Question # 5 – “ What are the advantages and disadvantages for the family-owned business in going public?”

Research Question # 6 – “ What possible alternative modes would they have in raising capital aside from an initial public offering?”

Research Question # 7 – “ What steps can the family-owned business take to ascertain whether an IPO is their best option, and to pave the way to effectively prepare for the process of going public?”

Family business leaders have often been described as the best and brightest executives in their industries, since the nature of family businesses requires professionalism, innovativeness, and aggression in order to expand in terms of productivity, efficiency, and indeed survival.   For instance, J. W. Marriott, Jr., succeeded his father as CEO of the Marriott Company in 1972 when revenues were nearing $ 200 million.  Today, at the twilight of his career, J. W. Marriott, Jr. leads the company at $9 billion, with 140, 000 employees in the international company.  Under the “ junior’s” guidance, the family business grew to 45 times the size of the company his father passed on to him (McGivern, 1989).

According to the research by Lambrecht (2005), the transition of a family business entails transfer of ownership, management and governance.   For the sake of financial independence, most families wish to keep ownership of the business in their own hands.  Due to many sacrifices made for the business, loss of ownership is something that the family cannot emotionally tolerate.    There are families however for which the possession of shares is not an absolute requirement.  The family may no longer own the business, but the son or daughter may nevertheless constitute the top management.  Market conditions may force the family to recognize the need to abandon ownership gradually in the interest of the business, such as internationalisation of the sector and elimination by several big players or competitors.  The Lambrecht (2005) research provides that in all cases where the family still held the ownership of the business, only the active family members were shareholders, thus preventing non-active family members from collecting dividends and profiting from the work of the active family-members.  In most of the cases, successors were co-shareholders at the time of their official entry into the business, allowing them to immediately become a part of the family business.  The gradual expansion of the shareholding served to motivate these successors, with day-to-day management of the firm being held in the hands of the family in most cases.   In a number of cases, day-to-day management may be shared with outside managers as well, with these outsiders sometimes remaining with the firm until the new generation is ready to run the family business (Lambrecht, 2005).

It is not uncommon for family businesses to be anxious about ceding too much control to outside parties – there is that mentality of keeping the business “ within the family.”  As a result, they would rather run the risks inherent in managing an undercapitalised business rather than seeking help from an external equity investor.   The decision to resort to an external equity investor, or to go public, depends on the family business owners’ goals and objectives.   If the family business wants to raise capital to expand the company, going public can be a less expensive means of doing this than long-term borrowing.  Many small- to medium-sized family businesses go public to leverage the influx of new capital to grow their businesses so that they would be able to compete with much larger companies (Filatotchev, Lien, and Piesse, 2005).

Section 5. 1.    Initial Public Offering

In the US, 1 in 5 private companies in the $5 million to $50 million annual sales range end up regretting going public later on.  8 out of 10 family businesses that go public end up restructuring compensation arrangements within the company.  Many investment banking and strategic consulting experts have actually strong advised family businesses to think twice before taking the step of going public.   Owners of family businesses often get too caught up in the financial rewards or ego gratification that may result from a successful stock offering and fail to see the difficult realities of becoming and succeeding as a public company (McGivern, 1989).

When entrepreneurs are forced to take their attention away from business operations to deal with the intricacies of an IPO, it can often have disastrous effects on the family business involved.  Going public has been described as an incredible drain on management’s time. The decision to go public brings on many new responsibilities, and the owners of a family business – whether big or small – should consider all information pertaining to these new responsibilities so that they will be able to make an informed decision on what would be for the best interest of their family business  (Filatotchev, Lien, and Piesse, 2005).

An initial public offering (IPO) is the most commonly utilized method of going public with a business.  It involves registering the family business’ stock with the Securities and Exchange Commission to sell shares to the public.   Although an IPO is a gruelling and expensive undertaking with no guarantee of resulting success, many family businesses opt to go public for the following reasons (Mroczkowski and Tanewski, 2007):

* To obtain funding
* For the owner or owners to gain personal wealth (in other words, an IPO may be used as an exit strategy)
* To raise the family business’ profile, and to gain more awareness and attention for the company
* To build a company for the long haul, as opposed to a “ flip” in the near term
* For ego, to allow the owner to join the “ club” of large, successful, public multi-national companies.

Subsection 5. 1. 1.       Advantages of Going Public

Gruelling and risky a process as it may seem, going public still has some important benefits for the family business.  First and foremost, going public allows the company to raise significant amounts of capital which will allow it to expand its business.  Going public as a vehicle to raise capital in great amounts, at perhaps less cost than alternative methods, allows the family business to expand its current operations and to compete with larger companies in the industry (Mroczkowski and Tanewski, 2007).

Some of the other advantages of going public include the following:

* Accessibility to capital markets
* Higher valuation and liquidity
* Facilitation of estate-planning considerations (since taxable value is readily determinable)
* Attractive acquisition alternatives
* Attractive employment compensation alternatives
* Prestige associated with being a “ reporting” company (Filatotchev, Lien, and Piesse, 2005).

Going public will allow the family business to attract more and potential investors.  This will lead to greater access to capital which may be necessary in developing the family in a way that would be impossible without external equity investors (McGivern, 1989).

Another advantage to going public is that it makes it easier for major owners to cash out of the business by selling their stock to other shareholders.  Officers and directors will have an easier time selling their interests should they decide to diversify or retire from the family business (Mroczkowski and Tanewski, 2007).

It also allows the company to quickly value their business, and to attract better personnel as the family business will be able to offer stock options.  Stock options have the potential to substantially gain in value.  In addition, generally the personnel will not have to invest as much of their own money in the company.  The company can also make greater acquisitions since publicly-traded companies can use its stock as currency (Mroczkowski and Tanewski, 2007).

One major intangible advantage of going public is that it lends a certain amount of credibility to the family business.  Lenders, investors, and clients may be more inclined to participate in the business based on their perceptions of a publicly traded corporation.  In other words, the family business becomes more visible.   Publicly-held companies tend to attract more media attention and are more well-known in general than private companies.  Thus, the owners will be able to greatly promote their company, as they gain publicity and an image of stability through trading publicly (McGivern, 1989).

Subsection 5. 1. 2.       Disadvantages in Going Public

Unfortunately, going public also has its drawbacks or disadvantages for the family business.  Briefly, some of the disadvantages to going public may be listed as follows:

* Expensive and time-intensive process
* Public disclosure
* Loss of management flexibility due to mandatory reporting requirements
* Dilution and loss of control
* Ongoing expenses
* Exposure to litigation (McGivern, 1989)

Each of these disadvantages will be discussed more extensively in this section.

By far, the single biggest disadvantage to taking the family business public is loss of control.  When the family business takes on shareholders, it also takes on an additional burden of accountability to these shareholders.  Depending on the number and size of the company’s shareholders, the family may even lose a significant amount of control over day-to-day operations  (Filatotchev, Lien, and Piesse, 2005).

The ramifications of going public may also be difficult to handle for an individual or family that have grown accustomed to running their business with a much freer hand.  The family business will have to get used to the Securities and Exchange Commission, and so many other people looking over their shoulders, once they go public.  For someone who started the business years ago and is used to running it his or her own way, this can be very difficult.  As a public company, the stock is being analysed, as well as bought and sold, by stockholders who are independent of the company and are most likely non-family members (Filatotchev, Lien, and Piesse, 2005).

Gaining public shareholders may reduce a business owner’s control over the company, especially if shareholders are given approval power over business actions (McGivern, 1989). The price can no longer be controlled, and often, a few well-organized outside, non-family member stockholders owning only a minority of the stock in a business can effectively control the company.  This means going public always means some family members lose or must change jobs due to SEC disclosure requirements and the added responsibility of answering to the public about costs (Filatotchev, Lien, and Piesse, 2005).

Another drawback is that going public takes time and money – the family business needs to conduct research on how much time and money it would spend before commit itself to de-privatisation.  Going public requires a time commitment in set up and in statutory compliance.  The adverse result of this is that it takes away the owners’ and managers’ attention from the everyday management of the company.   Going public also requires money, since the company would need to pay for the time spent compliance with statutory regulations, and in paying legal counsel when setting up and maintaining the public offering (Filatotchev, Lien, and Piesse, 2005).

Going public also creates many new legal obligations for the family business.  These include keeping stockowners or shareholders informed about business operations, management, legal issues, financial standing, and business costs.  Company time and money will be spent dealing with these and additional compliance issues.  Should a company fail to comply with these requirements, liability issues may also arise (Filatotchev, Lien, and Piesse, 2005).

Section 5. 2.    Alternative Modes to Going Public

There are alternative modes o