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Succession Planning in SMEs

An Empirical Analysis

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This study reports the results from a survey of 368 family-owned small to medium size enterprises (SMEs) with regard to the importance, nature, and extent of succession planning. By categorizing SMEs according to their annual revenues, total number of employees, and number of family members employed within the firm, significant differences were found between larger and smaller firms. Consistent with extant literature, the findings reveal that most family members join the firm for altruistic reasons. Issues related to family relationships were rated as significantly more important in firms in which more family members were employed within the firm. Moreover, for firms with less than US$1m in revenues, a high priority is placed on selecting a successor who possesses strong sales and marketing skills. The findings show that regardless of their size, it is important for family-owned businesses to develop a formal plan for succession, communicate the identity of the successor, and provide training/mentoring to the incumbent CEO.

Introduction

Researchers have long stressed the importance of succession planning in ensuring the continuity and prosperity of a business (e.g. Brockhaus, 2004: Christensen, 1953; Ward, 1987; Ward, 2000). 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 (Ayres, 1990). Unfortunately, succession planning appears to be left to chance by many family-owned firms (e.g. Leon-Guerrero et al., 1998; Mandl, 2004; Rue and Ibrahim, 1996). Some researchers 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

(Beckhard and Dyer, 1983; Dyer, 1986; Lansberg, 1988; Le Breton-Miller et al., 2004; Sten, 2004).

Additional complications arise because the CEO succession process within small family-owned firms is quite different from that of large firms. This is due in large part to the coincidence of family and business interests in the smaller firms (Davis, 1983; Fox et al., 1996; Lansberg, 1983). For example, in larger corporations the date at which the CEO is replaced is usually agreed upon in advance and is controlled by the Board of Directors. Also, the frequency of succession is greater in larger firms in part because these companies themselves produce a larger number of possible successors (Gorden and Rosen, 1981). On the other hand, in a typical small or medium sized family-owned firm, there is unlikely to be any consensus on when succession is going to take place. Moreover, the number of family successors is limited to the number of family members.

Bagby (2004) notes that, while past CEO succession research and modeling have focused almost exclusively on large publicly traded firms, the majority of family firms are smaller businesses. This difference has an implication for *who* makes the decision regarding the successor, because boards are either absent from the smaller firm or have relatively little power vis-a-vis the founder-owner. Thus, size of the firm (in terms of extent of family involvement, geographical market served, and/or financial assets) becomes an important consideration for future family-owned business (FOB) research (Bagby, 2004: 331). In other words, the need for succession research focused on small to medium size enterprises (SMEs) is especially critical (Brockhaus, 2004; Stavrou, 2003).

Within family-owned organizations, unique sets of issues arise. This is because the presence of the 'family' dimension in addition to the 'business' dimension of the enterprise means that additional factors must be taken into account to understand organizational planning processes. Family-owned firms are organized around a set of emotionally charged interpersonal relationships that can lead to positive or negative consequences (Gudmundson et al., 1999). In short, 'what works for one family in one situation will not work for another family in another situation' (Sharma et al., 1997: 17). Differences are reflected in the goals, strategy, implementation and organizational performance of family firms (Sharma et al., 1997; Stummer et al., 2004).

Since family firm leaders remain closely tied to their firms even after transferring its leadership to their successors, it is important for them to feel comfortable with the critical factors such as family dimensions and attributes of their successors, including skills and qualifications (Drozdow and Carroll, 1997). The succession process in family-owned firms involves numerous participants. Other family members, other executives in the firm, suppliers, bankers and customers affect the behavior and expectations of the CEO parent and employed offspring. For the succession process to unfold smoothly, key participants must come to feel comfortable with one another.

Recent statistics for the USA indicate that 39% of FOBs will change leadership within the next 5 years, as CEOs retire or semi-retire (Mass Mutual Financial Group/Raymond Institute, 2003). In the same vein, Mandl (2004) notes, that from 2004 to 2012, approximately 23% of all Austrian businesses will face a business transfer and that only a minority of these firms have a specific written transfer plan. Unfortunately, several research studies (Beckhard and Dyer, 1983; Lansberg, 1988; Maynard, 1999) have indicated that when owners/managers retire, less than one-third of family-owned businesses are continued by the second generation, and less than half of second generation firms make it into the third generation (Le Breton-Miller et al., 2004). Consequently, successful succession of CEOs is a crucial goal for FOBs; without the next generation's leadership and direct management, the firm cannot maintain its character, let alone survive (Barach and Ganitsky, 1995; Birley, 2002).

This is not a trivial issue. Family-owned businesses are the backbone of economies worldwide representing on average over 90% of the firms within democratic countries (Davis and Harveston, 2000; McCann et al., 2001; Mandl, 2004; Poza, 2004). The importance of studying family firms has long been recognized as they have been a catalyst for economic growth and creation of wealth (Shanker and Astrachan, 1996). The Austrian government for instance, has considered SME transfer so critical that they have conducted two recent and very exhaustive studies to improve the quantitative basis for observing and assessing the process of SME transfer (see Mandl, 2004).

The present study is unique in that it employs several descriptive variables that have not been employed in past research on business succession planning. By examining the impact of pertinent demographics, including the CEO's age, generation of the firm, number of family members involved in the business, and the presence of a Board of Directors, on succession planning processes, the study extends past research on business succession planning in SMEs with regard to the importance, nature, and extent of succession planning. We know of no other study that has undertaken such an in-depth examination of succession planning in SMEs, which is surprising given that they represent the vast majority of employers worldwide.

Literature Review

Family Business Defined

A factor that distinguishes FOBs from their non-FOB counterparts is the presence of the 'family' dimension in addition to the 'business' dimension of the enterprise. Both complex and simple definitions exist to define a family business. Holland and Boulton (1984) defined family businesses as ones in which: (1) the president or chief executive officer of the firm was the entrepreneur/founder; (2) the business employed members of the entrepreneur/founder's family; and (3) managers within the firm perceived the company as a family business. Chua et al. (1999) defined family businesses as being distinguished by the presence of certain identifying characteristics, notably that the vision of the firm was held and pursued by a family or small group of families. A number of researchers (e.g. Davis and Harveston, 2000; Hufft, 1999; Rue and Ibrahim, 1996; Upton et al., 2001) have developed and employed other definitions in their studies. A constant theme within these definitions, however, is family ownership and control of the business and involvement of family members in business decision-making. For the purposes of this article, the terms family-owned businesses, family-owned firms, family firms, and family-owned organizations are used interchangeably.

Succession Planning

The research done in the area of succession planning in family-owned businesses can be conveniently grouped into three research streams. For the purposes of this study, only articles that have appeared in scholarly journals and conferences were considered for this grouping. Apart from some studies that examined the relationship between firm size and the source of succession, very few articles dealt strictly with succession planning in SMEs.

Research stream #1 deals with the definition and overview of succession planning in family-owned businesses. Several research studies provide comprehensive definitions of the term 'succession planning' in family-owned businesses (Cliffe, 1998; Handler, 1989; Manikutty, 2000; Miller, 1998; Rodenberg and Woodbury, 1999; Shepherd and Zacharakis, 2000; Suarez et al., 2001; Theune, 2000). These articles include topics such as the need to plan for succession (Barach and Ganitsky, 1995; Dana, 1999; Guillemette, 1999; Mace and Williams, 2000; Scully, 2000; Spector, 2000), consideration of important elements involved in the succession planning process (Ceynowa, 1999; Fox et al., 1996; Horowitz, 1997; Hutcheson, 2000; Rodenberg and Woodbury, 1999; Theune, 2000; Withrow, 1997), roadblocks to succession planning (Prince, 1999; Sten, 2004), and guidelines for effective succession planning (Beech, 1998; Emley, 1999; Fenn, 1998; Francis, 1993; Frieswick, 1996; Kennedy, 1998; Martin, 1995; Ward and Aronoff, 1994), among others. Recently, several meta-research papers have been published that summarize and synthesize the current state of succession planning research (e.g., Brockhaus, 2004; Le Breton-Miller et al., 2004; Sharma, 2004).

Research stream #2 is concerned with developing conceptual models for assessing and implementing succession planning strategies in family-owned businesses. Several researchers have developed theoretical models/strategies dealing with succession planning in family-owned businesses (Bjuggren and Sund, 2001; Harveston et al., 1997; Lauterbach et al., 1999; Le Breton-Miller et al., 2004; Longenecker and Schoen, 1978; MacWhirter et al., 2004; Manikutty, 2000; Matthews et al., 1999; Morris et al., 1997; Stavrou, 1998; Stavrou, 1999; Stavrou and Swiecrz, 1998; Suarez et al., 2001; Wortman, 1994). Even though the models/strategies suggested by the authors are detailed, the main criticism is that there has been little effort to use existing theory to develop a comprehensive model of succession planning in family-owned businesses (Le Breton-Miller et al., 2004).

For example, Longenecker and Schoen (1978) propose a model for parent–child succession in the leadership of the family-owned firm that involves a long-term, diachronic process of socialization through seven stages, beginning in childhood. Rosenblatt et al. (1985) argue that a prerequisite for a smooth succession is the ability and willingness of family members to criticize each other tactfully and accept this criticism without becoming extensively defensive. Matthews et al. (1999) specify a general leadership succession model that includes the process by which the parent/leader and child/successor evaluate each other and themselves through a cognitive categorization process. Most recently, Stavrou (2003) suggests a model for the succession process from a perspective of 'extraversion,' a Jungian psychological framework that places primary importance on the values and beliefs outside (or external to) the subject over its own needs. Stavrou (2003) proposes that the owner-managed business exhibits an extraverted attitude during the succession process.

Research stream #3, which might be considered as the culmination of all research done on succession planning in family-owned businesses, deals with the assessment of the actual succession planning that take place within family-owned businesses. As noted by Sharma et al. (1997), family firms are not a homogeneous group. Past studies have suggested numerous factors to distinguish FOBs and explain differences in orientation and business practices between them and their non-FOB counterparts, including: firm demographics (e.g. age, generation, industry, product/market, evolutionary stage), owner/manager demographics (e.g. age, gender, education, leadership style, experience, ethnicity, etc.), family characteristics (e.g. culture, generation, family structure), and strategic orientation. Moreover, based on a survey of owners/managers of 40 companies in East Anglia, UK, Brown and Coverly (1999) concluded that most owners do not plan for their succession. In addition, although all respondents knew what they required from their successor, most of them had no plans to find one. A study conducted by Chrisman et al. (1998) of 485 family-owned firms in Canada found that respondents considered 'integrity' and 'commitment of business' as the most important attributes of successors. Conversely, gender and birth, i.e. bloodline, were rated least important. These findings suggest that incumbents based the succession decision on personal qualities rather than gender, age or bloodline.

Empirical studies that have examined the relationship between firm size and the source of succession have generated mixed results. Lauterbach et al. (1999) concluded that large corporate family-owned firms in the USA prefer external succession to internal succession. They also found that external successions improved firm performance but internal succession did not. Helmich and Brown's (1972) study concluded that larger firms use more external recruiting than smaller firms. On the other hand, Dalton and Kesner's (1983) study claimed the opposite, while Schwartz and Menon (1985) found no relation between the successor origin and firm size. In Dalton and Kesner's study, the firm's revenues were used to identify larger and smaller firms; those above the median were considered as 'larger' firms and those below the median were considered as 'smaller' firms (Dalton and Kesner, 1983). Schwartz and Menon (1985) also used sales revenue as a measure of the organization's size.

Most of the research under this stream (Brown and Coverly, 1999; Chrisman et al., 1998; Chung and Yuen, 2003; Floren, 1998; Klein, 2000; Lauterbach et al., 1999; Moores and Mula, 2000; Santiago, 2000; Sharma and Rao, 2000), illustrates the extent and critical nature of succession planning in family-owned businesses worldwide. Moreover, these streams of research demonstrate that various aspects of the 'family' dimension of the business hold the potential to impact long-range planning processes and practices among family firms, suggesting that different criteria and patterns for succession planning might exist within family-owned businesses according to size and other factors.

Recently, Sten (2004) found that while the founders of family SMEs in Finland almost universally desire to pass ownership to their offspring (succession), the latter increasingly desires to be relieved of this pressure and rejoices when the business is sold to outside members (transfer). They strongly suggest that the founder's psychological barrier to sell creates an exit barrier that prolongs the agony for all. When the sale decision is made, the founder generally likes to proceed at a pace that is often quicker than optimal. Sadly for them, the new owners often desire to get rid of every family member and realign the company in a way that changes its culture and nature. These results are consistent with MacWhirter et al.'s (2004) study for specific cases within the UK. Their study concentrates on the chosen exit strategies of entrepreneurial family firms. They find that both the availability of a willing successor and the specific personal and family values involved have a significant influence on the exit route chosen. This is also consistent with the Austrian experience reported by Mandl (2004).

Small and Medium-sized Enterprises

It is important to note that, in general, there is no single official universal definition for a small firm (Mukhtar, 1998). For research purposes, the US Small Business Administration (SBA) has traditionally defined 'small business' as fewer than 500 employees (SBA, 2001). While its size standards were recently revised to vary by industry (as defined by the North American Industrial Classification System [NAICS]), with the exception of the wholesale trade, the size maximum for most sectors remains at 500 employees. However, other studies that have followed this definition of small business may have failed to detect and discriminate the differences and nuances between 'larger' small firms (e.g. a firm with 450 employees and US$17m in revenues) and truly small firms (e.g. a firm with 7 employees and $540,000 in sales) (Haksever, 1996; Ibrahim et al., 2004; Sawyerr et al., 2003). Thus, the literature was examined to glean other definitions of 'small' business.

According to Mukhtar (1998), a wide range of definitions is used in practice.

The Wiltshire Committee's definition of small business is often used by researchers and states that: '. . . it is a business in which one or two persons are required to make all the critical management decisions such as finance, accounting, personnel, purchasing, processing or servicing, marketing, selling, without the aid of internal specialists and with specific knowledge in only one or two functional areas . . .' (Berryman, 1983).

The European Commission offers a more exacting definition. Its definition for SMEs, first adopted in 1996, specifies size gradations for micro, small and medium-sized firms based on three factors: (1) headcount; (2) annual turnover; and (3) annual balance sheet total. Recently, that definition was revised to reflect economic changes since 1996 (Commission of the European Communities, 2003):

- Micro: < 10 employees, turnover ≤ €2 million, balance sheet ≤ €2 million
- Small: < 50 employees, turnover ≤ €10 million, balance sheet ≤ €10 million
- Medium: < 250 employees, turnover ≤ €50 million, balance sheet ≤ €43 million

The focus of the present study is to examine how the size of the firm influences the salient factors and processes underpinning succession planning within family-owned SMEs. On the basis of the preceding review of the literature, we hypothesize that:

H_1: The issue of business succession planning will be more important for larger SMEs than for smaller ones.

H_2: The importance levels of salient factors involved in succession planning will differ depending on the size of the firm.

H_3: The importance levels of salient factors involved in succession planning will differ depending on the number of family members employed in the firm.

H_4: Actual business succession processes will differ depending on the size of the SME.

Methodology

Sample

This research was part of a comprehensive study conducted under the auspices of the Family Owned Business Institute at a large Midwest US university during the fall of 2001. The research population comprised family-owned businesses in the region, a geographic area of the country that is noted for its prominence of FOBs. Because of its long history of family business ownership, the region represents an ideal population to examine with regard to succession planning.

A 6-page self-administered questionnaire was mailed to 4000 SMEs as identified by a Dun & Bradstreet database. Following Brockhaus (2004), the purpose was to collect information pertaining to succession planning and demographic descriptors such as size and age of the firm, industry types, and so on. Since the study was intended to focus on succession planning, we decided to use a sample that had been in operation for five or more years and had seven or more employees.

Survey Measures Used in the Study

The questionnaire was organized as follows. Using nominal scales, Section 1 was comprised of nine questions that sought to obtain general business and demographic information about the firm. Section 2 queried respondents concerning characteristics specific to family-owned firms, including the percentage of business ownership shared by family members, number of family members employed full time in the business, generation of the business, and demographic information about the current CEO. Section 3 asked respondents about their reasons for joining the family-owned business. Five separate items appeared in this section of the survey with Likert-type scales used to measure the importance level of each item (1 = Extremely Unimportant, 5 = Extremely Important). Section 4 addressed five categories of factors influencing succession planning: (1) presence of a competent successor; (2) advisory boards and their role; (3) the successor's current involvement with the business; (4) the successor's relationship with other family members; and (5) general factors, such as tax considerations and the stability of the firm. These factors and their measures/scales (five-point Likert-type) were developed from extant literature (Brown and Coverly, 1999; Chrisman et al., 1998; Floren, 1998; Sharma and Rao, 2000). Finally, Section 5 queried respondents concerning the succession process as it had taken place within the firm. This section contained six statements related to the business succession process and used five-point Likert-type scales to measure the accuracy of each statement (1 = Definitely Untrue, 5 = Definitely True).

Results

Descriptive Information

In all, out of the 4000 questionnaires mailed to managers and owner-managers of family-owned businesses, a total of 368 responses were obtained, representing a response rate of 9.2%. While it is acknowledged that this is a rather low response, it is in line with a recent large survey conducted by Lam et al. (2004) that obtained 9% response rate from a total of 2986 questionnaires. Thus our response rate was considered satisfactory given the nature of the questionnaire and method of administration. Following Lam et al. (2004), follow-up telephone calls were conducted with a sample (537) of non-respondents to determine their reasons for not participating in the survey. It was found that 74 of these firms were no longer in existence, which is not uncommon in small business research (Brockhaus, 2004). Other researchers (e.g. Poon, 2000) have reported similar low response rates in studies focusing on small businesses. One explanation offered by Poon (2000) for example, is that small businesses may not perceive the time spent completing the survey as a value-added activity compared to other tasks. Brockhaus (2004) also suggests that family-owned businesses are typically reluctant to participate in a study that requires a single response, i.e. cross-sectional study, from them. Notwithstanding, we acknowledge that to some extent, the low response rate limits the generalizability of the study findings to the research population.

For the purposes of this study, the population of SMEs was identified as family-owned firms that had annual revenues of less than US$25m. Based on revenues, the size of the organization was sorted into three categories: (1) under $1m in revenues; (2) $1m–$9.9m; and, (3) $10m–$24.9m. The data were also examined according to number of employees with five categories established: (1) fewer than 10 employees; (2) 10–19 employees; (3) 20–99 employees; (4) 100–499 employees; and (5) 500 or more employees. This classification follows recent statistics published by the US Small Business Administration (SBA, 2001).

From Table 1, one can see that among the sample, the majority (85.9%) reported Fiscal Year (FY) 2000 revenues under US$10m, while 14.1% of the firms surveyed reported annual revenues of between $10m and $24.9m. Five firms did not reveal FY 2000 revenue data. The size of the firm as measured by number of employees is also shown in Table 1. Surprisingly, 75 firms did not report their firms' number of employees. From the results, the average number of family members who are employed full-time in the business was 3.09 (SD = 1.38). For the majority of family-owned firms, the company's CEO was male (86.8%) and

Table 1. Sample Demographics – Firm Size according to Annual Revenues (2000) and Number of Employees

Annual revenues (in US$)	*n*	*Percent (%)*	*Number of employees*	*n*	*Percent (%)*
Under 1m	159	43.9	Under 10	151	51.5
1m–9.9m	152	42.0	10–19	53	18.1
10m–24.9m	51	14.1	20–99	59	20.1
Total	363	100.0	100–499	24	8.2
			500 or more	6	2.0
			Total	293	100.0

Note: Total number of firms surveyed, 368.

under 55 years of age (63.4%). The majority of family-owned firms was also in their first generation (67.6%), and was organized as either regular corporations (54.6%) or Sub-S corporations (28.3%).

While the majority of the sample (60.6%) has a Board of Directors, only 13.2% also utilize a Board of Advisors. The mean age of the firm is 31 years with approximately half beginning operations in 1976 or more recently (52.1%). Previous studies (Fox et al., 1996; Lauterbach and Weisberg, 1999) have shown that the average life span of a family-owned firm is approximately 24 years. Thus, the sample, as anticipated, represented an experienced population of family-owned firms, thereby furnishing rich perspectives on business succession planning.

The data were examined to explore evidence of associations between firm size (as measured by annual revenues and number of employees) and four factors that hold the potential to influence succession planning: (1) the number of family members employed full-time in the business, (2) the presence of a Board of Directors, (3) the age of the CEO, (4) the age of the business. Using both definitions of small business (i.e. annual revenues and number of employees), significant relationships were found between size of the firm and the number of family members employed full time in the business. Based on the 'revenue' definition of small business, the significance level was .005 and using the 'number of employees' definition, it was .040. Interestingly, the data showed that firms under US$1m in revenues were more likely to employ less than 3 family members in the business while the smallest of firms (under 10 employees) were most likely to employ a greater percentage of family members.

The results showed that larger firms were more likely to have a Board of Directors than smaller ones when using the 'number of employees' definition of small business (sig. = .000), but not the 'annual revenues' definition. No evidence of relationships was found between the size of the organization and either the age of the CEO, or the age of the business.

Importance of Succession Planning within SMEs

Among all respondents, succession planning was identified as the single most important topic requiring the attention of the firm's leadership (47.0%), as compared with estate planning (33.2%), an organization plan (23.9%), a plan for sale of shares of stock (23.4%), business investments (22.8%), and other factors of declining importance, including shareholder agreements, interpersonal/ emotional relationships among family members, and so on. When examining the importance of succession planning according to the size of the organization, a significant relationship was found when using the number of employees as the measure of size (sig. = .014), but not revenues. As expected, succession planning was viewed as a more important topic by larger firms (500+ employees) versus smaller firms, and least important for those firms with fewer than 10 employees. Evidence of relationships was also found between the number of employees and three business planning considerations: (1) the importance of shareholder agreements (sig. = .002); (2) the importance of business investments (sig. = .005); and (3) holding formal, family only, business meetings (sig. = .007). The findings show that while shareholder agreements were viewed as most important within firms having 100 to 499 employees and least important for firms with fewer than 10 employees, business investments were most important for the smallest of firms, i.e. those with less than 10 employees and least important for firms with 10 to 19 employees. Having formal, family only, business meetings was most important for firms with 100 to 499 employees and least important among firms with 20 to 99 employees.

The data were further examined to determine if perception of the importance of succession planning as an issue within the firm was influenced by the presence of a Board of Directors or a Board of Advisors, the number of family members employed full time in the business, and the age, retirement intention, and business generation of the current CEO. Among all firms, succession planning was perceived as more important in firms that had a Board of Directors (sig. = .007) and firms that employed comparatively more family members (sig. = .019). CEOs between the ages of 55 and 64 years of age identified succession planning as a more important issue within the firm than did firms with younger or older CEOs (sig. = .000). We found no evidence of a relationship between the importance of succession planning and either the CEO's retirement intention, or generation of the business.

Using the revenue classification of SMEs, we found evidence of an association between the presence of a Board of Directors and the importance of succession planning with both smaller (under US$1m in revenues) firms and larger ($10m–$24.9m) firms (sig. = .037 and .039, respectively). Using number of employees as the measure of organizational size, findings showed that the presence of a Board of Directors was influential only in the case of fewer than 10 employees (sig. = .044) and the age of the CEO was influential in firms with 10–19 employees (sig. = .002). The age of the CEO was influential only in the case of firms with revenues between $1m and $9.9m (sig. = .005). No other cross-tabulations were significant.

Factors Influencing Succession Planning in Family-owned Businesses

Regarding succession planning, respondents were asked to indicate the degree of importance their organization places on various factors involved in succession planning using a 1–5 scale (1 = Extremely Unimportant and 5 = Extremely Important). A list of 22 attributes that are considered important and desirable according to the family-owned business literature were identified and divided into five broad categories: (1) general factors, (2) presence of a competent successor, (3) importance and role of advisory boards, (4) successor's current involvement with family-owned business, and (5) successor's relationship with other family members. The foregoing findings are important in understanding the factors that influence the approach taken to succession planning because such knowledge should provide clues about why succession planning is attempted or not, why particular approaches are favored or disfavored, and the perspective of key stakeholders in the family.

Size of the Firm Table 2 provides the ranked mean scores of the factors considered to be important in succession planning. In descending order of importance, the five most important considerations among all firms were: (1) the decision-making ability of the successor ($\bar{x}$ = 4.43, SD = .92); (2) the successor's commitment to the business ($\bar{x}$ = 4.38, SD = 1.02); (3) the interpersonal skills of the successor ($\bar{x}$ = 4.34, SD = .90); (4) the successor's respect for employees ($\bar{x}$ = 4.33, SD = 1.02); and (5) the stability of the firm ($\bar{x}$ = 4.30, SD = 1.03). The data were then analyzed to determine if a relationship existed between the size of the firm and the importance level of each of the 22 factors. When using annual revenue as the measure of organizational size, the only significant relationship presented was with respect to the importance of marketing/sales skills of the successor (sig. = .020). This particular criterion is most important within firms under US$1m in revenues, which is probably not surprising given that business growth may be an important goal for these small firms. When measuring size by number of employees, no relationships approached statistical significance, except for 'relevance of successor's prior work experience' (sig. = .096) and 'appropriateness of successor's educational background' (sig. = .085). Interestingly, in both cases, means were lowest among firms with 10 to 19 employees, but higher for both smaller and larger firms.

Family Members in the Business As shown in Table 3, when the critical factors involved in succession planning were examined according to the number of family members employed within the business, significant differences in means were found with respect to six factors: (1) issues related to family harmony (sig. = .001); (2) the appropriateness of the successor's educational background (sig. = .014); (3) the successor's commitment to the business (sig. = .029); (4) the successor is respected by actively involved family members (sig. = .000); (5) the successor is respected by non-active family members (sig. = .045); and (6) the successor's ability to get along with family members (sig. = .000). While the successor's educational background was perceived as more important within firms that employed fewer family members, all others were considered as more important within 'larger' family firms. Moreover, the emergence of four factors that are specifically related to the successor's relationship with both actively involved and non-active family members suggests the critical importance of family considerations in developing succession plans. This is particularly true among firms that employ a greater number of family members.

Table 2. Important Factors in Succession Planning According to Organizational Size (Means Shown, $N = 303$)

Factors in succession planning	*All firms*	*Firm size (No. of employees) (N = 246)*					*Firm size (Revenues in US$) (N = 303)*		
		<10	*10–19*	*20–99*	*100–499*	*500+*	*<1m*	*1–9.9m*	*10m+*
Decision-making ability of the successor	4.43	4.46	4.26	4.50	4.74	5.00	4.47	4.36	4.40
Successor's commitment to the business	4.38	4.28	4.40	4.62	4.65	4.67	4.40	4.37	4.37
Interpersonal skills of the successor	4.34	4.38	4.23	4.37	4.68	4.83	4.42	4.22	4.38
Successor's respect of employees	4.33	4.31	4.17	4.53	4.59	4.67	4.26	4.38	4.34
Stability of the firm	4.30	4.24	4.28	4.49	4.58	4.67	4.41	4.22	4.21
Financial skills/experience of the successor	4.19	4.25	4.07	4.13	4.26	4.83	4.29	4.15	4.00
Relevance of successor's prior work experience	4.15	4.25	3.81	4.15	4.37	3.83	4.18	4.07	4.12
Best person for the job regardless of family ties	4.14	4.10	4.28	4.19	4.37	4.33	4.20	4.01	4.29
Strategic planning skills of successor	4.13	4.13	4.12	4.21	4.47	4.83	4.21	4.04	4.10
Marketing/sales skills of successor*	4.13	4.12	4.07	4.12	4.11	4.50	4.24	3.88	4.07
Cash flow considerations due to retirement	3.90	3.99	4.12	3.82	3.89	3.33	4.02	3.83	3.90
Respected by actively involved family members	3.88	3.93	3.85	4.04	4.19	4.83	4.07	3.73	3.74
Tax considerations	3.88	3.84	4.26	3.98	3.79	3.50	3.92	3.79	4.04
Successor's compatibility with goals of prior CEO	3.84	3.91	3.57	3.91	4.06	4.50	3.94	3.78	3.63
Ability to get along with family members	3.78	3.86	3.65	3.91	3.94	4.67	3.92	3.69	3.66
Appropriateness of successor's educational background	3.72	3.86	3.37	3.79	3.74	3.83	3.76	3.60	3.86
Successor's personal relationship with prior CEO	3.66	3.69	3.62	3.78	4.06	4.44	3.76	3.50	3.79
Issues related to family harmony	3.64	3.78	3.36	3.65	4.21	4.00	3.76	3.66	3.31
Respected by non-active family members	3.63	3.68	3.58	3.74	3.75	4.00	3.74	3.52	3.50
Active role in strategic decision making (Advisory Boards)	2.92	2.90	2.90	3.25	3.15	3.40	3.02	2.85	2.83
Successor's current ownership percentage	2.92	2.85	2.93	2.91	3.65	2.50	3.03	2.73	3.11
Meeting on a regular basis (Advisory Boards)	2.79	2.62	2.85	3.14	3.23	3.40	2.90	2.69	2.71

*Sig. < .05 when using revenue as the measure of organizational size.

Table 3. Important Factors in Succession Planning According to the Number of Family Members Employed Full-Time in the Firm (Means Shown, $N = 300$)

Factors in succession planning	*Number of family members employed full time in the firm*		
	0–1	*2*	*3 or more*
Decision-making ability of the successor	4.46	4.38	4.44
Successor's commitment to the business*	4.19	4.39	4.56
Interpersonal skills of the successor	4.40	4.32	4.31
Successor's respect of employees	4.20	4.27	4.49
Stability of the firm	4.22	4.31	4.38
Financial skills/experience of the successor	4.25	4.14	4.17
Relevance of successor's prior work experience	4.24	4.12	4.04
Best person for the job regardless of family ties	4.23	4.06	4.12
Strategic planning skills of successor	4.13	4.18	4.11
Marketing/sales skills of successor	4.07	4.13	4.03
Cash flow considerations due to retirement	3.88	3.99	3.88
Respected by actively involved family members**	3.44	4.01	4.21
Tax considerations	3.96	4.06	3.70
Successor's compatibility with goals of prior CEO	3.64	3.96	3.94
Ability to get along with family members**	3.40	4.01	3.98
Appropriateness of successor's educational background*	3.94	3.61	3.56
Successor's personal relationship with prior CEO	3.47	3.74	3.78
Issues related to family harmony**	3.28	3.75	3.93
Respected by non-active family members*	3.37	3.84	3.72
Active role in strategic decision making (Advisory Boards)	2.74	2.94	3.11
Successor's current ownership percentage	2.73	3.03	3.06
Meeting on a regular basis (Advisory Boards)	2.57	2.99	2.89

*Sig. < .05; **Sig. < .01.

Among all firms, the majority of family members that had decided to join the FOB had done so because of 'a desire to help the family prosper through the business' ($\bar{x}$ = 3.77, SD = 1.35) and 'a perception that the family-owned firm offered better opportunities than a non-family business' ($\bar{x}$ = 3.74, SD = 1.29). Other factors that were identified as influential were: 'shared family values' ($\bar{x}$ = 3.53, SD = 1.89), and 'a desire to have control over the firm's operations someday' ($\bar{x}$ = 3.48, SD = 1.42). 'Continuous pressure from family members to join the family-owned business' was the only factor that the respondents ranked as not influential ($\bar{x}$ = 1.99, SD = 1.29).

We also examined the importance level of critical factors according to the number of family members that share majority ownership in the firm. The only significant relationship presented was with respect to the importance of marketing/sales skills of the successor (sig. = .035). This particular factor is more important when a greater number of family members share in the firm's ownership.

CEO/Owner Characteristics The age of the CEO was found to be related to the perceived importance of five critical factors: (1) issues related to family harmony (sig. = .030); (2) the relevance of the successor's prior work experience (sig. = .021); (3) advisory boards taking an active role in strategic decision-making (.022); (4) the successor's compatibility with the goals of the prior CEO (sig. = .042); and (5) the successor's respect for employees (sig. = .051). Issues related to family harmony were found to be more important to CEOs between the ages of 55 and 64, as were the relevance of the successor's prior work experience and using advisory boards to assist in strategic decision-making. Factors 4 and 5 were found to be most important to CEOs who were between the ages of 45 and 54, and of lesser importance to both younger and older CEOs. No significant differences in the pattern of responses were found based on when the current CEO intends to retire.

Succession Process

Respondents were also asked to indicate the extent of accuracy of six statements pertaining to their family and business during the succession process. Overall, 85% of the respondents felt that 'explicit efforts should be made to train/mentor potential successors'. Approximately 74.8% believed that 'a formal plan should be developed for any remaining roles and responsibilities of the outgoing leader'. Additionally, 68.2% considered it important that 'the identity of the future successor of the business should be communicated to active family members at least a year or more in advance', while 55.5% believed that 'the identity of the future successor of the business should be communicated to company employees at least a year or more in advance'. On the other hand, 56.1% felt that 'explicit succession criteria should be specified in written form' and only 37.9% perceived that 'competition for the successor position is healthy and should be encouraged'.

The ANOVA testing failed to reveal evidence of significant differences when perceptions of the succession process, according to the size of the firm, were examined.

Discussion

With respect to the first hypothesis, support was found for the premise that business succession planning is more important within larger SMEs, as well as within firms in which there are comparatively more family members employed full-time within the firm. This finding seems logical given that there may be more at stake in terms of the number of both family and non-family employees who could be impacted by a change in the firm's leadership. This may also explain prior researchers' interest in studying succession planning among larger firms (Bagby, 2004).

The second hypothesis focused on the relationship between the size of the organization and the 22 factors with which the family-owned business succession literature is most concerned. The research question was, to what extent might organizational size influence perceptions about the dimensions of business succession planning? Evidence of significant difference was found only in the case of the importance of marketing/sales skills of the successor, which was of highest importance in firms that had annual revenues of less than US$1m.

However, as far as factors influencing succession planning are concerned, some important similarities and differences were found. For example, researchers believe that family-owned businesses can benefit from the objective counsel of individuals beyond the immediate management group (e.g. Christensen, 1953; Sharma and Rao, 2000). One of the benefits may come from having a Board of Directors or an advisory board that can assist the incumbent overcome the impediments to the initiation of the succession planning process and make sure that the process receives continued attention (Christensen, 1953). Our study found that while the majority of family-owned SMEs had a Board of Directors, very few had an advisory board. The presence of a Board influenced the importance of succession planning and among those firms that had a Board of Directors; its influence on succession planning was most pronounced for either the smallest of firms or the largest ones. This study's respondents attached only minimal importance to the advisory board's involvement in strategic decision-making. To a certain extent, this study supports the findings of Helmich and Brown (1972), which concluded that larger firms relied more on external recruiting than did smaller firms.

Moreover, respondents rated the questions within the category of 'presence of a competent successor' as most important overall. The results reveal that most family members join the firm for altruistic reasons. This is consistent with existing literature on the reasons for joining family-owned businesses (see Brown and Coverly, 1999; Fox et al., 1996; Mandl, 2004). Regardless of firm size, these factors received similar rankings in other studies. In terms of skill requirements, respondents rated decision-making ability of successor, the successor's commitment to the business, and interpersonal skills as the top three successor attributes. These results are consistent with the literature (Dutta, 1997; Sharma and Rao, 2000).

With respect to the third hypothesis, in family-owned SMEs in which family members were also full-time employed by the firm, issues that dealt with family relationships emerged as more important when more family members were involved in the business. Four questions measured this dimension of succession planning: (1) respected by actively involved family-owned members; (2) respected by non-active family members; (3) ability to get along with family members; and (4) issues related to family harmony. Significant differences were found in the importance level of each of these factors depending on the number of family members employed in the business with higher ratings on each factor's importance when more family members were involved in the firm. Thus, these findings lend support to our hypothesis and tend to confirm the observations of Dutta (1997), who asserted that it is important in the value system that the individual be regarded as a decent human being by his wife and children, parents and his circle, the community to which he belongs, and the world in general.

Finally, the results failed to provide support for the fourth hypothesis since no significant differences were found in business succession practices within SMEs of varying sizes. Regardless of their size, the data suggests that it is important within family-owned businesses to develop a formal plan for succession, communicate the identity of the successor to family members and employees on a timely basis, and provide training/mentoring to the incumbent CEO.

Conclusions

This exploratory study has, through empirical research, examined issues related to succession planning processes in the USA. This research has a particular relevance to small business and family-owned business management, in that it raises awareness about factors important in succession planning and, therefore, may serve as the prelude to future research activities in these two sectors. Specifically, CEOs of family-owned businesses and owner-managers of small businesses may want to appreciate the findings from this study within the context of their business aims and objectives and with the view of reappraising their business deliberation. Successful succession planning is a critical issue for all sizes of family-owned firms. While small businesses have been the lifeblood of the USA and other world economies for many years, there are reports that they are disappearing at a rapid rate (Mandl, 2004; Miller et al., 2001; Sten, 2004). This may be due to changing competitive environments; it may also be the result of succession planning processes that are less than optimal. Consequently if small firms are to survive to the second generation and beyond, it is critically important for academic researchers, family business consultants, and family-owned businesses themselves to understand how the succession process unfolds, and how it differs from that within larger organizations.

It is acknowledged that this study is an incomplete attempt to answer some important research questions pertaining to succession planning in small family-owned firms. In particular, since small businesses, by definition in the USA, vary in size from 1 to 500 employees, we sought to understand how the dimensions of organizational size influence business succession planning. These differences would not have been detected had more standard measures of 'small business' been employed (i.e. less than 500 employees according to the SBA or even less than 100 employees as applied in other studies). Clearly, there are enormous differences in resources such as human and financial and in organizations that employ say, 450 versus 6 people. It is only when more discriminating measures of size gradation are employed that rich insight can be gained into the population of US small businesses.

Related to firm size, we found consistency among firms of all size gradations in many criteria used in selecting a successor. For example, the successor's level of commitment to the business has been identified in several prior studies as one of the most desirable and sought-after successor attributes (Sharma, 2004; Stummer et al., 2004), as was also the case in this study. However, as noted by Brockhaus (2004), succession planning is an issue that must be analyzed from various perspectives, including that of the family, management, and ownership. Consequently, one of this study's most striking and relevant findings is that very small firms place a high priority on selecting a successor who possesses strong sales and marketing skills, ostensibly to achieve business growth. This observation is significant; first, because it extends existing models of succession planning (research stream #2) beyond processes (e.g. Bjuggren and Sund, 2001; Le Breton-Miller et al., 2004; Matthews et al., 1999) and traits (e.g. Longenecker and Schoen, 1978; Stavrou, 1999) to include specific, identifiable business-related skills. Perhaps even more important, by utilizing this criterion in evaluating and selecting a successor, the firm may be better poised to achieve strategic business growth, thereby increasing its chances for survival to the next generation.

On the other hand, among family firms with three or more family members employed within the firm (which also tend to be larger firms), the importance of positive, harmonious relationships between the successor and other family members escalates. Numerous researchers have explored relationship-related issues (e.g. trust, conflict resolution) and their impact on succession planning (Brockhaus, 2004; Sharma, 2004). The importance of these issues is magnified when there are more family members employed within the firm, as well as more non-family employees.

Brockhaus (2004) notes that the early writers on the subject of family business were consultants and the majority of the published articles were based on observational data. While Brockhaus discusses numerous problems associated with conducting cross-sectional studies among family firms (e.g. lack of family business owners' interest in participation), he also identifies the need for empirical research, particularly studies that compare family businesses with one another on the basis of such factors as size, number or family members . . . and so on (Brockhaus, 2004: 171). The present study responds to that call.

Limitations and Future Research Directions

Inevitably, this study suffers from some weaknesses including: low response rate, cross-sectional study, and the lack of control over the dynamic nature of the environment. Furthermore the study's reliance on the responses of one internal informant (owner-manager/CEO of FOB) may lead to cognitive and subjective bias. To this end, future research may consider the adoption of a combined method of comprehensive, multiple face-to-face interviews, survey and in-depth case studies to generate data among different stakeholders in the FOB. Although one can assume that the attributes/factors that have received high endorsement in this study will be considered important in other parts of the world, another limitation of this study is that the sample was collected from one state of a large country such as the USA. Thus, there is a need to extend this study in other states and across the world.

Additionally, a firm's decision to start planning for succession is likely to be influenced by more than the five sets of factors researched in this study (i.e. general factors, presence of a competent successor, importance and role of advisory boards, successor's current involvement with the business, and successor's relationship with other family members). Although we cannot empirically justify it, on the basis of our observation in the study setting we believe that additional factors are likely to be important in influencing succession planning in SMEs. These factors may include internal factors such as the family's commitment to continue with the business, the complexity of the business, and external factors such as the competitive structure of the industry or a changing socio-economic and legal environment (Mandl, 2004). Interesting work on the entrepreneurial characteristics of the founder has been shown to be significant within the SME succession context. Schutjens et al. (2004) find that the intentions of the serial entrepreneur with regard to starting a new enterprise subsequent to the transfer of the existing firm were confirmed in one-sixth of the firms. Consequently, failure to analyze the serial entrepreneurial characteristics of the founder will create a missing variables problem in succession planning research. In a similar vein, Forsman (2004) demonstrates that entrepreneurial factors are critical in explaining the success of major firm projects and the overall success of the firms. From these results, future studies of the family succession process should more clearly delineate the impact of these factors in addition to those that we have examined herein.

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Planification de la succession des PME

Une analyse empirique

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La présente étude présente les résultats découlant d'une enquête réalisée auprès de 368 PME familiales pour connaître l'importance, la nature et la portée de la planification de la succession. On a pu constater – suite à une catégorisation des PME en fonction de leur revenus annuels, du nombre total des employés, et du pourcentage des membres de la famille employés au sein de l'entreprise – d'énormes différences entre les petites et les plus grandes entreprises. Les conclusions, confirmant les documentations disponibles, révèlent que la plupart des membres d'une famille intègrent l'entreprise pour des motifs altruistes; les questions liées aux rapports familiaux ayant une bien plus grande importance dans les entreprises où des membres d'une même famille travaillent en grand nombre. À cela s'ajoute le fait que, dans le cas d'entreprises aux revenus inférieurs à 1 million de dollars US, le successeur est de préférence choisi pour ses hautes compétences commerciales et en marketing. En bref, les constats auxquels a abouti cette étude montrent que, quelle que soit la taille de l'entreprise, il est important pour les entreprises familiales de mettre en place un plan de succession officiel, de faire connaître l'identité du successeur et de fournir un programme de formation et de mentorat au PDG titulaire du poste.

Mots clés: planification des activités; entreprise familiale; leadership; petites entreprises; PME; planification de la succession

Planificación de la sucesión en las PYME

Un análisis empírico

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Este estudio presenta un informe de los resultados de una encuesta de 368 pequeñas y medianas empresas (PYME) familiares respecto a la importancia, naturaleza y planificación de la sucesión. Al clasificar las PYME por sus ingresos anuales, número de empleados y número de miembros de la familia que trabajan en ella se encontraron importantes diferencias entre las empresas más pequeñas y las más grandes. Las conclusiones, consecuentes con la documentación existente, revelan que la mayoría de los familiares ingresan a la empresa por motivos altruistas. Los asuntos referentes a los lazos familiares se consideran mucho más importantes en las empresas donde trabaja un mayor número de miembros de la familia. Por otra parte, las empresas con ingresos de menos de un millón de dólares de los EE.UU., dan prioridad a la elección de un sucesor que posea aptitudes para las ventas y marketing. Los resultados demuestran que independientemente de su tamaño es importante para las empresas familiares desarrollar un plan de sucesión, comunicar la identidad del sucesor y ofrecer formación y asesoramiento al titular del cargo de jefe ejecutivo.

Palabras clave: planificación de actividades empresariales; empresa familiar; liderazgo; PYME; planificación de sucesión

Nachfolgeplanung in Klein- und mittelständischen Betrieben

Eine empirische Analyse

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Die vorliegende Studie berichtet über die aus einer Umfrage unter 368 in Familienbesitz befindlichen Klein- und mittelständischen Unternehmen gewonnenen Ergebnisse im Hinblick auf Bedeutung, Art und Ausmaß der Nachfolgeplanung. Mittels einer Kategorisierung der Klein- und mittelständischen Betriebe gemäß der jährlichen Einkünfte, der Gesamtanzahl der Mitarbeiter und der Anzahl der im Betrieb beschäftigten Familienmitglieder wurden erhebliche Unterschiede zwischen größeren und kleineren Betrieben festgestellt. In Übereinstimmung mit vorhandener Literatur weisen die Ergebnisse darauf hin, dass der Großteil der Familienmitglieder dem Betrieb aus altruistischen Gründen beitritt. Auf Familienbeziehungen beruhende Probleme wurden als erheblich wesentlicher in Firmen eingestuft, in denen mehr Familienmitglieder beschäftigt werden. Darüber hinaus wurde in Betrieben mit Einkünften von weniger als 1 Million US$ größerer Wert auf die Wahl eines Nachfolgers gelegt, der starke Verkaufs- und Marketing-Fähigkeiten besitzt. Die Ergebnisse zeigen, dass es unabhängig von der Betriebsgröße für einen Betrieb in Familienbesitz wichtig ist, einen formalen Plan für die Nachfolge zu erstellen sowie die Identität des Nachfolgers bekanntzugeben und die Ausbildung/das Mentoring des nachfolgenden CEOs zu gewährleisten.

Schlagwörter: Unternehmensplanung; Familienbetrieb; Führerschaft; Kleinunternehmen; klein- und mittelständische Betriebe; Nachfolgeplanung