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Succession Family Practices of West Michigan Family-Owned Businesses

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Succession Planning Practices of West Michigan Family-Owned Businesses

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Introduction

Researchers and consultants have long stressed succession planning's importance in ensuring the continuity and prosperity of a business because it is undeniable that the sudden departure of the family firm leader can cause major upheavals in the exercise of power and authority, precipitate conflict among heirs and potential successors, and raise thorny estate issues. Some have even gone to the extent of saying that dealing effectively with the issue of succession planning is the single most lasting gift that one generation can bestow on the next. Unfortunately, despite cautions, succession planning appears to be left to chance by many family firms. 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.

In this study, we report on some preliminary results from a survey of West Michigan family businesses on the importance and extent of succession planning in family businesses. Specifically, we examine the critical factors and important successor attributes in terms of the West Michigan family business context.

Methodology and Results

Data were collected by means of a questionnaire mailed out to 7,476 businesses by the Family Owned Business Institute (FOBI) at Grand Valley State University. Three hundred seventy-four family business owners/CEOs responded to the survey. Among these firms, the mean number of full-time employees was 76 at the yearly peak and 35.75 at the yearly low. The mean numbers of part-time employees during the yearly peaks and lows were 27 and 20 respectively.

Among family firms, about 30 percent employ only one family member full-time; another 27 percent employ only two family members full-time. For the majority of family firms, the company's CEO is male (87 percent) and under 55 years of age; 38 percent are between 45 and 54 years, and 25.7 percent are under 45 years. The majority of family firms are also in their first generation (68 percent).

Reasons for Joining Family Business

Most family members decide to join the firm because of a desire to help the family prosper through the business: 73.6 percent rated it as either "important" or "extremely important" in influencing their decision. Other factors that were identified as influential were: a perception that the family firm offered better opportunities than a non-family business (62.2 percent), shared family values (57.3 percent), and a desire to have control over the firm's operations some day (54.7 percent).

Factors Influencing Family 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, where 1=extremely unimportant and 5=extremely important. Table 1 provides the ranked mean scores of the factors of importance in succession planning. In descending order of importance, the five most important considerations were: the decision-making ability of the successor, the successor's commitment to the business, the interpersonal skills of the successor, the successor's respect of employees, and the stability of the firm. On the other hand, the five least important considerations were: the role of an advisory board in strategic decision-making, the frequency at which the advisory board met, the current percentage ownership of the successor, issues related to family harmony, and whether the successor was respected by non-family members.

Table 1 Ranked Mean Scores of the Factors of Importance in Succession Planning

Importance in Succession Planning	Mean	Standard Dev.
General Factors		
Stability of the firm	4.31	1.03
Best person for the job regardless of family ties	4.14	1.12
Cash flow considerations due to retirement	3.91	1.14
Tax considerations	3.88	1.21
Issues related to family harmony	3.64	1.37
Presence of a Competent Successor		
Decision-making ability of successor	4.42	0.92
Interpersonal skills of the successor	4.33	0.90
Financial skills/experience of successor	4.19	0.94
Relevance of successor's prior work experience	4.14	0.99
Strategic planning skills of successor	4.14	0.98
Marketing/sales skills of successor	4.07	1.02
Appropriateness of successor's educational background	3.72	1.02
Advisory Boards		
Active role in strategic decision-making	2.94	1.35
Meeting on a regular basis	2.79	1.34
Successor's Current Involvement with Family Business		
Successor's commitment to the business	4.37	1.03
Successor's respect of employees	4.32	1.01
Successor's compatibility with goals of prior CEO	3.82	1.16
Successor's personal relationship with prior CEO	3.66	1.16
Successor's current ownership percentage	2.93	1.35
Successor's Relationship with Other Family Members		
Respected by actively involved family members	3.88	1.23
Ability to get along with family members	3.78	1.18
Respected by non-active family members	3.63	1.30

Discussion and Implications

The results of the study support the existing literature on the reasons for joining family businesses. However, as far as factors influencing succession planning are concerned, some differences did exist. For example, researchers believe that family businesses can benefit from the objective counsel of individuals beyond the immediate management group. One of the benefits may come from the advisory board helping the incumbent overcome the impediments to the initiation of the succession planning process and making sure that the process receives continued attention. However, our study respondents felt that the boards didn't meet that often and were not actively involved in strategic decision-making.

In conclusion, a firm's decision to start planning for succession is likely to be influenced by more than these five factors. Other factors that come to mind include internal factors such as the family's commitment to continue with the business, the complexity of its business, and external factors such as the competitive structure of the industry or a changing regulatory environment. In this study, we examined the five factors because researchers in the field believe that they are uniquely important to family firms. However, we urge that future researchers examine the role of the other factors as well.