# Using theories of control and self-regulation to examine the leadership transition between a parent and child in family-owned businesses

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# ABSTRACT

Using theories of control and self-regulation to examine the leadership transition between a parent and child in family-owned businesses.

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Family owned businesses are central to the economy (Astrachan & Shanker, 2003), yet have been historically understudied. Improving understanding of the challenges these companies face in the inter-generational succession process is vital as many fail at this point (Ward, 1987). While a field of family business research has emerged in recent decades (Sharma, 2004), little empirical research on the challenge of succession has been informed by theories from psychology. This research begins to bridge this gap by applying contemporary control theory to understanding business succession.

This project involved three studies of Canadian family-owned businesses whose incumbent leader was at, or nearing, retirement age. The first considered the association between indicators of business readiness for succession and levels of control held in the business by the incumbent and successor. Results suggest indicators of succession are more reliably associated with control for the successor than for the incumbent. In addition, there were few associations between the levels of control of the two generations, implying succession may impact each differently.

Study 2 was a longitudinal follow-up, and found indicators of succession readiness at Time 1 associated with change in the amount of control held by the successor at Time 2. As in the first study, there were very few associations between the predictors and the extent of control held by the incumbent.

Study 3 considered the role that personality may play in incumbent beliefs and behaviors relating to retirement. Cross-sectional and longitudinal results indicate incumbent goal adjustment capacities are associated with their expectations and planning for retirement. Further, an interaction between disengagement and business performance was revealed, suggesting goal adjustment may protect leaders from an escalation of commitment if their business had been recently struggling.

Overall, these findings clarify that progress towards succession has little effect on control for incumbent leaders, but theories of control may point to individual differences in self-regulation capacities among these leaders that may have a bearing on family business succession. Implications from these results are discussed.

Dedication

To my “family”-

First, to my daughters: Gabrielle and Ariane, two wonderfully different girls who each bring constant amusement, inspiration, and perspective to the broader journey of life.

Second, to my husband Robert – I am forever grateful for your unwavering patience and support through this long and challenging process. Yes, I will one day have a job!

Third, my family: Parents, siblings, aunts, uncles, grandparents, and cousins. I feel fortunate to be part of a large family, who with love and support, through the joys and adversity of life, consistently taught me about the value of the family bond.

Fourth, my closest friends – for me, you are an extension of family. You have always been there when I have needed you, I am grateful for the laughter we have shared, inspired by the myriad paths we have taken, and frankly, relieved there are other people out there who “get” me… Thanks for the memories & lets go build more!!

## Contribution of Authors

This is to attest that Stéphanie Brun de Pontet was the primary author of both manuscripts (Chapters 4 and 6) that are included as part of this dissertation. In each case her co-authors were Dr. Carsten Wrosch (thesis advisor and principal investigator on overall research program) and Dr. Marylène Gagné (co-lead investigator on overall research program). Ms. Brun de Pontet took the lead in all phases of manuscript development and authorship for both articles, though she received valuable assistance from both co-authors. Dr. Wrosch, in his capacity as thesis advisor and second author, provided assistance to the lead author in several ways. For example, we worked together to develop the overall direction the manuscripts should take, he helped refine the statistical analyses conducted, and provided significant editorial guidance through several drafts of both manuscripts. Dr. Gagné, as a third author, was more involved in the final phases of manuscript preparation and editing in both cases. Finally, as the manuscript included as Chapter 4 of this dissertation has already been published in an academic journal (Family Business Review, December 2007), this chapter also benefited from the editorial contribution of the peer review process.

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Special thanks also go to my lab-mate and fellow traveler on the journey of the PhD, Isabelle Bauer. Though we no longer share an office, the more things change – the more you value the special bonds you make along the way. Pursuing a PhD can be as lonely a task as it is a long one, but I never felt alone because I got to take this journey right alongside a great friend. Thanks for laughing loud, listening to Christmas music, savoring Roget's Thesaurus, blowing through reams of paper, chugging coffee, building cakes, puzzling through US geography, and pondering the meaning of the universe with me all these years. And for all the friends who joined us in the fun, especially Sarah Fraser and Saneeta Saunders, it wouldn't have been the same without you – thanks!

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# CHAPTER 1

# INTRODUCTION

*Why Study this Topic?*

The vast majority of businesses in the world are family-controlled, which suggests that this structure for commerce meaningfully affects societies and economies around the globe (International Family Enterprise Research Academy, 2003). In fact, family owned enterprises are a key engine of the North American economy. The most reliable statistics from Canada suggest they provide employment for upwards of 6 million people, while generating sales revenues of approximately $1.3 trillion (Deloitte & Touche, 1999). Depending on the definition used, researchers (drawing on data from academic, private, and government sources) have estimated American family-controlled businesses contribute 64% of the GDP and provide jobs to approximately 62% of the US workforce (Astrachan & Shanker, 2003). Though there are no comprehensive databases of family owned businesses, there is consistent agreement among researchers that anywhere from 80 to 95% of North American businesses can be defined as family-controlled, including 35% of the Fortune 500 (Atrachan & Shanker, 2003; Benson, Crego, & Drucker, 1990; Carsrud, 1994; Dyer, 1986; Kets de Vries, 1995).

Despite this prevalence, family owned businesses have not traditionally been the subject of empirical research. Management scholars have a dim view of nepotism and much of the early articles written on this topic were built on the assumption that family control in a business equates with poor management practices (Gersick, Davis, McCollom Hampton, & Lansberg, 1997), which would make them not fit for serious study. As a result, early knowledge developed primarily through anecdotal studies conducted by practitioners (e.g., Danco, 1980). Though many of these studies lacked rigor, they generated interest in this under-studied topic. Over time, empirical research began to reveal evidence that family controlled businesses actually out-perform widely held businesses on many dimensions (Anderson & Reeb, 2003; Beehr, Drexler, & Faulkner, 1997; James, 1999), generating further interest in this field of study. As a result, over the last decade or so, the field of family business research has emerged as a legitimate academic discipline in its own right (Sharma, 2004).

One topic that has often been a source of interest in the field is the challenge of inter-generational transmission. Though the popular expression is "shirtsleeves to shirtsleeves in three generations," research suggests that successful family businesses survive and operate an average of 24 years, about the length of the tenure of the founder (Benson, Crego, & Drucker, 1990). In addition, the most widely cited statistic in family business research is that about 30% of family businesses survive the first transmission to the second generation of owner-managers, and only 10% make it to a third or beyond (Ward, 1987). While these figures suggest many family businesses do not even make it to the "doomed" third generation, they also indicate variability – clearly some family businesses survive multiple succession transitions (Poza, 2007).

While intergenerational succession has received much research attention within the discipline of family business (Zahra & Sharma, 2004), there is little consensus about what leads to successful successions. This lack of understanding has become an urgent concern as demographic trends push the baby boom generation towards retirement. In fact, statistics suggest over 50% of Canadian family businesses will experience leadership succession in the next ten years (Deloitte & Touche, 1999), and recent surveys in the

United States report close to 60% of majority shareowners in family businesses are over the age of 55, with 30% indicating they are 65 or older (Laird Norton Tyee, 2007). As these businesses represent such a core component of the economy, the costs of failed successions in terms of job and economic instability could be significant. Yet, empirical knowledge on family business succession is still only emerging. One approach that has been advocated, to help move knowledge forward more rapidly, is to conduct family business research using established theories from other disciplines (Sharma, 2004).

The discipline of psychology may be expected to be a relevant field to apply to this research as family business succession is influenced by the people involved, and the complexity inherent in their relationships with one another (Gersick, Lansberg, Desjardins, & Dunn, 1999; Ibrahim & Ellis, 1994). Research psychology may help shed light on mechanisms by which the people involved may be affecting one another. In addition, it could inform our understanding of how individual differences play a role in family business succession outcomes. For example, though many have suggested difficulties in family business succession can be attributed to the incumbent business owner's difficulty in "letting go" of their business (e.g., Dyer, 1986; Haid, 1994; Sharma, Chrisman, Pablo, & Chua, 2001), no study to date has explored personality variables that may be associated with the incumbent's general capacity with letting go of valued goals.

A review of the state of knowledge about family business succession suggests that research from psychology on retirement and adaptive self-regulation to goal constraints may provide insights that will meaningfully improve understanding. In addition, as there is growing awareness that the successor plays a key role in succession (Ibrahim, Soufani, Poutziouris, & Lam, 2004; Sharma et al., 2001), research that can consider the interplay of incumbents and successors, examining the process from both their viewpoints may prove valuable. Finally, as succession does not occur as a single event, longitudinal research may be particularly important to clarify direction of effects.

*Purpose of this study*

This research project was developed to examine how contemporary research psychology, and in particular theories of self-regulation, could increase understanding of family business succession. In order to develop a manageable, yet meaningful program of study, the focus of inquiry was narrowed to two broad questions, which were eventually refined into testable empirical research. The first question was: how do the two generations involved in succession (a parent and child) experience the transition of authority and control in the firm? The second question was: could theories of personality developed to explain how people manage challenging encounters and transitions provide insight that might help explain incumbent behavior in the succession process?

To address the first question, incumbent leaders and prospective successors from the same firms were recruited to provide the perspective of both. Though perceived as less central than the incumbent to the succession process, it has long been recognized that for succession to realistically move forward, the successor must be ready and willing to assume new responsibilities (Davis & Tagiuri, 1989). Recent work further implies that the successor's role is not passive (e.g., Ibrahim et al., 2004; Sharma et al., 2001), which motivated this study's comparisons between the generations, to better evaluate how the two may influence one another (i.e., the incumbent's confidence in the successor's abilities being associated with the actual level of control held by the successor).

In refining the second question, given the widely documented difficulties with "letting go" of leadership among family business incumbent leaders, it was hypothesized that the business owner's goal adjustment capacities (i.e., goal disengagement and goal reengagement, Wrosch, Scheier, Miller, Schulz, & Carver, 2003) would be factors that could either facilitate or hinder the succession process. Further, as goal disengagement and reengagement are constructs that have been validated and studied with a range of samples, this approach fulfills the call from family business academics for more research using established theories from other disciplines to move the emerging discipline of family business research forward (Sharma, 2004).

*Summary of main findings*

The research reported here is derived from a comprehensive data set, collected from family businesses across Canada who responded to a mailed questionnaire titled: Canadian family business study. Three separate studies are reported, the first is based on cross-sectional data only (incorporated as a complete manuscript, published in the *Family Business Review*, December, 2007), the second study represents the longitudinal follow up analyses from this first manuscript, and the third is another complete manuscript (currently submitted for publication) which includes both cross-sectional and longitudinal results.

The first study examined the association between measures of progress towards succession and levels of perceived and objective control held in the business by both the incumbent and successor. This research used cross-sectional data from 100 companies, where both the incumbent leader and potential successor responded to our questionnaires. In summary this study suggests that objective indicators and subjective perceptions of control over the business remain primarily in the hands of incumbents. However, the indicators of "succession readiness" that were assessed from the incumbents were more reliably associated with measures of control for the successors. Perhaps most interesting is the result that incumbent and successor's levels of control in the business are only weakly or not at all correlated, providing support for the premise that most family business successions are not adequately described as a process of the incumbent relinquishing authority as the successor gains in competence and control (e.g., Handler, 1990).

As change in authority could only be assessed with longitudinal data, follow-up analyses were conducted for Study 2 to determine if indicators of succession readiness at Time 1 were associated with different patterns of changes in control for each generation from Time 1 to Time 2. The results of this research are compelling. As had been the case in Study 1, more significant associations were found between the successor's level of control and the business's readiness for succession than were found for the incumbent. An increase in the successor's ownership of shares in the business and perceived control were both predicted by indicators of succession readiness reported by the incumbent a few years before. The limited findings for the incumbent are consistent with the pattern found in Study 1 and suggest future studies should consider other variables in order to better understand variability in the incumbent's succession experience.

In order to seek to better understand change in control for the incumbent leaders, a third study was conducted. This study was a longitudinal examination of the associations between goal disengagement, goal reengagement, recent business performance, and retirement outcomes among family business incumbent leaders at, or approaching, retirement. The cross-sectional analyses in this study revealed that goal disengagement was associated with more positive retirement outcomes, particularly in cases where businesses had been recently struggling. This interaction between business performance and goal disengagement suggests that goal disengagement may mitigate the risk of the incumbent's escalation of commitment when confronted with struggles in his or her business. In addition, goal reengagement was associated with more positive retirement expectations and planning in this sample. Finally, the longitudinal data provided evidence that goal disengagement could predict increases in adaptive retirement outcomes over time. This implies that incumbent leaders who have difficulty adjusting personal goals are at risk of failing to make progress with the succession process.

*Organization of Dissertation*

This dissertation is presented in seven chapters. This first one has provided a rationale for the topic of study and summarized the core findings from the research. Chapter 2 offers a review of the extant literature on several topics relevant to this research: family business succession, retirement and executive retirement, theories of control and goal adjustment from the field of self-regulation, and the escalation of commitment to a failing course of action. This is followed by Chapter 3, which details the methods of the program of research, summarizes the hypotheses tested through the dissertation, and offers a brief description of the sample. The next three chapters, 4, 5, and 6, represent the core results of the research conducted that have just been summarized here. Finally, Chapter 7 offers a general discussion, summarizing the research findings, noting the contributions to knowledge made by the research, considering the limitations and future directions, and providing a brief overall conclusion.

# CHAPTER 2

## REVIEW OF THE LITERATURE

### *Family Business Succession*

A significant portion of North American commerce is conducted by, and with, businesses owned and operated by families (Astrachan & Shanker, 2003). The impact of these companies on the economy cannot be denied (e.g., Deloitte & Touche, 1999), yet the challenges inherent from the overlaps of ownership, management, and family within these organizations is still not well understood by scholars (Sharma, 2004). In part this may be because empirical research on family-owned businesses is still in its infancy, and it may be in part because the topic itself is so complex.

Though contemporary research on family businesses has been evolving over the past two to three decades, the field is still in its early stages (Sharma, 2004). As a result, there is not even agreement on basic constructs such as how to define a "family business" (e.g., Astrachan & Shanker, 2003; Chua, Chrisman, & Sharma, 1999; Sharma, 1997). Though this definitional ambiguity is a challenge to this area of study, it is beyond the scope of this research project to reexamine or determine the optimal definition of a family business. Instead, it will suffice to clarify that for the purpose of this project, a family business is defined as an enterprise with ownership and management concentrated in the hands of one family, with at least one member of that family currently occupying the leadership role, and one other member of the family (his or her child) being groomed or considered for eventual leadership responsibilities.

Though much about family business merits study, the goal of this research will be to improve knowledge about family business succession. There is extensive anecdotal evidence that family business succession is challenging (e.g., Danco, 1980; Dyer, 1986), and failure in this process can threaten the survival of these firms (e.g., Beckhard & Dyer, 1983; Family Firm Institute, 2007; Welsch, 1993). Though succession has received a great deal of attention in family business research (Bird, Welsch, Astrachan, & Pistrui, 2002), there is as yet, little clarity on variables that may be associated with success. Further, while the field of family business defines itself as multi-disciplinary (incorporating knowledge from management, psychology, law, and tax planning; c.f., Family Firm Institute, 2007), there has been almost no cross-disciplinary empirical research conducted to address the challenge of succession, suggesting research that may combine knowledge from management and psychology should provide an important contribution to knowledge.

As the economy is in the midst of an unprecedented wave of business leadership transfers due to population aging (Deloitte & Touche, 1999), this may well be a good point in time to conduct comprehensive research on family business succession as it should be relatively easier to find businesses engaged in the process to study. This is not an insignificant point, as there exists no comprehensive database of family-controlled businesses, and typically these companies value their privacy -- two points that make research with this population challenging (Sharma, 2004). Further, recent studies find a large proportion of current family business owners are at an age where they will soon be facing retirement (Laird, Norton, Tyee, 2007), and close to half in another study report they expect to retire within the next ten years (American Family Business Survey, 2007), which suggests that research which may inform knowledge and practice to improve outcomes for these companies would be of ongoing value to society.

*Issues for incumbents*

The incumbent leader of a family business is often the primary (if not only) topic of study when research is conducted on family business succession (e.g., Sharma, 2004; Ward, 1987). This is unsurprising as these incumbents have a great deal of authority in the family business system, and therefore largely control the process of succession (Sharma, Chrisman, & Chua, 2003). Typically this individual is the primary owner of the business, may well be the founder of the company, and has most likely been at the managerial leadership of the business for more than two decades (Benson, Crego, & Drucker, 1990). Contributing to the strong power of these individuals in their businesses, most family enterprises do not have a formal board of directors (American Family Business Survey, 2007) who could exert some pressure on this leader to make concrete progress towards succession when he or she may be resisting for whatever reason.

In fact, there is extensive evidence that incumbent leaders in family business resist retirement and the succession process more broadly (e.g., Lansberg & Astrachan, 1994; Sharma et al., 2001). While not as yet fully understood, many authors have tried to explain the difficulty these incumbents have with relinquishing their control in the business. One established leader in the field of family business (Aronoff, 2003) has proposed incumbent resistance to succession is driven by their need for security in four different domains: financial (can I afford to retire?), family cohesion (will the family be torn apart by this process?), business stability (can the business function without me?), and personal identity (who am I if not the leader of this firm?).

There is research evidence to suggest these issues play a role in the incumbent's resistance of succession. For example, as most incumbents will rely on income from the business to fund their retirement needs, if they are worried succession will hamper the success of the business, this will cause them financial concerns, and both issues may lead to their resistance of succession (Sharma, Chua, & Chrisman, 2000). In fact, 44% of incumbent leaders indicate concern about the business' ability to function without them (Deloitte & Touche, 1999). In terms of family cohesion, many authors have suggested that attempting to choose a successor from among one's children, or fearing the children's inability to work together going forward causes incumbents to resist succession (e.g., Gersick et al., 1997).

Furthermore, on the question of identity, researchers who have studied executive leadership and business owners find these individuals experience a meaningful psychological loss in retirement because their work role frequently defines them and comes with social prestige that may be hard to abandon (Kets de Vries, 2003). Their ability to make these sacrifices may be affected by their age or life-stage, as these constructs are theoretically linked to how easy or hard it is for them to proceed with the generative work involved in succession (Davis & Taguiri, 1989).

These myriad concerns underscore the complexity of family business succession, as all, or some of these factors may be driving the behavior of a given incumbent. As this all suggests that the resistance of incumbents to succession is highly influenced by their fears and beliefs about a critical life transition, contemporary control theoretical approaches from the field of psychology (e.g., Carver & Scheier, 1998; Heckhausen & Schulz, 1995; Wrosch, Scheier, Carver, & Schulz, 2003) may provide useful tools to improve our understanding. In addition, succession can be expected to cause disruptions to family, business, and ownership structures of the business simultaneously, which again highlights the complexity of family business succession (Handler, 1989), and underscores the relevance of research that examines this process from more than one point of view.

*Role of successors*

Though most of the early research on family business succession focused on incumbents for the reasons highlighted above, there is a growing appreciation for the central role successors play in this process (Sharma, 2004). As succession requires that an incumbent not just cede authority, but actually transfer it to a successor, the confidence he or she may have in their prospective successor should be important. In fact, researchers have found leadership ability, management skills, and a commitment to take over the business, are characteristics that incumbents most seek in their successors (Ibrahim et al., 2004). This finding is echoed in other research which suggests that the presence of a successor, who the incumbent can trust and whom he or she believes is willing to take over the business, is a critical variable in determining if a firm is making progress in succession planning (Sharma, Chrisman, & Chua, 2003).

While these studies underscore that the incumbent leader should have confidence in the prospective successor's leadership skills and commitment to take over the business, they begin to hint also at the possible reciprocal nature of the succession process. For example, while the incumbent must have confidence in the successor's commitment to the business in order to proceed with succession planning, it is possible that the younger generation's commitment to the business could be adversely impacted by lack of progress towards succession on the part of the incumbent. In fact, research finds the manner in which successors experience succession can influence their level of satisfaction with work and their commitment to take over the business (Sharma et al., 2001; Ventner, Boshoff, & Maas, 2005). A possible negative cycle may emerge if the successor experiences the incumbent's delays and resistance with succession progress as aversive, as this may diminish the successor's enthusiasm for taking over the business, which in turn could make the incumbent hesitate further, given the evidence that incumbents generally value commitment to the business from a prospective successor.

Succession has been described by some as a slow shift in power and responsibility from the incumbent to the successor over time (Handler, 1990). Handler points out, however, that it is precisely the stage at which the incumbent must transition from primary decision-maker to a role involving delegation of responsibility to the successor, where many begin to struggle. In fact, nearly half of the incumbent leaders in Handler's (1990) sample continued to perform tasks they could have delegated, which may erode the confidence of the successor. This "dragging-of-the-heels" effect could lead to increasing problems over time, as the development of mutual respect, likely relevant to successful succession, may be dependent on a confident successor eliciting growing trust from the senior generation as they take on more and more important tasks in the business (Handler, 1992). Again, this research underscores the interactive nature of the succession process, as the beliefs and behaviors of each generation can meaningfully impact the other's experience of succession.

Finally, while many authors have argued that the interests and competence of successors have an impact on succession outcomes (e.g., Ibrahim et al., 2004), it is important to point out that the incumbent's evaluation of the successor may not be objective. For example, a leader who cannot readily conceive of what he or she could do after retirement may find "flaws" in their prospective successor as a convenient excuse to delay or avoid succession. This would suggest that the needs, motives, and capabilities, of both the incumbent and successor affect both the succession process, and the other person. In fact, "developmental processes always take place in the context of ongoing social relations" (Kim & Moen, 2001, p.84), implying these processes (retirement of the incumbent and ascension to leadership of the successor) are best understood in relation to one another, and within the context of the broader environment.

*Succession process*

Family business succession may be influenced by a number of factors beyond the two key players involved in the leadership transition directly. For example, important stakeholders, the age or health of the incumbent, as well as the economic situation facing the business, may all put different kinds of pressure on the succession process (Gersick et al., 1999). While it is beyond the scope of this program of research to comprehensively address all of these factors, it is important to recognize the role they may play in influencing family business succession.

Stakeholders are individuals in the family or business system (or both), usually family members, employees, suppliers, or customers who could resist succession. For example, key managers may worry about their position under the direction of the successor and could plant seeds of doubt in the owner's mind because they are afraid of how this leadership change will affect them (Lansberg, 1999). In addition, if the family equates fair treatment with equal treatment – this norm could have a profound effect on the succession process if the current owner has more than one child (Van der Heyden, Blondel, & Carlock, 2005). Conflicting demands around succession from important stakeholders may contribute to an incumbent leader's hesitancy to embark down this contentious path. In addition, these stakeholders could affect the successor's experience of succession, which may influence his or her commitment to take over the business.

One approach researchers and practitioners have found adaptive in mitigating the negative influence of stakeholders on succession is for the business to have a clear and public timetable for the succession process (Lansberg, 1999). Unfortunately, this concrete planning is not widespread, a problem as lack of planning is associated with poorer outcomes for the business and people involved (Giambatista, Rowe, & Riaz, 2005). The notion is that by making the process more transparent, a succession timetable reduces the ambiguity and uncertainty that may contribute to stakeholder concerns. At a minimum, this document may serve to put everyone on notice that succession is "officially underway," an important detail to clarify, as succession does not have a clearly defined starting point. Some argue succession has begun once the incumbent joins the business (e.g., Handler, 1990), while others argue developmental pressures such as the aging of the incumbent are what officially trigger the process of succession (Gersick et al., 1999).

Certainly, age is a contextual variable that cannot be ignored when studying a process that involves retirement, as this phenomenon is normatively associated with age (Neugarten, 1979). Further, one of the seminal research projects in family business succession examined how the age and life-stage of both the incumbent and the successor may play a role in how each one experiences succession (Davis & Taguiri, 1989). These authors point out that adaptive progress with succession requires an incumbent leader who is interested in and motivated to help with the development of his or her successor. Using Levinson's (1986) theory of developmental stages, they argue there are points in the lifespan when the incumbent will be feeling more generative, and therefore more likely to be helpful and supportive of his successor. Likewise, this theoretical model also suggests there are life-stages for the successors that will make them more receptive to learning from their parent, and actively seek to take on new responsibilities. They found patterns in the data to support their argument that one of the challenges in family business succession was that there were only limited occasions when both the incumbent and the successor were simultaneously at a life-stage that would facilitate the transition.

Another important contextual feature that needs to be considered in family business succession is the overall situation of the business (Le Breton-Miller, Miller, & Steier, 2004). In particular, it would be likely that the financial health of the business could affect the succession process. Though family-controlled businesses come in all sizes and industries (Astrachan & Shanker, 2003), recent surveys confirm the vast preponderance of them would be considered small to mid-sized by most economic metrics (Laird Norton Tyee, 2007), suggesting that in general, they have less of a cushion to withstand economic downturns than larger, public companies. Further, the Laird Norton Tyee study also documented that the family business is the primary or sole source of income for the family in over 92% of cases, suggesting that financial struggles of the business could expose the family to high personal risk. This finding implies that an economic downturn in the business may impact the incumbent's motivation to make progress with succession, especially considering that close to half of incumbent leaders believe their business cannot function optimally without them (Deloitte & Touche, 1999).

This review of the state of knowledge on family business succession demonstrates that researchers have increasingly sought to capture the complexity of this process to improve understanding. In the past decade there has been enormous progress in the field, with more of the research conducted being of an empirical nature, theory-driven, and using larger sample sizes, just to name a few improvements (Zahra & Sharma, 2004). While the result is that knowledge about family business succession has grown more sophisticated, serious scholars are still looking for improvements to our understanding of the family business succession process. More specifically, there have been calls to test empirically validated theories from other disciplines to add depth to knowledge and frame the challenges inherent in family business succession within a broader intellectual discussion (Sharma, 2004). Given the complex interaction of pressures from the business context, and the business and family relationships seen in this summary of the literature, it seems reasonable to suggest knowledge from the behavioral sciences may provide important insight (Dyer & Sanchez, 1998).

### *Retirement*

One area of knowledge from the behavioral sciences that may be relevant to the study of family business succession is the literature on retirement. Retirement of the incumbent is a central feature of family business succession (Gersick et al., 1997). Further, retirement is a topic that has been studied by both management and psychology researchers as it represents the transition from the world of employment to the post-employment life of older adults (Settersten, 1997).

While this life-stage transition has long been proscribed by social norms to occur at a specific retirement age (typically around 60 or 65), there is some evidence that this "normative retirement age" has expanded its range, perhaps in part due to the aging trends in our society and a deinstitutionalization of the normative structure of work life (Settersten, 1997). In fact, one study on age norms for life transitions found a positive association between the age of the respondent and the age they identified as good for retirement (Peterson, 1996). This finding may imply people who have some choice about when to retire (e.g., business owners) may experience retirement as a moving timetable. As they age, the age at which they would consider it to be optimal to retire moves up, pushing their intent to retire ever further into the future. Nonetheless, even people with a choice about when to retire do so at a range of ages, many at the "standard" age of retirement, therefore research to understand what may determine a person's readiness to retire is of interest, and may be particularly relevant among this population of individuals who has more control over retirement timing than most.

One factor that has been considered as a possible influence on intent to retire is the centrality of the person's work role to his or her overall identity (Kim & Moen, 2001). There are studies that have found the centrality of a job to a person's sense of self is inversely associated with the expectations that a person has for retirement (Gee & Baillie, 1999), and with the actual timing of that person's retirement (Elder & Pavalko, 1993). In fact, Gee and Baillie (1999) found individuals with a strong attachment to their job were most likely to perceive retirement as an imposed disruption, rather than as a new beginning. Further, the Elder and Pavalko study (1993) found a pattern of retirement delay both among self-employed men and among men who identified work as a central part of their life, suggesting attachment to the work role may contribute to a reluctance to leave this position. This attachment may well be a relevant issue among family business incumbents.

The attachment prospective retirees have to their jobs may also affect the planning they do for retirement. As retirement is a complex life transition affecting daily routines, sense of self, and financial situation, etc., it is an event that requires some amount of advance planning. Evidence for the assumption that job attachment may adversely affect retirement planning was found in a broad-based national sample of near-retirement aged adults (ages 51 – 61 years), where workers who liked their jobs were found to be less likely to make specific plans for retirement (Kosloski, Ekerdt, & DeViney, 2001). In addition, this study found the more workers liked their jobs (as it provided them with intrinsic satisfaction, positive social relations, and professional growth) the less likely they were to make plans to leave their jobs.

In addition to their attachment to their job, the expectations people have about retirement may also affect their actual retirement behavior. One longitudinal study found older men (in their 70s and 80s), who twelve years prior expressed distaste for retirement and a strong desire to work, were more likely to be working and working longer hours than their age peers, even after controlling for key measures such as health and income levels (Parnes & Somners, 1994). A different longitudinal study found that distaste for retirement (poor expectations for retirement life) a few months prior to retirement was negatively associated with quality of life six to seven years post retirement, even controlling for changes in health or general affect of the retirees (Gall & Evans, 2000). This finding suggests that the expectations an individual has about retirement may play an important role in the person's experience of this transition. These expectations may pose a unique set of challenges in a family business situation because if the owner-retiree does not tolerate well the transition to retirement, he or she may still have the power to come back into the business, potentially to the detriment of the successor's full transition to a real leadership role.

*Executive Retirement*

While the research on retirement that has been highlighted is likely relevant to our understanding of retirement for family business incumbents, it may be particularly useful to consider research on retirement of business leaders or other executives, as this may be a population more similar to the one considered in this research program. Unfortunately, this literature comes primarily from the field of management and tends to focus more on organizational outcomes, rather than on the retirement beliefs and behaviors of incumbent leaders (e.g., Giambatista, Rowe, & Riaz, 2005; Kesner & Sebora, 1994). However, there are a few exceptions. For example, while the loss of one's professional identity may represent a challenge and adjustment for any working person, those who are in positions of leadership at work may experience a higher psychological cost in departing from work, as their role conferred on them perks, authority, and privilege not likely available in retirement (Kets de Vries, 2003). In fact, many incumbents strive to avoid these losses as long as possible, and there is evidence that those leaders with a high level of power in their business frequently postpone the succession process (Cannella & Shen, 2001; Sonnenfeld, 1988).

When retirement is studied among business executives, researchers have suggested that the frequent reluctance to retire seen with managers and executives may be associated with these hard-driving individuals not knowing what they would do with their time and energy if they left work (Levinson & Wofford, 2000). They further suggest those with certain personalities (such as those who are very achievement driven, typical of business owners, and sometimes described as Type A) may persist in their position at work as a way to defend against the anxiety and feared helplessness they associate with retirement. In fact, a large longitudinal study of community older adults found that those with Type A personality were more likely to report having experienced retirement as involuntary than the Type B's in the sample (Swan, Dame, & Carmelli, 1991), and an involuntary retirement was also strongly associated with more negative views about retirement among the Type As.

Individuals with achievement-oriented personalities have a strong need for control, and certainly in the case of family business incumbents, there is agreement that the extensive influence they carry in the business will have a bearing on their retirement behavior (e.g., Sharma et al., 2001). As mentioned previously, family-controlled businesses frequently have no outside board of directors (American Family Business Survey, 2007) who could provide some pressure on the incumbent to address succession. The resulting power vacuum means any ambiguous feelings the incumbent may have about retirement will likely negatively impact the progress the firm can make with succession (Lansberg, 1999; Ward, 1987).

While the literature summarized to date has added to our understanding of why incumbent leaders in family business may struggle to "let go" of their leadership role, this knowledge does not offer much insight on why some incumbents do successfully transfer their businesses, while others resist the process for years, often to the detriment of their businesses and families as well. Understanding the individual differences that may account for this variability may be improved by a review of control process theories from the field of personality psychology.

## *Self-Regulation*

Personality psychology involves the study of individual differences, the dispositions of a person that may help to predict the individual's behavior under a given set of circumstances (Allport, 1937). Though knowledge from personality psychology is vast and beyond the scope of this research program, a closer look at theories that seek to explain individual differences regarding how a person copes with changes and challenges may be more directly relevant. More specifically, research that considers mechanisms by which a person can adjust his or her behaviors or reaction to changing circumstances, often described as self-regulation (Karoly, 1993).

Research on self-regulation has often sought to clarify how individuals may optimally navigate changes that occur through their life-span, such as choosing among different opportunities, or managing in the face of a decline in resources, or a diminished opportunity to attain a particular goal (e.g., Baltes & Carstensen, 1996; Freund & Baltes, 1998; Heckhausen, Wrosch, & Fleeson, 2001). As much of this research on theories of control has considered how self-regulation can help older adults navigate the losses and challenges that come with aging (e.g., Freund & Baltes, 1998; Schulz & Heckhausen, 1996; Wrosch, Schulz, & Heckhausen, 2004), this area of knowledge may be relevant to understanding how these individual differences may affect family business leaders who are at, or nearing retirement.

The starting point for much of the work on self-regulation is the assertion that quality of life is enhanced when individuals have meaningful goals to pursue, which give life a sense of purpose (Carver & Scheier, 1998; Emmons, 1985; Heckhausen & Schulz, 1995). Carver and Scheier (1998, 2002) have proposed that goals provide direction and structure to an individual by acting as a target towards which the person makes efforts. This suggests that the behaviors of a person are highly influenced by their goals and the distance they perceive themselves to be from those goals. In addition, these authors make the point that a person may have many goals at the same time, but that those goals with a higher salience or priority will be getting more attention, therefore affecting more of the individual's behavior (Carver & Scheier, 2002).

Recent research finds individuals who pursue personally meaningful goals report greater emotional well-being, lower depression, lower perceived stress, and greater physical health than those individuals pursuing less valued goals (Scheier, Wrosch, Baum et al., 2006). While this underscores the importance of valued goal pursuits, it is important to also point out that not all goals can be successfully pursued to completion (Wrosch, Scheier, Carver et al., 2003), and a person may suffer negative consequences if their efforts to attain a goal are met with persistent failure (e.g., Carver & Scheier, 1990). As pursuing goals is important yet regular goal failure detrimental, self-regulation may be particularly important for individuals who may face more hurdles in goal attainment, such as aging adults (e.g., Freund & Baltes, 1998; Schulz & Heckhausen, 1996).

The life-span theory of control put forward by Heckhausen & Schulz (1995) specifically suggests that as adults age they increasingly rely on secondary control processes when confronting transitions or challenges that could affect their control over important areas of their life, such as work. Therefore, these processes could be expected to foster the transmission of family businesses across generations. Secondary control processes are primarily cognitive, and enable individuals to adjust their thoughts and expectations around a goal (e.g., devaluing the importance of a goal that may no longer be in reach) that should no longer be pursued. This contrasts with primary control processes, which typically involve action on the external world, to bring the environment in line with an individual's needs and goals. Though emphasis on one versus the other may change over the life-span, goal pursuit may be positively affected by both primary (e.g., appropriate persistence) and secondary (e.g., making cognitive choices about which goals to pursue versus which to abandon) control processes (Heckhausen & Schulz, 1995).

Theories of control can therefore be applied to help understand differences in how individuals optimally pursue the goals that give structure to their lives, while managing the constraints and changes inherent to a given life-stage (e.g., the transition to retirement in late adulthood). Furthermore, while goals give the impetus for positive directive action through the life course (e.g., Carver & Scheier, 1998), there is evidence individuals may suffer negative consequences if their efforts to attain a goal are met with persistent failure (e.g., Carver & Scheier, 1990). The inability to make progress towards a goal may lead to distress (Carver & Scheier, 1998), which may be particularly acute if the thwarted goal is one strongly associated with the individual's core identity (Wrosch, Scheier, Miller, & Carver, 2007). The experience of stress of this nature has been linked to compromised endocrine, immune, and other health systems which can make a person more vulnerable to colds or disease (e.g., Cohen, 1996; Miller, Chen & Zhou, 2007; Miller & Wrosch, 2007). This line of inquiry has suggested the stress associated with a discrepancy between a desired goal target and the objective possible reality may be aversive and lead to serious consequences to an individual over time.

Growing awareness about the potential negative consequences from an inability to attain a goal led to research on disengagement theory (Carver & Scheier, 1998; Heckhausen & Schulz, 1995; Klinger, 1975; Wrosch, Scheier, Carver et al., 2003; Wrosch, Scheier, Miller et al., 2003), which considers the ease or difficulty with which people may adjust goals they should no longer be pursuing. Putting this research in the context of the broader theory of control, the capacity a person has to disengage from goals may be associated with this person's secondary control processes, which may help buffer the negative effects of failure to attain a particular goal (a compensatory role). Further, Heckhausen and Schulz (1995) argue secondary control processes can also play an important role in facilitating primary control by helping the individual select goals to pursue and freeing up needed resources by abandoning others.

*Disengagement*

Though the pursuit of goals gives structure and direction to people's lives and frequently contributes to their well-being, as has already been suggested, not all goal pursuits are equally worthwhile, and some may lead to aversive outcomes (cf. Carver & Scheier, 1998; Emmons, 1985; Heckhausen, 1999). As research has found that persistent striving towards a given goal may at times be maladaptive (e.g., the "escalation of commitment to a failing course of action," Brockner, 1992) and lead primarily to aversive failure experiences, this suggests there are times when individuals should abandon a valued goal (Brandstädter & Renner, 1990; Carver & Scheier, 1998). The term used to describe this process is goal disengagement, defined as the reduction of effort and psychological commitment from a goal that a person should stop pursuing.

Research on goal adjustment capacities finds that individuals vary widely in their ability to disengage from a goal to which they were previously committed (e.g., Carver & Scheier, 1998; Miller & Wrosch, 2007; Wrosch, Scheier, Miller et al., 2003). In addition, recent studies have found that these individual differences predict positive outcomes on indicators of subjective well-being such as lower depression or greater life satisfaction (e.g., O'Connor & Forgan, 2007; Wrosch, Scheier et al., 2007). Further, goal disengagement capacities have been recently linked to adaptive biological and health outcomes in a range of populations (Miller & Wrosch, 2007; Wrosch, Scheier et al., 2007). In most cases, these effects were documented prospectively, such that goal disengagement capacities forecast improvements in outcomes over time (for other experimental and longitudinal studies demonstrating beneficial effects of goal adjustment processes, see also Kuhl, 1981; Wrosch, Bauer, Miller, & Lupien, 2007; Wrosch & Heckhausen, 1999). All these findings point to the conclusion that an individual's capacity to disengage from a goal that is no longer adaptive to pursue is associated with positive outcomes for health and well-being.

The mechanism by which goal disengagement is believed to have an effect on these indicators of well-being is by reducing the importance the individual ascribes to the goal and their own inability to reach it (Wrosch, Miller, Scheier, Brun de Pontet, 2007). In the case of incumbent family business leaders facing succession, those who are able to convince themselves that holding the leadership post is no longer appealing, or that all their peers have happily transitioned to retirement, will have an easier time de-committing from their role at the helm of the business. In this manner, it is likely that incumbent leaders' capacity to disengage from goals will be related to their ability to stop pursuing work-related goals, suggesting this construct may inform our understanding of the succession process. In fact, as the central challenge of family business succession is most frequently described as the incumbent's reluctance to "let go" (e.g., Aronoff, 2003), this validated theoretical construct may provide a valuable mechanism for measuring this phenomenon empirically.

*Reengagement*

While disengagement may well provide an important framework to help understand variation in the incumbent leader's ability to let go of his or her work role, the self-regulation theories on goal adjustment are made up of goal disengagement and goal reengagement. Goal reengagement includes the identification of, commitment to, and pursuit of alternative meaningful goals, in circumstances where a valued goal has to be abandoned (Wrosch, Scheier, Miller et al., 2003). This capacity is expected to be relevant to succession outcomes because if an incumbent has non-business related goals towards which he or she can direct energy (cf. Aspinwall & Richter, 1999; Wrosch & Heckhausen, 1999) this should help the incumbent abandon their work-related goals. The presence of new goals to pursue may help the incumbent feel he or she is retiring "to" something, not just retiring "from" their work role, thereby giving them purpose for living.

As in the case with disengagement, research finds individuals vary in their capacity to reengage, which may have a bearing on their subjective well-being (Wrosch, Scheier, Miller et al., 2003, 2007). In addition, some of this research has found an interaction between goal disengagement and goal reengagement, such that the capacity to reengage in new goals could protect individuals from the aversive consequences of their inability to disengage from unattainable goals. Of relevance to the population of retirement-age adults under study in the family business research presented here, Wrosch, Scheier, Miller, and colleagues (2003) found evidence that older adults who had low capacities to reengage, had particularly low levels of emotional well-being when they were unable to disengage from a goal that was no longer adaptive to pursue.

Among family business incumbent leaders, it is reasonable to suppose those who have a good capability for developing new goals may actually look forward to their freedom after retirement because they can envision meaningful ways to use their time and energy (see also research on goal continuity or goal replacement, Benyamini & Lomranz, 2004; Payne, Robbins, & Dougherty, 1991), rather than having only negative preconceptions of what retirement will mean for their quality of life. Given the extensive power that an incumbent leader has in the family business system, his or her satisfaction with retirement (both in theory, to motivate planning for succession; and in fact, to ensure they do not return to the business and disrupt the leadership transition of their successor) can be expected to be an outcome of great importance to the long-term viability of the succession process. Insofar as reengagement capacity may be a good measure of an individual's prospects for a satisfying retirement, this variable merits consideration in the study of family business succession.

This summary of research on goal adjustment capacities suggests that individual differences on this dimension of personality may inform us about an incumbent leader's reaction to impending retirement. Certainly, research on retirement suggests that the well-being of individuals facing this transition may be affected by their experience of control over their choice to retire or not (e.g. Herzog, House, & Morgan, 1991; Swan, Dame, &

Carmelli, 1991), implying broad theories of control are of interest. Further, the capacity to adjust goals should be related to the incumbent's ability to abandon work-related goals and commit to post-retirement goals that give direction to this stage of life. While to our knowledge there has been no previous research considering how such measures of self-regulation are related to outcomes among family-owned businesses, this work builds in part on research we conducted with entrepreneurs, the results of which suggested goal adjustment capacities may protect the physical and emotional well-being of entrepreneurs whose businesses had recently been struggling (Brun de Pontet, 2004).

*Escalation of commitment*

It is worth noting that some research on goal adjustment capacities suggest these personality processes become particularly strong predictors of better outcomes in situations where it is difficult for a person to abandon a desired goal (see for example research on parents who had to give up career goals because their children were diagnosed with a life-threatening illness, Wrosch, Scheier, Carver et al., 2003). What this research finds is that in situations of adversity, strong goal adjustment capacities may protect individuals from more aversive consequences to their well-being. In a population of incumbent business leaders, we hypothesize a struggling business may be a situation that makes it more difficult for them to adjust from their goal of running the business (i.e., retire), as the threat to their business may lead them to increase their time and efforts with the business, due to a phenomenon described as the escalation of commitment.

An escalation of commitment to a failing course of action occurs when a person continues to invest resources or time in the pursuit of a goal that has a very low probability of success (Brockner, 1992). The reasons people fall prey to escalation have been explained in a number of ways. One of the more common explanations is that a person will escalate as a way to justify to themselves, and to others, that the significant prior commitment was warranted (Brockner, 1992), and that he or she was not wasting time and resources (Arkes & Blumer, 1985). The incumbent leader may escalate his or her commitment to leading the business as a way of convincing themselves that a life-long commitment to this company has not been in vain. In addition, Kahneman and Tversky (1979) famously contributed to this theory by suggesting individuals prefer to risk greater loss (on the small chance their persistence would translate to a gain) than accepting the certain loss that comes with abandoning a particular goal.

In the management domain, where escalation is often studied in the context of investment choices, the maladaptive response of escalation has been colloquially described as "throwing good money after bad." It is a wide-spread phenomenon, yet of interest to our topic is the research that finds business owners are typically at a high risk of escalating their commitment (Kahneman & Lovallo, 1994). Cognitive psychologists suggest this tendency to escalate is a result of cognitive distortions such as a misperception of risks (Baron, 1998), overconfidence (Baron, 2000), and a distorted sense of the amount of control they can affect on outcomes (Monaughan, 2000). These cognitive distortions could suggest, for example, that incumbent business leaders whose businesses are struggling will escalate their commitment to the leadership of the business (rather than make progress on succession) because they believe that they alone can restore profitability, and that this turn-around is just over the horizon.

In addition to these cognitive distortions, incumbent leaders may be so closely personally affiliated with the business (e.g., Baron, 2000; Lansberg, 1999) that this emotional attachment serves to increase their difficulty in retiring when their business is struggling. They are unable to "abandon their baby" in its time of need. Furthermore, family business owners typically have invested a great deal of time and energy towards the goal of having a successful business. Research on escalation-like behavior finds that when a person has invested a great deal in the pursuit of a given goal, in particular when the goal is closely tied to the individual's sense of self, they are especially likely to increase their efforts towards this goal (i.e., a higher risk of escalation) (Brunstein, 2000; Fox & Hoffman, 2002). All of this suggests family business leaders may be at particularly high risk of escalating their commitment to their leadership role when the company has been recently struggling, implying the context of business performance may complicate the succession process.

Though to date there has not been research to examine the interaction between goal adjustment capacities and the risk of escalated commitment, this literature review suggests that this is an avenue worth pursuing. Maladaptive escalation of commitment to a valued goal has been described as a natural phenomenon of persistence that may be difficult to avoid in the absence of meaningful alternative goals (Fox & Hoffman, 2002). In this regard, it may be thought of a special circumstance of poor goal adjustment capacities. In this case, it may be reasonable to expect that in a circumstance that may put a person at risk of escalation (i.e., business struggles for business owners), the individual's goal adjustment capacities may become particularly important to protect the individual from this escalation behavior. If that were the case, one could predict incumbent business leaders who have better goal adjustment capacities would be more likely to be making progress towards succession, even if their business had been recently struggling, whereas those in a struggling business who also have limited adjustment capacities would be particularly likely to be resisting the succession process.

### *Conclusion*

This review of the literature has made the case that research developed from control-theoretical approaches to psychology may contribute new insights to the study of family business succession. Though there has been recent progress in the quality of the research conducted in the field of family business, leading authors in the field have called for more studies to test validated theories from other domains within the population of family business (Sharma, 2004), and arguments have been made in the past that research from the behavioral sciences may be particularly informative (e.g., Dyer & Sanchez, 1998). The literature reviewed here on retirement, goal adjustment capacities, and escalation of commitment, suggest these topics may help describe elements that contribute to adaptive outcomes in family business succession. Building from the literature summarized here, the research program described in the chapters that follow, combine this knowledge from management and psychology to provide an innovative multi-disciplinary examination of family business succession.

# CHAPTER 3

# OVERVIEW OF RESEARCH

*Development of Research Questions*

An interest in the challenges inherent to the overlap of family and business led this researcher to explore the scientific knowledge available about family owned businesses. While a review of the literature (as summarized in the previous chapter) showed an emerging field of inquiry around the unique issues facing family owned business, only a limited amount of empirical work is available to support the theories and ideas being advanced. In addition, while the field of family business prides itself on being multi-disciplinary (scholars and practitioners from management, accounting, finance, organizational development, and psychology are represented) much of the work done from psychology appeared dated and overly defined by paradigms of family systems, Freudian theory, and sibling rivalry. Though all of these ideas have contributions to make to knowledge about family business, more contemporary theories from the field of psychology appear not to have been explored to date, suggesting a gap in knowledge on family business.

As has already been pointed out, it is often the attempt to transfer the business from one generation to the next that brings to a head much of the complexity inherent to the family-business overlap of these organizations. Understanding of many of the resulting challenges may be improved with knowledge from psychology. For example, emotions around choosing a successor from among one's children may be intense, a successor's sense of themselves may be colored by the confidence a parent has in his or her leadership abilities, and the incumbent may struggle with fears of mortality when thinking of retirement. All of these issues may be informed by knowledge from control-theoretical approaches to psychology, which could then lead to an appreciation of factors associated with more or less adaptive outcomes at this business life-stage. Further, research methods from psychology may facilitate a rigorous study of this complex process, yielding knowledge useful to practitioners and scholars alike.

While the above makes clear there are many elements of the family business succession process that may be clarified with theory and research from psychology, only a few will be addressed by this program of study. One of the challenges that a family business may face at the point of inter-generational succession is navigating the balance of power and authority between an incumbent leader (who is theoretically transitioning out), and his or her designated successor (whose position and authority in the business should be on the rise). As succession is a process that typically occurs over the course of many years, and can be affected by any number of variables (e.g., business performance, pressure from family members, commitment to the process of both incumbent and successor) it is interesting to consider how the succession process itself is associated with levels of authority held in the business by both generations. Exploring this question was one objective of the research.

Although authority in the business is an important measure of outcomes related to succession, an area of process that has been under-studied in family business succession is the incumbent leader's beliefs and behaviors around retirement. As succession usually means that the incumbent leader in a family business will be retiring from the day-to-day leadership of the business, his or her expectations about retirement life and ability to plan for this concretely may be important factors to consider. Not only is there extensive research in psychology on the broad topic of retirement, theories of personality and control may help uncover individual differences that can improve our understanding of this key element of the succession process. Specifically, an examination of the role of goal adjustment capacities are expected to be relevant in this population for which the popular literature has often portrayed the incumbent's inability to "let go" as the central challenge of succession. As theories of goal adjustment consider an individual's facility with letting go of unattainable goals (goal disengagement) and the ability to reinvest themselves in new goals (goal reengagement), the use of these scientifically validated constructs in the study of family business succession should prove informative.

In order to address these questions empirically, a program of research was designed to make use of knowledge of personality and self-regulation from the field of psychology to examine these complex challenges of intergenerational transmission in family-owned businesses. The broader purpose established for this cross-disciplinary research was to contribute new understanding to the field of family business studies, while also extending knowledge in the fields of psychology and management by testing established theories from these disciplines with this population. In order to accomplish these goals, a multi-disciplinary team created a program of study that would be informed by current knowledge from all three domains, as summarized in the previous chapter.

*General Method*

This author reviewed the state of knowledge from the field of family business and assisted the primary investigator (her thesis advisor) in the grant writing process seeking funding for a comprehensive longitudinal research project. A psychologist from the faculty of management, with experience conducting research with business populations, joined the project as a co-investigator. In addition, pledges of support (to help recruit participants) from organizations were enlisted to ensure the granting agency would have confidence the data needed for the proposed study could be obtained. Specifically, the Canadian Association of Family Enterprises (CAFÉ), a network organization supporting family business, the Réseau des Femmes d'Affaires du Quebec (RFAQ), a business women's association, and the accounting firm of PriceWaterhouseCoopers, all agreed to contact their members and clients about participating in the study. The resulting proposal was awarded a sizeable grant from the Social Sciences and Humanities Council of Canada, and also received and award for the "best proposed research paper" at the 2005 Family Enterprise Research Conference in Seattle, USA (see Appendix A for a copy of the award).

Once the funding and recruiting partners were in place, we developed a comprehensive questionnaire (see complete questionnaire packet Appendix B). This questionnaire instrument addresses several research goals, not all of which are considered in this dissertation. The specific questionnaire items used in the studies presented here are further broken out into individual appendices for greater clarity, and referenced when they are first presented in the studies. For the sake of simplicity, the questionnaires included in the appendices are all drawn from the incumbent version (as all three studies considered incumbents). There are minor wording modifications in the successor version (reflecting the difference in that person's perspective on some questions), and the version used to collect data in the second wave also had a few additional questions to capture information not included in the first wave (e.g., a question asking respondents to identify their industry). Finally, each version of the questionnaire was professionally translated into French in order to obtain data from French-speaking business people as well (approximately a quarter of the sample).

As the process of family business succession does not have a clear starting point, age of the incumbent leader was used as a criterion for eligibility in the study. Age is relevant as it is associated with retirement (Neugarten, 1979) and other transitions that could be expected to occur as part of a family business succession process (such as increasing management responsibility for the successors, whose age can be expected to be strongly correlated with their parent's age). Specifically, the research group set out to recruit participants (both incumbent leaders and their expected, or potential, successors) from family-controlled companies across Canada whose current leader was at least 50 years old. In addition, though there is not a universally agreed definition of what is a "family business" (see Chapter 2 for details on defining this term), this program of study restricted its sample to businesses whose incumbent leader is a parent to the potential successor (rather than any other family relationship, such as uncle and niece).

Study participants were recruited through a number of channels between 2003 and 2007. The first wave of data collection was concentrated in the period of 2003 to 2005, whereas the follow-up data gathering for Wave 2 occurred between 2005 and 2007. Though the three professional organizations cited above all sent letters to their clients or members who met study criteria, several other recruitment methods were needed to arrive at a reasonable sample size. For example, letters were sent to all of the businesses in the Canadian Dunn & Bradstreet directory (a directory of the 20,000 largest companies in Canada) whose listing of key executives and Board members had at least three who shared the same family name (a total of 600 such letters were sent, see Appendix C for a copy of this letter). In addition, the research group made extensive use of the internet to search for company sites that identified themselves as a family-owned business.

The initial method of contact for all internet-found companies was an email sent to the identified leader of the business if this person's coordinates were available, or to another proxy (i.e., secretary, webmaster) if those were the only contacts available (see Appendix D for a copy of this email note). If email coordinates were not available but an address was posted, then a letter version of the email communication was sent to the attention of the president of the business. This email or letter introduced the study and explained the essential criteria for participation, asking individuals to respond if they met study criteria and felt they may be interested in participating. To guard against participation by individuals who did not actually meet study criteria, no compensation was offered. Instead, individuals were told they would receive summaries of the study's key findings and that their name would be submitted to a small cash prize lottery ($250 awarded at random from among the questionnaires received).

Outside of the recruitment efforts made in concert with organizations whose mailing were tailored to our study requirements, it is impossible to determine how many businesses declined to participate because they did not meet our criteria. In addition, it is impossible to know how many email communications were actually even read by the person to whom they were addressed (as so many of us immediately discard email communications from unfamiliar sources). This makes it hard to arrive at reliable response rates based on all of our recruiting attempts. In all, in response to initial interest expressed from potential participants from all recruitment methods used, we mailed out questionnaires to incumbent leaders and their identified prospective successors to 189 different companies. A copy of the questionnaire, a consent form, and a self-addressed and stamped return envelope were in each packet, mailed separately to the incumbent and successor. From this mailing of questionnaires, 232 completed questionnaires (a response rate of 61%) were received from a total of 132 different companies.

As the study was designed as a longitudinal project, a second wave of data collection started about two years after the first questionnaires were received. The process of recruitment was simpler for this data as it involved sending a cover letter and new questionnaire to all the study participants from the first wave. In total there were 67 incumbent leaders who completed the second wave of this study (from a total of 117 completed at Wave 1, a 57% response rate), and 52 successors who provided data at Wave 2 (out of 115 respondents in the first wave, a 45% response rate).

All of the data used in the research reported here are based on multiple choice, or Likert-type response scale questions. The specific variables used in each study are described in the method sections of those particular chapters (see Chapters 4,5, and 6). For Study 1 measures of objective (ownership and management titles) and subjective control were assessed from both the incumbent leader and the potential successor. The predictors used for this study include the age of the participants as well as four indicators (all assessed from the incumbent) of succession readiness. Study 2 used the same exact measures as Study 1 except the outcome measures (levels of control of each generation) were assessed at both time points. While these first two studies examine both incumbent and successor, Study 3 only involves the incumbent. In this portion of the research, the outcome measures assessed include the incumbent's expectations about retirement life and the extent of concrete plans he or she has made for retirement. The predictors used include their age, goal adjustment capacities (disengagement and reengagement), and the recent performance of the business.

All data received were input to SPSS, version 11 for the Macintosh, primarily by the author. Research assistants did much of the Wave 2 data entry and most data verification. All data entry was verified for accuracy with spot-checking. SPSS syntax was used to run the regressions used in the statistical analyses conducted. In addition, some figure graphing was done with the assistance of Excel. Specific details of statistical techniques used throughout this research are provided within the method sections of each individual study.

*Sample Description*

Though each of the studies presented in this research uses a slightly different sample, all were participants in the Canadian Family Business study, recruited as described above. For the sake of clarity and simplicity, most of the sample description referenced here will be drawn from the largest data sets available (Wave 1 of the study). Also, any information about the firm will be sourced from the incumbent's data (and contrasted with the successor's as relevant). The demographic questions that yield the data about the individuals and their businesses are summarized in Appendix E.

As the methods have already described, representative sampling techniques were not used to put together this sample. Rather, a convenience sample was drawn from a range of sources to ensure a sample that would reasonably reflect the population of family businesses from across Canada. In fact, the businesses that participated in this study are located in nine provinces, in proportions that reasonably mirror the overall population of those provinces. More specifically, close to half of the sample was drawn from the province of Ontario, approximately a quarter from Quebec (where a French-language version of the questionnaire was used in most cases), almost 18% from Western provinces, and approximately 5% from the Maritimes.

In addition to coming from a range of different locations, the businesses in this sample represent different legal structures and come in an assortment of sizes and ages. While two thirds of sample participants describe their business as privately incorporated, approximately a third identify the business as a registered company, and a smattering are partnerships. Though the average date of incorporation or formation of the businesses in this sample is 1963, the range of ages of these companies is from 5 to 122 years. Further, approximately one third of these businesses can be described as very small, reporting $3 million in sales per year or less, about 40% report annual sales of between $3 and $25 million per year, and 28% indicate sales of $25 million per year or more. While annual sales are an important measure of business size, number of employees is another statistic considered of interest. In our sample, 37% of the businesses have 25 or fewer employees, almost 34% have between 26 and 100 employees, and 29% report having more than 100 people in their employ.

Clearly from this size information alone it is evident these companies represent a broader range of commerce than the stereotyped notion of the "mom & pop" outfit many associate with family-owned business. In fact, only a small proportion of the employees in these businesses are from the family (See Appendix F). The average number of family members working in these businesses was 3.5, 2.6 of whom were in management roles for the company. In contrast, the participants indicated an average of close to 4 non-family key executives working in the business, suggesting that even in key leadership roles, the family does not necessarily dominate.

One interesting descriptive point to examine in this sample is the expectations around the timing of the incumbent's retirement, and in this case to contrast the perspective of the two generations. When asked when they expect to retire, 30% of incumbents indicate they plan to retire within 3 years, 35% report within 5 years, 27% indicate they plan to retire within 10 years, and 8% acknowledge they never intend to retire. When the successors are asked about their expectations for when their parent will retire, barely 21% believe their parent will retire within the next three years, 30% expect this retirement to occur within 5 years, 31% believe their parent will retire in around 10 years, and fully 18% believe their parent will never retire. These responses represent a statistically significant difference between the two generations, $\chi^2 = 29.86$, $df = 16$, $p < .05$. Further, though not a meaningful statistical comparison, it is worth noting that by Wave 2, the proportion of successors who expect their parent will retire within the next three years has declined to around 16%, while the proportion who now believe the parent will never retire has risen to almost 27%.

The average age of the incumbent leaders in this sample is 61.64 years, and the vast majority (92%) of them are men. While this certainly makes it difficult to learn much about the succession process for women leaders, this gender proportion is likely reflective of the business ownership levels of the generation under study. It can be noted that the gender balance among successors indicates that this trend is changing, as only 63% of this cohort is male, with an average age of 34.30 years. Another difference between the generations can be found in their marital status. While some successors may be young to be married, it is remarkable that 91% of the sample of incumbents is married (less than 3% report being divorced), with an average of 3.1 children in their families. Among the younger generation (the successors), 27% are single, 14% common law, 52% married, and 7% divorced. Further, this generation has an average of 1.3 children. Finally, another apparent generational gap can be seen in the information on level of education. Almost 60% of the incumbents in this sample attained only a High School or Trade School education, whereas this would be the case for less than 25% of their successors.

Though none of the studies conducted in this program of research used the entire data set, this broader picture provides a more comprehensive summary description of the individuals and businesses that were a part of the overall program of study. As has been documented in other research on family businesses, these companies represent a wide cross-section of the economy (e.g., Astrachan & Shanker, 2003), and the individuals who are involved in the process of succession also vary on a number of dimensions. While relevant details will be provided within the studies themselves, it is of interest that very few of these descriptive variables were associated with any measures of interest in the research.

*Introduction of Studies and Hypotheses Tested*

The next three chapters represent the in-depth studies that were conducted to address the research questions described at the outset of this chapter. Study 1 (see Chapter 4) examines levels of objective and perceived control held by incumbent and successors in 100 Canadian family businesses where the incumbent is at, or approaching, retirement age. This study is titled: An exploration of the generational differences in levels of control held among family businesses approaching succession, and has been published in the academic journal *Family Business Review* (December, 2007). This research was conducted with cross-sectional data taken from complete dyads (each business provided data from both an incumbent leader and a prospective successor), and explored 3 broad hypotheses :

***Hypothesis 1.1***: *The more the leader's responses reflect succession readiness, the more it is expected: i) the leader would no longer hold a controlling interest (51% or more) in the business, and ii) the successor would hold some shares in the business.*

***Hypothesis 1.2***: *The more the leader's responses reflect succession readiness, the more it is expected: i) the leader would no longer hold the CEO position, and ii) the successor would hold the title of CEO or be part of the executive management team.*

***Hypothesis 1.3***: *The more the leader's responses reflect succession readiness: i) the lower the current leader's perceived control over the business is expected to be, and ii) the higher the potential successor's perceived control over the business.*

Study 2 (Chapter 5) is a longitudinal follow-up to the first, examining essentially the same questions over time. This study is titled: Indicators of succession readiness among family-owned businesses associated with some changes in control over time. The hypotheses for Study 2 are the same as those of Study 1, only the outcome being assessed is changes in levels of control held by each generation over time. Specifically, these hypotheses read:

***Hypothesis 2.1***: *The more the leader's responses at Time 1 reflect succession readiness, the more it is expected that at Time 2: i) the leader would no longer hold a controlling interest (51% or more) in the business, and ii) the successor would hold some shares in the business.*

***Hypothesis 2.2***: *The more the leader's responses at Time 1 reflect succession readiness, the more it is expected that at Time 2: i) the leader would no longer hold the CEO position, and ii) the successor would hold the title of CEO or be part of the executive management team.*

***Hypothesis 2.3***: *The more the leader's responses reflect succession readiness at Time 1: i) the lower the current leader's perceived control over the business is expected to be at Time 2, and ii) the higher the potential successor's perceived control over the business at Time 2.*

Finally, Study 3 (see Chapter 6) considers the association between an incumbent leader's goal adjustment capacities (personality process) and his or her beliefs and behaviors about retirement. In addition, this research examines what role, if any, the context of recent business performance may have on these associations. This study was conducted with both cross-sectional and longitudinal data collected from incumbents only. In addition, this study has been submitted for publication consideration as a manuscript titled: Retiring from the family business: The roles of goal adjustment and business performance. Though the manuscript itself does not explicitly spell out the hypotheses considered, they can be summarized as:

***Hypothesis 3.1***: *The incumbent leader's ability to disengage from goals they should no longer pursue will be positively associated with: i) their* *expectations about post-retirement life, and ii) the concrete steps they have taken towards retirement plans.*

***Hypothesis 3.2****: The incumbent leader's ability to reengage with new goals when confronted with unattainable goals will be positively associated with: i) their expectations about post-retirement life, and ii) the concrete steps they have taken towards retirement plans.*

***Hypothesis 3.3****: Recent struggles in the business may: i) compromise the incumbent's expectations about retirement, ii) impair the incumbent's concrete planning for retirement, and lead to an escalation of commitment phenomenon which could, iii) render the association between goal disengagement capacities and retirement outcomes stronger, and iv) render the association between the goal reengagement capacities and retirement outcomes stronger.*

***Hypothesis 3.4****: The incumbent leader's ability to disengage from goals they should no longer pursue at Time 1 will be positively associated with: i) improvement in their retirement expectations at Time 2, and with ii) an increase in the steps they have taken towards retirement plans at Time 2.*

***Hypothesis 3.5****: The incumbent leader's ability to reengage with new goals when confronted with unattainable goals at Time 1 will be positively associated with: i) improvement in their expectations about post-retirement life at Time 2, and with ii) an increase in the concrete steps they have taken towards retirement plans at Time 2.*

The following chapters, Chapters 4, 5, and 6, are each a complete manuscript that describes one of these three studies. Each of these manuscripts contains a review of literature relevant to its study, methods, results, and discussion sections. These chapters will be followed by Chapter 7, which contains the general discussion for the entire program of study.

# CHAPTER 4

# AN EXPLORATION OF THE GENERATIONAL DIFFERENCES IN LEVELS OF CONTROL HELD AMONG FAMILY BUSINESSES APPROACHING SUCCESSION


## Abstract

This research examines levels of objective and perceived control held by incumbents and successors in 100 Canadian family businesses approaching succession. While results suggest control remains largely with incumbents, indicators of succession readiness were more reliably correlated with the successors' levels of control. Generational differences in the association between succession indicators and actual levels of control are highlighted. Implications of these generational differences and the association between succession readiness indicators and control outcomes are discussed.

An exploration of the generational differences in levels of control held among family businesses approaching succession

Leadership succession of family business has received much research attention because family businesses frequently stumble in succession (Ward, 1987; Zahra & Sharma, 2004), yet this subject remains poorly understood. One reason is family business succession is rarely a single event (Gersick et al., 1999; Ibrahim & Ellis, 1994), making it challenging to measure. Further, some have focused on managerial transfer (e.g., Sharma, Chrisman, & Chua, 2003), while others have argued ownership is the key measure of control in family business (Lansberg, 1999). In fact, as family business is usually defined by the overlap of firm ownership and management by a family (e.g., Sharma, 2004), it can be argued complete family business succession involves the transfer of both management and ownership control from one generation to the next. As this transition happens over time, movement through the succession process may affect both the management of the business and eventual succession outcomes.

This manuscript aims to shed light on the succession process by describing how relevant businesses succession variables (e.g., confidence in the successor) are associated with the state of generational power sharing in ownership, management, and perceived control. This research question was examined in a sample of 100 family-controlled businesses whose current leaders are at, or beyond the age where they should be "normatively" planning for their retirement. Building on previous research and models that acknowledge the relevant influence of both the incumbent and successor on this process, data on control measures from both generations within each firm are considered. By examining if different measures of succession readiness are related to objective and subjective measures of control in the business by each generation, this study seeks to reveal how the succession process itself may affect the incumbent and successor, which we hope provides insights on succession that improve outcomes for family businesses.

## Literature Review

### *Family business succession*

While theoretical efforts to describe family business have been made (Astrachan & Shanker, 2003; Chua, Chrisman, & Sharma, 1999), no single definition exists (Sharma, 2004). Family businesses come in a range of sizes and legal structures, operate in every industry (American Family Business Survey, 2003), represent over 90% of businesses, and provide over half the jobs in North America (e.g., Dyer, 1986; Ibrahim & Ellis, 1994). For the purpose of this manuscript, a family business is a company whose ownership and management are concentrated in one family, with at least one member of the family at the helm of the business and another being groomed or considered for eventual leadership.

The intersection of ownership, management, and family found in family business creates challenges for succession (e.g., Gersick et al., 1997). For example, the state of trust and harmony in the family at the time of succession may complicate this transition (e.g., Dyer, 1986; Ward, 1987). In addition, business factors, such as previous experience with a succession, and the influence of a board of directors, have been highlighted as elements affecting family business succession (e.g., Le Breton-Miller, Miller, & Steier, 2004).

As incumbent leaders of family businesses (typically the primary owner) can exert a great deal of control over the process of succession (Sharma et al., 2003), much of the research has focused on their unwillingness to cede control (e.g., Dyer, 1986; Sharma et al., 2001; Ward, 1987). This resistance of incumbents has been tied to many theories. Role loss, for example, as people in positions of work leadership face a steep psychological loss in retirement because their work role affords them a level of respect and admiration they may not easily find elsewhere (Kets de Vries, 2003). Also, some have suggested the emotional burden of choosing a successor from among their own children plays a part in delaying succession (e.g., Lansberg, 1999). In addition, as most incumbents will rely on income from the business to fund retirement, they may not move forward with succession if they believe the business cannot function without them (Sharma, Chua, & Chrisman, 2000).

There is less knowledge about the successor's experience of succession (Sharma, 2004), which limits our understanding as the interests and abilities of successors have an impact on succession outcomes (Ibrahim et al., 2004; Ventner, Boshoff, & Maas, 2005). In most businesses, successors gain control or authority through experience and demonstrated competence (Tharenou, 2001), though it is unclear if this process would work in the same way in a family business context. Family business research finds the way successors experience the succession process can contribute to their satisfaction with work (Sharma et al., 2001) and the extent to which they are prepared to take over (Ventner, Boshoff, & Maas, 2005), which could affect outcomes. Finally, some have found key variables in the succession process can be different across generations (e.g., the successor's career goals versus the incumbent's confidence in the successor's skills, Ventner, Boshoff, & Maas, 2005). This implies that it may be important to take separate outcome measures directly from each member of the dyad in businesses under study.

*Generational Differences.* One of the earliest empirical studies on family business succession considered data from both generations and uncovered differences that should continue to inform research. By applying Levinson's (1986) theory of developmental stages, Davis and Taguiri (1989) found the age of each member of the dyad affects how they experience succession and whether they are more or less likely to make adaptive progress. For example, at certain life stages it is easier than at others for senior generations to share their knowledge and be interested in the development of their successors. Likewise, the successors will vary in their receptivity to advice and learning from their elders as a normal function of their life-stage. Examining how these normal developmental processes interact within family business dyads, the Davis and Taguiri research implies that succession is not always a parallel process between incumbent and successor. Whether the developmental stage at which an incumbent might be more willing to cede authority actually overlaps with a stage when the successor is ready to take on additional responsibilities could be a factor in succession outcomes.

In a more recent study highlighting generational differences in the experience of succession, Sharma, Chrisman, and Chua (2003), found incumbents are generally more satisfied with the succession process than their successors. Further, they perceived themselves to be "more ready" to let go of the leadership role than their successor believed – an important difference as the successor's perception of the incumbent's readiness to step aside can predict their satisfaction with the succession process. In addition, incumbents reported their satisfaction with the succession process was a function of the successor's readiness to assume the leadership role, suggesting each member of a dyad can affect the other (Sharma, Chrisman, & Chua, 2003).

*Stages of Succession.* As the present study is interested in examining how succession readiness may impact on the incumbent's and successor's control over a business, it is useful to review some of the dominant models of succession. For example, Handler (1990) describes succession as a four-stage transition that occurs over the course of the successor's career. This process is described as a slow, informal role adjustment, involving an evolution in responsibility and decision-making authority for the successor (from helper, to manager, to leader), with a corresponding decline in authority for the incumbent. However, Handler's sample (n=32) included businesses at each of her four stages, therefore only a small number involved incumbents who might be actively moving away from the day to day leadership of the business, the point in the process where problems often emerge. Within this portion of her sample, Handler found many incumbents struggle to give up their authority, yet her work only permits speculation about what accounts for these struggles, suggesting further research is needed.

Consolidating knowledge acquired over years of applied work, Gersick et al. (1999) developed a theoretical model of leadership transition. This model suggests that developmental pressures, such as aging, generate pressure for change. Once a trigger sets actual change in motion, the authors describe a four step process of: acknowledging the end of the current structure (i.e., making a succession timetable public), considering possible alternatives for the future (i.e., evaluating potential successors), making a selection for leadership going forward, and committing to this new structure. While this model acknowledges that these steps can occur quickly or take several years, it does not detail the process that may facilitate or hinder progress through the steps.

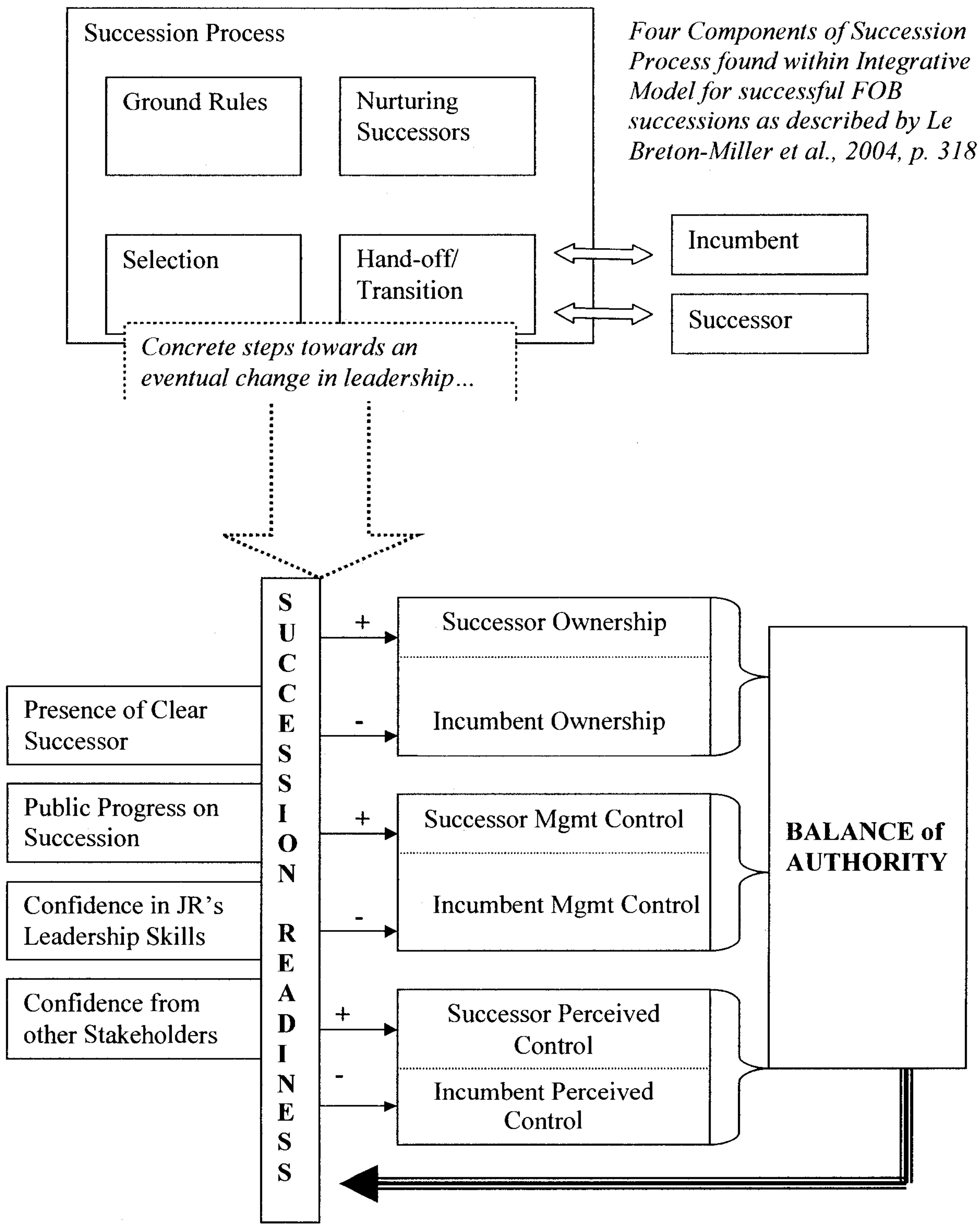
More recently, Le Breton-Miller et al. (2004) developed an integrative model of succession, including important contextual variables, such as the competitive environment of the industry, as well as the cultural, social, and family norms in which a business is embedded. The model divides the succession process into four steps: Establishing ground rules, nurturing successors, selection, and hand-off/transition. The first two of these steps set the stage for actual choices and changes in authority that occur over the last two. While Le Breton-Miller et al. explicitly acknowledge how the business context, as well as the needs and abilities of the incumbent and successor will affect this process, their model does not directly account for how the succession process itself may be affecting the incumbent and successor in return. The model does include a feedback loop within the succession process, acknowledging that progress (or lack thereof) in one phase will affect the next, and/or previous phases, but again, how this progress affects the incumbent or successor's role in the business as this process is underway is not clear. The present study aims to contribute to this line of research by taking a closer look at how progress with succession may be related to control held by the incumbent and successor.

As the nature of power sharing between two people influences their working relationship (Davis & Taguiri, 1989), a closer look at the distribution or overlap of authority through the succession process may inform our understanding of family business successions. An overlap in authority in a healthy relationship may facilitate the transition by ensuring some continuity. However, there are risks that may increase with time, as research has found that as they get older, family business incumbents tend to approach succession from a more competitive and less collaborative approach (Marshall, Sorenson, Bringham, Wieling, Reifman, & Wampler, 2006). In addition, there could be risks to the business as ambiguity in leadership has been found to adversely affect the financial performance of a company (West et al., 2003). Finally, as incumbents often struggle to let go of their authority, over time an overlap in authority could lead to more frequent conflicts, as the successors' abilities increase and the younger generation feels it has earned its place at the helm.

### *The Present Study*

Building on literature describing family business succession as a slow shift in power and responsibility over time (Handler, 1990), that is differently experienced by the incumbent and successor (Sharma, Chrisman, & Chua, 2003), this study seeks to examine how succession variables are related to levels of control reported by an incumbent leader and successor in a sample of 100 Canadian family businesses at, or approaching, succession. This closer look at the authority held by both generations at this challenging point of transition may provide valuable knowledge about family business succession. Building on the Le Breton-Miller et al. model (2004), this research involves a closer look at the selection and hand-off/transition steps in the succession process they outline (see Figure 1). Based on this model (for a more comprehensive description of this model, see Le Breton-Miller et al., 2004) and the reviewed literature, it would seem likely that the selection and hand-off phases of the succession process are where changes in authority and control begin to occur. The present research will examine the association between indicators of succession readiness and authority in the business held by both the incumbent and successor. While this cross-sectional research can only provide a snapshot, it may be suggestive of ways the succession process itself affects how the

FIGURE 1




**Model Tested in Current Study**

incumbent and successor are experiencing the business, which may affect the management of the firm and the eventual outcome of the succession itself.

The model tested in the present study used four key indicators of succession readiness to measure how advanced a business was in the succession process. While outcomes are reported by both generations, the leaders serve as the informants for the predictors because research finds they drive this process (e.g., Feltham, Feltham, & Barnett, 2005; Lansberg, 1999), and have the most comprehensive view of the actual state of succession preparedness of the firm.

One early task in succession is identifying a successor. A North American study of family businesses found that of CEOs over the age of 60 who expected to retire within the next five years, 55% had not even chosen a successor (American Family Business Survey, 2003). Similarly, a Canadian study found almost 80% of family businesses expected a turnover of leadership within the next 15 years; yet, less than one-third had a mechanism in place to choose a successor (Deloitte & Touche, 1999). While we asked our incumbents to identify a potential successor for our research (forcing a choice for the study), we also asked about clarity of this choice to differentiate cases where the incumbent is unambiguous about the successor from those where this felt less settled in the mind of the incumbent, and using this as a measure of succession readiness.

While a choice of successor is necessary, it may not be sufficient. Family business advisors report a written succession plan shared with key stakeholders is an important variable in well-managed successions (Lansberg, 1999; Lansberg & Astrachan, 1994), something many fail to do (American Family Business Survey, 2003). These plans provide transparency to the process, reducing the uncertainty of succession that may be a source of conflict. While more family businesses are making these plans (Sharma, Chua, & Chrisman, 2000), it remains far from universal practice. Therefore, clear and public planning for succession may be an indicator of progress towards succession.

While a family business leader may be able to identify a successor, this does not guarantee enthusiasm about the choice. The presence of a trusted successor inclined to take over the business is an important variable determining if a firm makes progress towards succession planning (Sharma, Chrisman, & Chua, 2003). Another study identified successor's capacity to lead, managerial skills, and commitment to take over the business, as attributes owners were seeking in successors (Ibrahim et al., 2004). All of this suggests that the current leader's confidence in the successor may therefore be a relevant indicator of succession readiness.

Key stakeholders present another set of needs or concerns that must be addressed in a succession. Stakeholders are family members, employees, suppliers, or customers who could resist the succession for professional or personal reasons. For example, the owner's spouse or key employees may have a vested interest in the status quo, and could contribute to the owner's hesitancy to let go because they are afraid of what this change could mean for them (Lansberg, 1999). As anticipated concerns about succession from stakeholders could influence the current leader's approach and commitment to the succession process, this measure is included.

As business succession may be perceived differently by both generations, the control outcomes in this model are measured separately for incumbents and successors. Ownership, management, and perceived control represent different types of control in the business and may all be related to the individual's sense of psychological ownership in the firm, which has been associated with affective and behavioral outcomes in management studies (e.g., Pierce, Kostova, & Dirks, 2001; Pierce, Rubenfeld, & Morgan, 1991). For example, these authors link ownership, managerial authority, and perceived control to organizational commitment, which incumbents value in their successors (Ibrahim et al., 2004), and that has been tied to greater progress towards succession planning (Deloitte & Touch, 1999).

The predictors for each hypothesis incorporate the four indicators of succession readiness described above: clarity on choice of successor, clear and public timetable for succession, confidence in successor's abilities, and stakeholder comfort with succession. As the purpose of this research was to examine the association between these succession indicators and the actual control held by each generation, each hypothesis examines a different control outcome. The first hypothesis examines how succession readiness may be related to levels of ownership of the incumbent and successor. Though much of the research on business ownership comes from studies of employee ownership, this work ties tangible ownership to psychological ownership and to greater authority and influence in a business (Pierce et al., 1991). Further, in North America, ownership confers ultimate legal authority for decisions (Jayaraman, Khorana, Nelling, & Corvin, 2000), making this is an important source of authority in a business. Therefore:

> ***Hypothesis 1**: The more the leader's responses reflect succession readiness, the more it is expected: i) the leader would no longer hold a controlling interest (51% or more) in the business, and ii) the successor would hold some shares in the business.*

At the same time, the managerial leadership of a business has the best understanding of the daily challenges and opportunities facing the business, which confers on them important authority. Managerial titles confer on individuals in a business the power to influence others by virtue of their position in the decision-making hierarchy (Mintzberg, 1979). Therefore the second hypothesis addresses managerial authority as defined by title in the business:

***Hypothesis 2****: The more the leader's responses reflect succession readiness, the more it is expected: i) the leader would no longer hold the CEO position, and ii) the successor would hold the title of CEO or be part of the executive management team.*

Finally, perceived control over the business is considered important because research finds people who perceive high levels of control are more likely to make tangible efforts, whereas low levels of control may result in withdrawal. An individual's subjective sense of control has been found to affect his or her behavior independent of the actual control they have (Skinner, 1996). In addition, because in this population some family members may be given titles that are meaningless (there is no cost for a reluctant incumbent to grant his child the title of "Vice President" if this comes with no real power), the actual control these individuals perceive may be particularly relevant. This leads to the third hypothesis:

***Hypothesis 3****: The more the leader's responses reflect succession readiness: i) the lower the current leader's perceived control over the business is expected to be, and ii) the higher the potential successor's perceived control over the business.*

## Method

*Data Collection*

As succession is not just one event (Ibrahim & Ellis, 1994), and developmental lifestage has been found to affect succession processes (Davis & Taguiri, 1989), participants were recruited using the incumbent leader's age (at least 50 years old) as a criterion to ensure he or she should be at least beginning to think of retirement (Neugarten, 1979). Family-controlled enterprises from across Canada whose current leader met our age criterion and had at least one child working in the business whom the leader identified might eventually take over the company's leadership, were recruited. Incumbent leaders and their designated potential successors were invited to participate between 2003 and 2005, through a number of channels. In some cases, letters were sent from professional organizations (such as PriceWaterhouse Coopers and the Canadian Association of Family Enterprises) to their clients or members who met the study's criteria. Letters were also sent to businesses whose Dunn & Bradstreet listings identified at least three executives or board members with the same family name. Finally, an Internet search was made for family businesses. Letters or emails introducing the study and criteria were sent to these companies, asking them to respond if they qualified and felt they might be interested in participating.

In total 404 questionnaires were mailed to owners and successors at 189 different companies. From these, 233 questionnaires were returned completed (58% response from sent questionnaires) from 132 different companies. We mailed questionnaires and consent forms with self-addressed and stamped return envelopes to each participant separately, stressing the confidentiality of their responses. The final sample was reduced to those companies where both the current leader and the successor completed and returned their questionnaires (N=100).

*Description of Variables and Scales*

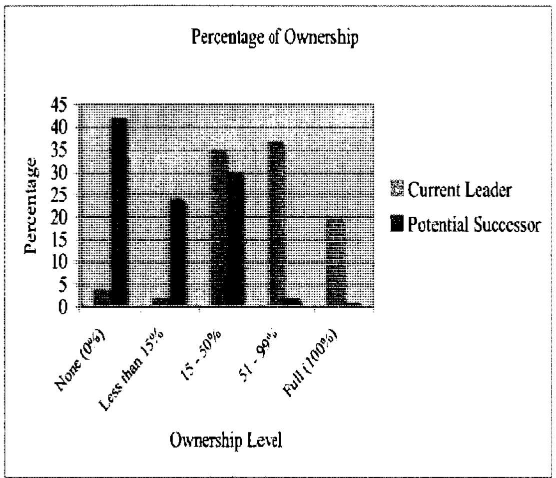
Both current leaders and potential successors answered questions about their objective and subjective control over the business. A number of questions captured demographic information, as well as some categorical descriptions of the businesses. Finally, current leaders were asked four questions relating to the succession, which are used as predictors in the analyses. The incumbents are the source for these measures because they are expected to have access to the most accurate and relevant answers to these questions. Finally, while most analyses in this study consider measures from single-item questions, a few scales were used and will be described.

*Ownership.* The outcome measure for ownership of the business was phrased: "What is your percentage of ownership?" (See Appendix E) with response options of: 100%, 51-99%, 15-50%, Less than 15%, 0%, coded originally from 1 (100%) to 5 (0%); (Leaders: $M = 2.31$, $SD = .96$; Successors: $M = 4.04$, $SD = .96$). As these responses do not show a normal distribution (see Figure 2, Panel A), a median split is needed to assess variance in the data for statistical analyses. In the case of share ownership, 57% of leaders reported a controlling interest (51% or more), whereas this level of control was reported by only 3% of successors. Yet, almost half the successors (42%) reported having no shares whatsoever. As a result, the analyses used a median split of leader's responses: controlling interest (51% or more – coded as 1), versus less than a controlling interest (50% or less - coded as 0), whereas, successors were split between those who had some

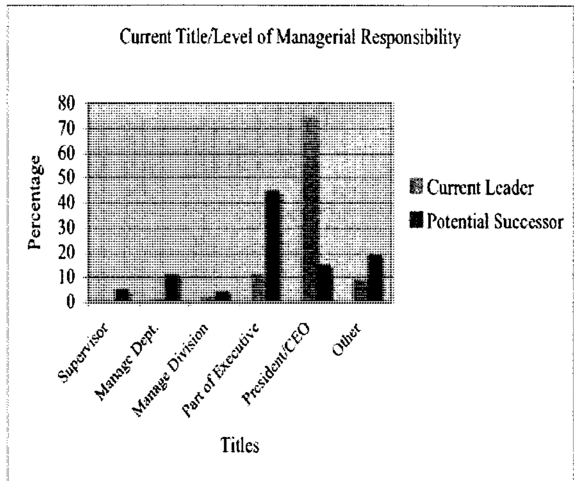
FIGURE 2

Overview of Current State of Power Distribution

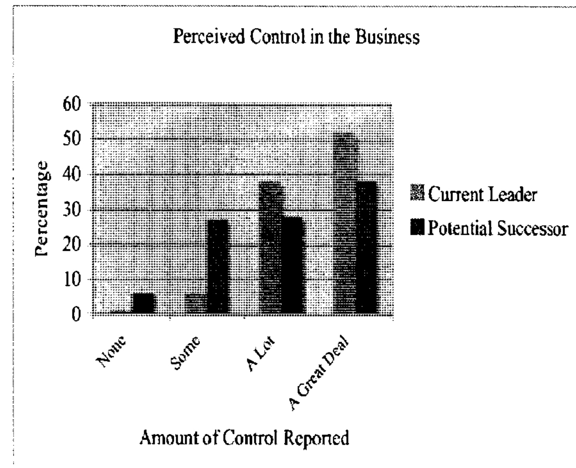
Panel A: Ownership




Panel B: Title




Panel C: Perceived Control



shares at all (all coded as 1), versus those who reported 0% ownership (coded as 0; Leaders: $M = .58$, $SD = .50$; Successors: $M = .58$, $SD = .50$).

*Management.* Each respondent was asked to select one of the following titles that most closely applied to them: Supervisor, Department manager, Division manager, Part of Executive, President or CEO, Other (see Appendix E); scored from 1 to 6, (Leaders: $M = 4.91$, $SD = .61$; Successors: $M = 4.14$, $SD = 1.34$). Similar to the measure of ownership, these responses were not normally distributed (see Figure 2, Panel B), and a median split of the data was made to allow for statistical analyses. In fact, the vast majority of incumbents (75%) identified their title as "President or CEO." As a result, this variable distinguished President or CEO (coded as 1) from all other responses (coded as 0). The median split on successor's title was made by grouping those who were either part of the Executive (45%) OR the CEO (15%) (both coded as 1), and comparing these to all other responses, which represent less central roles in the management of the business (coded as 0; Leaders: $M = .77$, $SD = .43$; Successors: $M = .61$, $SD = .49$).

*Perceived control.* This outcome measure was assessed from both current leader and potential successor, phrasing the question in the same manner for both. The question asked: "How much control do you feel you have over the company?" (see Appendix F) with Likert-type scale response options of: "None, some, a lot, a great deal." These responses were coded from 1 to 4 (Leaders: $M = 3.45$, $SD = .66$; Successors: $M = 2.99$, $SD = .95$), (see Figure 2, Panel C).

*Age.* Respondents were asked to report their age (Leaders: $M = 61.76$, $SD = 7.89$; Successors: $M = 33.85$, $SD = 7.75$). As age is normatively related to retirement

(Neugarten, 1979), it was important to evaluate if findings held even after controlling for this key variable.

*"Succession readiness"* included four indicators assessed from incumbents. The first, whether or not a *successor had been identified* was measured with the following question: "Is there a clear successor for leadership of the company?" and had the following response options: "Yes, one of my children; yes, someone outside the family (only 2 cases); co-leadership planned; unsure; no" (see Appendix F). In order to conduct statistical analyses with these non-linear response choices, a binomial split was made between those answers that suggested clarity on the future leadership, without distinguishing who the successor would be (coded as 1), versus respondents who felt unsure or indicated no clarity on the identity of a future leader (coded as 0; $M = .83$; $SD = .37$). In the four cases where more than one successor responded we used the data from the one with the highest managerial rank, most years in the business, and/or highest age for our analyses.

The next succession readiness measure asked whether there was a *public succession timetable*. This was assessed with the question: "If succession is expected, has a date been set and announced?" with four response options of: "No, tentatively, set & announced, set & begun." (see Appendix F) These responses were then coded from 0 to 3, with zero representing no clarity on a timetable for succession and 3 indicating this timetable is clear, public knowledge, and actually underway ($M = .65$; $SD = 1.03$).

*Confidence in successor* was assessed with a scale that was adapted from a six-question instrument (Gomez & Rosen, 2001). Leaders were asked to respond about their confidence in the successor's abilities on the following dimensions: "Making good business decisions; dealing with employees; maintaining the reputation and health of the business; leadership qualities; putting in the required time and effort; and interpersonal skills." (see Appendix G) In all cases, response options were on a 5-point Likert-type scales, with options of: "Not at all, a little, somewhat, a lot, a great deal" ($M = 3.92$, $SD = .80$, $\alpha = .92$).

Finally, *stakeholder comfort* was assessed, measuring the incumbent leader's worry about stakeholder resistance with the following questions: "How much resistance or resentment do you expect from the following stakeholders during or immediately after the process of succession?" The stakeholders identified were: "Other managers, other family members, employees, suppliers, clients," and in each case, the incumbent was to check the level of his or her concern: "None, a little, some, a lot." (see Appendix H) These response options were then coded from 0 to 3 and a sum scale was created to represent the current leader's expectation of stakeholder resistance. In order to have this predictor numerically consistent with the other predictors (i.e., positively correlated with succession), this sum was converted to a negative value in analyses, ($M = -2.52$, $SD = 2.41$, $\alpha = .74$), and labeled a measure of stakeholder comfort with succession.

*Brief Sample Description*

While representative sampling techniques were not used to collect these data, the sample does reflect geographic and size variability in keeping with the population from which it was drawn. Specifically, the businesses in this study are located in nine provinces, reasonably mirroring the population distribution of Canada. These companies vary in age, from 5 to 122 years of operation, with a mean of 43 years in business. This range suggests that while many may be at their first inter-generational succession (56%

of the sample incumbents are founders), some companies have been through several. By annual sales, approximately 32% of the sample are very small companies with annual sales of $3 million or less, a further 38% can be considered small to medium by annual sales: between $3 and $25 million, and the final 27% of the sample are mid-size to larger businesses: annual sales in excess of $25 million (most with over 100 employees).

## Results

One of the goals of this study was to describe the state of power sharing between generations in family-owned businesses where the senior generation was at, or past a normative age to begin considering retirement (50 or older). As mentioned earlier, the control outcomes were measured separately for the incumbent and successor because recent studies (e.g., Ventner, Boshoff, & Maas, 2005) led us to expect the succession paths of incumbents and successors may not follow the same pattern. To provide some empirical support for this assumption, we conducted a zero-order correlation between the leader and successor's levels of control (Table 1). If the succession process reflected a direct adjustment between the two generations, the three control outcomes of the incumbent should be highly negatively correlated with these values for the successor. In fact, Table 1 reveals only the perceived control of each generation was negatively correlated, and this at a relatively low level, $r = -.30$, $p < .01$. By contrast, no significant associations between generations were obtained for ownership or title. These results demonstrate the control outcomes are somewhat independent across generations, suggesting they should be analyzed separately.

The study hypotheses sought to evaluate how the variability in control reported by each generation may be associated with the business' succession readiness. The

TABLE 1

Zero-Order Correlation Between Outcome Measures by Generation

| | Successor's % Ownership | Successor's Title | Successor's Sense of Control in Business |
|---|---|---|---|
| Current Leader's % Ownership | -.17 | .04 | -.08 |
| Current Leader's Title | **-.23*** | -.05 | **-.24*** |
| Current Leader's Sense of Control in Business | **-.29**** | **-.21*** | **-.30**** |

*$p < .05$; **$p < .01$

hypotheses were tested using logistic (for ownership and managerial control) and hierarchical regression analyses (for perceived control), with each analysis including the age of the respondents as a control variable in a first step. The influence of each of the four succession readiness predictors was evaluated in the second step of the analyses.

Hypothesis 1 predicted the relation between succession readiness and the percentage of ownership held by each generation. As discussed in the method section, the outcome dichotomy considered for the current leaders was controlling ownership versus not (51% ownership or more versus 50% or less), whereas the successor distinction was between any ownership and none (0% versus any shares). The results of the analyses are reported in Table 2. In the case of the current leader, age was non-significant. However, age of successor was positively associated with their share ownership, *Wald* = 10.30, $df = 1$, $\beta = .10$, $p < .00$.

The results of the main effect analyses of succession readiness on ownership showed that none of these variables were statistically related to whether or not the current leader had a controlling share of the business. However, in the case of the successor, two succession indicators significantly predicted ownership in the business. Specifically, the more clarity the leader expressed about a succession timetable, the greater chance the successor had some ownership of the business, *Wald* = 5.00, $df = 1$, $\beta = .65$, $p < .05$. Further, the more the leader was confident about stakeholders' reaction to succession, the more likely it was the successor had some shares, *Wald* = 5.20, $df = 1$, $\beta = .25$, $p < .05$. While the incumbent's report of clarity on a choice of successor shows a significant correlation, this association does not hold up in the regression, and confidence in the successor's ability was not significantly associated with successor's ownership.

TABLE 2

Logistic Regression Predicting Level of Ownership [a] by Age and State of Succession Progress

| | *Leader: 51% + vs. 50% -* | | | | | *Successor: any shares v. no shares* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Predictor | *Chi-Square* | *B* | *SE* | *Wald* | *r* | *Chi-Square* | *B* | *SE* | *Wald* | *r* |
| Socio-demographic | .38 | | | | | 12.40** | | | | |
| Age | | -.02 | .03 | .38 | -.06 | | .10** | .03** | 10.30** | .34** |
| Succession readiness [b] | 2.52 | | | | | 14.33** | | | | |
| Successor Identified | | .27 | .61 | .19 | .05 | | .70 | .68 | 1.08 | .26** |
| Succession Timetable | | .25 | .22 | 1.30 | .10 | | .65* | .29* | 5.00* | .28** |
| Confidence in Successor | | -.25 | .28 | .80 | -.08 | | .25 | .31 | .67 | .13 |
| Stakeholder Comfort | | .04 | .09 | .18 | .02 | | .25* | .11* | 5.20* | .28** |

* $p < .05$; ** $p < .01$

[a] Logistic split of outcome variables: Current Leader: Controlling ownership versus 50% or less; Potential Successor: Any ownership versus none

[b] Succession variable predictors were all assessed from current business leader

Next, we considered the relation between succession readiness and the managerial titles of the incumbent and successor (CEO versus all others for the incumbent, and CEO or Executive versus all others for the successor, see Method section for more details). In the first step of this analysis, age was introduced and evaluated for significance (see Table 3). For the incumbent, age was unrelated to whether they currently held the title of CEO or not. For the successor however, age was a significant predictor, indicating that older successors were more likely to hold an executive position than younger successors, $Wald = 12.47$, $df = 1$, $\beta = .13$, $p < .00$.

The analysis of main effects revealed two measures of succession readiness had a statistical association with the leader's current title (see Table 3). Leaders who indicated a more definite and public timetable for succession were less likely to be in the CEO role, $Wald = 5.79$, $df = 1$, $\beta = -.59$, $p < .05$. In addition, stakeholder comfort with succession appeared inversely related to whether the incumbent is CEO, $Wald = 4.01$, $df = 1$, $\beta = -.26$, $p < .05$. Clarity on a choice of successor, and confidence in the successor's ability, were not associated with the leaders' titles. The analysis of main effect for the successor's title demonstrated significant effects of two of the four individual predictors. Specifically, the more clarity the current leader had as to the identity of his or her successor, the more likely the successor was part of the executive team, $Wald = 7.07$, $df = 1$, $\beta = 2.70$, $p < .01$. In addition, the successor was more likely to be in an executive position when stakeholders were not expected to resist succession, $Wald = 4.50$, $df = 1$, $\beta = .24$, $p < .05$. A clear and public timetable for succession, and the incumbent's confidence in the successor, had no associations with the successors' titles.

TABLE 3

Logistic Regression Predicting Current Title in Business [a] by Age and State of Succession Progress

| | *Leader: CEO v. all others* | | | | | *Successor: CEO/Executive v. all others* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Predictor | *Chi-Square* | *B* | *SE* | *Wald* | *r* | *Chi-Square* | *B* | *SE* | *Wald* | *r* |
| Socio-demographics | .32 | | | | | 15.89** | | | | |
| Age | | -.02 | .03 | .32 | -.06 | | .13** | .04** | 12.47** | .38** |
| Succession readiness [b] | 9.20 | | | | | 22.51** | | | | |
| Successor Identified | | 1.00 | .74 | 1.82 | .04 | | 2.70** | 1.02** | 7.07** | .46** |
| Succession Timetable | | -.59* | .25* | 5.79* | -.22* | | .41 | .30 | 1.94 | .24* |
| Confidence in Successor | | .04 | .35 | .02 | -.01 | | -.04 | .34 | .01 | .07 |
| Stakeholder Comfort | | -.26* | .13* | 4.01* | -.16 | | .24* | .11* | 4.50* | .33** |

* $p < .05$; ** $p < .01$

[a] Logistic split of outcome variables: Current Leader: CEO position versus all others; Potential Successor: CEO or Part of Executive versus all others

[b] Succession variable predictors were all assessed from current business leader

TABLE 4

Hierarchical Regression Predicting Changes to Current Leader and Potential Successor's Perceived Control in the Business by Age and State of Succession Progress

| | *Leader's Perceived Control* | | | *Successor's Perceived Control* | | |
|---|---|---|---|---|---|---|
| Predictor | $R^2$ | *Beta* | *r* | $R^2$ | *Beta* | *r* |
| Socio-demographics | .07** | | | .12** | | |
| Age | .07** | -.26** | -.26** | .12** | .35** | .35** |
| Succession readiness [a] | .11** | | | .33** | | |
| Successor Identified | .01 | -.08 | -.15 | .07** | .29** | .46** |
| Succession Timetable | .09** | -.32** | -.38** | .06** | .26** | .33** |
| Confidence in Successor | .00 | .05 | .02 | .04** | .20** | .32** |
| Stakeholder Comfort | .00 | .03 | -.02 | .07** | .28** | .40** |

* $p < .05$; ** $p < .01$

[a] Succession variable predictors were all assessed from current business leader

The final set of analyses considered how the leader and successor's perception of their control of the business was affected by the state of succession readiness (see Table 4). In the first step of the analyses, age accounted for a significant amount of variance in this outcome for both. The findings indicate that the older the current leader, the less control they perceived over the business, $F$ (1, 97) = 6.90, $R^2$ = .07, $\beta$ = -.26, $p$ < .01. The opposite relation was uncovered for the successors, $F$ (1, 97) = 13.53, $R^2$ = .12, $\beta$ = .35, $p$ < .00, where older successors perceived more control over the business as compared to their younger counterparts.

The analyses of the main effects showed only succession progress, $F$ (1, 93) = 10.50, $R^2$ = .09, $\beta$ = -.32, $p$ < .01, was significantly associated with the current leader's perceived control. The further along and more public the succession process, the less control the current leader perceived over the business. No clarity in a choice of successor, confidence in that successor's abilities, or stakeholder comfort with succession, were associated with the incumbent's perceived control over the business. This contrasts with the successor, for whom all four individual variables were significantly associated with perceived control. Specifically, the successors reported perceiving significantly more control when there was more clarity on choice for successor, $F$ (1, 93) = 12.21, $R^2$ = .07, $\beta$ = .29, $p$ < .01; the business was further along with the succession process, $F$ (1, 93) = 9.93, $R^2$ = .06, $\beta$ = .26, $p$ < .00; the leader had more confidence in the successor's leadership abilities, $F$ (1, 93) = 6.37, $R^2$ = .04, $\beta$ = .20, $p$ < .01; and there was more confidence about stakeholders' reaction to succession, $F$ (1, 93) = 12.13, $R^2$ = .07, $\beta$ = .28, $p$ < .00.

# Discussion

This study provides some important insights on family business succession. While illustrating that incumbent leaders continue to control their businesses even when they are approaching, or beyond, a normative age of retirement replicates previous findings (e.g., Sharma, Chua, & Chrisman, 2000; Lansberg, 1999); the current study extends our understanding by highlighting differences in the succession process by generation. In fact, the finding that an increase in the successor's authority in the business is not strongly related to a decline in the incumbent's power (and vice versa, see Table 1), suggests that the process of succession is more complex than a simple adjustment of roles and responsibilities from one generation to another.

Further evidence of the lack of mutuality between generations in the succession process was seen in the analyses of the hypotheses. Specifically, fewer associations between succession readiness and control outcomes were found for the incumbent than for the successor. This difference is particularly compelling because for the successors, the predictor and outcome variables were drawn from different informants, reducing the artificial overlap of method variance. This implies that the four indicators of succession readiness considered here have a greater impact on the control outcomes of successors than incumbents, suggesting the succession process does not operate in the same way for each generation. Also, there were no associations between any measure of succession readiness and incumbent ownership. As ownership provides undeniable authority (Jayaraman et al., 2000), that none of the succession predictors has any bearing on whether or not the leader holds controlling ownership may be symbolic of the owner's ultimate resistance to letting go so frequently seen in the literature (e.g., Ward, 1987).

While age was significantly associated with all three control outcomes for the successor, the incumbent's age was only associated with perceived control. As the age of each member of a dyad is strongly correlated ($r$ = .84), this discrepant pattern (increasing authority of successor with no offsetting decrease in authority for incumbent) suggests that family businesses at this developmental stage may be experiencing a growing overlap in control. Though this cannot be addressed by our cross-sectional study, these results lead us to wonder if such an overlap in authority could lead to problems over time. Specifically, as the successor begins to occupy more and more of the "leadership space" with an incumbent leader who is not letting go, and who may be approaching succession in an increasingly competitive way (Marshall et al., 2006), the risks of poor outcomes may increase. For one, inadequate clarity in leadership has been found to adversely affect the financial performance of a company (e.g., Conger & Nadler, 2004; Ocasio, 1999; West et al., 2003). In addition, there is evidence ambiguous leadership situations generate dissatisfaction in family business succession (Sharma et al., 2001).

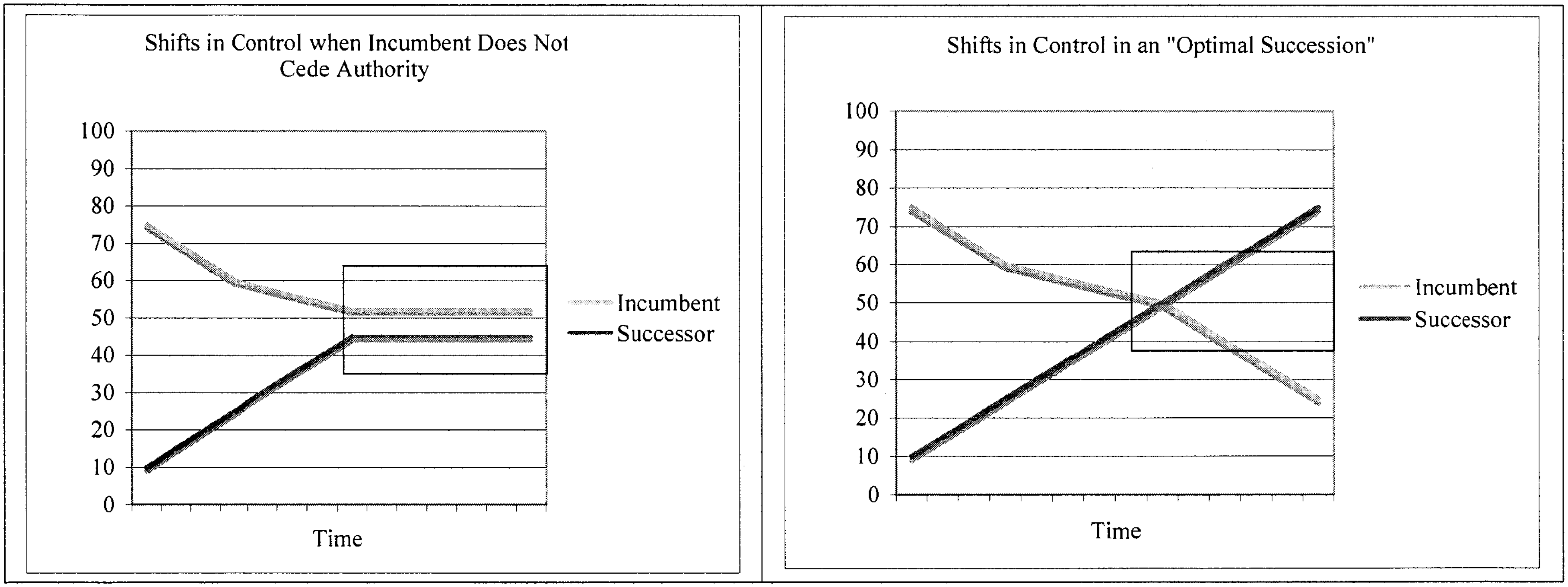
So, why do we see this pattern? One possible explanation may emerge if we consider the different original vantage point of each generation. When successors join the business, they usually have little authority. Over time, they garner experience, and gain confidence, increasing their control incrementally. In contrast, the incumbents are typically in the position of "maximum" power and control when the successor joins the business. For these individuals, succession is a zero-sum proposition: as they are in the position of having the authority to make all decisions, a shift down from this is not perceived as an incremental change. This difference in vantage points highlights the "cost" of succession for the incumbent, and given the relative freedom family business incumbents have from oversight – may help explain why it is so hard for them to cede any meaningful control, even when their designated successor is gaining in competence and legitimate authority. Finally, as the incumbent is typically the head of the business and the family, this dual role may imbue this position with greater personal and emotional value, making it particularly difficult to abandon (Jayaraman et al., 2000). However, our data also found some incumbents had made more progress than others in ceding authority, suggesting not all businesses run into these problems. Figure 3 provides an illustration of two possible paths of leadership transition. Panel A represents incumbents who are unwilling to cede meaningful authority. The gray box here highlights the control overlap that emerges as the successor gains in authority as the succession process moves forward. In this circumstance, both generations are concurrently occupying the space of "business control," perhaps putting their relationship and the business at risk. In contrast, the progressive decline in control of the "optimal succession" incumbent (Panel B) represents a situation in which an incumbent is relinquishing control commensurate with the growth in the successor's abilities and authority. This represents the healthier "mutual role adjustment" (Handler, 1990) pattern that succession should theoretically involve, but seems to be often absent in the empirical data.

While the generational differences in the association between succession readiness and control may be the most interesting result of our study, two other patterns in the results are worth underscoring. The first is that stakeholder comfort with succession is important. It was the only predictor significantly associated with an objective marker of power (title) for both generations. This may imply stakeholders are

FIGURE 3

Two Possible Models of Generational Shifts in Control Through Succession

Panel A | Panel B



particularly sensitive to this symbolic marker for power, and an adherence to the status quo on titles is used to minimize or delay their resistance, if anticipated. Stakeholder comfort with succession was also positively associated with the three control outcomes for successors, supporting the notion that resistance by stakeholders could have a particularly strong influence on successor control. Perhaps successors who want to increase their control in the business would be well served by learning about the concerns of other stakeholders, and taking steps to address them.

Second, though previous research has found a competent successor is a key variable in a successful succession (e.g., Ibrahim et al., 2004), there was no link in these data between the leader's confidence in the successor, and the successor's ownership or title. In a merit-based system, executives are promoted because superiors have confidence in their leadership skills. Perhaps this study suggests confidence in the successor alone is insufficient to lead to shifts in titles or ownership, as these changes may be more influenced by other needs or individuals.

Finally, while this study looked specifically at succession readiness, there are other variables that could influence levels of control, some of which we also assessed to determine if they influenced the outcomes found in the present research. For example, some have argued business founders are particularly attached to their businesses and may struggle more with succession (e.g., Dyer, 1986; Kets de Vries, 1995), or perhaps the years of experience the incumbent has with the business may play a role. Therefore, we re-ran our analyses controlling for the status of incumbents (founder versus those at second generation or higher), or their years of experience, and found no meaningful differences in the overall regression results. Likewise, it may be argued that age or size of the business could affect control outcomes, yet in running our analyses using founding year or annual sales as a control, again no meaningful differences emerge in the overall regression results reported here.

*Implications*

While a complete succession will involve a shift in authority between the generations on perceived control, managerial control, and ownership control, our results suggest the ownership dimension may be the most challenging to complete. Perhaps family businesses would be well served to attempt tangible progress on the other two dimensions first, before tackling ownership. This may help the successor feel as though real progress on succession was being accomplished, while mitigating the "cost" to the incumbent.

However, it would be important to ensure this progress was clear to all parties because, consistent with prior studies, incumbents in our sample perceived more progress on succession than successors. This difference in perspective may contribute to dissatisfaction among successors. For example, while both generations in our sample report good agreement on clarity of successor, and the time left until the incumbent's retirement, only 6% of incumbents report they never intend to retire, while 17% of successors report believing the incumbent in their business will never retire. This response may be indicative of successors who have lost hope in the succession process, which could put their commitment to the business at risk.

Our results also suggest stakeholders have a bearing on the authority that may be conferred on successors, underscoring the value of considering the needs of all stakeholders in the succession process. In addition, as our results illustrate both the tendency of incumbents to maintain control, and suggest the succession process itself has limited bearing on their authority in the business, this may argue further for greater oversight of succession by boards or other advisors to help put appropriate pressure on the incumbent to reduce his or her level of control.

## Limitations and Future Directions

While this study has highlighted generational differences, and associations between indicators of succession readiness and control in family business, it has only begun to scratch the surface of family business succession. The absence of strong predictors for the leaders' control suggests that additional variables must be considered in future research. Further, the significant associations in this study must be considered in light of methodological limitations inherent to this type of research. Specifically, the technical challenges in obtaining a large sample precluded random sampling, and required the use of self-report questionnaires. Care was taken in recruiting to ensure diversity of geography, industry, age, and size of the businesses. Though none of these business characteristics, nor their method of recruitment, was significantly associated with any of the measures of interest to this study; perhaps a larger sample would have permitted further analyses, such as examining if firms at their third or fourth succession exhibit different patterns than those at their first or second. Finally, while self-reported data may be influenced by a desire to present the self or the business in a more positive light, it does not seriously impede the conclusions drawn from the findings, and we note most questions analyzed here do not lend themselves to a high risk of social desirability bias.

An important limitation of the research is that it uses cross-sectional data, therefore no causal relations can be assumed. This study provides a snapshot of family businesses that are approaching succession (by virtue of the incumbent's age). For example, while these data found a successor's perceived control was related to succession readiness, it would be useful to evaluate if this sense of control erodes over time if it is not followed by an increase in actual control (title or ownership). Perhaps there is a level of perceived control that the successor attains that will frustrate them if his or her parent has not yet yielded some tangible control? Alternatively, is there a level of control that is attained by the successor that subsequently makes concerns of other stakeholders less relevant? Questions about the presence of such "tipping points" can only be addressed with longitudinal follow-up studies with this sample, currently underway.

Not only will these longitudinal assessments enable consideration of reciprocal effects of control measures between the generations, outcomes such as economic performance of the business may provide information about economic risks that stem from impaired successions. Also, a longitudinal examination of these measures may provide valuable information about whether leadership overlap is adaptive or creates problems in family businesses, and under what circumstances. Further, by making longitudinal assessments of the variables considered in this study, some direction of effects may be evaluated. For example, if confidence in successor's ability at time one is related to a promoted successor at time two, perhaps this is an indicator of businesses with a stronger merit-based management philosophy. These associations could then be assessed in conjunction with business performance to yield sophisticated assessments of the interaction between generations and the effect of these interactions on the company.

Differences seen in levels of control held by incumbents might also be better explained with an examination of variables other than those tied directly to succession. For example, as previous research has found business leaders have a strong psychological connection to their role in the business (Kets de Vries, 2003), future studies should examine personality variables to see what role these may play in an incumbent's ability to relinquish control. In addition, qualitative data may provide important details about how control is actually exercised and experienced in these situations. Also, as the succession process is typically tied to the incumbent's transition into retirement, an evaluation of his or her expectations or attitudes about retirement may provide insight. In addition, assessments of psychological measures for the successors may be of interest. For instance, as previous findings have emphasized both managerial skill and commitment to the business as attributes leaders seek in successors (e.g., Ibrahim et al., 2004), perhaps a measure of the work motivation of the successor would be associated with the leader's level of control.

*Conclusion*

This study has provided insights on succession, clarifying which components of succession are related to which element of business control, and highlighting the generational differences in these processes. The lack of mutuality in the succession process by generation is a compelling finding and longitudinal follow-ups are currently underway to evaluate how this imbalance affects the process and outcomes over time. In addition, an examination of individual succession readiness measures provided a further understanding. Some of these measures, such as confidence in the successor's ability, played a less robust role than businesspeople or practitioners might expect. In addition, these data provide evidence business stakeholders may have an important effect on the succession process. The next steps will be to look for patterns of change in the longitudinal data being collected, incorporate more psychologically-oriented variables in the analyses, and to consider the impact of these processes on financial outcomes for the businesses, as well as on the health and well-being of the business people involved.

# CHAPTER 5

# INDICATORS OF SUCCESSION READINESS AMONG FAMILY-OWNED BUSINESSES ASSOCIATED WITH SOME CHANGES IN CONTROL OVER TIME

## Abstract

This longitudinal research examines if changes in levels of objective and perceived control held by incumbents and successors in Canadian family businesses approaching succession are associated with indicators of succession readiness identified by the incumbent two years prior. Similar to the cross-sectional results reported in Study 1, more associations were found in this study for the successor than for the incumbent. Both ownership and perceived control of successors were predicted by indicators of succession readiness, suggesting some elements of succession preparedness are related to positive change in the successor's levels of control over the business. As had been the case with the cross-sectional data, fewer results were uncovered for the incumbents, suggesting indicators of succession readiness are less important predictors of change in the incumbent's control over the business, and implying future studies should consider other measures altogether.

## Indicators of succession readiness among family-owned businesses associated with some changes in control over time

The present study is a longitudinal follow-up to Study 1, conducted to examine if the results found in the cross-sectional analyses would hold up over time, and to consider the direction of effects. Research of this nature is of great importance to advance knowledge in the field of family business because, though succession has garnered increasing amounts of empirical research over the past decade, little longitudinal work has been done (Zahra & Sharma, 2004). As succession usually occurs over the span of many years (e.g., Ibrahim & Ellis, 1994; Le Breton-Miller, Miller, & Steier, 2004), longitudinal data may be essential to improving understanding. In addition, this program of research has the further benefit of considering the succession process from the perspective of both the incumbent and the successor, a comprehensive approach endorsed by researchers in the field (e.g., Sharma, 2004).

The previous chapter (Chapter 4) provided a first step in the examination of how indicators of "succession readiness" (clarity on successor, public progress with succession, the incumbent's confidence in the successor's leadership abilities, and the extent of comfort with succession anticipated from key stakeholders) may be associated with the levels of control held by both the incumbent leader and the successor in family owned businesses. However, as these results were based only on cross-sectional data, they cannot provide us with a measure of change, a key consideration in the study of a process that is expected to create change on these measures of control. As succession is a non-linear process that occurs over time (Le Breton-Miller et al., 2004; Gersick et al., 1999), longitudinal data may provide important insights that build on the knowledge gained from the cross-sectional study.

## Current State of Knowledge

The state of knowledge on family business succession is summarized in the literature review of Chapter 4 and will not be extensively reviewed again, as the study reported here is essentially a continuation of the research of the previous chapter. In summary, the transfer of leadership and ownership from one generation to the next within family owned businesses is a complex process that remains poorly understood (Bird et al., 2002). In part, succession in family business is challenging because managerial leadership and business ownership are typically entwined, meaning complete succession is not just a transfer of leadership, but includes the question of ownership. Further, as succession affects the business, the incumbent, the successor, and a range of other stakeholders who can influence the succession process in return (i.e., other family members or key employees), an examination of how the succession process itself may affect the incumbent and successor over time should improve our understanding of this complex process.

Study 1 provides a good snapshot of the association between indicators of succession readiness and levels of control held by the incumbent and successor. In fact, one of the most interesting findings in Study 1 was the lack of significant associations between the levels of authority reported by the two generations. This important result suggests that family business succession is not a simple role adjustment between two people. Further, the cross-sectional analyses revealed that indicators of succession readiness are more related to the successor's authority in the business than to the incumbents' authority. However, the cross-sectional data cannot answer questions about direction of effects: does greater control held by a successor lead to increased confidence in his or her leadership, or is it rather that a sense of confidence in his or her abilities will lead to an increase in the authority over the business that is granted to the successor? This follow-up research aims to address questions of this nature specifically.

While succession typically occurs over time, and some have argued the process begins as soon as the next generation joins the business in any capacity (Handler, 1990), the course of succession typically becomes more explicit as the senior generation begins to approach normative retirement age (Gersick et al., 1999). The aging incumbent leader may seek retirement (due to fatigue, health problems, or a desire to do other things), may be confronted with a successor who has gained experience and is now eager to take on more responsibility, or may be pressured to address succession by key outsiders (e.g., Board members or advisors who see a lack of planning for succession as a serious risk to the long term health of the business).

Though these circumstances often create needed pressure to begin the active phase of the succession process in a given family business, they do not permit us to pinpoint a defined "starting point" for this transition. While this lack of clarity on timing makes the phenomenon of succession more difficult to measure, the challenges frequently documented in family business succession research (Zahra & Sharma, 2004) are more likely to occur when the incumbent is at an age where he or she may be expected to begin considering retirement. This is the point in time where the talk of choosing a successor moves from a theoretical exercise to an explicit choice (Le Breton-Miller et al., 2004). As the incumbent may begin to face increasing pressure to cede some authority, and the successor may expect to gain in control over the business at this point, this is the time frame in which to begin to explore how the succession process unfolds. For this reason Study 1, and by extension Study 2, used the age of the incumbent as a key criterion for participation.

### *The Present Study*

The study reported here is a longitudinal follow-up to Study 1, titled: An exploration of the generational differences in levels of control held among family businesses approaching succession, the results of which are reported in Chapter 4. Using the same basic predictors (clarity on the identity of the successor, public progress towards succession, confidence incumbent has in successor's leadership abilities, and the comfort of other stakeholders with the succession process), this study considered the association between the four measures of succession readiness at Time1, and the changes in the amount of objective and subjective control held in the business by both generations over time. Measures of change were operationalized by predicting Time 2 levels of the outcomes and statistically controlling for Time 1 measures of the outcomes variables.

The hypotheses examined in this second study are derived directly from those presented in Study 1, examining if the succession readiness indicated by the incumbent at Time 1 is significantly associated with the levels of control held by each generation at Time 2 (controlling for the levels of control reported at Time 1). As was the case in Study 1, each hypothesis here examines a different control outcome measure. The first hypothesis examines ownership levels, a measure of control that is considered important in all business situations because ownership provides a person with the legal authority to make decisions (Jayaraman et al., 2000):

***Hypothesis 1**: The more the leader's responses at Time 1 reflect succession readiness, the more it is expected that over time: i) the leader would no longer hold a controlling interest (51% or more) in the business, and ii) the successor would hold some shares in the business.*

The second hypothesis considers the management titles of both the incumbent and the successor because those at the helm of a business are expected to have authority in the business by virtue of their role in making the day-to-day choices affecting the company. Therefore the second hypothesis for this study reads:

***Hypothesis 2**: The more the leader's responses at Time 1 reflect succession readiness, the more it is expected that over time: i) the leader would no longer hold the CEO position, and ii) the successor would hold the title of CEO or be part of the executive management team.*

Finally, perceived control over the business is assessed as the third hypothesis because an individual's sense of control in a situation will affect their behavior (Skinner, 1996), and may be an important indicator of authority hard to measure objectively:

***Hypothesis 3**: The more the leader's responses reflect succession readiness at Time 1: i) the lower the current leader's perceived control over the business is expected to be over time, and ii) the higher the potential successor's perceived control over the business over time.*

## Methods

The data for this study was collected with a mailed questionnaire sent to all research participants from Wave 1 (see Chapter 4 for details on how initial sample was recruited) approximately two years after their initial responses were received (time between data collection for Incumbents: $M = 28.09$ months, $SD = 4.72$ months; Successors: $M = 27.78$ months, $SD = 4.69$ months). At the outset of the research program, 189 companies were sent questionnaires, consent forms, and return postage envelopes (separately to each incumbent leader and prospective successor) after they had responded to an earlier inquiry that they met study criteria and would be willing to participate. Wave 1 included data from 117 incumbent leaders (62% response rate) and from 115 potential successors (61% response rate). Responses to the second wave of data collection were received from 67 incumbents (57% response rate) and from 52 successors (45% response rate).

*Description of Variables and Scales*

As they had for the first study, both incumbent leader and prospective successor answered questions about their levels of objective and subjective control over the business. These Time 2 measures represent the outcomes used in the analyses. The predictors used for this study come from the incumbents' responses about their business' succession readiness at Time 1. The only difference in these predictors as used in Study 2 is that they are based on the sub-sample of incumbent leaders (n=67) who provided data for both waves of the research, instead of on the sub-sample of incumbents who were part of a complete dyad at Wave 1 (n=100 dyads in Study 1 with data available from both the incumbent and successor in the same business). Finally, the analyses all control for age and the level of power (ownership, title, or perceived control) reported by each respondent at Time 1, to determine if the predictors of succession readiness predict levels of control at Time 2, over and above what they indicated at Time 1.

Each measure used in Study 2 was assessed identically to the method described for Study 1 (please refer to the Method Section in Chapter 4 for more complete details about how each measure was assessed). What follows is a brief description of each measure at Time 2, as well as their mean level change from Time 1. It is worth noting that attrition of incumbent leaders from baseline to follow-up was not significantly associated with any of the main study variables. In the case of successors, their attrition was only significantly associated with the incumbent's title at Time 1 ($r = -.23, p < .05$) and Time 2 ($r = -.41, p < .01$), but not with any other main study variable. These correlations suggest there is a significant association between incumbents who hold the title of President or CEO at either Time 1 or Time 2, and successors who drop out of participating in the study at Time 2.

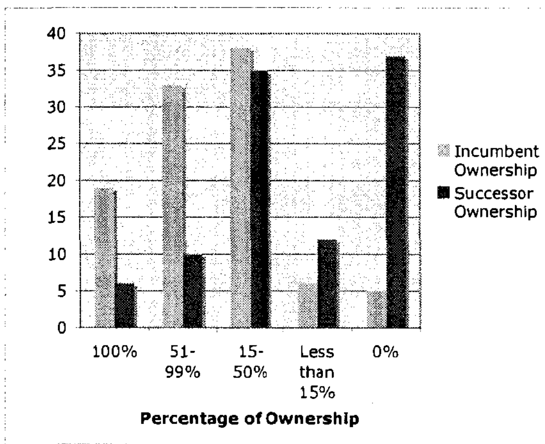
*Ownership* was assessed from both the incumbent leader and potential successor. As the responses to this question do not show a normal distribution (see Figure 4, Panel A) a median split was used with the data for the statistical analyses (please refer to the Method Section in Chapter 4 for more details on this approach). Mean values were calculated for both generations at both waves of data collection (Leaders: $M_{T1} = .55$, $SD_{T1} = .50$, $M_{T2} = .52$, $SD_{T2} = .50$; Successors: $M_{T1} = .63$, $SD_{T1} = .49$, $M_{T2} = .63$, $SD_{T2} = .49$). Ownership levels did not significantly change over time for the leaders, $\chi^2 = .16$, $df = 1$, $p > .10$, nor for the successors, $\chi^2 = 0$, $df = 1$, $p > .10$.

*Management* control in the business was assessed from both the incumbent leader and potential successor as a reflection of their title in the business. As the responses to this question also do not show a normal distribution (see Figure 4, Panel B) a median split was used with the data for the statistical analyses (please see Chapter 4 for details on

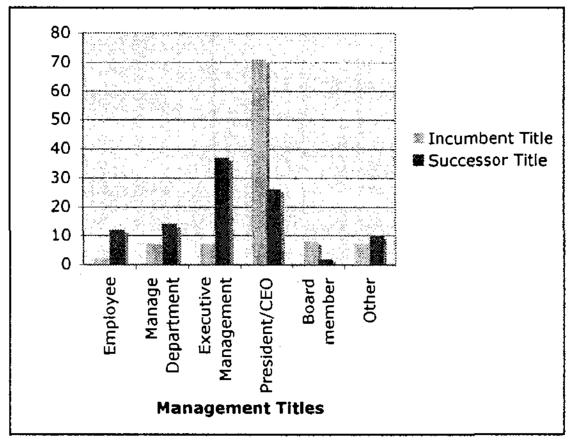
FIGURE 4

Overview of Current State of Power Distribution

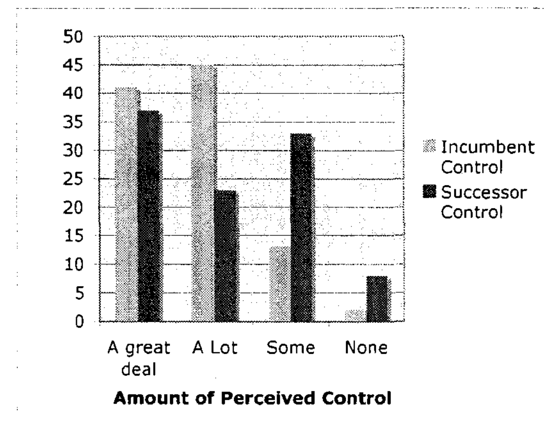
Panel A




Panel B




Panel C



this approach). Mean values were calculated for both incumbent leaders and potential successors at each measurement point (Leaders: $M_{T1}$= .74, $SD_{T1}$ = .44, $M_{T2}$= .71, $SD_{T2}$ = .46; Successors: $M_{T1}$ = .64, $SD_{T1}$ = .49, $M_{T2}$ = .63, $SD_{T2}$ = .49). Managerial control did not significantly change over time for the leaders, $\chi^2 = .28$, $df = 1$, $p > .10$, nor for the successors, $\chi^2 = .02$, $df = 1$, $p > .10$.

*Perceived control* over the business was also assessed from both generations as a response to a single question (see Chapter 4 for item description). Mean values at both time points for both sets of respondents are reported here (Leaders: $M_{T1}$= 3.36, $SD_{T1}$ = .70, $M_{T2}$= 3.25, $SD_{T2}$ = .73; Successors: $M_{T1}$ = 3.10, $SD_{T1}$ = .96, $M_{T2}$ = 2.89, $SD_{T2}$ = 1.0). These reported levels of perceived control did not significantly change over time for either the leaders, $t = 1.23$, $df = 1, 60$, $p > .10$, nor the successors, $t = 1.18$, $df = 1, 48$, $p > .10$.

*Age*. Both incumbent leaders and successors were asked their age (Leaders: $M_{T1}$= 62.30, $SD_{T1}$ = 8.81, $M_{T2}$= 64.14, $SD_{T2}$ = 8.69; Successors: $M_{T1}$ = 35.20, $SD_{T1}$ = 7.17, $M_{T2}$ = 37.24, $SD_{T2}$ = 9.24), an important measure due to normative associations between age and retirement for incumbents, and age and managerial advancement for successors.

The predictors of *succession readiness* include four specific measures assessed from the incumbent leaders at Wave 1 of data gathering. Complete details about these measures are given in the method section of chapter 4, what follows is only the descriptive values used in this study (based on the sample of 67 incumbents who provided data at both waves). The first predictor asks if a successor has been clearly identified or not ($M$ = .81, $SD$ = .39), the second inquires about the extent of progress towards a public succession process ($M$ = .53, $SD$ = .97), the third is a scale assessing the level of confidence the incumbent has in the successor's leadership abilities ($M$ = 3.91, $SD$ = .91, $\alpha$ = .95), and finally, the fourth is a measure of comfort with succession anticipated from other key stakeholders ($M$ = -2.71, $SD$ = 2.45, $\alpha$ = .70).

## Results

In order to determine if successors' and incumbents' experience of the succession process was somewhat independent, Study 1 had examined the zero-order correlation between levels of control of the two generations. This analysis revealed the succession process was not a direct adjustment between the two generations on the control outcomes (gain in the successor's authority on one measure does not equate with a loss of authority on this same measure for the incumbent), and the follow-up analysis conducted here (see Table 5) suggests that the same is true at Time 2.

This study examines the longitudinal data to determine if the patterns seen at Time 1 predict changes in outcomes from Time 1 to Time 2. Specifically, if the variability in control reported by each generation at Time 2 is associated with the reported business succession readiness from Time 1, controlling for the T1 outcome measures. The hypotheses were tested with the same type of regression analyses reported in Study 1(logistic for ownership and managerial control – which have dichotomous outcomes, and hierarchical for perceived control). Each analysis included the age of the respondent and the level of control they reported at Time 1 as control variables in a first step. The second step in these analyses assessed the role of the four succession readiness predictors, to determine if these predictors account for change in the control outcomes reported at Time 2.

TABLE 5

Zero-Order Correlation Between Time 2 Outcome Measures [a].

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| 1. Current Leader's % Ownership | | | | | | |
| 2. Current Leader's Title | **.25*** | | | | | |
| 3. Current Leader's Sense of Control in Business | **.25*** | **.48**** | | | | |
| 4. Successor's % Ownership | -.19 | -.22 | -.05 | | | |
| 5. Successor's Title | -.21 | -.25 | -.11 | **.39**** | | |
| 6. Successor's Sense of Control in Business | -.12 | **-.47**** | -.31 | **.53**** | **.47**** | |

*Notes.* [a] Correlations are based on different sample sizes, depending on the measures involved. Those involving only incumbents are based on samples of at least 59 participants, those involving only successors are based on samples of at least 49, and those involving both incumbents and successors are based on samples as small as 31only on subjects who participated in the follow-up.

*$p < .05$; **$p < .01$

TABLE 6

Logistic Regression Predicting Wave 2 Level of Ownership[a] by Age, Prior Ownership level, and State of Succession Progress

| | *Leader: 51% + vs. 50% -* | | | | *Successor: any shares v. no shares* | | | |
|---|---|---|---|---|---|---|---|---|
| Predictor | *Chi-Square* | *B* | *SE* | *Wald* | *Chi-Square* | *B* | *SE* | *Wald* |
| Control Measures | **48.29**** | | | | **18.48**** | | | |
| Age | | -.03 | .05 | .25 | | .08 | .06 | 1.59 |
| Ownership (Wave 1) | | **4.62**** | **.90**** | **26.17**** | | **2.32**** | **.80**** | **8.36**** |
| Succession readiness[b] | 5.63 | | | | **13.05**** | | | |
| Successor Identified | | -.26 | 1.43 | .03 | | 3.84 | 2.76 | 1.94 |
| Succession Timetable | | -.95 | .52 | 3.38 | | **2.55*** | **1.23*** | **4.31*** |
| Confidence in Successor | | -.34 | .58 | .34 | | **1.90*** | **.84*** | **5.15*** |
| Stakeholder Comfort | | .23 | .21 | 1.13 | | .06 | .28 | .04 |

* $p < .05$; ** $p < .01$

[a] Logistic split of Wave 2 outcome variables: Current Leader: Controlling ownership versus 50% or less; Potential Successor: Any ownership versus none

[b] Succession variable predictors were all assessed from current business leader at Wave 1

The first hypothesis predicted that indicators of succession readiness at Time 1 would be associated with the percentage of ownership reported by each generation at Time 2. As the ownership outcome was assessed with dichotomous measures, logistic regression analyses were conducted, the results of which are summarized on Table 6. For both generations there was a significant association between reported ownership at Time 1 and reported ownership at Time 2; for the incumbent leader, $Wald = 26.17$, $df = 1, 64$, $\beta = 4.62$, $p < .01$, and for the successor: $Wald = 8.36$, $df = 1, 49$, $\beta = 2.32$, $p < .01$. These results suggest there is stability in the ownership levels of each generation between Time 1 and Time 2. Age was not significantly associated with the level of ownership for either generation.

The main effect analyses of succession readiness on ownership showed that none of these variables are statistically related to whether or not the current leader has a controlling share of the business at Time 2. In the case of the successor, however, two succession indicators did significantly predict ownership of shares in the business at Time 2. The more clarity the incumbent leader indicated about a succession timetable at Time 1, the greater the chance the successor's ownership situation in the business had changed from owning no shares at Time 1, to owning some at Time 2, $Wald = 4.31$, $df = 1, 49$, $\beta = 2.55$, $p < .05$. In addition, the greater the incumbent's confidence in the successor's leadership abilities at Time 1, the more likely it was the successor reported owning shares in the business at Time 2 though he or she may not have held any shares at Time 1, $Wald = 5.15$, $df = 1, 49$, $\beta = 1.90$, $p < .05$. Clarity about the successor's identity, and comfort anticipated from stakeholders about the succession process, revealed no significant association with levels of ownership reported by either generation at Time 2.

The second hypothesis evaluated was the association between indicators of succession readiness at Time 1 and the reported managerial titles of the incumbent and successor at Time 2 (see Table 7). In the first step of the analyses, respondent age and title at Time 1 were entered as controls. In the case of the incumbent, age was not significantly associated with their managerial title at Time 2, but this association was significant for the successor, *Wald* = 5.65, $df = 1, 51$, $\beta = .15$, $p < .05$, suggesting older successors are more likely than younger successors to hold an executive position. In addition, the level of managerial control held by each generation at Time 1 was a significant predictor of their title at Time 2, for incumbents: *Wald* = 19.44, $df = 1, 62$, $\beta = 3.66$, $p < .01$, and for successors: *Wald* = 5.67, $df = 1, 51$, $\beta = 1.77$, $p < .05$, indicating a significant amount of stability in this outcome over time.

The main effect analyses for these hypotheses reveal no significant association between any of the indicators of succession readiness at Time 1 and the managerial titles reported by either generation at Time 2. Controlling for the management title each held at Time 1, clarity on the identity of the successor, public progress towards succession, confidence in the successor's abilities, and confidence of stakeholders about succession were not able to predict any further difference in managerial titles of either generation.

The third hypotheses examined if the perception of control in the business by both generations at Time 2 was affected by the state of succession readiness at Time 1 (see Table 8). The first step of these analyses revealed that perceived control at Time 1 accounted for a high proportion of the variance in perceived control at Time 2 for both generations: incumbent leaders $F(1, 63) = 33.90$, $R^2 = .35$, $\beta = .61$, $p < .01$, and

TABLE 7

Logistic Regression Predicting Wave 2 Title in Business[a] by Age, Wave 1 Title, and State of Succession Progress

| | *Leader: CEO v. all others* | | | | *Successor: CEO/Executive v. all others* | | | |
|---|---|---|---|---|---|---|---|---|
| Predictor | *Chi-Square* | *B* | *SE* | *Wald* | *Chi-Square* | *B* | *SE* | *Wald* |
| Control Measures | **30.11**** | | | | **19.47**** | | | |
| Age | | -.04 | .05 | .89 | | **.15*** | **.06*** | **5.65*** |
| Wave 1 Title | | **3.66**** | **.83**** | **19.44**** | | **1.77*** | **.74*** | **5.67*** |
| Succession readiness[b] | 4.66 | | | | 4.32 | | | |
| Successor Identified | | -.61 | 1.31 | .21 | | 2.65 | 2.23 | 1.42 |
| Succession Timetable | | -.73 | .50 | 2.11 | | .40 | .62 | .43 |
| Confidence in Successor | | -.23 | .52 | .19 | | .37 | .53 | .47 |
| Stakeholder Comfort | | -.17 | .19 | .80 | | .23 | .22 | 1.04 |

* $p < .05$; ** $p < .01$

[a] Logistic split of outcome variables: Current Leader: CEO position versus all others; Potential Successor: CEO or Part of Executive versus all others
[b] Succession variable predictors were all assessed from current business leader at Wave 1

successors $F(1, 51) = 24.75$, $R^2 = .29$, $\beta = .63$, $p < .01$. Neither generation's perceived control at Time 2 was associated with their age.

The analyses of main effects for the incumbent leaders indicate only progress on a succession timetable reported at Time 1, was significantly associated with the incumbent's perceived control at Time 2, $F(1, 63) = 5.19$, $R^2 = .05$, $\beta = -.29$, $p < .05$. Specifically, the more progress on succession reported at Time 1, the less control the incumbent perceived over the business at Time 2. In the case of the successor, three indicators of succession readiness were significantly associated with their perceived control, and only clarity of the successor's identity was non-significant. Progress on a succession timetable reported by the incumbent at Time 1 was significantly associated with the successor's perceived control at Time 2, $F(1, 51) = 4.44$, $R^2 = .04$, $\beta = .24$, $p < .05$, suggesting the more progress there was on succession at Time 1, the greater the successor's perceived control at Time 2. The incumbent's reported confidence in the successor's leadership abilities at Time 1 was also significantly associated with the successor's perceived control at Time 2, $F(1, 51) = 8.26$, $R^2 = .08$, $\beta = .31$, $p < .01$, with successors whose parent expresses more confidence in them at Time 1 feeling greater control at Time 2. Finally, the more comfort the incumbent anticipates from stakeholders about succession, the greater the successor's perceived control at Time 2, $F(1, 51) = 4.64$, $R^2 = .05$, $\beta = .24$, $p < .05$.

## Discussion

This research was conducted as a longitudinal follow-up to the study reported in Chapter 4, in order to extend the knowledge gained from the overall program of research. As study 1 had demonstrated several associations between "indicators of succession

TABLE 8

Hierarchical Regression Predicting Current Leader and Potential Successor's Perceived Control in the Business by Age, Wave 1 Perceived Control, and State of Succession Progress

| | *Leader's Perceived Control* | | *Successor's Perceived Control* | |
|---|---|---|---|---|
| Predictor | $R^2$ | *Beta* | $R^2$ | *Beta* |
| Controls | **.36**** | | **.43**** | |
| Age | .00 | .03 | .00 | .05 |
| Wave 1 Perceived Control | **.35**** | **.61**** | **.29**** | **.63**** |
| Succession readiness [a] | **.08**** | | **.13**** | |
| Successor Identified | .01 | -.09 | .00 | -.07 |
| Succession Timetable | **.05*** | **-.29*** | **.04*** | **.24*** |
| Confidence in Successor | .01 | .11 | **.08**** | **.31**** |
| Stakeholder Comfort | .02 | -.14 | **.05*** | **.24*** |

* $p < .05$; ** $p < .01$

[a] Succession variable predictors were all assessed from current business leader

readiness" and levels of control held by successors (and fewer such associations for incumbents), we were interested to see if these associations held up over time. In fact, as the analyses conducted here examined levels of authority in the business at Time 2 while controlling for those reported at Time 1, we were interested in exploring possible directions of effects between predictors and outcomes. While there are fewer significant findings in these data than there were in the cross-sectional data (likely due, in part, to reduced power), the pattern of results is similar, strengthening the credibility of some arguments put forward in Chapter 4.

As was seen in Study 1, the indicators of succession readiness considered in this research had a greater impact on the successor's level of control than they did on the incumbent's. In fact, in the longitudinal data, only one control outcome for the incumbent was affected by any of the indicators of succession readiness (whereas there were three such associations in the cross-sectional data). The outcome affected was perceived control, and the predictor that held up in the longitudinal analysis was public progress on succession. What this suggests is that public progress with succession will lead to a decline in the incumbent's perceived control over time. This is important as this predictor was the one most consistently associated with incumbent control levels in the cross-sectional data, therefore, this longitudinal result lends support to the argument that a public timetable for succession may be key to making progress with succession (Lansberg, 1999; Lansberg & Astrachan, 1994).

In the case of the successor, indicators of succession readiness at Time 1 were associated with ownership in the business, and with a greater sense of control over the business at Time 2. Though all three control outcomes for the successors had shown some association with succession readiness in the cross-sectional data, it is quite compelling to find two of the three retain this effect longitudinally, in particular given the reduced statistical power of the smaller sample size. More precisely, three of the four succession readiness indicators remained significant in longitudinal analyses for predicting perceived control. Further, the presence of a clear and public timetable for succession and greater confidence in the successor's abilities at time 1 both predicted share ownership for the successor at Time 2.

While progress on a public succession timetable had been associated with successor ownership in the cross-sectional data (again highlighting the importance of this indicator), the second predictor had been stakeholder comfort around succession, rather than the incumbent's confidence in the successor (the significant association seen in this Wave 2 data). What this pattern of results suggests is that incumbent confidence in the successor can lead to change in ownership levels for the successor, whereas the comfort of stakeholders is only associated with share ownership for the successor. This may imply stakeholders take their cue of confidence about succession from the incumbent: perhaps if the incumbent has conferred some ownership to the successor, then stakeholders express more comfort about succession (rather than the other way around). This may well underscore the fundamental power of the incumbent, as his or her confidence in the successor actually leads to measurable positive change in authority for the successor over time, whereas the stakeholder views do not.

As ownership appeared to be the least likely domain of control to be ceded by the incumbents in the cross-sectional data, it is surprising that of the two objective control measures, ownership, rather than titles, held up in the longitudinal analyses for successors. However, as there was no offsetting reduction in the levels of ownership for the incumbent, perhaps these results provide evidence for the "growing overlap in control" that was proposed as a possible scenario in Study 1.

In addition, the results of this follow-up may suggest management titles play a more important role in succession outcomes than we expected from the cross-sectional data. For example, on Table 5, the only significant association between generations was the negative association between the incumbent's title and the successor's perceived control. Specifically, when the incumbent remains in the position of CEO, the successor perceives significantly less control over the business. As the perception of reality can be a key driver of behavior in family business (Sharma, 1997), an incumbent who is unwilling to cede the role of CEO may eventually damage his or her successor's commitment to the firm (because they perceive they have little control over the business), which could eventually lead the successor to leave the business, or otherwise impair the succession process.

Another interesting point that emerges from an examination of the longitudinal data is that the successor's lack of concrete gains in objective control over time (no mean differences in the levels of control held by either generation) did not lead to a statistically significant erosion of their perceived control over this time period. This seems to provide a preliminary response to a question raised in Study 1: would the successor eventually experience a decline in perceived control, if over time, their objective control (ownership and titles) did not improve? While the data seen here do not suggest this happens, there is no measurable change in control of any kind (subjective or objective), therefore, it is also possible that insufficient time has passed to determine the answer to this question.

Considering the results of Studies 1 and 2 together, a few conclusions may be offered. First, even though indicators of succession readiness are derived from the incumbent, they are stronger indicators of variability in authority in the business for successors. This may be in part because, as was discussed in Chapter 4, the vantage of dominant authority for the incumbent may make incremental change more difficult for them than for their successor. Second, the one indicator of succession readiness that was associated with levels of authority and even change in authority for both generations was a public timetable for succession. As a public timetable for succession is a tool many practitioners argue is essential to positive outcomes in succession (e.g., Lansberg, 1999), perhaps this research provides the empirical validation for this claim. A further claim by practitioners supported by this research is that confidence in the successor is important to succession (e.g., Ibrahim et al., 2004). Certainly this research has provided valuable insight to how predictors of succession readiness are related to change in authority in family-owned businesses.

## Limitations and Future Directions

Though this study has made a compelling argument for the role of succession readiness in predicting increases in levels of control held in the business by successors, these results must be viewed in the context of certain methodological limitations. First, the challenge in obtaining a sample of this nature requires compromise. There are no Canadian databases of businesses that are family-owned, therefore the sample cannot be randomly drawn and cannot be said to be fully representative of all Canadian family businesses. Instead, self-report questionnaires were mailed to businesses from across the country to arrive at a sample with a good diversity of business size, age, industry, and geographic location (see Chapter 3 for a comprehensive sample description). In addition, while self-reported data may be influenced by a desire to present the self and the business in the best possible light, the questions considered in this research are not at high risk of social desirability bias, limiting the risk of this concern to the conclusions drawn from this research.

A second limitation of this research is the significant participant drop-off from the original cross-sectional study. This leads to a sample with reduced statistical power, which may affect how we interpret the data. For example, the zero-order correlation (see Table 1) appears to lend support to the argument made in Study 1 that the succession process operates independently for incumbents and successors (as there are no significant correlations between the generations' levels of control). However, this argument is weakened when one examines the correlation values closely, as several may have attained significance with a larger sample. While this illustrates how a smaller sample size may limit some conclusions that can be drawn from the data, many published landmark studies on family business have been based on smaller samples (e.g., Handler, 1990) and there are very few longitudinal studies of any size available in this field. Further, even though half of the sample did not complete the second wave of data collection, this rate of response is considered quite strong in the field of family business research (Sharma, Chrisman, & Chua, 2003).

Attrition analyses were conducted to verify for any systematic bias in the data by virtue of participant drop-off status. These analyses reveal only one significant association between drop-off status and the measures of interest to this research. Specifically, successors whose incumbent leaders hold the position of CEO at Time 1, as well as those whose incumbent holds the title of CEO at Time 2, were more likely to drop out of the study. This is particularly interesting as management titles were the one domain of control that showed no longitudinal effects for successors. What this suggests is that whatever systematic attrition bias may be present in our data, it is reflected more in the null effects than in the findings reported. In addition, while one can only speculate about why any given participant does not continue with the study, it is plausible some of the successors who dropped out did so because they had left the business between Time 1 and Time 2, out of frustration with the pace of change in succession (as their parent was not relinquishing the title of CEO). Alternatively, these successors may still be with their businesses, but their non-participation may signal a decline in their commitment to the succession process. Certainly the pattern of participant drop-off seen here would lend support to these arguments, suggesting an elevated risk for succession failure. Though our data do not permit us to explicitly study succession failures, these patterns suggest future studies should take a closer look at the role management titles are playing in satisfaction with succession, and successor retention – two key measures associated with adaptive succession outcomes in other studies (e.g., Sharma et al., 2001; Ventner, Boshoff, & Maas, 2005).

Third, this study's quantitative focus and short time duration may limit some conclusions that can be drawn from the data. For example, while these longitudinal results suggest succession readiness will lead to increases in the successor's ownership, no offsetting decline in ownership among incumbents is noted. While this may suggest an increase in overlap of control, we have no data to evaluate if this situation is experienced by the successor and incumbent as increasingly aversive or not, nor if there is evidence that the incumbent is approaching succession in an increasingly competitive and less collaborative way over time (Marshall et al., 2006) – two questions raised in Study 1. In addition, the lack of measurable change for the incumbent may be a function of time, as this process may move more slowly for them (due to it being non-incremental change, see Discussion in Study 1) than it does for the successor. Only more follow-ups over time could resolve this question.

Finally this study, like Study 1, is limited by the lack of significant results explaining control held in the business by the incumbent generation. While no overall mean difference was found between the Time 1 and Time 2 measures of control for either generation, more associations of change were uncovered for the successor than for the incumbent. As there is variability in levels of control held by both generations, additional studies may be required to better understand this for the incumbent. In particular, given the emotional connection incumbents feel for their business, it may be that research using psychological measures of personality that are closely related to the successful management of change may be informative. Certainly this study has provided further evidence for the importance of the incumbent to the succession process, making the need for research that may uncover elements associated with succession progress for this generation very important.

# CHAPTER 6

# RETIRING FROM THE FAMILY BUSINESS: THE ROLES OF GOAL ADJUSTMENT AND BUSINESS PERFORMANCE


## Abstract

This longitudinal study examined associations between goal adjustment capacities (i.e., disengagement and reengagement), perceptions of business performance, and retirement outcomes in a group of family business leaders nearing retirement age. We expected goal adjustment capacities would predict positive expectations of, and concrete steps towards, retirement. We also reasoned business problems could lead to an escalation of commitment and complicate retirement. In such circumstances, goal adjustment capacities were expected to be particularly adaptive. Cross-sectional analyses document that goal disengagement was associated with adaptive retirement outcomes, particularly among struggling businesses. Longitudinal analyses suggested goal disengagement could predict increases in adaptive retirement outcomes over time. Goal reengagement was only associated with adaptive retirement outcomes in the cross-sectional analyses. These findings suggest goal adjustment capacities can play an important role in facilitating retirement among family business leaders.

Retiring From the Family Business:

The Roles of Goal Adjustment and Business Performance

## Literature Review

Family-controlled enterprises are a predominant type of business structure affecting modern economies around the globe (Dyer, 1986). The overlaps of ownership, management, and family, which define a family-controlled business (Sharma, 2004), generate challenges that are not yet well understood by scholars and practitioners. For example, the intermingling of family and business, as well as management and ownership tends to make leadership transition a particularly complicated matter in family owned businesses (e.g., Olson, Zuiker, Danes, Stafford, Heck, & Duncan, 2003). In fact, the most oft-cited statistic about family businesses is that fewer than a third make it to a third generation (e.g., Ward, 1987), while many do not outlast the founder's tenure (Dyer, 1986). Though many have studied family business succession (e.g. Bird et al., 2002), variables that facilitate success, rather than failure, remain unclear.

This research proposes an examination of variables that may help explain different succession outcomes. Specifically, we considered how incumbent leaders' capacity to adjust their personal goals (i.e., goal disengagement and goal reengagement, Wrosch, Scheier, Miller et al., 2003) when faced with their upcoming retirement could be related to adaptive beliefs and behaviors that should facilitate retirement (a key component of succession). Further, this study examined whether goal adjustment capacities may be particularly adaptive when incumbent leaders perceive that their businesses have been struggling. We reason that such an effect may emerge because business problems could create a context where the incumbent experiences an escalation of commitment, thereby complicating the retirement process.

*Family Business & Retirement*

By most definitions, 90% of businesses in North America are family owned, representing over half of all private-sector jobs (Dyer, 1986; Ibrahim & Ellis, 1994). Despite their prevalence, researchers still have a poor understanding of the unique challenges these businesses face. For example, family business succession is complex because it typically involves a transition of both management and ownership. It also requires that the incumbent and successor be synchronized in the timing of their mutual readiness for this transition (Davis & Taguiri, 1989). Further, a family business succession affects the ongoing business, as well as a number of other stakeholders (i.e., employees and other family members) who can meaningfully influence the process. As most family businesses do not survive this transition (e.g., Ward, 1987), and aging trends suggest an unprecedented growth in generational transitions (American Family Business Survey, 2003; Deloitte & Touche, 1999), the economic well-being of many family businesses and their employees may be at risk if researchers are unable to improve our understanding of processes that facilitate positive succession outcomes.

Seeking to understand family business succession, researchers have explored many themes, for example, family relationships (e.g., Davis & Taguiri, 1989; Lansberg & Astrachan, 1994) and the successor's intentions and competence (e.g., Chrisman, Chua, & Sharma, 1998; Handler, 1992; Sharma, Chua, & Chrisman, 2000), to name but a few. A recurrent theme through much of the literature involves trying to understand why the incumbent leader cannot "let go" of his or her leadership role (e.g., Aronoff, 2003; Dyer, 1986; Handler, 1990). One area of knowledge that may inform this question, and has not often been explored in family business research, is the literature on retirement. The incumbent's retirement from the leadership role is a central feature of succession (Gersick et al., 1997), and the willingness of the incumbent to retire has been associated with satisfaction with succession (Sharma, Chrisman, & Chua, 2003), and more clarity in the business (Lansberg, 1999).

In most of the developed world, retirement from work is considered an important life transition, the timing of which is frequently tied to age by virtue of social expectations, business policies, and even government entitlements (e.g., Neugarten, 1979; Settersten, 1997). As a person's identity is tied to his or her work role (Kim & Moen, 2001), research finds that the more central this role is to a person's overall sense of self, the more they have negative expectations for retirement (Gee & Baillie, 1999). In the case of business executives, studies suggest their frequent reluctance to retire may be associated with these hard-driving individuals not knowing what they would do with their time and energy if they left work (Levinson & Wofford, 2000). Further, while retirement signals a loss of role and daily activities for most, business leaders also face substantial losses of power, prestige, and community contacts (Kets de Vries, 2003). In fact, many business leaders with a high level of power in their business frequently postpone the succession process (Cannella & Shen, 2001; Sonnenfeld, 1988).

As the incumbent leader of a family-owned business frequently holds ownership control, he or she carries the balance of power to affect the succession process (Brun de Pontet, Wrosch, & Gagné, 2007). For example, even if a business leader approaches normative retirement age, the owner can choose to exempt him or herself from this timing. Moreover, individuals with a strong attachment to their job (such as business owners) often perceive retirement as an imposed disruption (Gee & Baillie, 1999). Thus, family business incumbents have both the motive and the authority to delay retirement for as long as they desire. Nonetheless, although research suggests that most owners use this power to resist retirement and succession planning (Sharma et al., 2001; Ward, 1987), some are able to make progress. As studies to date have not succeeded in explaining what may account for this variability (Brun de Pontet et al., 2007), an examination of business context, psychological variables, and the interaction between these factors may be informative.

*Business Performance*

Family business owners' identities are closely tied to their business (Lansberg, 1999), and they typically invest much energy towards the goal of having a successful enterprise. When this goal is under threat (i.e., they perceive the business has been struggling) they may be likely to increase their effort in the pursuit of this goal (cf. Brunstein, 2000), which could hinder their transition to retirement. In fact, research finds business owners may be at particular risk to escalate their commitment (Baron, 1998; Kahneman & Lovallo, 1994). This escalation phenomenon is described as a situation where a person continues to invest time or resources towards a goal with an evident low probability of success (Brockner, 1992). For example, as incumbents advance in age, it is supposedly less reasonable for them to expect to continue to manage the day-to-day operations of their company – yet if business success has been threatened, escalation could lead them to increase their commitment to their professional role, rather than move towards retirement.

In a family business that has recently been struggling, the incumbent may believe (or want to believe) they are the only one who can turn things around, which we argue will decrease their willingness to retire. In fact, some researchers have found incumbent family business leaders struggle to come to terms with the state of the business as they approach retirement, still longing for "one more chance to prove themselves" (Sonnenfeld & Spence, 1989, p. 363). This inability to separate the self from the business renders the transition from family business leadership particularly difficult, perhaps especially if the incumbent perceives the business has recently been struggling. Nonetheless, some family business leaders are able to successfully retire, in good times and bad, which raises the question what differentiates those leaders who are able, from those who are not?

*Goal Adjustment Capacities*

As the challenge in family business succession is often framed around the inability of the incumbent to "let go" (e.g., Aronoff, 2003), it may be fruitful to examine processes of goal adjustment in this population. In this regard, self-regulation theories describe that goal adjustment consists of two different, independent processes: goal disengagement and goal reengagement (Carver & Scheier, 1990; Miller & Wrosch, 2007; Wrosch, Scheier, Carver et al., 2003; Wrosch, Scheier, Miller et al., 2003; Wrosch, Miller et al., 2007). Goal disengagement involves the reduction of effort and psychological commitment from a goal that a person has to stop pursuing. Goal reengagement is composed of identification, commitment to, and pursuit of alternative meaningful goals, in situations where a desired goal needs to be abandoned (Wrosch, Scheier, Miller et al., 2003).

Research from this line of work suggests that individuals vary widely in their general goal adjustment capacities (Miller & Wrosch, 2007; Wrosch, Scheier et al., 2007). This implies that some people have an easier time than others disengaging from goals that can no longer be pursued, and engaging in alternative goals (for a review, see Wrosch, Scheier et al., 2007). These differences in individual tendencies, in turn, have been shown to predict adaptive levels of subjective well-being (e.g., low depression, high life satisfaction, or purpose in life, O'Connor & Forgan, 2007, Wrosch, Scheier, Miller et al., 2003, 2007). In addition, goal disengagement capacities have been linked to beneficial biological and physical health outcomes in a variety of populations (adaptive levels of cortisol secretion or markers of systemic inflammation, efficient sleep, or physical health problems; Miller & Wrosch, 2007; Wrosch, Scheier et al., 2007).

Given these beneficial effects, we argue that goal adjustment capacities may also optimize a family business owner's transition into retirement. Normative expectations about retirement (Neugarten, 1979) as well as the aspirations of the potential business successor (who is typically gaining increasing levels of control over the business, Brun de Pontet et al., 2007) may put constraints on the owner's desire to keep running the business. In such situations, an owner who is generally able to disengage from goals that he/she can no longer pursue may have an easier time accepting that he/she cannot stay indefinitely at the helm of the business and start implementing concrete steps towards retirement. By contrast, poor goal disengagement capacities may make it more likely for an incumbent to resist the normative pressure to retire and keep control over the business. Further, business owners who are capable of developing new goals may rather look forward to the time after retirement because they are better able to create other meaningful ways to occupy their time and energy (see also research on goal continuity or goal replacement Benyamini & Lomranz, 2004; Robbins, Lee, & Wan, 1994, Payne, Robbins, & Dougherty, 1991).

Research also suggests that goal adjustment capacities become strong predictors of adaptive outcomes when it is particularly difficult for a person to abandon a desired goal (e.g., giving up on career goals because their children were diagnosed with a life-threatening disease, Wrosch, Scheier, Carver et al., 2003). In this regard, as previously argued, recognizing that a business is struggling could make it more challenging for incumbents to retire from the business because they are likely to fall prey to an escalation of commitment. This suggests that goal adjustment capacities may also interact with the performance of a business in predicting adaptive retirement outcomes among business owners. In particular, we would expect that individual differences in goal adjustment capacities become paramount when an incumbent leader perceives that the business has been struggling. In such circumstances, business owners who have poor goal adjustment capacities should be particularly hesitant to show signs of retirement, while more progress towards retirement could be expected among business owners who are better able to disengage and to pursue other meaningful goals.

### *Current Study*

This longitudinal study was designed to examine, in a group of family business leaders who were approaching retirement age, whether goal adjustment capacities and perceptions of recent business performance would be associated with retirement outcomes (i.e., expectations about retirement, and concrete steps taken towards retirement). We tested, in cross-sectional and longitudinal analyses, the hypotheses that adaptive levels of goal disengagement capacities and goal reengagement capacities would predict more favorable expectations about, and concrete steps taken towards, retirement. In addition, we expected that recent problems with the performance of the business would be inversely related to adaptive retirement outcomes. Finally, we hypothesized that business performance would interact with business owners' goal adjustment capacities in predicting retirement outcomes. In particular, we expected goal adjustment capacities to be more strongly associated with adaptive retirement outcomes among owners whose businesses have been struggling, as compared to business owners whose companies were performing well.

## Method

### *Data Collection*

The present longitudinal study was conducted through mailed self-report questionnaires. This approach was chosen to facilitate data collection from family-controlled companies across Canada, and has been used successfully in other studies (e.g., Davis & Taguiri, 1989; Lansberg & Astrachan, 1994; Sharma, Chrisman, & Chua, 2003). As closely-held businesses are often reluctant to share private information, the help of PriceWaterhouse Coopers and the Canadian Association of Family Enterprises was enlisted to recruit clients or members who met the study's criteria. Additional participants were recruited through a search of Dunn & Bradstreet listings and the internet. Criteria for participation were that the business was family-owned, had a current leader at least 50 years of age, with a child working in the business who might eventually take over the leadership.

Questionnaires, consent forms, and return postage envelopes, were mailed to owners at 189 companies, whose leader indicated in an initial query that they met study criteria, and would consider participation. 117 incumbent leader questionnaires were returned from these mailings (62% response rate from sent questionnaires). Follow-up questionnaires were sent to all participating businesses approximately two years later (M = 28.09 months, SD = 4.72 months), and 67 of these questionnaires were returned (57% response rate), representing the sample used in the longitudinal analyses. Attrition from baseline to follow-up was not significantly associated with any of the main study variables.

*Sample Description*

While non-random techniques were used to collect these data, every effort was made to recruit a diverse group of Canadian family-held businesses. The resulting sample is fairly representative of the geographic distribution of the population of Canada, with businesses operating in nine provinces, in proportions similar to their population. Further, the range of size of these companies provides a reasonable approximation of the size (by revenues) of independent businesses in Canada. In fact, 32% of the businesses are very small companies, with annual sales of $3 million or less. An additional 39% of the companies in the sample can be described as small to medium, indicating annual sales between $3 and $25 million. Finally, 28% of the sample represented larger businesses, reporting sales of $25 million or more (most of these reported that they had 100 or more employees).

Participants were asked to identify their age ($M = 61.64$, $SD = 8.20$), gender (107 males), and level of education (47 had a high school degree or less). Respondents were also asked about their work experience, when their company was founded, and in what year they took over the leadership (if they were not the founder). The businesses in this sample ranged in age from 4 years of operation to 121 years ($M = 42.54$, $SD = 24.67$). Sixty-three of the respondents were founders, representing 54% of the sample. On average, the incumbents in this study have worked many years in their business ($M = 32.52$, $SD = 12.98$) and continue to invest long weekly hours ($M = 46.96$, $SD = 14.31$). Attrition from study entry to follow-up was not associated with any participant or business characteristics.

*Description of Variables and Scales*

The main measures include participants' goal adjustment capacities, perception of recent business performance, expectations for retirement, and concrete steps taken towards retirement plans. Table 9 summarizes the zero-order correlations between the main measures used in this study.

*Goal adjustment capacities.* The incumbents' goal disengagement and goal reengagement capacities were assessed at baseline with a previously validated 10-item scale (Wrosch, Scheier, Miller et al., 2003, 2007), also reproduced as Appendix I. The leaders were asked how they usually react when they have to stop pursuing an important goal. Four items measured the capacity to disengage from a goal that can no longer be pursued (e.g., "It's easy for me to reduce my effort toward the goal" or "I stay committed to the goal for a long time, I can't let it go"), while six items measured the capacity to reengage with new goals (e.g., "I seek other meaningful goals" or "I start working on other new goals"). For both subscales, 5-point Likert-type scales were used with response options ranging from "strongly disagree" (1) to "strongly agree" (5). We computed mean

TABLE 9

Zero-Order Correlation Between Main Study Variables.

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| 1. Goal disengagement (T1) | | | | | | |
| 2. Goal reengagement (T1) | .12 | | | | | |
| 3. Business performance (T1) | -.01 | .26** | | | | |
| 4. Retirement expectations (T1) | .25** | .43** | .26** | | | |
| 5. Concrete steps to realize plans (T1) | .13 | .33** | .14 | .54** | | |
| 6. Retirement expectations (T2) [a] | .36** | .31** | .20 | .71** | .23 | |
| 7. Concrete steps to realize plans (T2) | .13 | .25 | .15 | .41** | .59** | .49** |

*Notes.* [a] Correlations involving T2 measures are based only on subjects who participated in the follow-up.

** $p \leq .01$; * $p \leq .05$.

scores of the goal disengagement items ($M = 2.79$, $SD = .68$, $\alpha = .62$) and the goal reengagement items ($M = 3.56$, $SD = .71$, $\alpha = .89$).

*Perception of Business Performance* was also assessed at baseline by asking incumbent leaders to indicate on a 5-point Likert-type scale, with endpoints of "large decline" (1) and "large increase" (5), if their firm had seen decline or growth over the past three years (see Appendix J) in both annual sales ($M = 3.73$, $SD = 1.24$), and profitability ($M = 3.50$, $SD = 1.20$). We computed a mean score of these two indicators of business performance ($M = 3.62$, $SD = 1.10$, $r = .68$, $p < .01$). These two basic financial indicators: sales (top line) and profits (bottom line), among the most common indicators of business performance in management literature (e.g., Venkatraman & Ramanujam, 1986), were selected for simplicity and clarity, given our sample was drawn from privately held businesses among whom one could expect a range of financial sophistication.

*Retirement expectations* were assessed at both measurement points. The incumbents' expectations about post-retirement life were evaluated with a 10-item scale, following the prompt: "Once I have retired the day-to-day leadership of this business, my days will be…." Respondents were asked to identify to what extent they agreed or disagreed with 10 statements that completed this prompt. The full scale is reproduced in Appendix K, but examples of these statements include: "Spent with my family and friends," "Filled with opportunities to contribute in new ways to my community," and "Difficult, because my work means so much to me" (reverse coded). The endpoints of the scale were "strongly disagree" (1) to "strongly agree" (5). We computed mean scores of the items for both measurement points. ($M_{T1} = 3.54$, $SD_{T1} = .53$, $\alpha_{T1} = .74$; $M_{T2} = 3.58$,

$SD_{T2} = .57$, $\alpha_{T2} = .78$). In addition, we computed a measure of change in retirement expectations by conducting a regression analysis, predicting T2 retirement expectations by T1 retirement expectations, and saving the residuals for further analysis ($M = .01$, $SD = .39$). Retirement expectations did not significantly change across time, $p > .10$.

*Concrete steps taken towards retirement* were assessed at both measurement points. This outcome was based on a single item that asked participants to identify to what extent they had taken concrete steps towards realizing plans they were making for their retirement life (see Appendix K). The endpoints of this 5-point measure were "not at all" (1) and "a lot" (5) ($M_{T1} = 2.99$, $SD_{T1} = 1.31$; $M_{T2} = 3.29$, $SD_{T2} = 1.37$). We computed a measure of change in steps taken by conducting a regression analysis, predicting T2 steps taken by T1 steps taken, and saving the residuals for further analysis ($M = .05$; $SD = 1.09$). There was no significant mean level change over time in steps taken toward retirement plans, $p > .10$.

## Results

The results section is divided into two parts. The first examines in cross-sectional analyses the baseline associations between goal adjustment capacities, business performance, and retirement outcomes. The second examines whether goal adjustment capacities and business performance predict changes in retirement outcomes over time.

### *Cross-Sectional Results*

To test the hypotheses that goal adjustment capacities and recent business performance are associated with an incumbent family business leader's retirement beliefs and behaviors, two hierarchical regressions were conducted[1]. The first analyses used baseline levels of retirement expectations of the incumbent as the outcome, and the second predicted baseline levels of steps taken towards retirement planning. For both analyses, incumbent age, gender, and level of education were entered as controls in a first step. In the second step, goal disengagement, goal reengagement, and the recent performance of the business were entered to assess the main effects of these measures (all measures were assessed at baseline). In the third step, we entered the interaction terms between goal disengagement and business performance, and between goal reengagement and business performance, in separate analyses.

The results of the analyses are reported in Table 10. Socio-demographic characteristics did not significantly explain retirement outcomes in the first step of the analyses. The examination of the main effects revealed that goal disengagement capacities, $F(1, 101) = 5.57$, $R^2 = .04$, $p < .05$, and recent business performance, $F(1, 101) = 4.79$, $R^2 = .04$, $p < .05$, were significantly associated with incumbent retirement expectations (but were unrelated to steps taken towards retirement). In addition, goal reengagement capacities were significantly associated with participants' retirement expectations, $F(1, 101) = 15.62$, $R^2 = .11$, $p < .01$, and steps taken towards retirement plans, $F(1, 97) = 8.73$, $R^2 = .08$, $p < .01$. In all cases, the significant associations were in the direction predicted by the hypotheses, suggesting high levels of goal adjustment capacities and business performance were associated with more adaptive expectations and planning for retirement on the part of family business incumbents.

Of importance, the second step in these analyses demonstrated significant interactions between goal disengagement capacities and recent business performance for both retirement expectations, $F(1, 100) = 5.94$, $R^2 = .04$, $p < .05$; and steps taken towards

TABLE 10

Hierarchical Regression Analyses of Cross-Sectional Data Predicting Incumbent's Retirement Expectations & Concrete Steps Taken towards Retirement Plans by Goal Disengagement, Goal Reengagement, and the Perception of Recent Business Performance.

| | Retirement expectations | | Steps taken on retirement plans | |
|---|---|---|---|---|
| | $\Delta R^2$ | *Beta* | $\Delta R^2$ | *Beta* |
| *Main Effects* [a] | .25** | | .12** | |
| Goal disengagement (DIS) | .04* | .21* | .01 | .08 |
| Goal reengagement (RE) | .11** | .35** | .08** | .29** |
| Business performance (BP) | .04* | .20* | .01 | .10 |
| *Interactions* | | | | |
| DIS x BP | .04* | -.21* | .04* | -.21* |
| RE x BP | .00 | -.02 | .00 | .01 |

*Notes.* [a] Analyses were controlled for socio-demographic characteristics.

** $p \leq .01$; * $p \leq .05$.

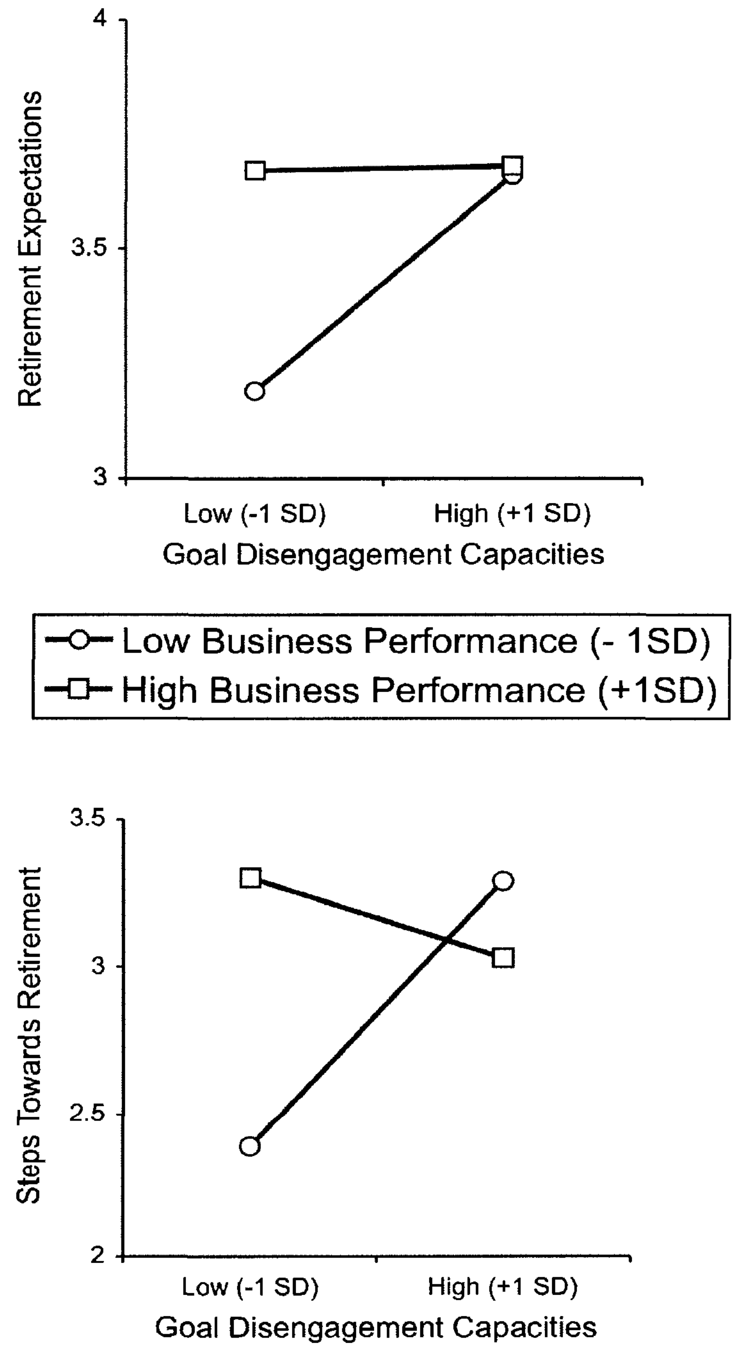
retirement, $F(1, 96) = 4.77$, $R^2 = .04$, $p < .05$. Neither outcome was associated with the interaction of goal reengagement and business performance[2]

In order to interpret these interactions, we plotted the associations between business performance (1 SD above and below the sample mean) and each of the retirement outcomes for participants with high levels (+1 SD) and low levels (-1 SD) of goal disengagement capacities (Aiken & West, 1991). Figure 5 shows that particularly low levels of adaptive retirement outcomes were obtained among participants who reported poor goal adjustment capacities and perceived recent declines in the performance of their business. By contrast, adaptive levels of goal disengagement were associated with high levels of retirement outcomes among owners whose businesses were struggling, and these levels were similar to participants whose businesses were doing well. Consistent with this interpretation, a test of the simple slopes revealed that better goal disengagement capacities were associated with more favorable expectations about retirement, $\beta = .47$, $p < .01$, and concrete steps toward retirement, $\beta = .35$, $p < .05$, when an incumbent's business had been recently struggling (-1 *SD*), but not when the incumbent perceives that the business had been performing well, +1 *SD*: $\beta$s = -.03 and -.11, *p*s > .10. Conversely, poor business performance predicted lower levels of retirement expectations, $\beta = -.45$, $p < .01$, and fewer steps towards retirement, $\beta = -.33$, $p < .01$, among participants with poor disengagement capacities (-1 *SD*), but not among those with adaptive levels of goal disengagement, +1 *SD*: $\beta$s = -.04 and .12, *p*s > .10.

*Longitudinal Results*

The longitudinal regression analyses examined effects on retirement outcomes over time by using the same baseline predictor variables that were incorporated in the

Figure 5. Cross-sectional associations between goal disengagement capacities and retirement expectations (upper panel) and concrete steps taken towards retirement (lower panel) for business leaders who perceived their businesses were and were not struggling (one standard deviation above and below the sample mean).



cross-sectional analyses. Different from the cross-sectional analyses, however, we predicted change scores in retirement expectations and steps taken towards retirement (using residualized scores). In addition, these analyses were based on the sub-sample of leaders who provided data at both time points[3].

Similar to the cross-sectional results, socio-demographic characteristics did not significantly predict changes in retirement outcomes over time. In addition, as reported in Table 11, the longitudinal analyses revealed significant main effects for goal disengagement capacities on changes in the incumbent's retirement expectations, $F$ (1, 53) = 11.26, $R^2 = .17$, $p < .01$, and changes in steps taken towards retirement plans, $F$ (1, 50) = 4.03, $R^2 = .07$, $p < .05$. However, neither the main effects of goal reengagement tendencies or business performance, nor the tested 2-way interactions between business performance and goal adjustment capacities significantly predicted changes in retirement outcomes. The significant main effects suggest that participants with high levels of goal disengagement capacities reported larger increases in positive retirement expectations and steps taken towards retirement over time, as compared to participants with poor goal disengagement capacities.

## Discussion

We conducted this research to examine whether adaptive goal adjustment capacities can facilitate retirement among family business leaders who are approaching normative retirement age. In addition, we reasoned that business problems may contribute to an escalation of commitment and could therefore complicate retirement. Finally, we predicted that in such circumstances, adaptive goal adjustment capacities

TABLE 11

Hierarchical Regression Analyses of Longitudinal Data Predicting Changes (Residual values) in Incumbent Retirement Expectations & Change in Concrete Steps Taken towards Retirement Plans by Goal Disengagement and Goal Reengagement, and the Perception of Recent Business Performance.

| | *Retirement expectations* | | *Steps taken on retirement plans* | |
|---|---|---|---|---|
| | $\Delta R^2$ | *Beta* | $\Delta R^2$ | *Beta* |
| *Main Effects* [a] | .18* | | .07 | |
| Goal disengagement (DIS) | .17** | .42** | .07* | .28* |
| Goal reengagement (RE) | .03 | -.19 | .01 | -.11 |
| Business performance (BP) | .01 | .08 | .00 | .07 |
| *Interactions* | | | | |
| DIS x BP | .00 | -.05 | .06 | .28 |
| RE x BP | .00 | .04 | .03 | .19 |

*Notes.* [a] Analyses were controlled for socio-demographic characteristics.

** $p \leq .01$; * $p \leq .05$.

could become paramount for facilitating retirement, which is a key component of successful family business succession.

The reported data show strong support for the adaptive value of goal disengagement capacities. The cross-sectional analyses demonstrated more negative retirement expectations and fewer concrete steps towards retirement plans among business leaders with both poor goal disengagement capacities and a struggling business. Conversely, adaptive levels of goal disengagement were significantly associated with more positive retirement outcomes among businesses that experienced problems, but not among businesses that were performing well. Finally, perceptions of poor business performance were associated with weaker retirement outcomes, but only if business leaders experienced difficulty with goal disengagement. These findings suggest adaptive goal disengagement capacities can facilitate retirement in situations that make it difficult for family business leaders to transfer their business to the next generation. In addition, they indicate that an escalation of commitment does not always take place, specifically, that escalation may be prevented if a business leader is able to abandon valued goals (cf. Baron, 1998; Brockner, 1992).

The longitudinal analyses showed further evidence for the adaptive role of goal disengagement capacities in the retirement of family business leaders. Our findings demonstrate that baseline levels of goal disengagement capacities predicted an increase in positive retirement expectations and more steps towards retirement planning over a time period of two years. These longitudinal effects were independent of the recent business performance and suggest that goal disengagement can facilitate adaptive changes in retirement outcomes when businesses are struggling, or doing well.

To explain the latter result, we may have to consider that levels of retirement outcomes did not significantly change over time in the entire sample, nor were they significantly associated with age (one of the control variables assessed in each regression). This implies that retirement expectations can also decline, and steps taken towards retirement plans may be reversed, among business leaders with poor goal disengagement capacities. Thus, retirement of family business leaders does not necessarily seem to be a unidirectional process. This may be a problem in family businesses, because their leaders typically hold ownership control (Brun de Pontet et al., 2007) and thus have the power to change their minds and reverse previous decisions about retirement. In addition, some researchers have found family business incumbents become more competitive and less collaborative in their approach to succession as they age (Marshall et al., 2006), which may make them more likely to waver in their commitment to retire. Therefore, our results suggest that high levels of goal disengagement capacities are needed, even if the business is performing well, to safeguard the retirement process in a population that is prone to resisting retirement, and often desires working for as long as possible (Gee & Baillie, 1999; Sharma et al., 2001; Ward, 1987).

We did not find the same pattern of results for goal reengagement capacities. While the cross-sectional analyses showed that goal reengagement was associated with positive retirement outcomes, it did not interact with business performance and did not predict changes in retirement outcomes over time. Although this pattern of results does not support our hypotheses, it suggests that participants who tend to more easily identify and pursue new meaningful goals reported more adaptive retirement outcomes at baseline than participants who tend to exhibit more goal reengagement difficulty. In addition, it implies that these effects were not influenced by the business context and remained stable over time.

It may be that effects of goal reengagement depend to a lesser extent on the business context because even when the conditions for business succession are optimal (i.e., when the business is performing well), a business leader who has a difficult time with developing new goals may resist retirement because the person may perceive that there is not much to look forward to in life. By contrast, in circumstances when giving up is easy, individual differences in goal disengagement capacities should also matter less. In addition, longitudinal effects of goal reengagement may not be observed because further progress with retirement (above and beyond the baseline effects of goal reengagement) requires a business leader to overcome the supposedly frequent temptation of maintaining indefinite control over the business. In such circumstances, it should be in particular the ability to withdraw commitment and effort from pursuing the leadership role that safeguards the retirement process. This may explain why our data showed stronger longitudinal effects of goal disengagement capacities, as compared to goal reengagement capacities, on adaptive retirement outcomes.

Overall, the reported study has important implications for theories of self-regulation and family business succession. Our previous research has shown that goal adjustment capacities can forecast adaptive levels of subjective well-being and physical health if people confront constraints on their personal goals (Miller & Wrosch, 2007; Wrosch, Miller et al., 2007). The reported study extends this line of work by showing that goal adjustment capacities can also predict adaptive beliefs and behaviors. In fact, it may be that the obtained effects of goal disengagement capacities on adaptive beliefs and behaviors could explain some of the benefits of goal disengagement on subjective well-being and physical health that we have demonstrated in other studies (for a review, see Wrosch, Scheier et al., 2007). We therefore suggest that research should test this possibility more comprehensively in longitudinal studies, by examining changes in belief systems and behaviors, as well as indicators of quality of life over time.

In addition, this study may inform research on escalation of commitment, which suggests that this process may influence maladaptive outcomes in a business context (Brockner, 1992; Bobocel & Meyer, 1994). In this regard, our findings indicate that an escalation of commitment due to business struggles does not necessarily have to take place. In particular, individuals who have an easier time disengaging from goals that can no longer be pursued may not fall prey to this fallacy, and can be expected to experience positive outcomes over time. This implies that personality variables can moderate an escalation of commitment, and we therefore suggest that research examine whether such effects can be replicated in other business samples.

Finally, our research sheds light on the process of family business succession. This is important because too many family businesses fail in transferring the business to the next generation (Dyer, 1986; Ward, 1987). In addition, aging trends suggest further growth in the number of generational business transitions (Deloitte & Touche, 1999). If these transitions are not well managed, it could lead to serious consequences to our economy and the quality of life of the people involved, including employees of these businesses (American Family Business Survey, 2003, Gersick et al., 1997). As a consequence, recent reviews have argued for the value of using theories from other fields to study family business in order to explain patterns of successful business transmission (Sharma, 2004). Our research accomplishes this task and suggests that retirement failure among family business leaders, and by extension succession failure, may be related to the incumbent's difficulty with "letting go" of their leadership position (c.f., Dyer, 1986). By contrast, business leaders who have adaptive goal disengagement capacities seem to be able to manage these challenges and make progress with their retirement. We therefore conclude that self-regulation theories provide an important contribution to family business research, and may illuminate some of the personality factors affecting whether family businesses fail or succeed in the process of intergenerational business succession.

## Limitations and Future Directions

While this study has demonstrated the importance of goal disengagement capacities for predicting retirement outcomes among incumbent family business leaders, the findings must be considered in light of some methodological limitations. First, the absence of a comprehensive national registry of family-owned businesses precluded random sampling, and the desire for broad geographic representation required the use of mailed self-report questionnaires. Though the resulting sample had a good diversity of business location, size, age, and industry, we cannot conclude that the findings are representative of all Canadian family businesses, nor of family businesses outside of Canada. In addition, while self-reported data could be influenced by a need for positive self-presentation, the questions addressed by this research do not have a high risk of social desirability bias, and the reported change measures make self-report biases less likely.

Second, the longitudinal sample was substantially reduced by participant drop-off. Given the demands on the time of business leaders, however, it may be that the obtained response rate is all one can expect from such a group of participants. In support of this argument, response rates of similar and lower proportions have been reported in other studies (e.g., Naldi, Nordqvist, Sjoberg, & Wiklund, 2007; Sharma, Chrisman, & Chua, 2003). In addition, we note that our analyses demonstrated that attrition was not significantly associated with the reported baseline variables, which makes it less likely that the obtained results are based on systematic attrition biases.

Third, while our study showed that goal adjustment capacities could influence adaptive beliefs and behaviors that facilitate retirement, it did not examine additional variables that may explain this process. There may be other social-cognitive factors that make it possible for some business leaders to develop positive expectations about retirement and take concrete steps towards realizing their retirement plans. In this regard, the life-span theory of control suggests that goal disengagement can be associated with adaptive social comparisons, positive reappraisals, or self-protective attributions (Heckhausen & Schulz, 1995). Thus, it may be that business leaders who are able to abandon personal goals may experience such adaptive thought processes as they approach the challenge of retirement (e.g., thinking that most people have to withdraw from work goals, not blaming themselves for business problems, or focusing on the positive consequences of having more time if they retire). Further, these social-cognitive control processes may be functionally associated with general goal adjustment capacities and explain their effects on adaptive beliefs and behaviors.

Finally, while our study predicted expectations and steps towards retirement plans, it could not reveal the complete process resulting in successful family business succession. Although we argue the observed process may eventually facilitate business succession, changes in the incumbent's expectations of, and planning for retirement, may take a number of years to manifest. We therefore suggest to obtain objective information about the status of the businesses in the future (e.g., bankruptcy, sales, etc.), and to relate these outcomes to our original sample. In addition, given the observed attrition in studies of this nature, we suggest that large-scale studies need be conducted to document the longitudinal process of family business succession in more detail. Research along these lines should also incorporate other social-cognitive variables and can be expected to greatly contribute to our knowledge of psychological processes involved in the successful transmission of family businesses.

## Endnotes

1 All predictor variables were centered prior to conducting the analyses. We did not replace missing data of outcome variables in our analyses. At T1, 9 participants failed to provide data on retirement expectations, and 13 did not answer about steps taken towards retirement. However, additional missing data of predictor variables among participants who did not answer some scales, but answered other scales, were replaced with the sample mean. The number of these missing data ranged from 1 (age) to 4 (business performance).

2 Given that previous research has shown that goal disengagement and goal reengagement can also interact in some circumstances (Wrosch, Scheier, Miller et al., 2003, 2007), we tested interactions between disengagement and reengagement in follow-up analyses. This interaction term was not found to be significant in any of the analyses, all $F$s $< 2.47$, all $p$s $> .05$.

3 At T2, 5 participants had missing data for retirement expectations, and 7 did not provide an answer about steps taken towards retirement. These participants were excluded from the analyses.

# CHAPTER 7

# GENERAL DISCUSSION

### *Summary of Findings*

This research was conducted to apply theories of control and self-regulation from the field of psychology to the pursuit of new insights about what may facilitate inter-generational succession in family business. To accomplish this goal, three separate studies were undertaken. The first of these, Study 1, involved an examination of the association between progress towards succession and levels of control reported by incumbents and successors. Two findings of note that emerged from this study were that indicators of succession readiness were more strongly associated with levels of control for the successor than for the incumbent, and that there were almost no associations between the generations on their respective levels of control, suggesting perhaps succession was not affecting them in a parallel manner.

Study 2 was conducted as a longitudinal follow-up to this first study, and examines the same constructs over time to assess direction of effects. This study found a similar pattern of results as in the cross-sectional data, specifically that there were more associations between indicators of succession readiness and outcomes over time for the successor than for the incumbent. In fact, increases in both the successor's ownership of shares and their perception of control over the business were associated with some measures of succession readiness reported two years prior. As had been the case in the first study, few associations were revealed for the incumbent, suggesting different variables should be examined to better understand succession for this generation.

This was the goal of Study 3, using validated personality constructs to study an element of the succession process from the perspective of the incumbent, with both cross-sectional and longitudinal data. Specifically, this study examined the predictive value of goal disengagement capacities, goal reengagement capacities, and recent business performance on the incumbent leaders' expectations and planning for retirement. In the cross-sectional results the incumbent's capacity to reengage was associated with more positive retirement expectations and planning. In addition, positive retirement outcomes were associated with the incumbent's goal disengagement capacity, particularly when the business had been struggling. This compelling finding suggests goal disengagement may play a role in mitigating the risk of an escalation of commitment to which entrepreneurs are vulnerable (Baron, 1998). Finally, disengagement capacities were associated with improved retirement outcomes over time, suggesting a direction of effects.

*Contributions to Knowledge*

A number of meaningful contributions to knowledge have emerged from this body of research. As a cross-disciplinary project, the results of this research may impact knowledge in several areas of study. Certainly the knowledge summarized here provides a number of contributions to the field of family business research. In addition, this research contributes some insights to the study of goal adjustment capacities, retirement, and the escalation of commitment to a failing course of action.

Building on early research that had demonstrated the age and life-stage of both an incumbent leader and his or her successor could affect the succession process in family businesses (Davis & Taguiri, 1989), this research was designed to capture information about the succession process from both generations. One of few large-scale longitudinal research projects to study the succession process with both incumbents and successors from the same companies (in Study 1 and 2), this research provides a compelling illustration of how the succession process is not a linear transfer of authority from one generation to the next. This is important as it demonstrates that the incumbent leader and potential successor are not experiencing change through the succession process in proportion to one another. This suggests that each one's perspective and experience of the process may not be strongly related to the other's, which could contribute to misunderstandings and further complicate an already complex process.

Studies 1 and 2 illustrate that variability in the business' succession readiness is associated with levels of control held by the successor, and change in successor control over time. While perhaps unsurprising that progress towards succession translates to greater control for the successor in the business, what is surprising is the lack of offsetting declines in the control of incumbents. This suggests that while many successors may be experiencing marginal gain in authority in the business over time, the incumbent is not ceding the power that counts (e.g., voting control by virtue of majority ownership). These findings, while compelling on their own, further suggest that research on family business succession needs to examine this process from both the incumbent and successor's perspectives, or risk having incomplete or distorted information. Research that examines succession only from the perspective of incumbents could under-report the amount of change in the system (as it will not capture the gains in control of the successor), and research only on successors might over-report the amount of change in the system (as it will not capture the lack of reduction in the control of the incumbents).

In addition to highlighting why considering the perspective of both the incumbent and successor is important, this research program underscores the value of longitudinal data. Longitudinal data permits a consideration of the direction of effects, important in a process like family business succession that occurs typically over several years. As an example, the cross-sectional data of Study 1 showed strong associations between the "stakeholder confidence about succession" and the three successor control outcomes. One interpretation of these findings is that successors may be granted authority in the business only once stakeholders are ready to accept this succession. Alternatively, it may be that stakeholders only express confidence with succession once it has more actively begun. An examination of the longitudinal follow-up study (Study 2) suggests this second interpretation may be more likely. In this data, only the successor's perceived control remained associated with stakeholder confidence. On the other hand, the incumbent's confidence in the successor (which had only been associated with the successor's perceived control in the cross-sectional data) shows significant associations with change in successor ownership and perceived control in the longitudinal results. One interpretation of this pattern of results is that an incumbent's confidence in their successor may yield change in control, which can then influence the confidence that other stakeholders express about succession.

While it is encouraging to note that incumbent leaders who express confidence in the leadership skills of their successors are making progress in granting these successors greater control in the business, it may be important to remember that the incumbent's perception may not be unbiased. There is anecdotal evidence from the literature on family business that these incumbent leaders are very emotionally attached to their business and their leadership role within it (e.g., Aronoff, 2003; Dyer, 1986; Poza, 2007), which many have argued contributes to their reluctance for succession. By examining the literature on retirement, this research project has provided some empirical support for this assertion. In fact, the emotional attachment a person feels to their profession has been associated with resistance of retirement in many populations (e.g., Gall & Evans, 2000; Kim & Moen, 2001; Parnes & Somners, 1994). In the case of family business incumbents, their resistance of retirement may color their evaluation of the successor's "readiness," which would justify to them their continued presence at the helm of the business. Though more longitudinal research would be needed to tease out clarity on the reciprocal effects of each generation on the other, the results seen here suggest the incumbent's fears around succession (especially: who am I if I am not the leader of this firm?) could impact on the incumbent's ability to get his or her needs (e.g., autonomy at work, or professional validation through an executive title) adequately met in this process. A negative cycle may emerge in this case because if the successor's needs are not met, they may become frustrated and reduce their commitment to the business, which would then play into the incumbent's fear that the business cannot survive without them, perhaps motivating them to resist succession further.

While the research presented here provides the first side-by-side comparison of how the succession process is affecting control for each generation, this knowledge builds on recent studies, which have also revealed important differences of perspective on succession from incumbent and successor (e.g., Poza, Alfred, & Maheshwari, 1997). For example, Sharma, Chrisman, and Chua (2003), found incumbents are typically more satisfied with the succession process than successors, and believe they are more "ready" to proceed with succession than what the successor believes to be true of the incumbent. This is important, as the successor's expectations about the incumbent's readiness to proceed with succession was also found by these researchers to be tied to successor satisfaction (and by others, this has been associated with the successor's willingness to take over the business, e.g., Ventner, Boshoff, & Mass, 2005). Perhaps the research presented here helps explain these differences in opinions and satisfaction. Specifically, as the incumbent is granting increasing authority to their successor, they may believe they are "making progress towards succession," yet this progress may be less evident, or satisfying to the successor, who still frequently does not have "meaningful" control and therefore may not feel real succession is underway.

The undeniable authority incumbents have over the succession process (Sharma, Chrisman, & Chua, 2003) explains why they have traditionally been the focus of research on family business succession (e.g., Ward, 1987). In fact, Studies 1 and 2 provide evidence that incumbents hold a great deal of control, suggesting if they are unwilling to proceed with succession, progress will be hampered. However, while the incumbents' resistance to ceding control has long been studied (e.g., Dyer, 1986; Lansberg, 1999), an important contribution of the studies presented here is to create a more comprehensive picture, illustrating that complete understanding cannot be reduced to differentiating between businesses or incumbents who are either "ready" or "not ready" to proceed with succession. Our results suggest there is more nuance in this phenomenon. For example, a business may be showing signs of progress with succession on some dimensions (e.g., the successor is conferred some shares), while other elements of the business remain unchanged (e.g., the incumbent remains the CEO). In turn, this situation can negatively impact the successor's perception of control (see Table 5), perhaps adversely affecting their commitment to the succession process long-term, which as has been indicated, contributes to incumbent fears, which could further delay progress with succession.

In fact, the incumbent's unwillingness to cede the role of leader of the business appears to be a complex piece of the overall succession process. As Study 2 revealed no longitudinal associations for change in leadership titles over time (for either generation), other measures must be considered that examine this outcome more directly. For the successor, it may simply be that age is a strong predictor of their presence in executive management (see Table 7), and the succession indicators are not significant above and beyond this measure (especially given the reduced sample size). For the incumbent however, Study 3 adds a new dimension to our understanding by examining variables that affect an incumbent's readiness to retire. Of particular note, this study suggests that both the personality of the incumbent, and the recent situation of the business may affect their willingness to step aside as CEO. Specifically, Study 3 found associations between the goal adjustment capacity (personality process) of the incumbent, and the recent performance of the business (situation), with the extent of concrete planning an incumbent has made for their retirement life, as well as their expectations for their life once they had left the day-to-day leadership role in the business.

As suggested earlier, this explicit examination of retirement among family business incumbents is another contribution of this research, as research on retirement has been under-studied by family business scholars. While it is undeniable that a family business faces a different set of concerns than most companies when they confront leadership transitions, it is an error to assume there is nothing in the literature on retirement or executive succession to inform understanding within family business. Other executives and professionals struggle emotionally with the challenge of leaving their work (e.g., Gee & Baillie, 1999; Kets de Vries, 2003), and rising successors within widely-held businesses also need to garner the support of stakeholders and the confidence of the incumbent (i.e., Canella & Shen, 2001; Conger & Nadler, 2004). Though Study 3 offers insight on retirement expectations and planning, further work is likely needed to directly study actual retirement as an outcome, as it would appear from both Studies 2 and 3, that the data available here has very few examples of incumbents actually retiring.

While bringing the literature from the study of retirement into the study of family business is of value to this field, this research has also contributed to knowledge by examining the role of goal adjustment capacities in two new areas of scholarship. Specifically, this study examined the role goal adjustment capacities may play in the expectations and planning individuals have for retirement, an important life transition that many find challenging. While clearly future studies would need to be conducted with a more diverse set of impending retirees, the associations seen in this sample suggest research on the role goal adjustment capacities have for the transition into retirement may be of interest. In the same manner, this research may be thought to have made a contribution to the literature on the escalation of commitment to a failing course of action, an important area of scholarship in the field of management. To our knowledge, this was the first study that considered the role goal adjustment capacities may play in this phenomenon, and the results reported here suggest additional studies with other populations should be undertaken to determine if goal adjustment capacities may protect other individuals in different situations from the risk of escalation.

Overall, Study 3 makes a number of important contributions to knowledge due to its inter-disciplinary nature. Specifically, this research introduces knowledge from two topics in psychology (the study of retirement and the study of self-regulation) to the field of family business research. In addition, this study considered escalation of commitment to a failing course of action as a theoretical construct from the field of management that may be influencing family business succession. As prior studies in family business to our knowledge have not considered this theory directly, this is also an important contribution to family business research. In addition, considering an incumbent leader's resistance to retirement as a possible example of escalation behavior underscores the importance of considering the context in which succession is occurring. Finally, demonstrating that incumbent leaders who have an easier time with disengaging are less likely to fall prey to an escalation of commitment to their leadership role provides an innovative link between self-regulation research and management scholarship on escalation.

Though these contributions are of interest, it is likely that the specific application of a validated construct (goal disengagement and goal reengagement capacities) to the study of a challenge many authors have cited as central in family business succession: the difficulty the incumbent has in "letting go" of their leadership role, is the single most important contribution of this research. This clearly answers the call to test hypotheses in family business research with established theories from other disciplines (Sharma, 2004). As Study 3 demonstrated that goal adjustment capacities were meaningfully associated with retirement beliefs and behaviors of incumbents, future studies should use these constructs again with this population. The ability of an incumbent to disengage from goals no longer adaptive to pursue, and their ability to reengage themselves in the pursuit of new, meaningful goals, may be research constructs that could improve the quality of research on family businesses going forward.

*Implications for Practice*

While this research has made a number of contributions to theory, it is hoped this knowledge can be readily translated to applied work with family-owned businesses. For example, one implication for practice may be that this research provides needed empirical support for the value of establishing a public plan for succession, long advocated by practitioners (e.g., Lansberg, 1999). Specifically, this research finds progress on a public timetable towards succession is associated with an incumbent who is no longer CEO and who perceives less control, as well as with share ownership and more perceived control for the successor (Study 1). In addition, this predictor retains three of these four significant associations in the longitudinal data (only incumbent title is non-significant), providing important evidence for a direction of effects (Study 2). This suggests that businesses with a public plan for succession will experience measurable change in the levels of control held by both their incumbent leader and prospective successor. This makes a powerful argument for the value of establishing a clear and public process for succession, rather than keeping it as a rough set of ideas that only exist in the incumbent's mind.

Another implication for practice that may emerge from this work is the value of working to clarify the perspective of both the successor and the incumbent to each other. As the research reported here makes clear each generation experiences succession differently, communication may be particularly vital to this process. Specifically, efforts to make each one's experience of the process more salient to the other may help businesses avoid growing frustration that could occur absent a true appreciation of the other one's view of the succession process. For example, as was pointed out in Study 1, there was an important discrepancy between the generations in the expected timetable for the incumbent's retirement, with only 6% of incumbents admitting they never intended to retire, while 17% of their successors believed the incumbent would never retire. The longitudinal data suggests that this problem may get worse over time, as among this sub-sample 5% of incumbents admit never intending to retire, while almost 27% of the successors believe their incumbent will never retire. This sort of disconnect on such a central component of the succession process illustrates how open communication may help family businesses going through succession avoid misunderstandings that could hamper the process.

While open communication is key, the incumbent leader needs to also see retirement as a transition that will bring new opportunities, to ensure they do not feel they are ceding their entire purpose in life to their successor through succession. The cross-sectional results of Study 3 demonstrating significant associations between an incumbent leader's capacity for goal reengagement and their retirement beliefs and behaviors underscore how valuable it may be that the incumbent has developed some meaningful interests outside the business. Though these findings did not retain significance in the longitudinal data, there is much related literature that would suggest the early findings here should not be ignored, and incumbent leaders should be strongly encouraged to develop interests and activities outside their business. For example there is extensive research that indicates individuals need goals to give their life direction (e.g., Carver & Scheier, 1998). In addition, research from the aging literature provides longitudinal support for the adaptive role of ongoing goal pursuit for well-being (Duke, Leventhal, H., Brownlee, & Leventhal, E., 2002), and it may be that business leaders, who are particularly achievement oriented (e.g., McClelland, 1987; Sagie & Elizur, 1999), need goals more than most.

In addition, there is evidence from other studies that when older adults must abandon work or other goals, they cope better with this transition if they have other meaningful goals to pursue (e.g., Benyamini & Lomranz, 2004; Wrosch, Scheier, Miller et al., 2003), preferably goals close to their sense of identity (Wrosch, Scheier, Carver et al., 2003). These points may be particularly important in this population because if a retiring family business leader takes on new goals and finds them unfulfilling, there may be a risk they would be disappointed by their early taste of retirement and seek to come back into the business.

Finally, the interaction between goal disengagement capacities, the recent performance of the business and an incumbent's beliefs and behaviors around retirement suggests that all key players involved in a family business succession should be mindful of the effect the business' situation is having on this process. It may be that moving the succession process forward when the business is struggling is impractical for many. Perhaps pointing out to incumbents that they may find retirement especially hard in this context would be helpful. What is clear from the data is that improving the incumbent's capacity to disengage should protect their comfort with retirement even when the business is struggling. Perhaps future applied research should seek to address techniques that may help incumbents improve their ability to let go of their leadership role.

*Limitations and Future Research*

Though this original research has made some important theoretical and applied contributions to knowledge, the methodological limitations inherent to the work must be considered. In particular, as there is no comprehensive database of family-owned businesses from which to draw a random sample, the sample cannot be said to be representative of the universe of all Canadian family businesses. Having acknowledged this, care was taken to recruit participants in a number of different ways to maximize diversity, and broaden the geographic scope of the study. The sample used in this research comes from companies from 9 different provinces of Canada, largely in proportion to their population. In addition, descriptions of the sample found in this research confirm these companies vary broadly in terms of their size, age, and industry. Finally, though the self-report questionnaires may increase the risk that some answers are colored by a desire to show the self or the business in a more favorable light, the questions considered in this research are not highly prone to a social desirability bias. In fact, I would argue it is rather the individual's perception on these matters that is relevant to study outcomes (i.e., recent performance of the business) rather than some "objective" measure.

One of the strengths of this research program is that it has a longitudinal component, which permits an evaluation of some direction of effects. However, the analyses conducted with the longitudinal data were all limited by the significant participant drop-off that occurred between Time 1 and Time 2. Unfortunately, this is one of the challenges of research with this population, they are busy and it is difficult to rely on their commitment to on-going research. In fact, most studies in the field of family business have relied on small samples, or struggled with low response rates (e.g., Handler, 1990; Naldi et al., 2007). Though it took three years, substantial funding, and consistent effort to build the sample used in this research, an argument can be made that future longitudinal studies should begin with larger initial samples (optimally, in excess of 250 businesses with complete data).

While the research project reported here represents one of the larger and more comprehensive studies conducted in the field, the pattern of participant drop-off seen to date suggests that any additional follow-ups conducted with this sample could end up with insufficient data for meaningful statistical analyses. This is unfortunate as on-going research with such an excellent sample could yield very important insight to our understanding of the succession process. In particular, as little change was seen over time in the measures of interest in these studies, additional follow-ups (with a greater passage of time) could improve our understanding of the processes examined here.

In fact, the limited change documented over the longitudinal aspects of this research suggests that future studies should consider a longer time horizon, perhaps taking multiple measures over a span of 5 to 10 years, in order to more comprehensively consider direction of effects and perhaps track reciprocal effects between the generations. For example, while this research found evidence for a direction of effects between incumbent confidence in the successor and greater ownership and perceived control for the successor, intervening measures may permit greater clarity about how these mechanisms are working. Does a successor whose incumbent leader reports confidence in him or her at Time 1, later demonstrate greater confidence in their own leadership abilities at Time 2, which may translate over time to some measurable change in a succession outcome at Time 3? Larger studies conducted over a longer period of time may be able to uncover this sort of information.

In addition to longer and larger studies, it may be of interest to conduct studies that test interventions that could affect succession outcomes. For example, could giving family business leaders training on goal management as well as concrete assistance in developing meaningful non-work related goals several years prior to their intended retirement, lead to greater ease with the retirement transition? Would providing an incumbent leader with objective evaluations of the leadership abilities of their successor actually impact on their perception of this successor, and would this measure be associated with greater control for the successor over time? Finally, as a third suggestion, would working therapeutically with incumbent leaders to explicitly address all of their fears about retirement (financial, emotional, etc.) well in advance of the process lead to a smoother succession process?

Though this research project, which considered the perspective of both the incumbent and prospective successor is among the more comprehensive conducted on the topic of succession, it may be that important additional insight could be gained if data were collected from other key employees or family members as well. Both Studies 1 and 2 provide evidence that the comfort around succession anticipated from other stakeholders has a bearing on the successor's sense of control in the business. This sense of control for the successor may be very important as they try to establish their legitimacy as a future leader of the business.

In fact, though this research project did not obtain data from other stakeholders, at Wave 2 both generations were asked to identify from which of the stakeholder groups they anticipated the greatest amount of resistance about succession. What is compelling in the answers (though the sample is only 33 incumbents and 38 successors) is that the two generations answer this question almost identically. In fact, about half indicate other members of the family, about a quarter anticipate problems mostly from other managers, and 15% report concerns about general employees. Certainly future research should explore the process of succession from some of these other key players to add to our understanding. In fact, a future research project planned with this sample is a comprehensive study with managers and employees (examining their attitudes and beliefs as the succession process is underway in their companies) among some of the larger businesses in our sample, which should provide a valuable additional perspective on family business succession.

One way additional insight may be garnered in future research is through a different methodology. Though the quantitative approach used in this research provides empirical rigor, there are gaps in our knowledge that could only be filled with a more qualitative approach. For example, one of the interesting findings in this research is the great challenge the incumbent appears to have in transferring the leadership title of CEO to the successor. A more qualitative study may be able to dig a bit deeper into this phenomenon and determine for example, is this in part due to the public nature of the role of CEO, which makes it difficult for the incumbent to abandon (loss of public stature)? Likewise, does the successor want this title very much (to gain this external recognition) and is the lack of movement on this dimension causing the successor greater frustration than perhaps other parts of the succession process? Also, what is the nature of the resistance or concerns incumbents and successors anticipate from other family members?

How is this affecting both concrete outcomes and the subjective experience of the process for all? Our data cannot answer such questions but they merit study.

An important contribution of this research project is the introduction of validated measures developed from psychological theories of control and self-regulation into the study of family business succession. While associations were uncovered between goal adjustment capacities, business performance, and the incumbent's retirement expectations and planning, it would be important to also examine the role of other variables on these outcomes. For example, how may other personality constructs (e.g., optimism) play a role in an incumbent's beliefs and behaviors about retirement? As this research has demonstrated that psychological measures may be informative to the study of family business succession, hopefully future studies will be developed that may explore a range of other theoretically driven constructs. For example, there are data in our research that consider the work motivation of both incumbents and successors, perhaps an exploration of this data would add to our understanding of the succession process.

*Conclusion*

This research has made a meaningful contribution to knowledge of family business succession by using research methods and theories from personality psychology to examine this oft-studied process from an important new angle. Evidence was offered for a lack of mutuality between the two generations in the experience of succession (seen in Studies 1 & 2). In addition, this project introduced the validated construct of goal adjustment capacities (from theories of self-regulation developed to study the adaptive management of challenging life transitions) to the study of the incumbent's struggles with leaving their leadership position in the business. Study 3 documented that goal adjustment capacities were associated with retirement beliefs and behaviors among family business incumbents, particularly when recent business struggles could put the incumbent at risk of escalating their commitment to their work role. Finally, by its very nature as a cross-disciplinary project, this work has enabled some cross-pollination of knowledge between fields, which it is hoped future scholars from both management and psychology may use to continue to explore complex challenges in each domain.

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APPENDIX A

BEST PROPOSAL AWARD

2005 FAMILY ENTERPRISE RESEARCH CONFERENCE

APPENDIX B

COMPLETE QUESTIONNAIRE PACKET

(WAVE 1 VERSION FOR INCUMBENT LEADER)

Thank you for participating in this important research. Enclosed you will find a consent form and a questionnaire. Please read and sign the consent form before answering the questionnaire. The consent form explains your rights as a participant. By signing this document you authorize us to use your answers to the questionnaire for research purposes only. We must emphasize that all of the information you provide will remain strictly confidential. Should these findings be published, there will be no mention of the individuals or companies who participated in the study.

We hope you enjoy answering the questionnaire. Every effort has been made to ensure the questions are as clear and unintrusive as possible. However, if for any reason you do not understand a question or are unwilling to provide a response, feel free to leave that question blank or contact us for further clarification. We can be reached by phone at: (514) 848-2424 ext. 2236 (ask for Monica or Stephanie) or by email at: cwlab@alcor.concordia.ca.

Please take the time to read the instructions and question items carefully but do not dwell too long on any one answer. We are interested in your initial impressions. There are no right or wrong answers. This entire exercise should not take much more than a half hour of your time.

We want to stress again that all of your responses will be kept in the strictest of confidence. No one else from your organization will have access to your answers. The only place where we require your name is on the consent form and this will be kept separate from the questionnaire so no association can be made between your name and your responses. Please be as honest and candid as possible. Your insight and experience can really help us to understand what contributes to a successful family business transmission; a topic of increasing importance to the Canadian economy.

We are deeply grateful for your help and your valuable time.

Stéphanie Brun de Pontet, MBA

# CONSENT FORM TO PARTICIPATE IN RESEARCH

This is to state that I agree to participate in a program of research being conducted by Dr. Carsten Wrosch and Stephanie Brun de Pontet of the Psychology Department of Concordia University, and Dr. Marylène Gagné of the John Molson School of Business.

## Purpose

I have been informed that the purpose of this research is to study the influence of goals and motivation on successful family business transmission.

## Procedures

The research will involve a questionnaire that I have received by mail (or e-mail or fax). Completing this questionnaire will take approximately one half-hour. The questionnaire will ask me about my business goals as well as some questions about my health and well-being. There will also be some general demographic questions about my company and myself.

There should be no risks or discomfort involved in answering the questions. A numerical code will be used for confidentiality and the name of the participant and business will not be attached to the questionnaire. Signatures and names on the consent form will be stored separately by the supervising professor. The participant may refuse to answer any question that makes him or her uncomfortable and is free to discontinue participation in the study at any time.

## Conditions of Participation

I understand that I am free to withdraw from this study at any time without negative consequences.
I understand that my participation in this study is completely CONFIDENTIAL.
I understand that the data from this study might be published but there will be NO reference to my name or the name of my business.

I HAVE CAREFULLY STUDIED THE ABOVE AND UNDERSTAND THIS AGREEMENT. I FREELY CONSENT TO PARTICIPATE IN THIS STUDY.

Name: (please print) ______________________________ Date: _________________

Signature: __________________________ Phone/e-mail:______________________

Company Name:_____________________________________________________

Your title/role in the business:____________________________________________

*If you have any questions or concerns regarding your rights as a research participant, please contact Michelle Hoffman (University Compliance Officer, Office of Research), at (514) 848-2424, ext. 7481.*

(Please return with questionnaire)

Concordia
UNIVERSITY

# GOALS & MOTIVATION:
## The Influence on Family Business Transmission

This questionnaire looks at management practices within family businesses. By examining the goals and motivation of the people involved, we hope to understand the factors that influence the outcomes of family business transmissions. This will improve our understanding of what facilitates a smooth succession of leadership in family businesses. We anticipate that the results of this study will provide information useful to family businesses planning for their future.

This research is funded by a grant from the Canadian Government's Social Sciences and Humanities Research Council (SSHRC) and is supported by business organizations including Pricewaterhouse Coopers, the Canadian Association of Family Enterprises (CAFÉ), and the Réseau des Femmes d'Affaires du Québec (RFAQ).

**All of your responses are strictly confidential.** Individual responses will not be seen by anyone within your organization and our research team will strictly prohibit access to this data by anyone not directly involved in this research. If you have any questions, please contact Dr. Carsten Wrosch at (514) 848-2424, ext 2231 or by e-mail at cwlab@alcor.concordia.ca.

Date:____________________

Identification #:___________

Please send completed questionnaire within 14 days to:

**Dr. Carsten Wrosch**
Center for Research in Human Development
Concordia University
7141 Sherbrooke Street, West
Montreal, QC H4B 1R6

***We appreciate your participation!***

# BUSINESS GOALS

Business owners and managers often have specific goals for their company. Some are short-term (i.e., open 2 new accounts this week) and others involve long-term planning (i.e., attain $5 million in sales within 3 years). Below is a list of statements from business owners about how they deal with their professional goals. For each statement, indicate the ***extent of your agreement*** by checking the appropriate box. Try not to let your response to one question influence your response to other questions.

| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|
| I do whatever it takes to close a deal. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| When I am faced with a bad situation, I try to look at the bright side of things. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| When faced with a challenge that is new to me, I seek professional advice. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| When I find it impossible to attain a business goal, I try not to blame myself. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| When I work towards a business goal, I always keep in mind its benefits. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| To accomplish my business goals, I make explicit plans and execute them. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| When I run into unforeseen obstacles, I ask others for their help. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| For business goals that are difficult to achieve, I keep in mind how good I will feel when I have reached them. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |

| | | | | | |
|---|---|---|---|---|---|
| Even in very difficult business situations, I can find something positive. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| When I run into difficulties, I increase my efforts to realize my business goals. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| When I have to make a difficult decision, I seek advice from many different people. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| When I have set a business objective, I avoid anything that could distract me. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |

# YOUR COMPANY

Please indicate your level of agreement with each of the following statements about your business.

| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|
| In most ways my business is achieving the success I expected. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| My business is in excellent condition. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I am satisfied with my business. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| So far the business has progressed as I have wanted. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| If I could start my business over, I would change almost everything. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |

**2.** Compared to previous years, the past 3 years may have become better or worse, simpler or more complicated for your business. Rate the relative performance or situation of your company in each of these business areas for the last 3 years. Try not to let your response to one question influence your response to other questions.

***Over the past 3 years my company has seen***
***(a) _____ in the following areas:***

| | **Large Decline** | **Small Decline** | **No Change** | **Small Increase** | **Large Increase** |
|---|---|---|---|---|---|
| Sales | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Number of Employees | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Debt Level | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Marketing/Sales Campaigns | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Litigation | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Profitability | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Number of Suppliers | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Cash Flow | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Capital Investment | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Number of Customers | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |

# TRANSMISSION PROCESS

**Succession Planning** *(Please circle the one most appropriate response per question)*

| | | | | | |
|---|---|---|---|---|---|
| Number of family members working in the business | 2 | 3-4 | 5-7 | 8-11 | 12+ |
| Number of these family members in management roles | 1 | 2 | 3-4 | 5-7 | 8+ |
| Number of non-family members in management roles | 0 | 1 | 2-3 | 4-7 | 8+ |
| Number of "key people" expected to retire within 5 years | 0 | 1 | 2 | 3-5 | 6+ |
| When do you expect to resign your leadership position? | This year | Within 3 years | Within 5 years | Within 10 years | Never |
| Is there a clear successor for leadership of the company? | Yes, one of my children | Yes, someone outside the family | Co-leadership planned | Unsure | No |
| If succession is expected, has a date been set and announced? | No | Tentatively | Set & announced | Set & begun | |

**Board of Directors/Advisors** *(If no Board, please skip this section)*

| | | | | |
|---|---|---|---|---|
| Frequency of meetings | Rarely | Annually | Quarterly | More |
| Number of non-family members on the board | 0 | 1-2 | 3-5 | 6+ |
| Role in succession planning | None | Little | High | Essential |
| Are you on this Board? | Chairman | Member | Emeritus | No |

# TRANSMISSION PROCESS (Continued)

## Company Control

*(Please circle the one most appropriate response per question)*

| | | | | |
|---|---|---|---|---|
| How many owners work full-time in the company? | I am sole (100%) owner | All owners also work here | Most owners also work here | Majority of owners do not work here |
| Are all owners consulted for key decisions? | Always | Sometimes | Only a core group | No |
| Are you consulted on all key decisions? | Always | Sometimes | Rarely | Never |
| How much control do you feel you have over the company? | A great deal | A lot | Some | None |

## Concerns with Succession

Sometimes when there is a change in management control at a business, not everyone involved with the business is happy. For example, long-standing suppliers or employees may resist the change in management.

How much resistance or resentment do you expect from the following stakeholders during or immediately after the process of succession: (Please check the one most appropriate response per question)

| | None | A little | Some | A lot |
|---|---|---|---|---|
| A) Other managers | ☐ | ☐ | ☐ | ☐ |
| B) Other family members | ☐ | ☐ | ☐ | ☐ |
| C) Employees | ☐ | ☐ | ☐ | ☐ |
| D) Suppliers | ☐ | ☐ | ☐ | ☐ |
| E) Clients | ☐ | ☐ | ☐ | ☐ |

# TRANSMISSION PROCESS (Continued)

## Family Business Philosophy *(Please circle the one most appropriate response per question)*

| | | | |
|---|---|---|---|
| Employment of family members in the business is: | "A family right" | "A family obligation" | "By merit only" |
| The business is currently driven by: | Income | Growth | Stability |
| Is it important to you that the family retains control over the business? | Very important | Preferable | Not important |
| Pick the label that describes you best: | "Family-first business" | "Business-first family" | |

## Estate Planning *(Please check the one most appropriate response per question)*

Have you discussed your estate with your family? ☐ **Yes** ☐ **No**

Do all of your children work in the business? ☐ **Yes** ☐ **No**

Will all children inherit ownership equally? ☐ **Yes** ☐ **No**

Are there assets other than the business to be distributed? ☐ **Yes** ☐ **No**

Have you discussed your estate with a tax professional? ☐ **Yes** ☐ **No**

How concerned are you about tax ramifications for the estate?

**Very concerned** ☐ **Somewhat concerned** ☐ **It's all been addressed** ☐

# TRANSMISSION PROCESS (Continued)

## Future Leadership

Check your level of agreement with the following statements about your confidence in the future leader of this business. All of your responses will remain confidential, please be as honest and candid as possible.

| ***How confident are you in the future leader's abilities when it comes to:*** | **Not at all** | **A little** | **Some-what** | **A lot** | **A great deal** |
|---|---|---|---|---|---|
| Making good business decisions. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Dealing with employees. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Maintaining the reputation and health of the business. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| His or her "leadership" qualities. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Putting in the required time and effort. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Interpersonal skills. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |

# WHY ARE YOU DOING THIS JOB?

For each of the following statements, please indicate **to what degree** they correspond to the reasons you have for holding your current position in this company.

***Why are you doing this job?***

| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|
| For the various social benefits I get through this company. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| For the moments of joy that working in this company brings me. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| It allows me to make a lot of money. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| The family business is fulfilling my career plans. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| For the satisfaction I feel when overcoming the interesting challenges posed by this job. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I have fun working here. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| It allows me to attain some important goals while permitting me to respect other aspects of my life. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I really want to have a successful business and I would be ashamed otherwise. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| This business is my life and I don't want to fail. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| This is the type of career I wanted, so I am achieving my life goal. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| For the fortune I am amassing for myself and my family. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I have to be a successful entrepreneur. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |

# WORK-RELATED EXPERIENCE

For the following statements, indicate the frequency/intensity with which the statement applies to you.

| | Never | Mild | Moderate | Strong | Intense |
|---|---|---|---|---|---|
| I feel emotionally drained from my work. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I feel used up at the end of the workday. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I feel fatigued on waking up in the morning and having to face another day on the job. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Working with people all day is really a strain for me. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I feel burned out from my work. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I feel frustrated by my job. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I feel I am working too hard on my job. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Working with people directly puts too much stress on me. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I feel I am at the end of my rope. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |

# GOAL MANAGEMENT

During their lives people cannot always attain what they want and are sometimes forced to stop pursuing the goals they have set. We are interested in understanding ***how you usually react*** when this happens to you. Please indicate the extent to which you agree or disagree with each of the following statements, as it usually applies to you.

| ***If I have to stop pursuing an important goal in my life:*** | **Strongly Disagree** | **Disagree** | **Neutral** | **Agree** | **Strongly Agree** |
|---|---|---|---|---|---|
| It's easy for me to reduce my effort towards the goal. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I convince myself that I have other meaningful goals to pursue. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I stay committed to the goal for a long time; I can't let it go. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I start working on other new goals. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I think about other new goals to pursue. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I find it difficult to stop trying to achieve the goal. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I seek other meaningful goals. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| It's easy for me to stop thinking about the goal and let it go. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I tell myself that I have a number of other new goals to draw upon. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| I put effort toward other meaningful goals. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |

# FUTURE PLANS

For most business owners, there comes a time in their life when they are no longer responsible for the day-to-day management of their company and must find new ways to occupy their days. We are interested in your life plans for after you resign the leadership of your business.

**1.** Do you have plans or projects for the time in your life when you will no longer manage the daily operations of your business?

**No plans at all** — **A lot of plans**

**1----------2----------3----------4----------5**

**2.** Have you already taken concrete steps towards realizing these plans?

**None at all** — **A lot**

**1----------2----------3----------4----------5**

**3.** Please indicate to what extent you agree with the following statements.

***Once I have resigned the day-to-day leadership of this business, my days will be:***

| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|
| Full of interesting new work projects. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Spent pursuing my hobbies. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Busy with travel and fun. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| A difficult adjustment after all these years of work. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Spent with my family and friends. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |

| | | | | | |
|---|---|---|---|---|---|
| Busy with Board memberships and other professional responsibilities. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Increasingly associated with feelings of loneliness and aimlessness. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Filled with opportunities to contribute in new ways to my community. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Difficult, because my work means so much to me. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Spent learning new things. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |

## HEALTH & WELL-BEING

These questions ask you about your feelings and thoughts ***during the last month.*** In each case, please indicate with a check how often you felt or thought a certain way.

| | **Never** | **Almost never** | **Some-times** | **Fairly often** | **Very often** |
|---|---|---|---|---|---|
| How often have you felt that you were unable to control the important things in your life? | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| How often have you felt confident about your ability to handle your personal problems? | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| How often have you felt that things were going your way? | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| How often have you felt difficulties were piling up so high that you could not overcome them? | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |

## HEALTH & WELL-BEING (Continued)

Please indicate whether you have experienced or been treated for any of the following health symptoms **during the past 12 months**:

| | Yes | No |
|---|---|---|
| Asthma, bronchitis, or emphysema | | |
| Persistent skin trouble (e.g., eczema, psoriasis) | | |
| Recurring stomach trouble, indigestion or diarrhea | | |
| Being constipated all or most of the time | | |
| Chronic sleeping problems | | |
| Migraine headaches | | |
| Sexual dysfunction | | |
| Influenza or persistent cold | | |

## HEALTH & WELL-BEING (Continued)

This scale consists of a number of words that describe different feelings and emotions. Read each item and then check the appropriate box that indicates to what extent you experienced that emotion **during the past year**.

| | **Very slightly or not at all** | **A little** | **Moderately** | **Quite a bit** | **Extremely** |
|---|---|---|---|---|---|
| Distressed | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Excited | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Upset | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Scared | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Enthusiastic | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Alert | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Inspired | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Nervous | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Determined | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Afraid | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |

**4.** Overall, how satisfied are you with your life? *(Please check one)*

**Not at all** **Very much**

1 ☐ ------------ 2 ☐ ------------ 3 ☐ ------------ 4 ☐ ------------ 5 ☐

# GOALS

We would like some information about the goals that you want to pursue in the **next 5 years**. Goals are objectives, plans, and projects that a person is trying to accomplish in a particular span of time. These can be goals that have specific endpoints (e.g., to get a new job) or goals that continue indefinitely (e.g., to stay healthy). Some goals may be short-term whereas others may take longer to achieve.

**Please think about your own goals and list up to 10 of the *most important* goals that you want to pursue. Include how long you think it will take you to attain these goals.**

| Goal | Time to attain (in years) |
|---|---|
| 1. | |
| 2. | |
| 3. | |
| 4. | |
| 5. | |
| 6. | |
| 7. | |
| 8. | |
| 9. | |
| 10. | |

## Background Information on Business

**Year that company was founded:** ___________

**If you did not found business, the year you took over leadership:** ___________

**Legal Designation:**
☐ Registered Company ☐ Partnership
☐ Privately Incorporated ☐ Publicly Traded

**Number of Employees:**
☐ 1 - 9 ☐ 10 - 25 ☐ 26 - 50
☐ 51 - 100 ☐ 101 - 500 ☐ 500+

**Annual sales:** ☐ Under $250,000 ☐ $250,000 - $1 million
☐ $1 - $3 million ☐ $3 - $10 million ☐ $10 - $25 million
☐ $25 - $50 million ☐ Over $50,000,000

**Company's core management is made up of:**
☐ one individual ☐ husband & wife ☐ unrelated partners
☐ parent(s) & child(ren) ☐ siblings ☐ extended family group
☐ family & non-family employees ☐ Other:________________

**Company's ownership is made up of:**
☐ one individual ☐ husband & wife ☐ unrelated partners
☐ parent(s) & child(ren) ☐ siblings ☐ extended family group
☐ family & non-family employees ☐ Other:________________

**Number of people who are owners of this business:** __________

**What is your percentage of ownership?**

☐ 100% ☐ 51 - 99% ☐ 15 - 50% ☐ Less than 15% ☐ 0%

## Demographic Information

**Age:** __________ **Gender:** Male _____ Female _______

**Civil status:** ☐ Single ☐ Married ☐ Divorced ☐ Widowed ☐ Common Law

**Number of Children:** ☐ 0 ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6+

**Highest level of education <u>completed:</u>** ☐ Grade School ☐ High School
☐ Trade School ☐ CEGEP/Junior College ☐ University
☐ Graduate School (Master's or PhD)

**Number of years working in this business:** ______________

**Total annual salary and other income <u>you</u> derive from this business:**

☐ Under $49,999 ☐ $50,000 – $99,999 ☐ $100,000 – $249,999
☐ $250,000 – $499,999 ☐ $500,000 - $1,000,000
☐ Over $1,000,000

**Number of hours you work for this business per week:** *(Circle what most closely applies)*

Less than 20 30 40 50 60 70 80 Over 85

**Your current level of managerial responsibility:** *(Check what most closely applies)*

☐ Supervisor of people
☐ Manage department (budget & people)
☐ Responsible for an entire division of company
☐ Part of executive management of company
☐ President or CEO
☐ Other: ______________________

APPENDIX C

BASIC RECRUITMENT LETTER

CONCORDIA LOGO
Today's Date

Mr. John Owner
ABC Business Inc.
12345 Factory Way
City, PR 1A2 B3C

Dear Mr. Owner,

We would like to invite you to participate in an important study on family business transmission. We are a team of research professionals from the Center for Research in Human Development and the John Molson School of Business at Concordia University in Montreal. We have been awarded a prestigious grant from the Social Sciences and Humanities Research Council (SSHRC) of Canada to study the factors that contribute to a successful family business' transition from one generation to the next. As your company might be expected to go through this process in the future, you have been selected as a candidate for this research.

Between 80 and 95% of all North American businesses can be defined as family-controlled, making them the central engine of our economy. Recent studies find that 39% of family-owned businesses will change leadership within the next five years.[1] A change in leadership in any business presents challenges and these can be compounded when the transition affects the family as well as the business. We hope our study will bring to light exciting new information of use to family businesses planning their future.

To be eligible for this study, the current leader must be at least 50 years old and have at least one child working in the business who could eventually take over the leadership. Both the potential successor and current leader will be asked to complete questionnaires that take between 30 and 45 minutes to fill out. It is important to stress that all provided information will remain <u>strictly</u> confidential. Of course, you will be notified of the overall results of our findings and we sincerely hope that this will be of great interest to you and your organization. Moreover, as a gesture of thanks, we will award one prize of $250 to a participant whose name will be drawn at random from the questionnaires we receive.

We hope you will find the time to assist us. If you are interested in participating in this study simply complete and mail the return-postage response card that is enclosed and we will send you the questionnaires. If you require further information before making your decision, please do not hesitate to contact us by e-mail at: cwlab@alcor.concordia.ca. Thank you in advance for your attention and we hope you will support our research.

Stephanie Brun de Pontet, MBA        Carsten Wrosch, Ph.D        Marylene Gagne, Ph.D

[1] Mass Mutual Financial Group/Raymond Institute American Family Business Survey, 2003.

APPENDIX D

WEB RECRUITMENT NOTE

Dear Family Business Owner,

We would like to invite you to participate in an important study on family business transmission. We are a team of research professionals from the Center for Research in Human Development and the John Molson School of Business at Concordia University in Montreal. Our research team has been awarded a prestigious grant from the Social Sciences and Humanities Research Council (SSHRC) of Canada to study the factors that contribute to a successful family business transition from one generation to the next. This endeavor is supported by many business organizations including PriceWaterhouse Coopers and the Canadian Association of Family Enterprises. As your website indicates that yours is a family-run business, you have been selected as a candidate for this research.

To be eligible for this study, your company's current leader must be 50 years of age or older with at least one child working in the business who could eventually take over the leadership. The potential successor and current leader will each be asked to complete a questionnaire that takes approximately 30 minutes to fill out. It is important to stress that all information provided will remain strictly confidential. Of course, you will be notified of the overall results of our findings and we sincerely hope that this will be of great interest to you and your organization. In addition, as a gesture of thanks, we will award two prizes of $250 each to participants whose names will be drawn at random from among all the questionnaires we receive.

If you are interested in participating in this study, simply provide us with the name, title, and address of the current leader of the business *and* the name, title, and address of the family member selected as a potential successor to participate in this study. Once we receive this information, we will mail each of you questionnaires. If you require further information before making your decision, please do not hesitate to contact us by e-mail at: cwlab@alcor.concordia.ca.

Thank you in advance for your attention and we hope you will support our research.

Carsten Wrosch, PhD
Marylène Gagné, PhD
Stephanie Brun de Pontet, MBA

# APPENDIX E

# DEMOGRAPHIC QUESTIONS

**Year that company was founded:** ___________

**If you did not found business, the year you took over leadership:** __________

**Number of Employees:** ☐ 1 - 9 ☐ 10 - 25 ☐ 26 - 50 ☐ 51 - 100 ☐ 101 - 500 ☐ 500+

**Annual sales:** ☐ Under $250,000 ☐ $250,000 - $1 million ☐ $1 - $3 million ☐ $3 - $10 million ☐ $10 - $25 million ☐ $25 - $50 million ☐ Over $50,000,000

**What is <u>your</u> percentage of ownership?**

☐ 100% ☐ 51 - 99% ☐ 15 - 50% ☐ Less than 15% ☐ 0%

**Age:** _________ **Gender:** Male _____ Female _______

**Highest level of education <u>completed:</u>** ☐ Grade School ☐ High School ☐ Trade School ☐ CEGEP/Junior College ☐ University ☐ Graduate School (Master's or Ph.D.)

**Number of years working in this business:** _____________

**Total annual salary and other income <u>you</u> derive from this business:**

☐ Under $49,999 ☐ $50,000 – $99,999 ☐ $100,000 – $249,999 ☐ $250,000 – $499,999 ☐ $500,000 - $1,000,000 ☐ Over $1,000,000

**Number of hours you work for this business per week:** *(Circle what most closely applies)*

Less than 20 30 40 50 60 70 80 Over 85

**Your current level of managerial responsibility:** *(Check what most closely applies)*

☐ Supervisor of people ☐ Manage department (budget & people)

☐ Responsible for an entire division of company

☐ Part of executive management of company

☐ President or CEO

☐ Other: ____________________

APPENDIX F

QUESTIONS ABOUT SUCCESSION PLANNING

## Succession Planning

*(Please circle the one most appropriate response per question)*

| | | | | | |
|---|---|---|---|---|---|
| Number of family members working in the business | 2 | 3-4 | 5-7 | 8-11 | 12+ |
| Number of these family members in management roles | 1 | 2 | 3-4 | 5-7 | 8+ |
| Number of non-family members in management roles | 0 | 1 | 2-3 | 4-7 | 8+ |
| Number of "key people" expected to retire within 5 years | 0 | 1 | 2 | 3-5 | 6+ |
| When do you expect to resign your leadership position? | This year | Within 3 years | Within 5 years | Within 10 years | Never |
| Is there a clear successor for leadership of the company? | Yes, one of my children | Yes, someone outside the family | Co-leadership planned | Unsure | No |
| If succession is expected, has a date been set and announced? | No | Tentatively | Set & announced | Set & begun | |

## Company Control

*(Please circle the one most appropriate response per question)*

| | | | | |
|---|---|---|---|---|
| How much control do you feel you have over the company? | A great deal | A lot | Some | None |

# APPENDIX G

# INCUMBENT'S CONFIDENCE IN SUCCESSOR'S LEADERSHIP ABILITIES

Future Leadership

Check your level of agreement with the following statements about your confidence in the future leader of this business. All of your responses will remain confidential, please be as honest and candid as possible.

| ***How confident are you in the future leader's abilities when it comes to:*** | **Not at all** | **A little** | **Some-what** | **A lot** | **A great deal** |
|---|---|---|---|---|---|
| Making good business decisions. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Dealing with employees. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Maintaining the reputation and health of the business. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| His or her "leadership" qualities. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Putting in the required time and effort. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| Interpersonal skills. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |

# APPENDIX H

# STAKEHOLDER CONCERNS SCALE

## Concerns with Succession

Sometimes when there is a change in management control at a business, not everyone involved with the business is happy. For example, long-standing suppliers or employees may resist the change in management.

*How much resistance or resentment do you expect from the following stakeholders during or immediately after the process of succession:*

*(Please check the one most appropriate response per question)*

| | None | A little | Some | A lot |
|---|---|---|---|---|
| A) Other managers | ☐ | ☐ | ☐ | ☐ |
| B) Other family members | ☐ | ☐ | ☐ | ☐ |
| C) Employees | ☐ | ☐ | ☐ | ☐ |
| D) Suppliers | ☐ | ☐ | ☐ | ☐ |
| E) Clients | ☐ | ☐ | ☐ | ☐ |

# APPENDIX I

# GOAL ADJUSTMENT CAPACITY SCALE

During their lives people cannot always attain what they want and are sometimes forced to stop pursuing the goals they have set. We are interested in understanding ***how you usually react*** when this happens to you. Please indicate the extent to which you agree or disagree with each of the following statements, as it usually applies to you.

| ***If I have to stop pursuing an important goal in my life:*** | **Strongly Disagree** | **Disagree** | **Neutral** | **Agree** | **Strongly Agree** |
|---|---|---|---|---|---|
| It's easy for me to reduce my effort towards the goal. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I convince myself that I have other meaningful goals to pursue. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I stay committed to the goal for a long time; I can't let it go. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I start working on other new goals. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I think about other new goals to pursue. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I find it difficult to stop trying to achieve the goal. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I seek other meaningful goals. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| It's easy for me to stop thinking about the goal and let it go. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I tell myself that I have a number of other new goals to draw upon. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |
| I put effort toward other meaningful goals. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ |

APPENDIX J

BUSINESS PERFORMANCE MEASURES

Compared to previous years, the past 3 years may have become better or worse, simpler or more complicated for your business. Rate the relative performance or situation of your company in each of these business areas for the last 3 years. Try not to let your response to one question influence your response to other questions.

***Over the past 3 years my company has seen (a) _____ in the following areas:***

| **Large** **Small** | **No Decline** | **Small Decline** | **Large Change** | **Increase** | **Increase** |
|---|---|---|---|---|---|
| Sales | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Profitability | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |

APPENDIX K

FUTURE PLANS & RETIREMENT EXPECTATIONS

For most business owners, there comes a time in their life when they are no longer responsible for the day-to-day management of their company and must find new ways to occupy their days. We are interested in your life plans for after you resign the leadership of your business.

Have you already taken concrete steps towards realizing these plans?

**No at all** **A lot**

**1------------2------------3------------4------------5**

Please indicate to what extent you agree with the following statements.

***Once I have resigned the day-to-day leadership of this business, my days will be:***

| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|
| Full of interesting new work projects. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Spent pursuing my hobbies. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Busy with travel and fun. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| A difficult adjustment after all these years of work. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Spent with my family and friends. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Busy with Board memberships and other professional responsibilities. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Increasingly associated with feelings of loneliness and aimlessness. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Filled with opportunities to contribute in new ways to my community. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Difficult, because my work means so much to me. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |
| Spent learning new things. | 1☐ | 2☐ | 3☐ | 4☐ | 5☐ |