The phenomenon of succession in a family business

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Abstract

The article refers to an important issue concerning family businesses, which is succession. Often in family companies there is a problem related to continuation of business activities by next generations. What can be the reason for it? Certainly one of the most important is the lack of long-term, strategic approach to the succession issue. Company founders are so absorbed in managing the company that they do not notice the passing of time, do not want to notice that their descendants have the potential to continue the family saga. However, subconsciously they do not want this, they belittle the competence of potential successors, and when it comes to the moment of succession, the problem arises: Who? When? How? These are questions which every business owner must answer. If he does it earlier, he has a chance to achieve success. Acting too late brings him closer to failure, which means liquidation of the company or the least punishment for inaction will be a decrease in the company's efficiency and, consequently, its financial profitability. Planned succession is a process, which is carried out over several years in the company, is a positively creative factor, which strengthens the organizational efficiency of the company, but above all influences the right organics in the company, which cause the right proportions and naturalness in this difficult period of "taking over the company" by the next generation.

Keywords: succession, planned succession, family business, family, generation.

Introduction

Family business is oriented to "long life", the owner binds with his descendants hopes to continue running the business. Children are introduced to the company from an early age to get used to it and become interested in it. In the same way that an ordinary parent passes on values to a child, in the case of an additional business, young people are directed towards the profession of a parent. The owner of a family business asks himself many questions and searches for answers together with his family. He wonders whether his values, vision of the company's development and his goals are also close to other family members. Is he able to share his dreams with them and encourage them to walk together? Their development and continuity of functioning despite the change of generations is crucial for both local and national economies (Dźwigoł-Barosz, 2018).

Material and methods

In the American literature a family business is defined as a company in any legal form in which the capital is owned in whole or in a considerable part by the family and at least one family member is involved in managing the company with the intention of maintaining it in the possession of the family (Jeżak Popczyk, Winnicka-Popczyk, 2004).

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A simpler definition of family businesses is presented by researchers at Oregon State University, who concluded that if one considers oneself to be a family business, one actually is one (Winnicka-Popczyk, 2002). Both definitions indicate that the owner or owners of the company are aware that the company has the attributes of a family business and simply is one. It seems that a family company can be defined as an enterprise with several adjectives: private, family-owned, multi-generational, profitable, dependent (on family), dominated (by family), and being a kind of inheritance mass inherited or built to be inherited by descendants. Family companies are the foundation of the economy, its driving force, its most durable link. They are the most diverse form of entrepreneurship because they combine family and entrepreneurship (Antoniewicz Kęsy, 2020).

Difficulties in finding a proper definition that researchers dealing with the issue of family companies have may result from at least two reasons:

- a family business is a highly diverse entity. They may differ in legal forms, ownership, or management methods,
- the definition combines two distinct terms - i.e., family and business - which are institutions with completely different goals (Kowalewska et al., 2009).

The most commonly used definition of a family business indicates that a family business is understood as an enterprise of any legal form or a person engaged in business activity, the capital of which is wholly or in a decisive part owned by the family, at least one member of the family exercises a decisive influence on the management or exercises a managerial function himself with the intention of permanently maintaining the enterprise in the hands of the family (Sobiecki, 2014). The definition presented above is recognized by both organizations and researchers.

The summary of considerations concerning the analysis of family businesses' perception is the model of five levels of definition.

The model distinguishes so-called 5 degrees of "initiation" (Więcek-Janka, Lewandowska, 2017) into family involvement in the business. The lowest is level 5, in which companies are potentially family-owned. Ownership of the enterprise is in the hands of the family (for small and medium enterprises 50.1% and more, for joint stock companies min. 25.1%).

The next level 4, represents the connection of the enterprise with family identity. They contain the characteristics of the lower level (5) and the self-recognition of the company as family-owned. The self-recognition of the company as family implies business behavior that includes the family value system. At this level there is a recognition of family in business and the formation of a family business identity begins.

Level 3 are the so-called one-generation family firms. They contain features of level 4 and, in addition, the involvement of at least one person from the family (besides the owner) in the operational activity of the company and the strategic planning of the company.

Only family firms at the threshold of succession constitute level 2 in the five-level model. They contain the characteristics of level 3, supplemented by strategic planning in the company taking into account the succession process. At this level, the involvement of at least two people in the day-to-day management and the involvement of family members in management activities with a specific succession intention appear.

The highest level refers to the so-called multigenerational family business, which contains the characteristics of level 2, enriched by the past succession that forms the basis of our theoretical considerations.

The authors point out that the most important goal in running a family business is to pass the business on (Riedel, 2014). After all, each owner, through the passage of time in connection with the ownership of the company builds a deep feeling, which binds him to the company "for eternity", becomes in a metaphysical way its founder, becomes dependent on the company. He treats the company as a substitute for a child.

The problem of succession is most
characteristic of family business management. Many definitions emphasize that it is an immanent element of such an entity. For the companies themselves, succession is an issue which determines their further existence and development.

Unfortunately, many Polish entrepreneurs still not only do not have a succession plan, understood as a gradual transfer of power to the young generation and introducing them into company structures, but they also do not apply adequate mechanisms protecting the company against sudden random events. Although awareness of this subject is growing, experience shows that only a small percentage of companies have legally effective regulations preventing paralysis of decision-making in the company in case of the owner’s death or minimizing the risk of its division among potential heirs (Tylczyński et al., 2016).

According to research, about 70% of family businesses are liquidated or taken over by external companies after the founder passes away. Therefore, a successful succession guarantees preserving the family character of the company (Sułkowski, A. Marjański, 2011).

In Polish culture, due to its history, great importance is attached to tradition, transmission of values, respect for knowledge of older generations. The same factors according to J. Hastenteufel and M. Staub (Hastenteufel Staub, 2019) should be paid attention to by all family businesses, because it is thanks to family connections that entrepreneurs are more inclined to arrange a long-term strategy and introduce innovations, despite the fact that financial outlays are often lower than in non-family companies. These innovations, combined with a belief in long-term plans and unparalleled commitment, can produce unprecedented results and outcomes.

Results and discussion

The authors conducted a pilot study to investigate succession and continuation issues in family businesses. Therefore, 15 enterprises from the SME group were selected for the study in a non-random manner. The study was conducted using a survey method between January and February 2022. On this basis, the research results and the author's analysis were presented.

Analyzing the general market data shows that the majority of family businesses function in the service sector, to a much lesser extent in agriculture, and the smallest percentage of family businesses operates in the manufacturing sector. Of the 15 companies surveyed, all are in the service sector. 33.3% of the firms surveyed are engaged in retailing, in the common sense of running stores for individual consumers. The other activities are equally represented, 2 companies were surveyed from each of the five types of activities.

The empirical data collected by the researchers confirm the general picture of the mechanism of “heredity” of family businesses, which mostly fail under the 1st generation, rarely are passed on to successors. On the example of the pilot study, the authors note that in every 3 enterprises the mechanism of succession in the family company was carried out. Only in one company there was succession of II degree, i.e. 3rd generation manages the company, which is a very rare phenomenon, even in other, more economically mature European countries than Poland.
The situation in family businesses in Poland is quite specific. The obtained results show that most often the family-company relations are of dual character. Firstly, there is one owner of the company, who manages it, and secondly, the company in which the employed people are mostly family members. This situation is reflected in the model of five levels of defining a family business and the above conclusions have their equivalents in the model. These are level five and level one respectively, which are the extreme images of a family business in Poland.

Out of 15 companies surveyed, only in one of them the current owner stated that he was prepared for a possible succession within the company. In 6 companies we obtained a categorical "no", i.e. the issue of the future of the company at this point is not a concern within the company. Of course, the life cycle of the company may indicate that they are in the early stages, which may be a symptom of lack of concern for the future, such actions may occur in the next 5-10 years. In more than half of the companies (8 out of 15), the persons surveyed were unable to answer in the affirmative. The author assesses this result negatively, as it indicates lack of any actions in this area, lack of succession planning, lack of successors, etc.

Figure 2. Multigenerationality in enterprises
Source: own elaboration based on primary research.

Figure 3. Ownership structure in the company
Source: own elaboration based on primary research.

Figure 4. Number of family members employed in the company
Source: own elaboration based on primary research.

Figure 5. Succession plan in a family business
Source: own elaboration based on primary research.

Figure 6 contains data showing the reasons for succession in a family business as perceived by the outgoing owner. First of all, in 4 out of 5
cases the reason is the death of the owner, which often in the absence of succession plans can affect the organizational efficiency of the family business and consequently worsen the financial results in the company. In 1 case, the owner was tired, and in this case the succession process could be planned and natural in a family business.

![Figure 6. Reasons for succession in a family business](image)

Source: own elaboration based on primary research.

Succession planning is the complex process of developing and executing a strategic plan to transfer ownership and authority from the current owner (or owners) of a family business to a chosen successor who will be able to ensure the continuation and growth of the family business in accordance with an established strategy (Ježak et al., 2004).

In the succession process, it is very important to combine the transfer of two separate elements: power and ownership. Many succession plans fail because the two processes do not occur simultaneously. In succession, it is also important to clarify issues such as taxes (e.g., gift tax, inheritance tax), financial and retirement security for the retiring owner, and defining the owner's role in the "new" company (Ježak et al., 2004).

Older business owners often do not want to give up power because they are strongly attached to it, but there is also the problem that potential successors are a problem because:

- they have financial problems,
- they don’t have professional qualifications,
- are not interested in taking over the company (Evers, 2017).

In such situations, succession is sometimes impossible, leading to the resale of the brand, or even its demise.

According to S. Goldstein, power succession consists of four phases (Jamer):

a) initiation - a period when children or potential successors become familiar with the operation of the family business;

b) selection - during which future leaders among the younger generation are evaluated and selected, taking into account their commitment and skills;

c) education - when all attention is focused on developing the skills of future successors;

d) proper succession - when the process of transferring all rights and responsibilities (power) to the young successors takes place.

An important aspect is that along with implementing the succession process in the company, parallel decisions should be made concerning the structure of successors (their number, age, education, personality traits or social competences). The latter two features are usually not taken into account during succession, which leads to lowering organizational efficiency, which directly translates into worsening financial results of the company. An important factor is also the way of transferring "power" in the company, so that it is done in the smoothest possible way, not to disturb the continuity of management.

The first way to transfer ownership is by donation, which involves the payment of high taxes, and their amount depends on the degree of relationship and the value of the transferred assets.

The second form of ownership transfer is the transfer of the family business by inheritance, which can occur only after the death of the owner. From the owner's point of view, this solution is advantageous, as he usually wants to keep the thought of transferring the property to the next generation away from himself as long as possible. In reality, it is very unfavorable both for the successor and the company, because it
involves radical and unexpected changes that may shake the company.

The third form of ownership transfer is a buyout of the company by family members, management or a team of employees. While this is the most difficult of the routes, it can guarantee complete satisfaction for all parties. In just one transaction, the new owners take ownership and control of the business.

Ownership can also be transferred by distributing shares of the business to non-family employees. The owner wants to withdraw his capital and retire. He can also use this way to motivate the staff, to keep the most promising employees in the company or to raise additional capital by issuing shares of the company (Jamer).

The last and simplest option is to transfer the ownership by selling the shares of the family business to a third party. In business terms, this is a simple buy-sell transaction, but from the family's perspective, it is the loss of the business.

Family succession is one of the most important manifestations of a family business. A successful succession is a very important process, as the development and future functioning of the company depends on it. A considerable part of research conducted by PARP in 2008-2010 was devoted to this very subject (Sukcesja w polskich firmach rodzinnych, 2022). The most important results from secondary research, borrowed from the above mentioned report, are presented below.

The problem of assessing the succession already accomplished builds the following picture of family companies in Poland, where in only 15% of companies the transfer of generations took place. The majority of Polish private enterprises were established after 1989, and the average length of family business existence is 14 years. Current owners of family businesses postpone the moment when they start preparing for succession to an unspecified future. As the research shows, majority of the respondents think about passing their company to the next generation, including 31% who strongly express their will of succession. A part of the surveyed (29% of respondents) has not made a decision in this matter yet, and only every tenth company does not intend to start succession processes. It is also worth pointing out, that the will for succession is definitely stronger in companies with tradition: the longer the company is on the market, the more often it expresses a definite will to pass the enterprise to the next generation. In the youngest companies (up to three years) definite intention of succession was expressed by 22% of respondents. In companies existing on the market for 6-11 years, this percentage rose to 27, and in the oldest group of companies (over 20 years) it reached 49.

The relationship between the length of time a family business has been on the market and willingness to succeed may be due to a sense of stability and the fact that transferring the business to successors is burdened with less risk the longer the business has been on the market. The successor receives a relatively stable entity with an established market position. More than two-thirds of entrepreneurs thinking about handing over their business to the next generation associate succession with a specific person or persons. Children were in the first place named as future successors, followed by persons from extended families.

Every second successor currently works in the company he/she is to become the owner of in the future, with 41% being employed under a formal contract and the rest providing work for the company in an informal manner. Some respondents (29%) reported that potential successors do not currently work anywhere, which may cause the most concern. In the case of those not working, it is difficult to talk about gaining work experience, and thus preparing the successor to take on a key role in the company.

Handing over the management of a family business to specialized managers usually concerns large entities where family members are aware of their limited competence in this area. In smaller entities, management is rarely outsourced as the owners are afraid of losing the family character of the company.
Another report conducted under the auspices of the Polish Agency for Enterprise Development in 2010 shows that the first generation of founders has the biggest influence on current management of a family business. Only in 27% of the surveyed companies the second generation has an equally big impact, and in 7% - the third generation. A significant share of the decision-making process is held by the second generation in 74% of the surveyed companies and the third generation in 39% of the surveyed companies. Such influence of successive generations on the running of the company indicates the implementation of the succession procedure, especially its phase related to education. The results can inform that although only 2/3 plan succession and only 9% have a written plan, the process is done if only by the participation of the next generations in the decision-making process. Relying on intuition in management is a characteristic feature of small entities, observed also in Polish family companies (Znaczenie firm rodzinnych dla polskiej gospodarki, 2010).

American research shows that in the last 45 years as many as 80% of companies have collapsed or been sold, and only 20% have remained independent. Family businesses develop best in the generation of their founder, the second generation manages the company in a conservative and not very innovative way. In the third generation, the owners most often cause the company to fail, and as a result, in the next generation, only 15% of family businesses maintain control of the company (Więcek-Janka, p. 7). The reason for this is the lack of strategic thinking and planning, of which the succession process is the most essential element.

Two important aspects that affect management practice are new relationships with family members in the next generation and with managers outside the family. Several studies have highlighted the importance of adopting new boards, directors or management committees, introducing more sophisticated reporting systems, formulating codes of conduct, restructuring capitalization and shareholdings, and modifying the organizational structure of the firm (Corbetta, Montemerlo, 1999).

The key problem - and the one most often encountered in practice - is a lack of awareness that succession planning cannot be limited to a visit to the notary and the drafting of a will (Lewandowska, Andrzejczak, Stradomski, 2017). The original owners pass on their shares to their children, who most often are not adequately prepared to take the helm. They lack adequate education, knowledge and decision-making skills. Unfortunately, the transfer of the company usually takes place posthumously, so there is no one to watch over the succession process.

Conclusions

Planned succession, properly prepared and executed, is a guarantee of survival and even flourishing of a family business in the hands of the next generation. Family entrepreneurs have to convince themselves that succession is not a threat to their current position and achievements, but to the future of the company, which, given into the hands of qualified representatives of the younger generation, may continue to develop, achieving success of which its founders did not even dream (Jamer).

Many researchers and practitioners in the family business community believe that the responsibility for ensuring succession lies primarily with the founders and owners of these businesses. Other members of the business family associate the success of the succession process with the qualities, competencies and experiences of the next generation (Marjański, Contreras Loera, 2015). The next generation that gets the company does not appreciate it as much as the seniors. They have worked many years for the success of the company, they did not stop developing despite limitations or failures. Next owners have a ready-made company, they do not have to try to develop it...
from the beginning, they already have adequate capital. Often unqualified employees lead to bankruptcy of the company.

Proper running of the company is a guarantee of success. Family business has many advantages, which were mentioned before. You have to be careful not to lead to nepotism or corruption. By having employees who are family by your side, more time can be spent together. On the other hand, family meetings can turn into a business meeting.

Family businesses that have survived for generations use long-term, intentional and strategic succession planning. In these companies, choosing the next leader is so important to future success that it deserves deep, thoughtful and ongoing planning. Succession is a process in long-established family businesses, and it is a process that never ends (May, 2019).

Young successors who have known the company since childhood, who are characterized by responsibility for decisions made with concern for family and employees, who can communicate well, and who are flexible, are usually prepared for the role of manager in family businesses. However, it happens that people from outside the family begin to perform this function, although this is certainly a difficult decision. However, it is important to realize that hiring someone from outside the family can benefit the company by bringing in new ideas and methods, a fair and objective view of business processes. There are also fears connected with taking such a step, which are related to the new manager not being accepted by family members or fear of losing the "family character" (Janicka et al., 2021).

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