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Factors Impacting on Family Business Succession at Newcastle in KwaZulu-Natal

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ABSTRACT This paper investigated the factors that impact on family business succession in Newcastle in KwaZulu-Natal – a notable economic province of South Africa. Using a quantitative study and a snowball sampling technique, it was discovered that there is inadequacy in management skills in the Newcastle family businesses.This impacts on effective business succession due to incapable leadership. Eighty-eight percent of the respondents also pointed out that succession is never discussed in family business meetings, thus pointing to a lack of succession preparedness. However, in terms of available potential for talent, of note is that 84.9 percent of the family business members are relatively young (18-50 years). This study highlights factors impacting on succession in family businesses in Newcastle. Recommendations and a proposition for further research are made.

INTRODUCTION

The term 'family business' tends to conjure up the idea of a small business – this, however, is not always the case, given the magnitude of family business (Toesland 2017). Family business is said to be the most dominant form of business and the oldest, while being vitally significant to economies (Comi and Eppler 2014). Among the top 500 family businesses, in 2013 there was a contribution of $6.5 trillion, while employing 21 million people in the global gross domestic product [GDP] (Toesland 2017). Family business (fb) is in fact a predominant form of business globally (Bammens et al. 2011).

Much as fb is predominantly on a global scale, its sustainability and success have been linked to succession (March and Weil 2009). The continuity and success of family businesses are thus based on succession planning (Liu et al. 2015). Succession planning is therefore important for the continuity of the family business (Kangethe 2016). Family business has been noted to have social and economic significance (Brigham 2013). Moreover, various authors have pointed out that fb are a source of jobs in many countries (Fattoum and Fayolle 2009; Hacker and Dowling 2012; Hoy and Sharma 2010; Ramadani et al. 2013). The above factors emphasise the importance of fb to the economic growth of many nations.

A number of family businesses have the greatest challenge when it comes to succession. Deloitte has recorded that 64 percent of the next-generation leaders will assume responsibility without a formal succession arrangement (Harland David 2016). Although succession is important, at the same time it is one of most difficult issues in fb (Molly et al. 2010; Sareshmukh and Corbett 2011). When the business leadership is to transit to the next generation of office bearers, the legal tussle can be expensive and can culminate in the loss of a fb through liquidation (Lipman 2010). Perhaps it is for this reason that fb have a high failure rate – as high as 70 percent in the first generation – due to succession challenges (Family Business Institute 2007). This can be due in part to the management and vision that office bearers have for the business. It can be argued that there are factors that impact on effective succession planning – some of which include the management of the organisation. Cumming et al. (2015) point out that the preservation of fb can be done through succession, and yet this is an area of difficulty, as businesses face challenges that impact on succession.

This paper investigates factors that impact on fb succession – with specific reference to Newcastle in KwaZulu-Natal. Newcastle is a town that developed due to its natural coal reserves. It became a mining area located halfway between the major cities of Durban and Johannesburg, that have economic prowess in South Africa. Many families have, however, been left jobless after mine closures from 1990 onwards, with the consequent emergence of entrepreneurs yet are crowded with challenges on business survival. Businesses like Edgars, Game Stores, Checkers, Pick and Pay, Mortimer Toyota, Arcellor Mittal, KFC, Vlam Panel-beaters, Karbochem and emerging bed and breakfasts occur in the area. These businesses are, however, franchised and cannot be compared to fb in the area which in fact outnumber the franchised ones. The role of succession in fb survival is important and the factors that impact on it may guide the policy of stakeholders in terms of ameliorating any hurdles. The readiness to undertake succession in fb is important for the progress of the business.

The rest of this paper presents the objectives, research methodology, results and discussion of the findings. The paper concludes with recommendations.

Objectives

The following objectives guided the study:

- Investigation of all the literature on the role of fb in an economy.
- Establishing factors that impact on fb succession in Newcastle.
- Proposing recommendations.

METHODOLOGY

There are about 50 businesses in Newcastle of which about 30 are family businesses. The fb therefore outnumber the non-family businesses. The selection was randomly done among the 30 family businesses, in order to get a sample of 100.

Closed-ended questionnaires were given to 100 respondents with a response rate of 68 percent. A 5-point Likert scale was used in a questionnaire to identify factors impacting on succession in the family business in the municipality. A quantitative research methodology was employed with a snow-ball sampling technique. All the data were collected in 2014 in Newcastle. The following nine statements were presented to respondents: 1- The issue of succession is discussed in our family business meetings. 2- Family members know their job descriptions. 3- Family business members have inadequate skills at the "the organisation". 4- Family business members lack relevant information with regard to the future of the organisation. 5- There are poor communication channels at "this organisation". 6- Family business members lack relevant information with regard to the future of the organisation. 7- The organisation does not use family best practices to groom potential successors. 8- "The business" has a policy of allowing the incumbent to work with a potential successor before real succession takes place. 9- Intra-succession has taken place at "the business" without major challenges.

RESULTS

The results below record the demographic data and factors that impact on family business succession in Newcastle.

Demographic Data of Respondents

From Table 1, it may be noted that the median age is 35 -50 years with a standard deviation of 3.2. The findings indicate that a collective majority of 84.9 percent of respondents are young and hence fb in Newcastle are in good standing with regard to succession planning. Johnson and Taylor (2012) point out that fb can exceed their expectations in performance if they invest in young talent and experience. Benavides (2008) highlights the importance of age (young people) in his checklist of SP – where an emphasis is placed on the organisational structure that should meet the current and future needs of the fb. Johnson and Taylor (2012) point that the younger generation can acquire values and the culture of the business from the outgoing generation. The literature considered, it can be affirmed that Newcastle has a complementary age group in their fb. The potential to exceed their performance is evident if the organisations invest in their young talent for an effective fb succession.

Table 1: Age of respondents

		Frequency	*Percent*
Valid	18-35 years	17	25
	35-50 years	38	55.8
	50-65 years	12	17.6
	65+ years	1	1.4
	Total	68	100.0

Table 2 indicates that 48.5 percent of the respondents were males and 51.5 were females (N = 68). The issue of gender is fairly balanced as there is not much difference between male and female gender distribution. This therefore limits the issue of gender bias. The standard deviation is 0.17. Leadership in terms of gender is male dominated.

Table 2: Gender of respondents

		Frequency	*Percent*
Valid	Male	33	48.5
	Female	35	51.5
	Total	68	100.0

The gender issue in terms of female positioning is still low – although it is now prevalent. This is evidenced with family businesses in the US which have 24 percent female CEOs. Family businesses in regions like the US have, however, expressed the possibility of a future female successor. This was evidenced in a study in which 31.1 percent of US family businesses stated they would have a female business successor (MassMutual 2010). In a study by Ahrens et al. (2015) on German family firms, it was found that there is still male preference in terms of succession in family firms (of 804 business firms, only 23% had female successors). It was also found that the females chosen had higher human capital compared to the males and the choice of males was not based on their human capital. There is a likely succession contest where there are sons exist in the fb succession – since a preference is often male dominated.

The performance of a firm post succession has also been more favourable with female successors. There is a 7 percent increase in the profit margins under a female successor as opposed to a 8 percent decrease in firm profitability and performance under males (Ahrens et al. 2015). The nearly equal gender distribution in this paper may indicate there is no gender preference in succession, since the successor is likely to be drawn from those in the business. This understanding, however, may be in contravention of the theory framework proposed by Ahrens (2013) relating to fb successions to a contest theory (Tsoulouhas et al. 2007; Konrad 2009). The theory is that there are gender preferences in succession contests.

When considering the selection of a family CEO, family members and external candidates are treated as contestants. The contest ruler – who happens to be a family member with full family support – decides, according to his preferences, how the contest is guided. The individual who wins the contest is chosen by the successor and this therefore makes the fb succession different from the normal business (Ahrens 2013). Earlier evidence was that there is a preference for sons as opposed to daughters, even in developed countries such as the US where women have a slight preference for daughters over sons (Dahl and Moretti 2008).

The findings in Table 3 are that 32.3 percent of respondents had primary education, the majority (57.4%) had secondary education, 7.4 percent had junior degrees, and 2.9 percent had postgraduate qualifications (N = 68). The median qualification is 5, with a standard deviation of 3.62. The findings indicate there is a potential for further training, which open the doors for tertiary education and other higher education – thereby allowing skills development and business success in the near future. In a study on the next generation careers of persons with a fb background, it was reported that involvement in family business tends to change the careers of the next generation (Murphy and Lambrechts 2015).

Table 3: Educational level of respondents

		Frequency	*Percent*
Valid	Primary	22	32.3
	Secondary	39	57.4
	Junior degree	5	7.4
	Postgraduate	2	2.9
	Total	68	100.0

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According to Table 4, 89.7 percent disagree to the statement that succession is discussed in fb meetings. Helin and Jabri (2015) state that succession in family business does take place in emergent conversations. They postulate three roles of conversations following the notion of utterance by Bakhtin in fb succession: conversational differences, conversations that are multivoiced, and the listening role in conversation.

Conversatons such as these clarify issues regarding who is considered for succession.

Table 4: Succession is discussed in family business meetings

		Frequency	*Percent*
Valid	Strongly agree	0	0
	Agree	7	10.3
	Neutral	0	0
	Disagree	14	20.6
	Strongly disagree	47	69.1
	Total	68	100.0

The findings in Table 5 indicate a majority disagreement (58.8%) to the statement that family members know their job descriptions. This points to the need for the organisation to develop professional benchmarks of management. The business is likely to suffer as a result of possible unprofessional structures that do not allow job descriptions to be well defined. For competitiveness to be realised, there is need for clarity in job responsibilities, with the goal of improving the organisation's performance. Family member involvement in business operations has a positive effect on business performance (Zattoni et al. 2015). For effective involvement of family members in the business the members must know their jobs.

Table 5: Family members know their job descriptions

		Frequency	*Percent*
Valid	Strongly agree	14	20.6
	Agree	7	10.3
	Neutral	7	10.3
	Disagree	40	58.8
	Strongly disagree	0	
	Total	68	100.0

According to Table 6, 100 percent of the respondents agree with the statement that family members have inadequate skills. The median is 7 and the standard deviation is 6.04. Monama (2013) points out that for businesses to be sustainable, it is crucial that they invest in their personnel by exposing them to training and development. It is through these attempts that a legacy is left – as the business lasts for generations.

According to the findings in Table 7, 97.1 percent of the respondents agree with the statement that family members lack relevant information regarding the future of the business. This finding depicts uncertainty of business progression, and perhaps points to a lack of vision in terms of business continuity. This aspect is related to planning for the future. Hill (2013) mentions the advantage of planning, in that it helps firms to form a SWOT analysis. Through the identification of Strengths, Weaknesses, Opportunities and Threats (SWOT) a firm strategises in a competitive market. The median is 2, with a standard deviation of 5.44.

Table 6: Family business members have inadequate skills at the "the organisation"

		Frequency	*Percent*
Valid	Strongly agree	57	83.8
	Agree	11	16.2
	Neutral	0	0
	Disagree	0	0
	Strongly disagree	0	0
	Total	68	100.0

Table 7: Family business members lack relevant information with regard to the future of "the organisation"

		Frequency	*Percent*
Valid	Strong agree	52	76.5
	Agree	14	20.6
	Neutral	0	0
	Disagree	0	
	Strongly disagree	2	2.9
	Total	68	100.0

Table 8 indicates that 88.2 percent agree with the statement that there are poor lines of communication in their fb. Communication is necessary for effective business operations – for management of the firm, and between the firm and its customers/clients. Lack of clear communication can be a recipe for disagreements and confusion in dealing with simple issues ranging from

Table 8: There are poor communication channels at "this organisation"

		Frequency	*Percent*
Valid	Strongly agree	50	73.5
	Agree	10	14.7
	Neutral	0	0
	Disagree	0	0
	Strongly disagree	8	11.8
	Total	68	100.0

worker challenges to authoritative positions required for the management of the firm. The median is 8, with the standard deviation of 5,09. Dana and Ramadani (2015) argue that the kind of communication required in family business is different from the communication dealing with family affairs.

Table 9 reveals that 95.6 percent of respondents agree that the organisation does not use family best practices in grooming potential successors. It is through succession planning that a fb firm grooms its future leaders. This is well achieved by use of best family practices that have occurred – to enrich the core values by which the family stands. The median is 3, with the standard deviation of 6.62. The grooming of a successor is related to the workforce engagement necessary for business performance in difficult economic times (Liang et al. 2014). The fact that grooming of a successor is not done impacts on the succession, in that the organisational leaders may not be ready to pass on the leadership baton to the incoming generation of leaders.

Table 9: The organisation does not use family best practices to groom potential successors

		Frequency	*Percent*
Valid	Strongly agree	62	91.2
	Agree	3	4.4
	Neutral	3	4.4
	Disagree	0	
	Strongly disagree	0	
	Total	68	100.0

Table 10 shows that most (83.83%) of the respondents disagree with the statement that their business allows the incumbent to work with the potential successor before real succession occurs. The median is 7, with a standard deviation of 5.1. This, in a way, affects the operation and success in terms of the continuity of the business under new ownership, once the apparent leaders become unavailable. There are many benefits if the successor is involved in the business before succession. Gaining required knowledge and business survival can be positively affected (Mishra and El-Osta 2010).

Table 10: "The business" has a policy of allowing the incumbent to work with a potential successor before real succession takes place

		Frequency	*Percent*
Valid	Strongly agree	0	0
	Agree	0	0
	Neutral	7	10.3
	Disagree	50	73.5
	Strongly disagree	11	16.2
	Total	68	100.0

According to Table 11, a large majority (89.7%) of respondents strongly disagree with the statement that intra-succession has taken place in their fb without major challenges. This, in essence, may be linked to the fact that issues about succession are not discussed and therefore expectations of various family members become 'voiced out' in the need to fill the gap when taking over the business. The median is 7, with a standard deviation of 5.6. Founders of businesses tend to become managers of such businesses at the same time (Bennedsen et al. 2015). The practice of the family members running the business besides owning it – is one which occurs. This comes with its own challenges, as shown above.

Table 11: Intra-succession has taken place at "the business" without major challenges

		Frequency	*Percent*
Valid	Strongly agree	7	10.3
	Agree	0	0
	Neutral	0	0
	Disagree	7	10.3
	Strongly disagree	54	79.4
	Total	68	100.0

DISCUSSION

The importance of family businesses is much noted in terms of their values that denote trust, and they have become of national economic importance – even when national economies are politically weak or non-existent (Toesland 2017). In planning transition from one generation to another in family business, PWC has recorded that only 15 percent of family firms have succession in place. The trust level of customers has been noted to drop off after the succession transition (Toesland 2017). Challenges of succession have been noted by PWC for Kenya, where only 24 percent had detailed succession plans in place in 2016 – as opposed to 23 percent in 2014 (Kangethe 2016). There is a need to understand the factors impacting on succession planning that are pivotal in family businesses in a setting like Newcastle, which has a large number of family businesses.

The statistical quantification and importance of family business is evident. In this study it is worth noting that the number of family businesses so far outnumbers all other businesses. This trend has also been noted elsewhere. What constitutes family business from a non-family business has often been an issue of difficulty. The definitions that have been advanced have lacked empirical support and are not empirically based (Diéguez-Soto et al. 2015).

According to Venter and Farrington (2009), 60-90 percent of businesses in the following countries could be categorised as family businesses: Canada, Ireland, the UK, European states, Australasia, Scandinavia and Asia. In these countries and regions, businesses contribute 40-70 percent of the Gross National Product (GNP) – while offering 40-65 percent of employment. In the Latin American category, though family businesses were 65-95 percent in many countries, statistics on their employment contribution and GNP are not known. This kind of observation was also notable in Portugal, Brazil, Asia and Africa generally. Whereas other countries worldwide had some understanding of family businesses in relation to other businesses in their countries, in Africa only South Africa had such statistics. South Africa's family businesses contribute 60 percent towards the GNP and there is an employment frequency of 75 percent. Family businesses are the greatest wealth creators in almost every country (Venter and Farrington 2009).

Family businesses have occupied a larger dimension of market share by their size in the market-place. In Norway, Luxembourg, and Sweden, 30 percent of large companies are family owned. This market share is even higher in Belgium where family businesses make up 50 percent of all large companies in the country (Mandl 2008). The above authors continue to emphasise that one of the reasons why fb are increasing in countries like South Africa, is because there is a rising enthusiasm among young people to work for the family. This concurs with the findings of this paper – as the data indicate that most of those in family businesses are young.

Other reasons advanced by the above authors include massive retrenchments occurring in the corporate sector – as well as black economic empowerment (BEE) and employment equity provisions. Some of these reasons, like BEE, may be subject to further analysis; because global youth employment has been running a bleak statistical outlook, and is at best low. The fact that young people are enthusiastic to work for the family business is in line with entrepreneurial flair development that has been associated with educational institutions. It is argued that the present level of education does not empower one to take initiatives, and hence this may be a changing trend in the South African setting. The importance of family businesses in grounded market economies – as well as previously socialistic economies – is now a confirmed fact. This is attributed to the fact that, in these economies, entrepreneurship is now strongly encouraged (Mandl 2008).

The challenges associated with succession in family businesses include, among other things, the transfer of businesses from one generation to the next through succession efforts. This problem has affected 40 percent of US businesses. It is also a concern that a very small percentage of family businesses survive from one generation to the next (De Massis et al. 2008). In the latter study, a large majority of respondents (89.7%) disagree with the statement that succession has taken place without major challenges. This calls for measures of awareness about the survival of businesses in subsequent generations – as noted in the above literature.

CONCLUSION

Research has already noted the benefits of family businesses in the economies of nations. It is also worth noting that statistical records on family businesses have continued to elude researchers. Most respondents in this study noted a lack of succession preparedness and skills in family members. This study has provided an opportunity to identify the factors that are likely to slow down the business progression in family businesses, if not attended to. The geographic area chosen for the study is expected to provide lessons given the numerous fb that in fact outnumber other types of businesses. The fact that there are many fb in the area under study calls to attention the factors identified in their survival. Solutions advanced here should therefore be relevant in similar contexts – regardless of the location of the family enterprise. The study on family businesses and the dynamics of their operation remains an important area to be considered in different contexts. Nonetheless, it is proposed that strategic initiatives on how families overcome the hurdles in terms of sustaining business development be undertaken. This study will help inform policy-makers and will empower family businesses in terms of prolonging business longevity.

RECOMMENDATIONS

It is recommended that the family business members be capacitated through further education and training. In the current study a larger percentage (57.4%) have secondary education and 32.4 percent have a primary education – leaving very scanty percentages with junior degrees (7.4%), and postgraduate degrees (2.9%). Skills such as communication besides business development need to be developed by liaising with training institutes, in order to help avoid the communication challenges that are being experienced by fb.

The government should develop linkages and support by formally and informally involving family businesses in the main arena, in policy circles, as well as in business fora especially focused on fb.

Training providers should provide family-friendly courses, as well as professional courses to help incorporate family sensitivities into a dynamic business atmosphere. This will create a curriculum that takes into account the professional needs and also the emotional, political and familial ties in a given context.

The lack of succession preparedness symbolised by the lack of appropriate fora for discussing succession requires the commitment of fb management to understand the need for business stability gained through such discussions. It is therefore recommended that fb invite institutions and other responsible parties to enable awareness on succession-preparedness issues. Given the difficulty in confronting these issues at times from a cultural perspective – it is important for policy-makers to organise seminars in this regard.

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NOTES

The work in this presentation was done in 2014 in one of the South African Provinces, KwaZulu Natal.The Newcastle area where this work was done has an economic significance to the region and the country. The findings of the study have confirmed literature in that succession readiness is hard to come by even in an economically significant area under study such as Newcastle. The recommendations advanced in this study may be valuable to policy makers in developing measures to alleviate succession challenges recorded in literature.

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