

# Factors Influencing Successful Succession Transition of Small Family Businesses in Pakistan

## Zeeshan Ahmad

Management Sciences,  
National College of Business  
Administration & Economics,  
Lahore.

## Muhammad Imran

Faculty member,  
Comsat Institute of Information Technology,  
Islamabad, Pakistan.

## Meh-para Siddique

National Institute of Psychology,  
Quaid-e-Azam University,  
Islamabad, Pakistan.

## Reema Khan

Economics,  
National College of Business  
Administration & Economics,  
Lahore. Punjab, Pakistan.

## Abstract

The purpose of this empirical study is to examine the factors which contribute towards the sustainability of small family businesses from one generation to subsequent generation in Pakistan. Family business's role towards the economic stability of any country is undeniable.

A purposive sampling technique was used to fill the close-ended questionnaire by the founders and successors of subsequent generations who were currently participating in business operations. Pearson correlation and multiple linear regression models were implemented to analyse the primary data. The results of this study show that governance board, strategic planning and customer focus management have a significant positive association with the family business succession process. So, independent governance board, business strategies and customer focus management can contribute to increasing the survival rate of family business in Pakistan.

**Keywords:** Governance Board, Strategic Planning, Small Family Business, Succession

## Introduction

Family businesses play a vibrant role towards the GDP, revenues and employment percentage of any country (Dean & Andrew, 2000; Fletcher, 2002). Statistics highlight that family businesses contribute towards the GDP of Italy 94%, Pakistan 80%, India 79%, the Middle East 75%, United States 63%, Germany 57%, Brazil 50%, and United Kingdom 25% respectively. Due to significant investments, during 1960-1970, influential families outperformed economically, and all economic indicators expanded rapidly in Pakistan (Yousaf, 2015). SMEDA (small medium enterprise development authority) report that 3.2 million family businesses exist in Pakistan. Pakistan tax ordinance 2005 reveals that equity of small family businesses is up to RS. 25 million and turnover are Rs. 200 Million. Statistics of SME (Small Medium Enterprise) shows that small business engages employees between 10-35 and their productive assets to range from RS 2-20 million. Thus, Contribution of family businesses can never deny in Pakistan as rest of the first world countries acknowledge its importance.

The family business's lifespan is 24 years, and it is attributed to the founder's involvement, but it can lose its family characters in case of its sustainability beyond the generations (Welles, 1995). Numerous

studies on family business assert that approximately 30 percent of family business has potential to transfer into 2nd generation, while 10 percent could be transferred into 3rd generation (Lansberg, 1999). An often-stated fact, “A Family business goes to dogs in the third generation.” A Mexican statement states that “Father-entrepreneur, son-playboy and grandson-beggar”(Davis, 1997).

The succession process is not only to manage the succession effectively but is to mitigate the arising conflict within the family business (Pardo-del-Val, 2009). The association of business with family is directly proportional. As the business suffers likewise, the family members face the consequences. Despite the substantial research, the family business’s endurance ratio is alarmingly low (Wang, Watkins, Harris, Spicer, & Poutziouris, 2000). It is expected that Family business has potential to bring revolution in job opportunities, economies, markets and social well-being so great emphasis is given on the sustainability of family businesses (Morrison, Breen, & Ali, 2003). So, this study is a step towards the survival of small family businesses in Pakistan.

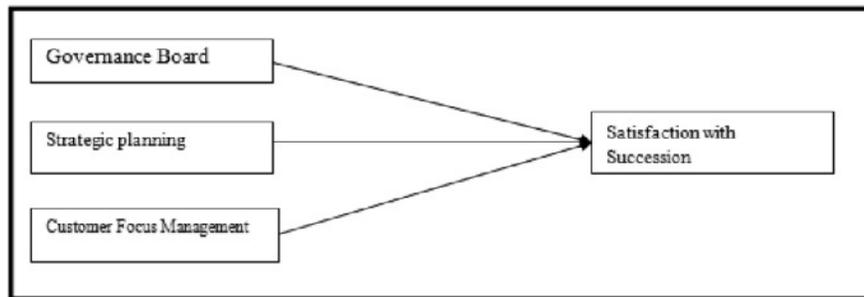
**Conceptual Framework**

The concept of succession planning in family businesses can be theorised by different theories. However, a game theory

which is a branch of decision theory helps the intelligent, rational decision makers by using the mathematical models of conflict in various competitive scenarios. The problems in business are considered as games and participants are players. The situation evolves and needs for strategic thinking to solve the problems by using best available resources arises to achieve one’s objectives. The primary contribution of game theory is demonstrating the application and understanding the decisions and outcomes of succession events (Dunemann & Barrett, 2004) in small family businesses.

The leadership succession theory proposes that there is need to appoint a successor before the death/ retirement of the incumbent and groom the selected successor to follow the strategies of founder and mitigate the conflicts arisen by leadership shift swiftly (Ibrahim, Soufani, & Lam, 2001). The family business succession process figures out that, how the business will operate in case of noninvolvement of founder/leader because leadership models and styles vary widely from person to person (Bjuggren & Sund, 2001). So, this study investigated the variations in different situations and change in leadership style which influence the role of governance board, strategic planning and customer focus management and their direct effect on the succession process in small family businesses.

**Figure 1: Conceptual Framework**



Source: Author's Own Calculation

**Review of Literature**

Family businesses face management issues in day-to-day operations and have to tackle these issues rationally to sustain the growth. Due to differences in cultural and social context, there is need of a governance framework to handle the sensitive matters such as succession arrangements and governance board (Sarbah & Xiao, 2015). Invasion of new members brings different opinion and ideas on how should strategies established and implemented to handle the operations of business successfully.

Fahed-Sreih (2008) declared that notion of governance board is a combination of the relationship among stakeholders, mainly composed of a board, shareholders and company’s management to enhance market competitiveness and organisational efficiency. The range of reasons, cause

obligatory for a family business to form a governance structure, which will avert the conflict, ensure stability and align the interest of family members with the interest of business. The important role of governance board is to implement strategies so that, benefits could be generated to distribute among the stakeholders of business (Aguilera, Filatotchev, Gospel, & Jackson, 2008).

Research conducted during past 30 years, shows that strategies or other policies adopted by successful family business are quite different from non-family business (Chrisman, Chua, & Sharma, 2005). Ward (1997) highlighted that strategic planning in family business is to implement strategic plans in business and family as well. Family businesses are unique due to family influence that differentiates it from non-family businesses (Moore, 2009). Some family business thrives up to excellence while

so many fails. There exists a positive correlation between business growth and strategies which become complex over time thus it causes informal control and obligations which are hard to mitigate. Control over the business affairs becomes tougher to exercise as the ownership disperses (Schulze, Lubatkin, & Dino, 2003).

The family businesses by creating and maintaining superior customer relationship mostly enjoys competitive advantages along, greater number of loyal customers, trustworthy customer's perception and goodwill (Biberman, 2001; Stone, 2000). Informal customer service policies in family businesses are closely associated with the values of families (Lyman, 1991). The growth of small or micro-business is not associated with success but with customer's satisfaction (Reijonen, 2008). The family businesses in which employees are treated like family members, such employees treat the customers like family. Such businesses grow profitably with greater number of loyal customers and staff even in the course of hard times (Fallon, 2014).

So, this study will investigate the role of governance board, strategic planning and customer focus management on the succession process in Pakistan so that time span of family business could be enhanced and small family businesses could be transferred into subsequent generation successfully.

## Methodology

### Objectives of the study

The objectives of this study are to:

- I. To extend the lifespan of small family businesses in Pakistan.
- II. To shift the small family business into subsequent generation successfully and smoothly.
- III. To minimize the succession risk anticipated by the incumbent and align the succession process in accurate direction.

### Data collection methods

In this study, close-ended questionnaires were used to collect data from the incumbents and successors of small family businesses operating in Pakistan. Years of establishment or number of generation involved in family business shows consideration for a family business. The family businesses in which at least two-family members were involved in day-to-day operations and under surveillance of second or third generation were selected. Thirty percent questionnaires filled by the founders of family businesses and rest of the questionnaires were filled by subsequent generations' successors. This empirical research involved population comprising of 389 family businesses in two districts of Punjab Pakistan. The Questionnaires were filled using the

purposive sampling technique. Almost 478 questionnaires were filled while 95 of them discarded to attain reliable results. Co-relation and multiple linear regression models used to check the strength of the relationship between the variables by using SPSS software. The value of reliability test was above 0.7. Five-Likert scale was used from: Strongly disagree 2 – Disagree 3 – Neither agree nor disagree 4 – Agree 5 – Strongly agree.

## Hypothesis

The hypothesis of the study is described below:

- (H11):** There exists association between board and succession planning of small family businesses.
- (H12):** Strategic planning has a significant relationship with the succession process of small family businesses in Pakistan.
- (H13):** There is a significant association between the customer focus management and succession planning of family businesses in Pakistan.

## Limitation & Scope of Study

There is need to analyze the results of this study on different generations of family businesses in Pakistan. The data was collected from two division of Punjab named as Faisalabad and Multan. There is need to investigate the effect of moderating and mediating variables and various factors which influence the succession process in Pakistan.

This study has highlighted the contribution of governance boards, business strategies and customer's base towards the successful succession process and transfer of founder's vision into subsequent generation in case of death/retirement of the incumbent. This study will contribute to reducing the conflict by allocating the position and role of successors in business according to their personalities, capabilities and interests well before the transition time. This study grabs the attention of incumbent towards defining strategies and allocation of resources for succession transition. This study will help the incumbent and successor to make customer-centric strategies which can play their role in the huge customer base. This study supports that concentration on customer's needs, effective customer relations and customer oriented service programs leads small family businesses towards succession transition to the future generations.

## Analysis

Bivariate correlation used to check the Relationship between governance board, strategic planning, and customer focus management while the strength of relationship verified by implementing multiple regressions.

## Bivariate Correlation

**Table-1 Governance board & Satisfaction with Succession**

Variables	Number	Co-relation	Significant level
<b>Governance Board</b>	383	1	0.000
<b>Satisfaction with succession</b>	383	0.465	

Source: Author's Own Calculation

Table-1 Show that governance board and satisfaction with succession have a strong positive relationship with each other. So, the existence of governance board consisting of

family and non-family members can contribute to successful succession transition.

**Table-2 Strategic planning & Satisfaction with Succession**

Variables	Number	Co-relation	Significant level
<b>Strategic planning</b>	383	1	0.000
<b>Satisfaction with succession</b>	383	0.475	

Source: Author's Own Calculation

Table-2 Show that strategic planning in family businesses have a strong positive relationship with satisfaction with succession. So, long term and short term strategic decision-

making influence the succession process to transact the family business into subsequent generation.

**Table-3 Customer focus management & Satisfaction with Succession**

Variables	Number	Co-relation	Significant level
<b>Customer Focus Management</b>	383	1	0.000
<b>Satisfaction with succession</b>	383	0.355	

Source: Author's Own Calculation

Table-3 Show that incumbent's customer-centric policies and strategies have a strong positive correlation with succession process. So high attention towards the customer's satisfaction maintains effective ties with family business and a strong and large customer base contribute towards the successful transition of family business and contribute towards the longevity of businesses.

governance board, strategic planning and customer focus management have significant positive relationship with successor's satisfaction with succession

#### Multiple Linear Regression

Multiple regression models used to check the effect of governance board, strategic planning and customer focus management on succession process of family business.

Thus, results of co-relation show that existence of

**Table-4 Co-efficient**

Coefficient			
Model	Beta	T	Sig.
<b>Constant</b>	19.977	4.134	0.000
<b>G. B</b>	0.318	7.065	0.000
<b>S. P</b>	0.341	7.716	0.000
<b>C.F.M</b>	0.133	2.931	0.004
<b>R-Value</b>	0.598	<b>R-Square</b>	0.357
<b>F-Value</b>	70.274		
Dependent, satisfaction with succession			

Source: Author's Own Calculation

The results of the coefficient table show that governance board, strategic planning and customer focus management influences 35.7 percent the succession process in small family businesses. The results show that governance board

have a significant positive association with the satisfaction with succession (G. B:  $b=0.318$ ,  $t(383)=7.065$  and  $P=0.000$ ). So, (H11): There exists association between board and succession planning of small family businesses is accepted.

Groysberg and Bell (2014) also, concluded in his study that family business governance board may lead to higher survival rates and smoother generational transitions. Blumentritt (2006) Reflects that efficiencies in the governance structures of family businesses mitigate the need for succession planning.

The results of the study show that strategic planning has a significant positive association with satisfaction with succession. (S.P)  $b=.341$ ,  $t(383)=7.716$  and  $P=.000$ . So, (H12): Strategic planning has a significant relationship with the succession process of small family businesses is accepted. Business strategies evolve with the passage of time as the family business grows and implementation of these strategies is vital to the success of the business. The strategies building and its implementation are influenced by the family dynamics (Brunninge, Nordqvist, & Wiklund, 2007). Family businesses that have progressive strategies seem to have better performance and longevity (Astrachan & Kolenko, 1994). Scholes, Wright, Westhead, and Bruining (2010) highlighted that, business's management involvement in succession planning have an association with strategies which improves the efficiency, future growth and business expansions.

Customer focus management (CFM)  $b=.133$ ,  $t(357)=2.931$  and  $P=.004$  have a significant positive association with satisfaction with succession. (H13): There is a significant association between the customer focus management and succession planning of family businesses in Pakistan is accepted. Harvey and Evans (1995) show that founder/successor's attention towards customer focus management will enhance customer base and enriched customer base will contribute till generations. The results of this study are also inline with the previous studies.

### Discussion

This study highlights the impact of customer focus management, strategic planning and governance board on the succession process of family business in Pakistan. Emphasis by the incumbent over these factors contributes towards the successful transition of the family business from one generation to subsequent generation. Role of governance board is imperative for family and business. To direct succession and compensation for owner and successor altruistic behaviour, the role of governance board should never neglect in family businesses. Consideration of strategies to avoid loss and decline of the family business is vital. Family business faces obstacles to growth including reluctance for planning strategies (Upton & Petty, 2000). Implementation of strategies for the day-to-day operation and long-term perspective in family business may contribute to lessen the difficulties for a successor. Incumbent's attitude towards customer satisfaction is imperative. As customer deserves attentive and courteous

treatment and the customer is the lifeblood of any business (McNealy, 1994). A huge customer base is a resource of finance in the form of profitability, and thus financial strength contributes to fulfilling the financial needs of family and financial requirement of growth, sustainable and growing need for family business (Ward, 1997). Results of this study reflect that family businesses who meet the quality demand of customers, adequate level of performance; services or products concerning price paid, and total solutions to customers beyond the product attributes can transmit the family business from one generation to subsequent generation.

### Conclusion

Succession planning is a sluggish procedure, but its significance is apparent from the literature. The accomplishment of Succession process is hazardous but carries greater rewards regarding business endurance up to forth-coming generations and losses regarding business become extinct for the subsequent generation. Incumbent's awareness towards succession planning can assist to meet the needs of appropriate successor after retirement and overcome the issues, which can be unmanageable for a successor. Meager research has conducted in Pakistan in the perspective of succession planning to highlight the factors, which create hurdles for successful business succession transition. So there is need to conduct more research to increase the longevity of the family business and their contribution towards the economy of Pakistan. So, there is need to conduct more research on the small family businesses to enhance their longevity and their contribution towards the economy of Pakistan.

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