Aalto University
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Management Succession in Family-owned SMEs: Learning from Failure

SME Business Management

Master's thesis

Taika Hannonen

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Department of Management and International Business
Aalto University
School of Business

Aalto University
School of Business

Aalto University, P.O. BOX 11000, 00076 AALTO
www.aalto.fi
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Author Taika Hannonen

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Abstract

Succession is acknowledged to be especially critical in small organizations, as it is estimated that in the EU alone there is a risk of losing 150,000 firms due to transfer problems and only one third of family businesses "survive" their founder. As the vast majority of firms are in fact family businesses and SMEs, the economic impact of these unsuccessful successions is great. There exists a substantial body of literature on executive succession and CEO succession, but nearly all these studies have focused on large public companies and are thus not very well applicable at the SME level. As succession is acknowledged especially problematic in such a context, this study seeks to bring new insight to earlier discussions by exploring the specifics of the succession to a non-family member in the small family business. The central aim is thus to understand how to successfully manage the process of management succession from the owner-founder to a professional manager in family-owned SMEs

To better understand the process of succession, the common theoretical approaches as well as the key factors of the process present in literature are discussed. Drawing from the existing models, a framework for analysing the succession process in family-owned SMEs is proposed.

The research was carried out as a qualitative single case study. The empirical data was mainly collected by means of four in-depth face-to-face interviews. The business owner, two successors and a company manager were interviewed in order to understand the process from different angles. Drawing from the theoretical framework, the interviews followed a rather loose semi-structured pattern around predetermined themes. The interviews were grouped into to two distinctive chronological phases and then analysed according to the proposed framework.

The analysis of the interviews revealed some interesting contradictions. In contrary to the predetermined assumptions formed based on the framework, the successfulness of the majority of the framework factors did not aid in avoiding failure. Even though the transitions process itself was seemingly successful, the entire succession was not. Thus it is concluded that the successfulness of the process of succession does not directly result in superior organizational performance. Furthermore as the findings suggest that the poor management of the SME context contributed to the successfulness of the succession, it is suggested that special attention should be paid to the context in which the company operates when planning and managing successions.

Keywords Management succession, executive succession, family business, SMEs

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1. Introduction

1.1 Research Gap and Background of the study

All viable organizations are at some point in their existence confronted by executive succession. Regardless of whether the organization is a small family business or a large corporation, at some point it must either face succession or die. In large companies, transfers in both leadership and ownership tend to merely be seen as phases in the company's life cycle, which form a part of managing continuity. In SMEs, and family businesses in particular, owners tend to have a rather emotional connection with the business and thus transfers are often very problematic. As evidence suggests, only 30 per cent of family businesses "survive their founder" (Morris et al. 1997; Beckhard & Dyer 1983). Considering that a vast majority of businesses are in fact family businesses and create an estimated 70 to 90 per cent of the global GDP (Family Firm Institute) the economic impact of these unsuccessful successions is great. According to the European Commission Business Dynamics Report published in January 2011 there is a risk of losing an estimated 150,000 firms (and 600.000 jobs) in Europe annually due to problems in transferring businesses. The need for firms to learn to better survive successions is thus great. Furthermore as the number of aging entrepreneurs in Europe and especially in Finland is large (Finnish family firms association 2012), many firms will need to face succession during the next decade.

The evidence of succession problems and the fact that a great number of firms in Finland are about to start succession processes is reason enough to study the topic for the benefit of the national economy. Furthermore, little has been written on executive succession to a non-family member in family businesses, despite the increasing number of research on both executive succession and family businesses. As the very definition of a family business often incorporates the existence of a family successor (Churchill and Hatten 1987), the possibility of the successor being a professional manager is often discarded. Considering that family businesses are notoriously short lived and only 30 percent survive beyond the first generation (Morris et al. 1997, Beckhard & Dyer 1983), it would seem appropriate to try to investigate how and why these successions fail and furthermore consider alternative options to intra-family succession.

There exists a substantial body of literature on executive succession and CEO succession, but nearly all these studies have focused on large, public companies. Due to the fact that there exists several marked differences between large bureaucracies and small businesses, these studies are not very applicable at the SME level (Wasserman, 2003). According to Wasserman research has not directed much attention to founder succession, although it is acknowledged that succession is especially critical in smaller organizations that are moving from founder management to professional management. Family business literature on the other hand has primarily focused on succession from one generation to the next and research concerning non-family transitions is scarce (Handler 1994). There exist a handful of studies discussing professional management and non-family executives in family businesses (Dyer 1989, Chittoor and Das 2007, Hall and Nordqvist 2008, Stewart and Hitt 2012), but none of them describe well the succession process itself or the factors influencing it.

1.2 Objective and research problem

The main objective of the study is to try to learn how to improve the succession process in family owned SMEs. As previous studies on executive succession have often concentrated on large, public enterprises (Wasserman, 2003), and family business research has concentrated on intra-family successions (Handler 1994), there exists a noticeable gap in the knowledge of succession processes. This study thus seeks to bring some new insight to the earlier discussions by exploring the specifics of the succession to a non-family member in the small business context.

The central aim is thus to better understand how to successfully manage the process of management succession from the owner-founder to a professional manager in family owned SMEs. To fulfill this aim, the most important factors contributing to the performance of the succession process and the performance of the organization are investigated by means of both theoretical and empirical exploration. Furthermore as it is acknowledged that family business successions have a relatively high failure rate, how to avoid these failures is of great interest.

Drawing from the concerns expressed previously, the central research question investigated within this study is thus "Why do succession processes in family-owned SMEs fail and how could these failures be avoided?"

1.3 Outline of the study

The study is divided into six chapters, which aim to provide a thorough view of the succession process in family owned SMEs. The first chapter is the introductory chapter of the study, which presents the topic of the study by discussing the background and research gap as well as the objective and specific problems of the study. Chapter 2 presents the context of the study, Family-owned SMEs. Chapter 3 discusses the theoretical basis of the study by providing an overview of the succession literature as well as discussing the common theoretical approaches concerning the process of family business succession. Furthermore the key factors in the literature, which are predicted to contribute to superior succession performance, are discussed. In the end, a framework for analyzing the succession process in family-owned SMEs is proposed based on the theoretical approaches presented. Chapter 4 presents the methodological choices made in the study. The chosen method, a qualitative single case study, is presented and the selection of the case is discussed. Also the means of data collection and analysis are presented and the limitations involved with the chosen methodology discussed. In Chapter 5 the empirical findings of the study are presented and summarized. Finally Chapter 6 presents the implications of the results in relation to the proposed theoretical framework. Furthermore suggestions for future research are presented.

2 Family-owned SMEs: context of the study

SMEs are a vital part of the economy since they represent 99 percent of all businesses in the European Union and provide around 75 million jobs. The European Commission defines SMEs in the following way: "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million." (EU recommendation 2003/361)

The size of family firms varies, even though they are often perceived as small businesses. In Finland approximately 80 percent of all businesses are family firms, of which the majority are SMEs. Furthermore 99,8 percent of all Finnish businesses are SMEs, which implies that they effectively form the backbone of the Finnish economy. The focus of this study is on family firms that are also SMEs or in other words; family-owned SMEs. In the context of this study the terms 'family business' or 'family firm' also signify SMEs.

There is no single definition for a family firm and different authors concentrate on different aspects when defining a family firm. Central to all definitions is nevertheless the presence of family involvement in the form of ownership, management or both. Some definitions even stretch the meaning of a family business as far as to include a family successor (Churchill and Hatten 1987, Ward 1987). A family business can nevertheless be seen as any business in which the majority of ownership and control is within a family. In the context of this study, a family business is defined as a business owned by a family, regardless of whether it is managed by a family member or a non-family member.

The greatest effect of why any general management theories are not directly applicable in the family business context is the influence of the family (Bekchard and Dyer 1983, Morris et al. 1997). Family business scholars have concluded that in the case of family firms it is not sufficient to only regard business and ownership systems, but the family system must also be taken into account. It is common within a family business that the goals of the business are far more complex than those of non-family businesses (Morris et al 1997).

3 Executive Succession in Family Owned SMEs

3.1 Executive Succession

3.1.1 Definition of Succession

Executive Succession implies in the simplest terms the passing of leadership from one executive (usually the chief executive) to another. In the context of family businesses, succession is mostly referred to as the passing of management and control of the business to the family's next generation (Bracci and Vagnoni, 2011). It is nevertheless suggested that there exists a variety of combinations of ownership and management to a firm in transition and Family business succession has also been defined as "the passing of the leadership baton from the founder-owner to a successor who will either be a family member or a non-family member; that is, a 'professional manager'"(Beckhard and Burke 1983 in Handler 1994). This study deals explicitly with management succession and not ownership succession, even though the two may occur simultaneously. Furthermore the focus is on the passing of leadership from the owner-manager to a professional manager and thus the terms executive succession and succession will refer to this type of transition and not one from one generation to another.

3.1.2 Succession literature –an overview

Succession is often considered to be an indicator of the future of the business, due to the fact that the success or failure of a CEO tends to be closely linked to the success or failure of a company (Kesner and Sebora 1994). Given the significant impact leadership transfer can have on a firm it is thus not very surprising that succession has become an intensively studied subject. According to Kesner and Sebora the attention to the subject experienced a staggering 250 percent increase between the 1970s and 1990s and during the following years interest towards succession has not ceased neither in scholarly research nor in the popular press (Giambatista et al. 2005).

The topics within succession research have ranged from successor and predecessor characteristics to succession rate and performance and have been approached from a variety of scientific disciplines. As both Kesner & Sebora (1994) and Giambatista et al. (2005) argue, this variety of approaches has provided the topic with a rich, but sadly quite fragmented body of work. Even though research has progressed greatly since the early years of the field, there does not exist any general or overarching theory for succession (Giambatista et al. 2005). Furthermore, as a vast majority of studies on executive succession have focused on large, public companies, information of the very first succession event in a firm, the succession of the founder, is scarce (Wasserman 2003). When considering the topic of this study, research concerning the succession process and the determinants concerning the outcome of the process are of greatest interest. As the objective is ultimately to try to determine how to improve succession processes, it is likely that the factors contributing to the successfulness or unsuccessfulness of them will provide some answers.

3.1.3 Professionalization of Management

Although most succession literature have not directed much attention to founder succession (Wasserman 2003), there exists a number of scholars who have examined professionalization and professional management in family businesses. Some of these studies have indeed touched the actual process of professionalization of a family firm, which in most cases refers to the transition of leadership from the owner founder to the professional manager. An example of such research is a relatively often-cited article from Dyer (1989). Dyer discusses the problems involved with the transition to professional management as well as proposes three ways through which it can be integrated to the company; 1) professionalize members of the owning family, 2) professionalize nonfamily employees currently working in the business and 3) to bring in outside professional management talent. The third proposition provides some interesting insights into founder succession, which are elaborated by means of case examples. Dyer suggests that as there are clear differences in the orientation of professional managers compared to family business founders, it is likely that some tensions are created as new skills and values are introduced. According to Dyer, founder-managers tend to be intuitive, emotionally involved and have a very personal and charismatic management style whereas professional managers tend to be characterized as more analytical and rational in their decision making and have a more impersonal management style. Furthermore as discussed by Schein (1983), founders are seen as more willing and able to take risks and pursue non-economic objectives on own authority than professional managers who tend to be more cautious and in need of support as they do not poses the privilege of own authority granted by ownership. Due to these differences between founders and professional managers, good communication is seen as essential to overcome tensions between the parties and increase the successfulness of the succession process (Dyer 1989).

What can although be seen as a drawback in literature on professionalization is the overall notion that family business owners are generally nonprofessional whereas non-family managers are seen as professional whatever their previous background (Hall & Nordqvist 2008). Knowing that there exists numerous entrepreneurs and family business owners who posses formal education and thus can be regarded as 'professional', this view seems rather outdated. Hall & Nordqvist conclude that both family and nonfamily members can qualify for professional managers, which implies that management succession in family firms does not always refer to making a distinct transition from entrepreneurial to professional management. Whether professional or not, it is anyhow acknowledged that the succession of founders is especially difficult due to the fact that "they value their organizations more than non-founder managers, and so exert greater effort to ensure organizational success" (Haveman and Khaire 2004). This fact, together with some of the differences in the characters of founders vs. professional managers as discussed by Schein (1983) and Dyer (1989) can partly explain why such successions so often are unsuccessful.

3.2 Theoretical approaches to succession and its factors

3.2.1 Succession as a process: Approaches and theoretical frameworks

As a result of extensive research, scholars have concluded that succession is a complex process, rather than an instantaneous happening (Handler 1994, Dyck et al. 2002, Stavrou 2003). This process is understood to involve specific pre- and post arrival phases and problems characteristic to each stage can be identified (Handler 1994). According to Handler's review of family business succession literature there are a few approaches or theories for analyzing the succession process. These are namely the life cycle approach, which distinguishes stages in the development of both the organization and the succession itself, and the role transition theory –approach, which suggests that the succession process is a mutual role adjustment between the founder and the successor.

Several versions of the life cycle approach have been presented in time (Morris et al 1997), of which some apply to family firms and some not. Handler has chosen to present the framework by Churchill and Hatten (1987), which describes the succession process between father and son in a family firm. The authors distinguish four stages: (1) a stage of owner-management, where the owner is the only member of the family directly involved in the business; (2) a training and development stage, where the offspring learns the business; (3) a partnership stage between father and son; and (4) a power transfer stage, where responsibilities shift to the successor.

Another interesting life cycle theory from the point of view of succession in a small firm is the theory from Kroeger (Figure 1), which defines distinctive managerial role requirements associated with each development stage (McGivern 1978). Thus, in order to chose an apt successor for a company, it would be useful to distinguish whether he conforms the role requirements needed at whatever stage the company has reached.

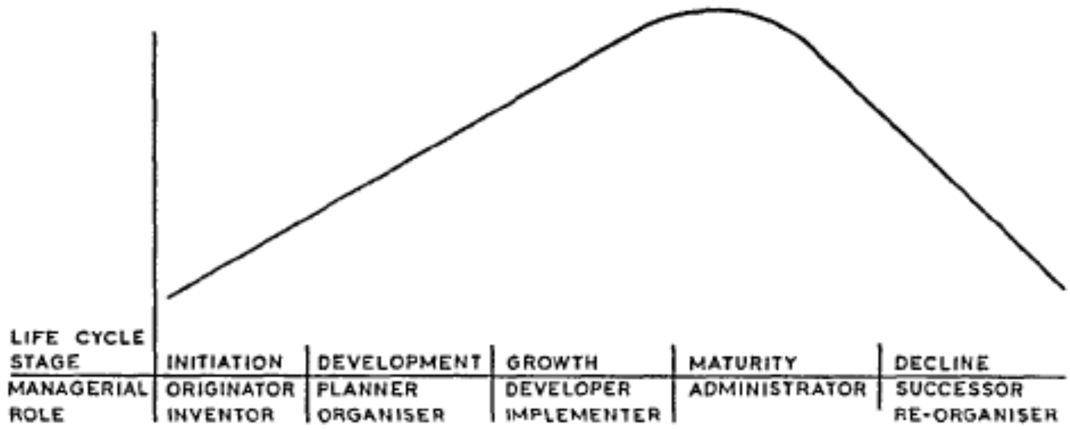

Figure 1. Life cycle stages of the small firm (McGivern 1978)

The role transition theory –approach takes this view slightly further by implying that particular role behavior of founder and successor can be associated with each phase of the succession process. Furthermore, it is understood that the transition from one succession phase to another can be conceptualized as a transition in role behavior (Handler 1994).

Since these two earlier approaches, new models have emerged in the family business succession literature, which are presented in Table 1 from the article from Chittoor and Das (2007). As succession is a process, rather than an event, factors that manage the process are likely to contribute to its success. Succession should thus be anticipated and managed effectively throughout the entire process (Chittoor and Das 2007).

Table 1: Theoretical Models/ Framework of the Succession Process (Chittoor & Das, 2007

Name of the Model/Framework	Brief Description	Reference
Stages-of-succession model	The incumbent and the successor fulfill specific roles during the succession process, and these roles change over the stages of the transition. As the succession progresses, the incumbent takes on the roles of a "sole operator" to "monarch" to "overseer/delegator" to "consultant," while the successor moves through the four stages of "having no role" to "helper" to "manager" to "leader/chief decision maker".	Handler (1990)
Relationships model	Relationships play the most important role in family business succession. Six relationships are emphasized, those between (1) the business and its key stakeholders, (2) the business and the incumbent, (3) the business and the successor, (4) the incumbent and the successor, (5) the successor and the key stakeholders, and, lastly, (6) the incumbent and the key stakeholders.	Fox et al. (1996)
Relay-race model	A model for succession planning using the analogy of a relay race. As in a relay race, four factors are important in succession planning: (1) sequence, in selection of a proper successor, (2) timing of handover to the successor, (3) baton-passing technique, following the right processes for handover, and, lastly, (4) communication between the incumbent and successor.	Dyck et al. (2002)

Drawing from both the role transition approach as well as the life cycle theory, the stages-of-succession model (Handler, 1990), regards succession as a mutual role adjustment process between the founder and next-generation family member(s). Handler presents a four-stage model (Figure 1), during which the predecessor decreases his or her involvement and the successor increases his involvement in the firm in which central is the transferral of leadership experience, authority, decision-making power and equity. According to Handler the role transition is typically a slow and subtle process where may exist a lag in the role transition of the predecessor in contrast to that of the successor. This lag is primarily due to the fact that founders may hold onto former roles (Handler 1990).

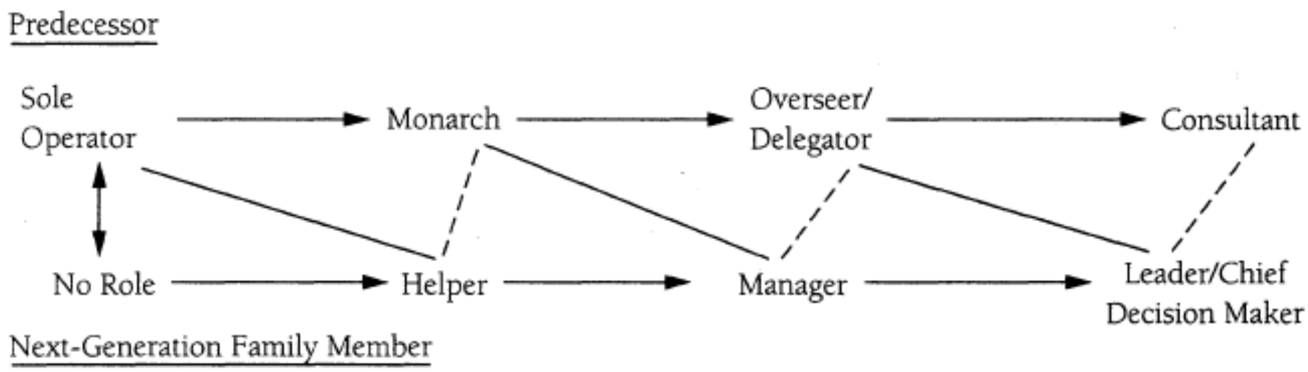

Figure 2. The Succession Process: Mutual Role Adjustment Between Predecessor and Next-Generation Family Member(s) (Handler, 1990)

Handler's succession model provides interesting aspects to the process of succession, but as it has been developed from the perspective of the next-generation family members, the applicability to non-family transitions is quite poor. When considering the topic of this study, the aspects involved with the role transition of the predecessor as well as his/her difficulty to step aside are most likely applicable, but the presented roles of the successor as well as perhaps the stages of the succession are likely to differ. An outside manager is likely to enter the business once a decision of succession is made (or forced due to external circumstances) and directly take the role of the manager in contrast to family members that are understood to progress from the very first stage and role in the model. Despite this fact, there is still the possibility that the owner finds it difficult to progress beyond the role of the monarch, which is likely to cause conflicts and have a negative effect on the effectiveness of the succession.

Fox et al. (1996) discuss the differences between succession in small and large firms and then drawing from research literature, develop an integrative framework for managing succession in family businesses. According to the review by the authors, at the core of succession management are six critical relationships between the business, stakeholders, the incumbent and the successor (Figure 3).

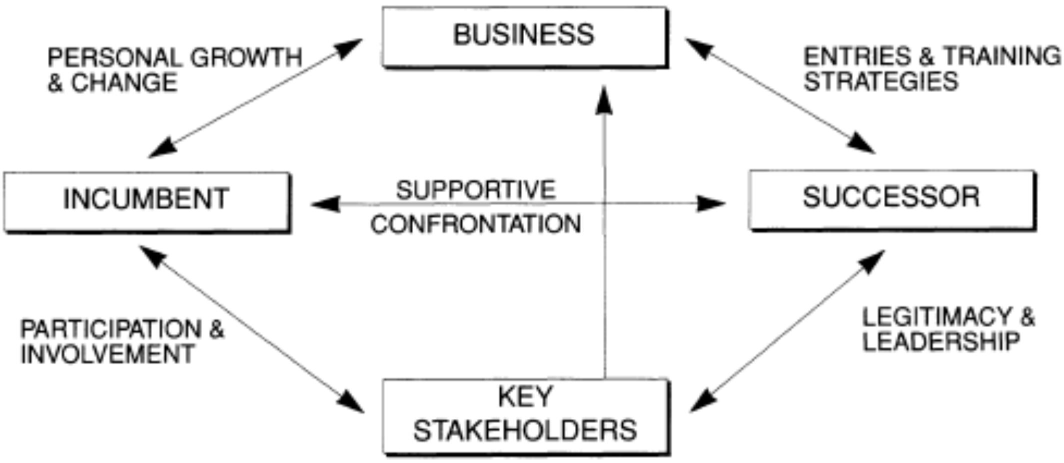

Figure 3. Framework for Managing Succession (Fox et al., 1996)

As acknowledged also in Handler's (1990) work the relationship between the incumbent and the business is highly critical to the succession process since the inability of the founder to lessen control of the business is likely to lead to an ineffective or even failed succession. In order to be able to overcome this challenge, Fox et al. (1996) propose supporting the personal growth of the incumbent in finding other means of personal satisfaction and accepting the change needed. The successor's relationship with the business and his/ her willingness to commit to the business and acquire necessary skills are also seen as important contributors to the effectiveness of the succession and thus the progressive strengthening of the successor-business relationship simultaneously with the weakening of the incumbent-business relationship is seen essential. In order to achieve this shift in control of the business, the co-operation of the incumbent and successor is essential and their relationship is likely to shape the level of such co-operation significantly. In the case of the intra-family succession discussed in the framework of Fox et al. (1996), an often problematic father-son relationship is acknowledged to put further strain on the succession. In the case of the outside manager succession, this aspect can naturally be discarded, but yet the adequate co-operation and good communication between the two parties is vital. As in the case of next generation succession, the incumbent must facilitate the transfer of knowledge and be able to delegate authority to the outside successor as well in order for him/ her to assume full control.

The Relay-race theory by Dyck et al. (2002) aims at better understanding the dynamics of the succession process by examining the succession process through the analogy of a relay race. According to the authors there are four key factors in running a successful relay race, which transfer equally to the process of executive succession. These factors are namely the sequence, timing, baton passing technique, and communication. In the organizational context the sequence refers to both the selection process and criteria as well as the organizational context in terms of what kind of successor is needed at the time of the succession. The sequence –factor thus draws from the life cycle theories presented earlier (Handler 1994, McGivern 1978), which imply that at different stages of organizational growth, different type of management is required. The timing in the context of executive succession refers to the appropriate speed of passing the baton in the succession situation. According to Dyck et al. (2002) this implies judging the impact of the environment (the amount of resources, competitiveness of the industry etc.) when determining the speed of the succession. In the context of mature enterprises with more slack resources, it is possible to complete the succession process in a timelier manner than for example in a company that operates in a very hostile environment. Baton passing technique refers to the transfer of power from incumbent to successor (or in other words the passing of the baton) and their leadership style. It is acknowledged that due to differences in previous experience and training, incumbents and successors often have different expectations on how the baton should be transferred (Dyck et al 2002, Handler 1990). Furthermore as acknowledged in previous research (Handler 1990, Fox et al. 1996, McGivern 1978), the incumbent may have difficulties of letting go of the leadership baton and simultaneously the successor difficulties of taking over it. Lastly, communication refers to the relationship between incumbent and successor and the clarity of communication and level of trust between them. This framework offers perhaps a wider view of the succession process than the previous theories discussed, as it aims at analyzing the entire process from several angles. Furthermore, as the Relay Race framework by Dyck et al. (2002) was not designed to serve merely the purpose of intra-family succession, its applicability to non-family transitions is superior to the frameworks presented by Handler (1990) and Fox et al. (1996).

3.2.2 Factors influencing succession performance

There exists an extensive number of factors that have been acknowledged to have affect on succession performance. All of the succession process frameworks presented in the previous section include a number of these factors and furthermore as reviews of the succession literature suggest, scholars have identified numerous more. In their article concerning the link between professionalization of management and succession performance Chittoor and Das (2007) provide a very comprehensive outline of the key constructs that are predicted to result in superior succession performance (Table 2).

Table 2: Predictor variables of Superior Succession Performance in the Literature (Chittoor and Das, 2007)

Key Constructs/ Variables in the Literature	**Representative studies**	**Key Findings**
Predecessor-Related Factors: Predecessor motivation, personality, and characteristics; relationship between incumbent and successor	Barach & Ganitsky (1995); Cabrera-Suárez et al. (2001); Dyer (1988); Goldberg (1996); Handler (1990); Lansberg (1988)	Importance of predecessor preparing for succession, overcoming anxiety, willing to face mortality and his/her ability to delegate, capacity to trust and share, mentoring, cooperative attitude and openness to new ideas; quality of relationship based on mutual trust and understanding between predecessor and successor is critical
Successor-Related Factors Successor motivation, abilities, education, outside work experience, apprenticeship	Barach & Ganitsky (1995); Chrisman et al. (1998); Morris et al. (1997); Sharma et al. (2001)	Willing and fully committed successor; fit between business and successor's personal needs and motives; appropriate education, outside work experience, apprenticeship within the company is correlated with effective succession
Family-Specific Factors Quality of family relationships, harmony (or lack thereof) among family members, commitment to the business, family council	Davis & Harveston (1998); Handler & Kram (1988)	Important factors include family dynamics and the quality of communication, climate of trust prevailing between the main groups of individuals involved, and the presence of sources of resistance that may have an impact on how the succession process unfolds

Business-Specific Factors Composition of the board, previous succession experience, organization culture, business cycles, tax system	Bjuggren & Sund (2001); Dunn (1999)	Progress with succession tasks was more evident when the lifecycle stages in the family, business, and ownership subsystems were congruent
Succession Process Planning for succession, successor-selection process, nurturing and development of successor, corporate governance structures, shared vision	Dyck et al. (2002); Dyer (1988); Elstrodt (2003); Lansberg (1999); Sharma, Chrisman, & Chua (2003)	Succession must be anticipated in advance and managed as a planned process; there should be a shared vision about the goals and strategy; right selection procedures, avoidance of nepotism, nurturing of the successor for the responsibility, and setting up right corporate governance structures are positively correlated to effective succession

Both predecessor as well as successor related factors have been researched in several studies and also the relationship between the two has received significant attention (Handler 1990, Fox et al. 1996, Venter et al. 2005). The psychological needs of the owner-manager and the resulting motivation to withdraw from the business have proved to often determine the success of the succession (Handler 1990, Fox et al. 1996, McGivern 1978). Letting go of the power and leadership of a company that is in many cases the source of personal satisfaction for the founder is often problematic (McGivern 1978). As founder led businesses tend to be extensions of the founders themselves and are often highly dependent on the owner (Feltham et al. 2005, Schein 1983), it is difficult or almost impossible for the successor to take over all the roles of the founder and thus founder succession is often associated with changes within the organization (Beckhard & Dyer 1983). “One option that Edgar Schein (1985) has discussed is to promote individuals who share most of the basic values and assumptions of the leaders but vary on one or two dimensions. These individuals are enough like the leader to gain acceptance but different enough to introduce change." Dyer (1988). Equally the motivation of the successor to take over and commit to the business as well as how well his personal needs are likely to be fulfilled are critical to the success of the succession (Venter et al. 2005, Handler 1990).

Family specific factors are more or less the essence of family business research, as family businesses are considered different precisely due to the "family influence" (Dyer 1989, Morris et al. 1997). Several scholars have concluded that the family business should be understood as a system, which consists of both business and family entities (Beckhard and Dyer 1983). The family's influence may prove very important in business decisions (McGivern 1978) and thus it is understandable that also the succession process in a family firm is likely to be influenced by the family.

Business specific factors have also been considered important in the executive succession process. As discussed earlier in the context of business life cycle theories, the stage reached in the firm's development is acknowledged to affect what type of leadership is needed and what role requirements are expected in the succession (McGivern 1978, Handler 1990). Furthermore McGivern (1978) discusses two more business specific factors in his model for analyzing succession situations (Figure 4); the organizational climate within the firm, and the business environment.

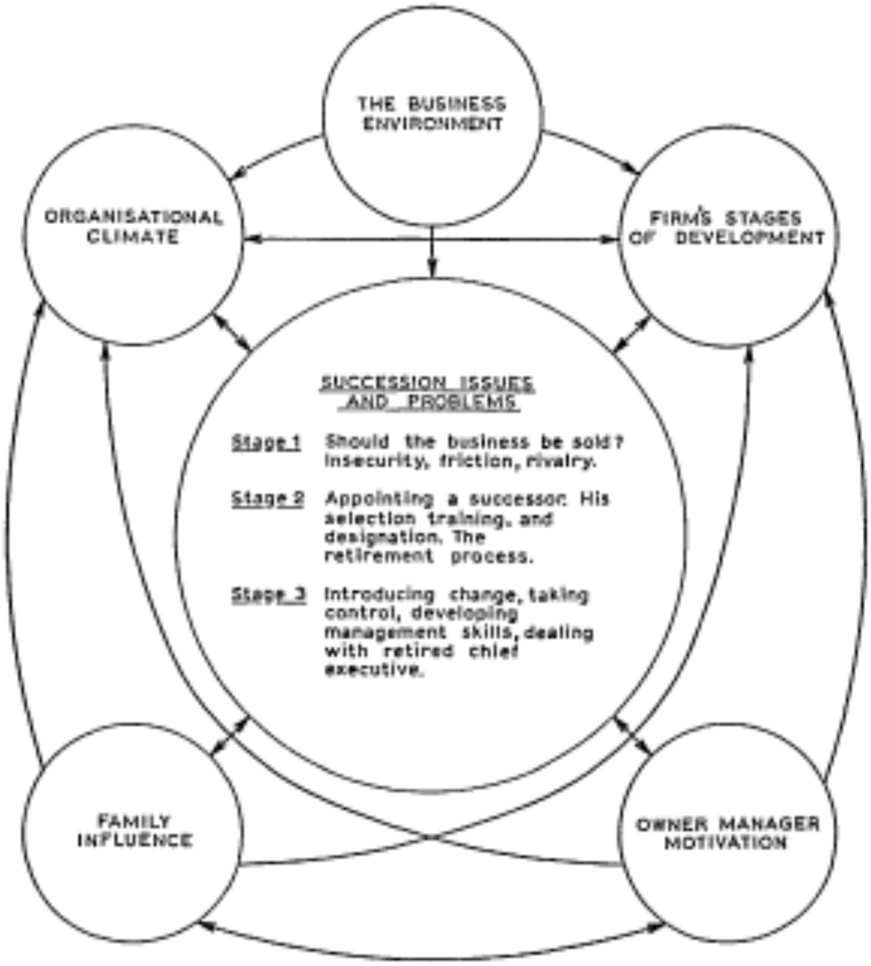

Figure 4: A Model of Succession Issues and Problems and the Factors, which Influence the Outcome of Decisions about Succession

In the model Organizational climate refers to "The way things are in the firm" and also how the people within the firm perceive their working environment. The author points out anyhow that even though there are various variables associated with this dimension, the most important one in the context of management succession is that of management style. As the management style of the founder tends to be very pervasive, it may be impossible for the successor to achieve results using a different management style than the predecessor. It is thus concluded that in the short term the management style should be matched to the expectations of the employees in order to enhance succession performance. This fact is acknowledged also by Dyck et al (2002) among others; "The greater the similarity between the skill sets and managerial styles of incumbent and successor, the more likely it is that the succession will be successful". The business environment on the other hand refers to "the extent to which the commercial prospects for the firm are either good, bad or indifferent". It is claimed that the extent to which a business environment is favorable at a given time, is likely to determine the owner's decision to withdraw or to remain in control.

It is also argued that succession should be anticipated in advance and managed as any organizational process in order for it to be successful. Among publicly held companies formalized guidelines for succession usually exist whereas in owner-managed firms succession is rarely planned and due to this often ineffective (Stavrou 2003). Beckhard and Dyer (1983) also argue that family-owned businesses would benefit considerably from some explicit planning process worked out by the founder with the family. Thus the selection and planning for succession can be understood as important contributors to the successfulness of the succession process.

In addition to the factors presented in Table 2, the communication between incumbent and successor is acknowledged as an essential factor in successful successions (Dyer 1989, Handler 1990, Morris et al. 1997, Fox et al. 1996, Dyck et al. 2002).

As discussed in this section, there exists a vast number of factors that are acknowledge to have an effect on the performance of the succession process. Except for certain successor related factors presented in Table 2, namely apprenticeship within the company and outside work experience, which are not relevant in the case of professional managers, these factors provide a good basis for understanding the process of executive succession.

3.3 Enhanced Relay Race –framework

Several theoretical approaches, which have been discussed in this chapter, have shed light into the factors affecting the successfulness of a succession process. In order to find out how to improve succession processes in the context of family owned SMEs, the ultimate objective of this study, I have chosen to further develop the previous models and provide an enhanced framework for analyzing the succession process. When observing the theoretical approaches, the best fit for this particular research problem was the Relay race theory of Dyck et al. (2002). This is mainly due to the fact that in comparison with the work of Handler (1990) and Fox et al. (1996) a wider variety of factors are taken into account and the focus is not as clearly on intra-family succession.

Both Fox et al. (1996) and Handler (1990) discuss relationships between incumbent and successor and acknowledge the difficulty of familial relationships, which in the context of this study is rather irrelevant due to the fact that the successor is a non-family member. The relay race theory was in fact developed in the context of a failed intra-family succession in a small, family owned firm, but it puts little emphasis on family related factors. It is acknowledged that the difficulty of communication was at least partly due to the often problematic 'father-son relationship', but no further discussion of the impact of family on the business is discussed.

When considering literature on family businesses, it seems nevertheless that in order to fully understand the dynamics of even a non-family succession event in a family owned business, it would be important to also take into account the effect of the family. This does not necessarily imply direct involvement of the family (as in the case of intra-family succession), but also the family's influence on the founder (Beckhard & Dyer 1983) and his/her decision-making. Thus to better serve the purpose of this study I find that it would be wise to include family influence as a factor in the framework. I thus propose the following enhanced Relay Race –framework (Figure 5) in analyzing the succession process in family owned SMEs. The factors of this proposed framework are summarized in Table 3.

When considering the central research question of the study, "Why do succession processes in family-owned SMEs fail and how could these failures be avoided?", the framework is expected to provide answers by determining the factors that are likely to affect the successfulness of the executive succession. The expected outcome is thus that succession processes fail due to lack of these proposed factors and can be avoided by the proper management of these factors.

Figure 5: Enhanced Relay Race –framework

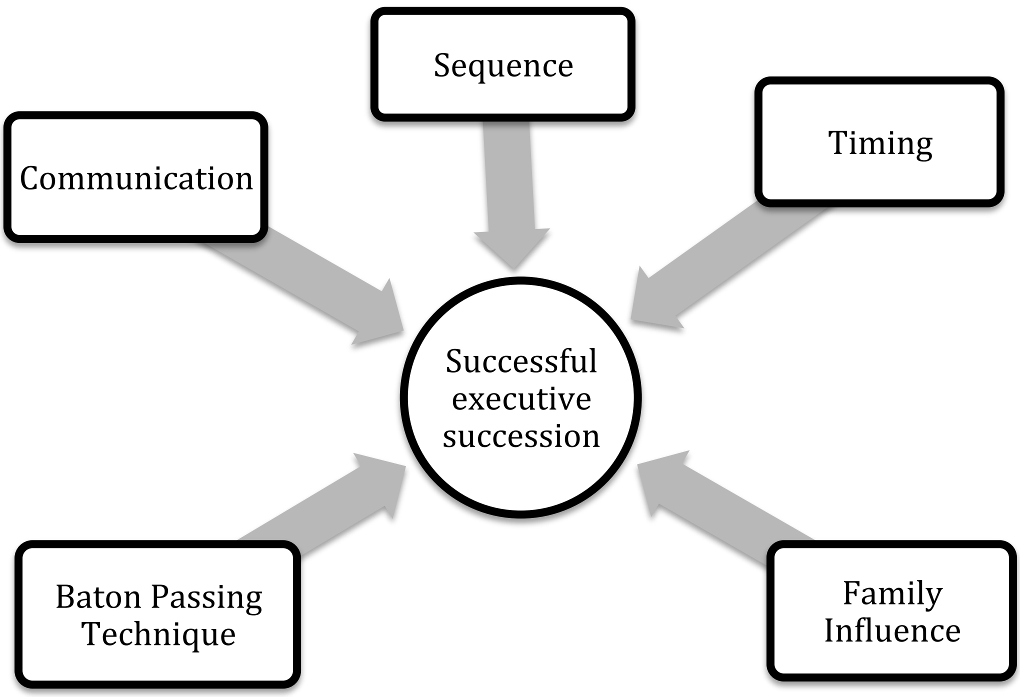

Table 3: Summary of factors contributing to the successfulness of executive succession in Family-owned SMEs

Enhanced Relay Race –framework factors	
SEQUENCE	Sequencing and internal organizational context/design; • Succession planning • Selection process and criteria for new leader • Company's stage in the organizational life cycle • Management style & skill sets
TIMING	Impact of the environment on the timing of executive succession: • Business environment • Speed of baton passing
BATON PASSING TECHNIQUE	Baton passing and leadership style • Motivation of incumbent • Motivation of successor • Agreement on what is being given by the Incumbent and what is being accepted by the Successor • Responsibility (ownership and managerial) • Control & Authority
COMMUNICATION	• Mutual trust • Mutual respect • Clarity of communication • Agreement over goals, strategy, and succession process
FAMILY INFLUENCE	Family involvement: • Organizational culture & leadership patterns • Founder's personality & mindset • Resistance to outside succession • Resistance to change

4 Methodology

4.1 Qualitative single case study

This research was carried out as a qualitative single case study. According to Yin (2009) the choice of the research method depends in large part on the research questions. If mostly "how" or "why" questions are being posed, case studies tend to be the preferred method, which regarding the research question of this study seems to be appropriate. The choice of research method is also justified by the characteristics of the research subject, which is acknowledged to be a very complex phenomenon. Svensson & Kyriaki (2013) also argue in the broader sense that since human and social phenomena are rather unique and context dependent, it is crucial to approach them as cases in context. Furthermore as rather little data of executive succession in the chosen context is available, it would be very difficult if not impossible to conduct quantitative research of the subject. Thus a qualitative approach is more suitable.

As Dubois and Gadde argue, when the problem has to do with analyzing a number of interdependent variables in complex structures, a natural choice is to go deeper into one case instead of increasing the number of cases as for example Yin (2004) and Eisendhardt (1989) argue. As the succession process is affected by a large number of interdependent factors within the complex setting of family-owned SMEs, focusing on a single case feels justified. Furthermore as Dyer and Handler (1994) argue, as the nature of a given entrepreneur, the firm, and the family are likely to be rather unique, there is a need for in-depth case studies to take into account the unique characteristics of the succession process.

4.2 Case Selection

The most important reason for selecting this particular case was the interesting opportunity for learning it provided. The organization had experienced two failed succession attempts in a row, which provided a rather unique opportunity for learning of the process of succession. And as Stake (2005) discusses, his choice would be to "choose the case from which we feel we can learn the most", since "it is better to learn a lot from a atypical case than little from a seemingly typical case". Failures in general may prove to be far more interesting for learning purposes than successful cases as it is often easier to depict what went wrong rather than what went right. Thus in order to be able to understand how to better manage a succession process, analyzing a failed succession may actually provide better answers than analyzing a successful process.

In addition to the interesting learning opportunity provided by the chosen case, one of the most evident reasons for choosing the case company was its familiarity, since it is my family business and I am one of the owners. Due to such close ties to the company I have access to data that would unlikely be available to outsiders. Naturally having such a close relationship with the case may prove to be both an advantage as well as a limitation.

4.3 Data collection and analysis

The data was mainly collected by means of four in-depth face-to-face interviews, which lasted for about one hour each. Furthermore financial data and own experience of the case company, as well as accounts by the business owner have been important sources of data in understanding the case.

In order to be able to obtain a rich understanding of the succession process in the case, four different people were interviewed for the purpose of the study, namely the Incumbent, the two successors and a manager who had been in the company since the first successor. These people where chosen because they represent different angles of the succession process and thus aid in understanding the process as a whole. Drawing from the theoretical framework, the interviews followed a rather loose semi-structured pattern, which included a number of predetermined themes, namely communication & interpersonal relations, leadership style, business environment, baton passing & motivation.

The interview situations were more like conversations than strict questioning sessions, which gave the possibility for the respondents to speak their mind rather freely. As I was interested in knowing how the respondents had felt about the events and what their version of the story was in order to depict different orientations and motives, it was important to not try to restrict the answers too much. For the most part, I was able to avoid directing the interviewees or to pose questions that may be considered leading. One of the respondents was nevertheless slightly less eager to speak out, and thus I felt that during some parts of the interview I was nearly trying to pull information out.

All interviews were recorded and later transcribed. After this stage, the transcripts were read several times and all parts of the interviews, which addressed elements of the succession process mentioned in literature, were marked. To further organize and make sense of the interview data, qualitative content analysis, or more specifically directed content analysis was applied in the analysis process.

According to guidelines of content analysis (Hsieh and Shannon 2005, Potter & Levine-Donnerstein 1999) the interview passages were first marked according to which interview theme (communication & interpersonal relations, leadership style, business environment, baton passing & motivation) they corresponded with. After the initial grouping of interview parts, the information was coded according to the factors of the proposed theoretical framework. Passages of the interviews that did not directly fit with the predetermined factors, but were seemingly relevant to the succession process or its performance were also marked and later analyzed in the results.

As two distinctive chronological phases within the overall succession process were recognized, the interview passages were further organized according to which phase they corresponded with. These phases are namely the first succession phase, which lasted from the recruitment of the first successor to his leaving the company, and the second succession phase, which lasted from the leaving of the first successor to the time of the second successor.

After the grouping of the interview data, each part was further analyzed according to the framework and how well the material corresponded to the expected outcomes of the framework (p.24). All factors of the framework, expect for the family influence factor, were recognized by all interviewees and proved to have some effect on the succession process. As the family influence –factor did not prove to have important effect on the process and was seen relevant only in the first succession phase, it was analyzed separately from the rest of the factors. A new factor that surfaced during the interviews, the role of the board of directors, was also analyzed and discussed separately from the framework factors presented within the two succession phases.

4.4 Limitations

Having such a close relationship with the case company is likely to pose problems with the objectivity of the research, as it may be difficult to make a clear distinction between my own perceptions and those of the interviewees. Furthermore as I am related to the Incumbent and have obtained most of my knowledge of the succession process through her accounts, it is likely that I may view the events through the lenses of the owner.

Another important limitation to the study is that as the research is conducted retrospectively and thus it is possible that some information has been lost due simply to the characteristics of human memory. All interviewees had some trouble in remembering the events and it was also discussed how perceptions may be altered in hindsight. On the other hand it was perhaps easier for the interviewees to evaluate unpleasant and perhaps even painful matters as some time had passed.

The interviews as well as other data acquired was in Finnish and thus the possible problems of interpretation may be seen as a limitation. Especially since some of the expressions and figures of speech used by the interviewees did not have equivalents in English, the translations contained more standardized and perhaps slightly formal language.

5 Succession Process in Family-owned SMEs: Empirical Findings

5.1 Case description

5.1.1 Case company introduction

The case company is a Finnish family-owned telemarketing business, which operates through two domestic contact centers. The company employs today about 80 people in total (of which the majority is part-time employees) and has an annual turnover of 2,2 million euros. The company was founded in 1984 by the owning family and has been successfully managed by its founder (Incumbent) for over 20 years.

5.1.2 Overview of Succession Process

In 2007 Incumbent reached the point where she was ready to retire from her position as the company CEO, and thus ended up in hiring an outside manager (Successor1) to fill in the position from the beginning of 2008. Successor 1 took over the position and simultaneously acquired 10% of company stock, making him CEO and partner. Incumbent chose to retire from operational roles and continued as head of the company board.

The company grew dramatically in the coming two years as two new contact centers were opened and the number of employees increased. From 2008 to 2009 the company's turnover increased by 1 million euros, but simultaneously the profitability sunk. In 2009 the company still made profit, but the tendency appeared to be downward as sales in certain significant projects began to slow down and the amount of fixed costs had increased during the previous year. Furthermore, as heavy investments were made in a new IT-system, clouds started to gather at the end of 2009.

In the beginning of 2010 Successor1 then disappeared for two days, forcing the

Incumbent to return to the company to sort things out. A major client approached Incumbent and it became clear that Successor1 had some kind of alcohol problem and that he had been in phone contact with the client while being drunk. After not getting any response to calls or emails for 2 days, Incumbent terminated Successor1's contract.

After the dramatic events of January 2010, the then vice-CEO of the company (Successor2) took over the responsibilities of Successor1 and was named CEO a few months later. That year several cuts were made due to declining profits and the two contact centers opened during the management of Successor1 were closed down and people were let go. Furthermore the significant IT-investment made by Successor1 ended being a disaster, as it did not function as planned and caused continuous problems by slowing down sales work, due to system failures and downtime. As sales continued to slow down and most of the cuts made did not decrease costs as quickly as was wished, the company's profits sunk and it filed a 280K loss for that year. During the beginning of 2011 the company continued to make loss and at the end of July when the loss for the year amounted to 100K, Incumbent made the decision to fire Successor2 and resumed the CEO position.

After resuming CEO position, Incumbent directly changed the salary system from a fixed pay rate to a provision based model and started a rigorous cost cutting plan. All costs were revised and reduced when possible. Furthermore the company bought access to a register of highly targeted leads, which aided in getting the sales running again and almost doubled the gross margins. As a result of these measures, the downturn was stopped and in merely two months the company reached break-even. By the end of the year the situation had turned around for good and the company ended up making 80K of profit.

5.2 Results

The results are based on quotations from all interviewees (Incumbent, both Successors and the manager), which have been chosen primarily on how well they depict factors of the framework. Especially interesting were quotations that provided a completely different view of the same event and thus illustrated the disagreement of different views of different interviewees on a certain issue. Within the quotations, Successor2 is recognized to have a dual role, as during the first succession phase she was a manager and during the second phase the CEO/successor. Thus, her quotations within the first succession phase represent the viewpoint of the employees (similarly to that of the manager) in contrast to her view of the second succession as the successor.

5.2.1 The first succession phase

5.2.1.1 Sequencing and internal organizational context

There was no formal planning or selection process prior to either of the successions in the case company. Especially the hiring of Successor1 was, according to Incumbent, a rather impulsive decision, which was mainly due to the personal desire to retire. Despite the fact that Incumbent hadn't formally considered criteria for the new leader, Successor1 was considered to have valuable experiences and insight of the industry.

"There wasn't really any actual recruiting process. But it hasn't really ever been a custom when hiring managers. I've always hired people who are friends of friends, or worked in the company for some time in other positions. I believe that it's easier that way to figure out whether that person is likely to fit in or not. I had known Successor1 for nearly 20 years. He used to work for a company I was involved with. I thought that he could bring some new ideas with him as he had such a strong experience of this Industry." (Incumbent)

When evaluating the organizational life cycle of the case company at the time of the first succession, it was somewhere in between maturity and decline. The company had been operated by the founder for over 20 years at the time and was financially more or less stable, but according to Incumbent the profitability had started to decrease during the fall preceding the succession.

"Profit had decreased. One of our business units at the time was in decline and we lost a major client. Suddenly there was a large gap in our revenue" (Incumbent)

As referred to in the life cycle theory by Kroeger (McGivern 1978), the corresponding managerial need at the time was for a re-organizer that could combine entrepreneurial talent and managerial skills needed in growth. Successor1 presented himself as apt for facilitating growth and organizational change and seemed thus an appropriate choice at the time. In retrospective, both Incumbent and Successor1 agreed that there was a need for "something new". The plan was for to Successor1 to grow the company as Incumbent had acknowledged that she didn't have the will or energy to do so herself.

"Due to decline, I had a feeling that we needed to find something new. I guess hiring Successor1 was some kind of lifeline I grabbed on to as I was just so tired and fed up. I just wasn't up for pushing the business into a new stage of growth again. And I guess I just believed that someone new could get more drive in to the business" (Incumbent)

"While acting as a consultant, I had got to know the organization and Incumbent and was convinced that the business needed new direction and strategy, which would guarantee success in the future. I had also questioned whether Incumbent should hire someone else, as it might be difficult for her to make the needed changes especially if it involved letting go of people she had worked with for years. (Successor1)

The arrival of Successor1 was thus rather strategic as Incumbent wasn't willing to act as a re-organizer of the business. Initially there had even been some talk of the possibility of an exit once the company would have grown larger and obtained better level of profitability again.

5.2.1.2 Impact of the environment on the timing of executive succession

At the time of the first succession the business environment can be considered rather stable, despite the declining stage the organization was in. Financially the business was secure and there were no marked hostilities present, which would have endangered the executive succession or put pressure on its speed as referred to in the Relay Race –theory by Dyck et al. (2002). Despite the rather quick appointment of Successor1, it can be concluded that the transition was still concluded in "a timely fashion" as the Incumbent was involved during the first months in an advisory role:

"For the first six months I was involved quite a lot and tried to pass on all the information I possibly could to Successor1. I informed him of everything I could possibly think of. We had meetings on a weekly basis and were in contact by phone even more often." (Incumbent)

In regard to whether the timing of the succession was appropriate, it can be concluded that while the company was in a state of decline, there was no crisis to overcome and it was rather a good ground for Successor1 to introduce organizational change in order to redirect the business towards a new stage of growth.

5.2.1.3 Baton Passing and Leadership Style

There were no problems experienced during the first passing of the baton and both Incumbent and Successor1 recognized that the transfer of control had been smooth; Incumbent had willingly handed over the leadership baton and stepped aside in order to give Successor1 the possibility to assume power. As discussed in the model of Dyck et al. (2002), the mode of succession had been agreed upon and there was a mutual understanding of what was to be transferred and when.

"We had agreed on certain rules, because it was clear that we will not get to the finish line if one manages in one direction, and the other in the opposite one. The new CEO needs to have the liberty to make decisions and act accordingly."

"There was never any problems within the organization with who was in charge of the operational side of the business. I was never in a situation where someone would have questioned my authority. (Successor1)

In addition to the mutual agreement on the mode of succession, Incumbent had a strong motivation to retire from the position, in contrast to the typical situation of a founder who is unwilling to step aside (Handler 1990, Fox et al. 1996, McGivern 1978). Around the time of the first succession, Incumbent had, according to her own words, "become tired and fed up" with the everyday management of the company and thus it was a rather easy decision to let go. The strong motivation and desire not to be involved with the operational management of the company manifested itself also later during the reign of Successor1, when Incumbent was informed by one of the managers that Successor1 had more or less ruined their business trip by being drunk most of the time.

"First I thought, "Oh hell, I will need to go back, that doesn't seem to be working". But then because I didn't have any desire to resume the responsibilities of the CEO, I sort of masked my unwillingness by saying that everyone deserves a second chance" (Incumbent)

Like the Incumbent, Successor1 was strongly motivated to take the position and especially in becoming a partner and assuming shares of the company. He had also considered the possibility of the later sale of the business, and felt that it was a driver for pursuing growth and new opportunities.

"There was never any issue with my motivation to commit to the company, especially once I was granted the possibility to acquire shares and become an partner/owner." (Successor1)

But then as the company began performing worse, the pressure to grow and create profits was tough, Successor1 acknowledged that he had experienced some degree of personal burnout, which was likely to weaken the motivation and drive.

"We grew too fast. People started to be stressed out and there was just too much to handle." (Successor1)

Another reason for the tensions involved with the passing of the baton are the different management styles of the parties. Dyck et al. (2002) discuss that the tensions over control and responsibility are the reflection of such different styles. This is consistent with the view of Dyer (1989) who argued that many of the problems involved with the transition to professional management in a family firm can be traced to the differences in the very nature of a professional manager in contrast to a family business founder.

Incumbent and Successor1 had a rather different management style, which did not cause problems with the succession process itself, but had an effect on the employees and perhaps conflicted too much with the existing organizational culture. Incumbent was a rather typical entrepreneur in the sense that she was rather hands on and was used to making quick decisions rather intuitively, while Successor1 had a more traditionally professional approach and tried to introduce more formal leadership patterns.

"Successor1 came from a larger company, and it seems that he tried to apply the same systems here. He led the company like it would have been a lot bigger. Our administration was way too complicated, and the level of bureaucracy was increased. But it has always been a challenge, if there's someone who comes from a larger company, because they just don't fit in with how we do things." (Manager)

"I guess Successor1 had used to working with bigger numbers and having the professional board of a bigger company controlling him. Here he was sort of given the freedom to do what he pleased. He should have had the ability to set limits and control himself." (Incumbent)

"I think a lot of what Successor1 expected from us managers, was sort of lost in translation. He didn't really set any clear goals; I think we would have needed more concrete guidelines to our work." (Successor2)

5.2.1.4 Communication

At the time of the first succession both Incumbent and Successor1 had felt that their communication and level of trust was at a reasonable level. Both recalled that information had actively exchanged and at the time they had weekly meetings. The level of trust was also rather high, as Incumbent had willingly stepped aside to let Successor1 assume the responsibilities of CEO. There was also a somewhat mutual respect for each other, as both had a long experience of the Industry and thus there were no problems in terms of unequal competence or experience.

The level of trust the Incumbent had for Successor1 was nevertheless decreased during the time he was CEO, as there was less and less communication and Incumbent had become slightly concerned with the financial situation.

"I remember when I made some comments during the second year on how cheap they were selling projects to customers, I was just told to look at the numbers and not focus on details." (Incumbent)

Furthermore Successor1 had also specifically told the manager to keep Incumbent outside of the decision making, which was in a way the proper thing to do to avoid authority problems, but at the same time not a good thing as Incumbent became more and more unaware of what was happening and perhaps even slightly suspicious.

5.2.2 The second succession phase

5.2.2.1 Sequencing and internal organizational context

The arrival of Successor2 was far from strategic or planned, but rather a forced upon decision due to the termination of the contract of Successor1 and the unwillingness of Incumbent to resume operational lead.

"I was probably named CEO because there wasn't really anyone better around. I was available and there were a lot of problems to deal with at the time. I would likely not have been the primary choice as CEO had the situation been different." (Successor2)

When regarding the life cycle stage the company was in, it had once again arrived at a stage of decline after a rather aggressive growth phase, which had resulted in loss of profitability. The organization would have thus once again needed a re-organizer who would have introduced change and redirected its direction. Successor2 lacked some of the skills and experience needed in such a situation and would have probably been more suited as an able administrator in a mature life cycle phase.

"Maybe in some other circumstances Successor2 would have been really good as a CEO. She tried her best for sure, but was perhaps too careful in making decisions." (Incumbent)

5.2.2.2 Impact of the environment on the timing of executive succession

Already some time before the second succession, clouds started to gather as recession had begun to have its toll on the business. Profitability worsened as several large-scale B2C projects were lagging and not meeting the expected levels and simultaneously the salary costs had skyrocketed, due to the changes made by Successor1 to the salary system in order to secure the access to skilled workforce that would enable the wanted growth. Consequently, by the time Successor1 left, the organization had moved into a state of decline and the financial situation of the company had worsened. Loans had been acquired for the purpose of a rather large IT-investment, which ended up being useless. The state of the situation and business environment remained anyhow somewhat unclear at the time and perhaps due to this the second succession was badly timed.

"I didn't realize the severity of the situation at the time. I had been absent for too long, and wasn't involved with the everyday processes. Sure, I checked the books, but they had did a lot of changes in how the costs were recorded and thus the numbers seemed better than they actually were. When considering the situation now, I should have resumed the CEO position after Successor1 left." (Incumbent)

There were also some months in between the appointment of Successor2 as CEO and the departure of Successor1, during which there was a significant amount of confusion of who was in charge. Furthermore as the business environment at the time was rather hostile in terms of the financial situation, a slow management transition may not necessarily have been the best option according to Dyck et al. (2002). Regardless of whether Successor2 was the right choice or not, the transition should have been quicker as the lag simply postponed important decisions to be made.

5.2.2.3 Baton Passing and Leadership Style

When considering the motivation of Successor2, she regarded the CEO position more as an extension of the previous vice-CEO job and had a rather strong belief that she was not the best, but rather the only choice for the position. Furthermore Incumbent was increasingly involved and thus there were some inconsistencies with the dividing of responsibilities and control. The combination of these matters was likely to have affected the motivation to commit to the company on the long run.

As opposed to the situation of the first passing of the baton, the transfer of control had been rather difficult in the second transition and a mutual understanding of what was being transferred was never truly obtained.

Successor2 was constantly confused with what was expected of her, while Incumbent expected her to take control but nevertheless was more and more involved in the day-to-day operations of the company and not willing to provide Successor2 with the same freedom as Successor1 had had.

"I assumed that I would receive the leadership baton, but then it ended up being rather unclear who was to take control. Perhaps we were just both sort of holding onto the baton from our respective ends. We should have agreed on the responsibilities." (Successor2)

"At some point it was not any more a question that Succesor2 would have made any suggestions. It was rather that I said what to do and she tried to slow me down. I don't know, maybe the power never completely transferred, as I was there pretty much from the start. The situation was just so difficult that it was impossible for me to just stand by and watch." (Incumbent)

"It was a very challenging situation, since Incumbent was more careful in letting Successor2 assume power and act freely. I think it was because Incumbent had been so disappointed with what happened with Successor1. And it was not a good thing. I believe that a CEO has certain responsibilities, but he must also have the liberty to make decisions and to be able to assume power and control. " (Manager)

One clear reason for this unwillingness to hand over control was perhaps the 'ownership control' referred to in the discussions of Dyck et al. (2002). Incumbent still had responsibilities as an owner that could not be transferred and as the financial situation of the business became worse, the pressure to resume the managerial responsibilities as well was hard. Perhaps Successor1 had fulfilled some of these ownership responsibilities earlier, as he was both manager and owner.

In terms of management style, Successor2 was perhaps more hands-on in the operational work than Successor1, but yet incapable of making quick decisions. She had a strong desire to set long term plans for the future and to work towards changing the business model and finding alternative sales channels. While Successor2 was CEO, the timing was nevertheless wrong for making higher-level strategic plans for the future as the financial crisis continued to deepen.

"I think Successor2 had a lot more understanding of the operational side of the business than Succesor1 had, but she still continued with the same patterns as he did. There were a lot of meetings and the administration was way too heavy. She used a lot of time on strategic planning, and then there simply wasn't time for that. The strategic planning must be in the background and not at the expense of everyday operations. In this business you need to be really quick in reacting to changes. That's how things work around here. There's no time for planning stuff for weeks. If something needs to be done, it needs to be done now." (Incumbent)

"I think the greatest challenge in the way that Succesor2 managed things was that she concentrated too much on visionary planning stuff rather than the basic everyday work. I'm not saying that strategic planning isn't important, but at the time we should have directed all our energy to turning the finances around." (Manager)

There were thus great differences in the views of how the company should be managed between the parties. As the Incumbent wanted to get things done and not waste time in planning things, it became clear that it was impossible for the two to manage the company together.

"At some point it just became clear that we were sort of leading the company in different directions. And we never really sat down to discuss in which direction would it be meaningful to go." (Successor2)

"The situation was so bad by summer 2011 that I realized I had to take full control. We were literally almost over the edge, and letting Successor2 go was the sensible thing to do at that point. She was against certain changes, which were a matter of life and death at the time." (Incumbent)

5.2.2.4 Communication

In terms of communication, Incumbent did not recall having a poor level of communication with Successor2, but rather that the situation just forced her to be more involved. Successor2 on the other hand felt that she was not speaking the same language with Incumbent and that there were a lot of inconsistencies in what had been discussed and what was later acted on.

"What I find was the most problematic was that even though some matters were sort of agreed upon and some plans were made, they usually ended up changing on the way. That was really difficult for me. That I committed to something and then the goal had changed without me knowing." (Successor2)

As Successor1 had initially proved not to be trustworthy and caused a lot of complications, Incumbent was far more careful in trusting Successor2. The poor level of trust was often manifested by the fact that Incumbent wanted to be increasingly involved in the decision making of the company and did not allow Successor2 to make that many decisions alone.

5.2.3 Family Influence

As Incumbent had the major ownership of the business, there were no marked problems of family dominance or influence in the succession process as would have perhaps been the case where several family members would have been involved. At the time of the succession the ownership of the company belonged to Incumbent and myself, and since I had recently began my studies and was not actively involved in the business, I had no objections whatsoever to hiring a CEO. Despite the lack of direct family involvement, the family aspect of the business had still paid some part in deciding to hire an external CEO. While having a strong motivation to retire, selling the company was not actively considered at the time. According to Incumbent, this decision had partly been influenced by the desire to preserve the business for the next generation. Furthermore, even though Incumbent did not perhaps acknowledged it, she had had a somewhat family-centered orientation in managing the business, which posed some issues after the succession:

The only problem I experienced in the beginning was that the employees had used to Incumbent being their "mother". Even though I understood that it was a family company, I wanted to "cut the umbilical cord", because the purpose of a company is to make profit. (Successor1)

The organizational culture had without doubt been influenced by such a family-centered orientation, since the company was referred to being almost like "one big family" rather than a means for making money. According to Incumbent, she had above all built a company where she wanted to work in and which as a consequence represented her ideology.

5.2.4 The existence of an advisory board

A common factor, which had not been taken into account in the initial framework and which came up in the interviews of both Successors, was the need for better guidance from the board or perhaps even the presence of a type of advisory board. Especially Successor1 pointed out that perhaps the presence of outside professionals could help in setting goals and bring different angles to the decision-making.

"I feel that I was often alone in my decision making even though I felt that I had the support of Incumbent. Perhaps advisors or board members from outside the company could have brought new angles to the strategy and perhaps questioned some of the choices made." (Successor1)

Successor2 on the other hand felt that the board meetings were very vague and that no clear goals or strategy was decided upon, which made her work difficult.

"I felt that decisions made in the board meetings were never implemented. It was all just talk. And then I just ended up making assumptions of in which direction to take things without any clear guidance." (Successor2)

5.3 Summary of the results

According to the results drawn from the interview material, several of the factors of the framework corresponded to what had happened in the case company during the succession events. The phase of the first succession was rather harmonious in terms of the actual passing of the baton, whereas the second succession failed badly. The outcome of both succession phases, in terms of organizational performance, was nevertheless a failure.

The first succession can be considered successful in terms of several factors within the framework. In terms of sequence, Successor1 appeared to be an appropriate choice when considering the life cycle stage the company was in at the time, despite the fact that there had not been any actual recruitment process or predetermined criteria for the new CEO. His arrival was nevertheless strategic as the plan was to grow the business, which he succeeded in. Timing was also considered appropriate and the baton passing itself was smooth and agreed upon, as both parties willingly made the transition. In terms of management style there were nevertheless rather great differences between Incumbent and Successor1, which caused problems in the internal organizational context. Employees were used to being controlled more and having a more hands on CEO who dealt with the day-to-day activities rather than one that merely made decisions at the higher strategic level. Furthermore it was acknowledged that Successor1 was unable to certain extent to understand the SME context the company was acting in, as he "led the company like it would have been a lot bigger". Despite these problems, the succession can nevertheless be considered successful in terms of the transition of power. The majority of the predetermined factors were fulfilled properly, but still superior organizational performance was anyhow not achieved and the organization was left in a state of decline when Successor1 left the position as CEO.

The second succession on the other hand appeared to fail in terms of nearly all factors considered in the framework. Both the sequence and timing of the second succession can be considered poor and furthermore the environment would have required a different kind of management style. Successor2 lacked without doubt the necessary competences needed for the drastic changes that were to be done in the company. To top it all up the communication between Incumbent and Successor2 seemed to be rather poor from beginning to end and an agreement was never reached on what was to be transferred and when. In retrospective it can even be questioned whether the power was ever properly handed over to Successor2 from Incumbent. Thus in terms of the second succession it can be concluded that the failure of the succession process itself was more or less a result of all the factors within the framework.

The family influence factor, which had been expected to have greater effect on the succession, proved to be rather insignificant. The existence of a rather familial organizational culture, played perhaps a part in the confusion involved with bringing in an outside CEO, who had a different style and was used to a professional organizational culture. The most marked difference in understanding the culture was actually the inability to take into account the SME context.

On the other hand, the role of the board of directors, which had not been taken into account in the initial framework, can bee seen as a rather significant factor. The need for better guidance from the board or perhaps even the presence of a type of advisory board was acknowledged. As Incumbent had been both the CEO and the head of the board; there were no formal board activities in place as the consideration of agency problems had not been relevant. Thus if the functioning of the board had been “more professional” and if there would have been external advisors available, perhaps the steep financial decline of the company could have been avoided or stopped at an earlier time.

6 Conclusions, implications and suggestions for future research

6.1 Conclusions

The initial objective of the study was to try to learn how to improve the succession process in family owned SMEs. This objective was pursued by means of both theoretical and empirical exploration. As research on management succession from the owner-founder to a professional manager in the context of family-owned SMEs can be considered scarce, the aim was to shed light to the specifics of such a particular type of succession and provide answers to why do such successions fail.

The literature of the topic was first reviewed and the common theoretical approaches to the succession process were presented. Drawing from these theories and the specifics of the context of family-owned SMEs, a framework for analyzing the succession process was proposed. The proposed framework incorporates five different factors, which were expected to contribute to the succession of executive succession in family-owned SMEs and thus also to the succession in the case company. The expected outcome was thus that the succession had failed due to lack of the proposed factors and their management.

When the framework was applied to the case context, some interesting contradictions were discovered. In contrary to the predetermined assumptions, the successfulness of the majority of factors did not aid in avoiding failure. When referring to the framework, the only clear problem that was brought up during the first succession was the difference in the managerial style or more specifically the way Successor1 ran operations compared to Incumbent. The organizational performance that resulted was nevertheless poor despite the fact that the succession was seemingly successful. During the second succession there were clearly more problems, which corresponded to the assumptions made based on the framework, but yet they could not fully explain the initial cause of failure. The primary reason for the failure of the second succession, which resulted in the firing of Successor2, were the poor financial results, which had their roots in the management choices of Successor1.

When considering further the very root causes for the financial problems, what eventually changed the direction of the company was the change of the salary system, the increase in sales and further cost cuts. The salary system had been changed during the time of Successor1 and the rates to customers had been lowered several times. These changes had been justified in order to achieve stronger growth and higher sales volumes, which in a way was understandable, but when working in the context of an SME with rather limited resources, the resulting loss of profitability affected the liquidity of the company rather quickly. The severity of the situation was nevertheless not understood when Successor2 took the position of CEO and a lot of processes remained the same, as the true causes of the downturn were not identified.

What has nevertheless not been discussed when applying the framework is what is considered to be a successful succession. Here it is assumed that a successful succession refers to the financial measures of the company performance, which is perhaps one of the most common ways of judging it. If merely considering the factors of the proposed framework the first succession event can be considered successful, as the process was smooth, and the Successor assumed control of the management of the business while the Incumbent chose to retire. The first year even yielded positive financial results and thus if only examining the succession process for the first year, the succession process will look successful.

It can thus be concluded that even though the transition process was successful, the entire succession was not. Thus it appears that the successfulness of the process of succession does not directly result in superior organizational performance as was expected. The causes for the failure in the case company can be traced to the bad management of the SME context rather than the management of the factors proposed in the framework. Thus when considering the initial research question, “Why do succession processes in family-owned SMEs fail and how could these failures be avoided?”, the answer to the question in this case was that the overall succession process in terms of financial measures failed due to the bad management of the business context. Thus if either better control towards how to manage the specific context would have been exercised, or the context specific needs would have been better taken into account in the recruitment process, perhaps such a failure could have been avoided.

6.2 Implications

While the proposed framework did not prove to be directly applicable in the case, it provides nevertheless a good basis for considering how succession processes can be improved. As concluded in the case, the successful management of the framework factors will not directly imply that a succession will be successful, but it is still likely to help determine how some of the failures can be avoided. As the case results suggest, including considerations for the establishment of an advisory board when dealing with succession might also be wise as the control and guidance of external advisors may prove crucial in some circumstances.

Considering the special nature of the SME business context in the management of small family businesses seemed in this context more relevant than considering the family influence. It would thus seem wise to pay special attention to the context when managing succession and perhaps even take them into account already when evaluating and choosing possible successors.

6.3 Suggestions for future research

As research on succession in the context of family-owned SMEs is rather scarce, there exist a need for further investigation as evidence suggest that family business successions are more likely to fail than to succeed. While this study has been able to provide some new perspectives to the process of management succession, the conclusions that can be drawn from a single case study are rather limited. In order to further develop the understanding of management succession in family-owned SMEs, comparative studies using successful as well as failed cases, might provide further insight into how to better manage the succession process. It would be also interesting to concentrate on the effect of the existence of an advisory board on the outcomes of the succession processes, as that was clearly something lacking in the case example.

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