

Doctoral Thesis

Business Succession in Medium-size Family Companies
Firemní nástupnictví ve středně velkých rodinných podnicích

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ABSTRACT

Post succession performance of family owned businesses has become ineffective. Literature specifies that inter-generational succession is the prime cause for succession failures. Due to this, current family owned businesses focus attention on finding alternative, profitable succession modes. The foremost purpose of this research was to compare performances of family and non-family successors. Secondly, this study evaluated the level of influence coming from each stakeholder group on business succession processes in various successor modes. Finally, this study measured the successor's willingness to work under the existing ethical climate and the culture of the business. The study comprises two stages: Exploratory study was used to develop the conceptual framework and hypotheses, and also formal study was used. Sample units were selected through simple random sampling. The data collection modes were a mail survey and in-depth discussions. Data analysis was done mainly from using SPSS.

According to study findings, not all successors are completely satisfied with the business succession process. Unrelated manager successors have higher satisfaction than the family member successors, but neither group exceeds the moderate level. All successors recorded lower performance than the incumbent but unrelated manager successors had better results than the family member successors in both indicators. Therefore, if family members are not available or unprepared for business succession, unrelated manager successors are a viable alternative. All stakeholders' related factors have a positive relationship of initial satisfaction with the business succession process. However, the relatively important factors generating higher levels of initial satisfaction with the business succession process are: successor's commitment, competence, pre-training and experience, the relationship between incumbent and successor, family harmony and non-family management commitment. When succession is conducted with a family member successor, the relatively important factors for success are their commitment, competence and pre-training, experience, harmony with the family and the relationship with the incumbent. However, when succession is done with an unrelated manager successor, their competence and other non-family managers' commitment are the most vital factors. Level of commitment, the relationship between the incumbent and successor, and family harmony are the relatively important factors needed to increase business performance. The majority of existing family owned businesses and most successors prefer working according to Clan culture.

The study is theoretically and practically significant. In practically, it measured post succession performances of two alternative succession modes and recognizes unrelated manager successor as a most successful succession mode. Further, the study recognizes factors of relative importance for initial

satisfaction with the business succession process and for post succession performance. Finally, it discusses changes in ethical climate and culture of family owned businesses that occurred due to business succession. This research contributes to the regional and international theoretical knowledge base. It initiates new business knowledge in Sri Lanka and contributes to international research by developing an integrative framework to measure stakeholders' levels of influence on business succession processes.

ABSTRAKT

Firemní nástupnictví v rodinných podnicích přestalo být efektivní. Literatura uvádí, že hlavní příčina selhání spočívá v mezigeneračním nástupnictví. Z tohoto důvodu hledají rodinné podniky v současné době lukrativní alternativy pro rodinné podnikání. Hlavním cílem této disertační práce bylo především porovnat výkonnost firemního nástupnictví z hlediska rodinných a nerodinných nástupců. Dále tato studie různými způsoby hodnotila úroveň vlivu na firemní nástupnictví přicházející z každé skupiny zainteresovaných stran. V závěru studie měřila ochotu nástupce pracovat v rámci stávajícího etického klimatu a kultury podnikání. Studie je rozdělena do dvou fází, kromě formální studie byla použita také výzkumná studie pro rozvoj koncepčního rámce a hypotéz. Ukázkové jednotky byly vybrány prostřednictvím jednoduchého náhodného výběru. Ke sběru dat bylo použito korespondenční šetření a hloubkové rozhovory. Analýza dat byla provedena především za použití SPSS.

Podle zjištěných výsledků neexistuje mezi nástupci jednoznačná spokojenost s procesem firemního nástupnictví. U manažerů bez příbuzenského vztahu je zřejmá vyšší spokojenost než u nástupců z řad rodinných příslušníků, ale ani jedna z těchto skupin nepřevyšuje průměrnou úroveň. U všech nástupců byly zaznamenány horší výsledky než u stávajících manažerů, ale manažeři bez příbuzenského vztahu měli lepší výsledky než nástupci z řad rodinných příslušníků, a to u obou ukazatelů. Pokud tedy nejsou rodinní příslušníci k dispozici nebo nejsou na firemní nástupnictví připraveni, jsou manažeři bez příbuzenského vztahu schůdnou alternativou. Všechny faktory zainteresovaných stran mají pozitivní vazbu na počáteční spokojenost s procesem firemního nástupnictví. Nicméně, relativně důležité faktory, které vytvářejí vyšší úroveň počáteční spokojenosti s procesem firemního nástupnictví, jsou loajalita nástupce, kompetence, příprava a zkušenosti, vztah mezi stávajícím manažerem a nástupcem, rodinná harmonie a loajalita k řízení nerodinného typu. Je-li firemní nástupnictví vedeno prostřednictvím rodinného příslušníka, relativně důležitými faktory pro celkový úspěch jsou jeho/její loajalita, kompetence a příprava, zkušenosti, harmonie v rodině a vztah se stávajícím manažerem vykonávajícím danou funkci. Je-li však nástupnictví vedeno prostřednictvím manažerů bez příbuzenského vztahu, jsou klíčovými faktory jejich kompetence a loajalita jiných manažerů bez příbuzenského vztahu. Úroveň loajality, vztah mezi stávajícím manažerem a nástupcem a rodinná harmonie jsou poměrně důležité faktory nezbytné pro vyšší výkonnost podniku. Většina současných rodinných podniků a nástupců upřednostňuje při práci tzv. klanovou kulturu.

Studie je významná jak po teoretické tak po praktické stránce. Praktická stránka spočívala v měření výkonnosti firemního nástupnictví formou dvou alternativ firemního nástupnictví a definuje vedení prostřednictvím manažera

bez příbuzenského vztahu jako nejúspěšnější způsob nástupnictví. Studie dále rozpoznává faktory relativního významu pro počáteční spokojenost s procesem firemního nástupnictví a výkonnosti. V závěru popisuje změny v etickém klimatu a kultuře rodinných podniků, k nimž došlo v důsledku firemního nástupnictví. Výsledky výzkumu této disertační práce přispívají do regionální a mezinárodní znalostní databáze, iniciují nové obchodní znalosti na Srí Lance a podílí se na mezinárodním výzkumu prostřednictvím vytvoření integračního rámce pro měření úrovně vlivu zainteresovaných stran na procesy firemního nástupnictví.

CONTENTS

ACKNOWLEDGEMENTS

ABSTRACT

ABSTRAKT

CONTENTS

LIST OF FIGURES	11
LIST OF TABLES	12
LIST OF APPENDICES	14
LIST OF ABBREVIATIONS	15
EXTENDED ABSTRACT	16
ROZŠÍŘENÝ ABSTRAKT	18
CHAPTER ONE - PRESENT STATE OF THE STUDY	20
1.1 BACKGROUND OF THE STUDY	20
1.2 PROBLEMS OF THE STUDY	24
1.3 RESEARCH OBJECTIVES	24
1.4 RESEARCH QUESTIONS	25
1.5 SIGNIFICANCE OF THE RESEARCH	26
1.6 THESIS OVERVIEW	28
SUMMARY OF THE CHAPTER	30
CHAPTER TWO - EXPLORATORY STUDY	31
2.1 LITERATURE ABOUT FAMILY OWNED BUSINESS AND BUSINESS SUCCESSION PROCESSES	31
2.1.1 <i>Family owned businesses and their contributions</i>	31
2.1.2 <i>Definitions of family owned businesses</i>	32
2.1.3 <i>Business succession processes (BSP)</i>	33
2.1.4 <i>Alternative successors for business succession</i>	35
2.1.5 <i>Business succession and performance</i>	37
2.1.6 <i>Succession and post performance</i>	39
2.2 THEORIES BEHIND THE STUDY	40
2.2.1 <i>The stakeholder theory of the firm</i>	40
2.2.2 <i>Stakeholder theory and family businesses</i>	41
2.3 STAKEHOLDER INFLUENCE ON THE BUSINESS SUCCESSION PROCESS	42
2.3.1 <i>Introduction</i>	42
2.3.2 <i>Main stakeholders in business succession</i>	44
2.3.3 <i>Minor stakeholders in business succession</i>	48
SUMMARY OF THE CHAPTER	49
CHAPTER THREE – RESEARCH DESIGN	50
3.1 CONCEPTUAL FRAMEWORK	50
3.1.1 <i>Operationalization of the variables</i>	52
3.1.2 <i>Independent variables</i>	54
3.1.2 <i>Dependent variables</i>	59

3.1.3 Moderating (Control) variables.....	61
3.2 HYPOTHESIS OF THE STUDY.....	62
3.2.1 Hypothesis 1: Successor and post succession performances.....	62
3.2.2 Hypothesis 2: Influence coming from successor related factors to business succession	62
3.2.3 Hypothesis 3: Incumbent related factors influencing business succession	64
3.2.4 Hypothesis 4: Family related factors influence business succession .	65
3.2.5 Hypothesis 5: Non-family owner's commitment on business succession	66
3.2.6 Hypothesis 6: Non-family manager's commitment to business succession	67
SUMMARY OF THE CHAPTER	67
CHAPTER FOUR - SAMPLE DESIGN AND DATA COLLECTION	
DESIGN.....	68
4.1 SAMPLE DESIGN	68
4.1.1 Population of the study.....	68
4.1.2 Sri Lanka.....	69
4.1.3 Small and medium enterprises in Sri Lanka.....	71
4.1.4 Sri Lankan families.....	71
4.1.5 Cultural differences between FOBs in Sri Lanka and FOBs in the European Union.....	72
4.1.6 Sample and sample selection method.....	73
4.1.7 Sample selection procedure	76
4.1.8 Sample elements	77
4.2 DATA COLLECTION DESIGN.....	78
4.2.1 Instrument and questions.....	78
4.2.2 Data collection methods	79
4.2.3 Data analysis and interpretation	80
4.2.4 Reliability and validity.....	83
4.2.5 Response rate	85
SUMMARY OF THE CHAPTER	85
CHAPTER FIVE - DATA ANALYSIS AND DISCUSSION	86
5.1 DESCRIPTIVE STATISTICS OF THE STUDY.....	86
5.1.1 Tests the assumptions of normality, linearity, outliers, multicollinearity and homoscedasticity	86
5.1.2 Business succession with family business successors (FMSs).....	86
5.2.3 Business succession with unrelated manager successors (UMSs).....	87
5.2.4 Age distribution of the successors.....	88
5.2.5 Distribution of the sample among the industries.....	89
5.2 HYPOTHESIS TESTING	90
5.2.1 Comparison of post succession performance	90

5.2.2 Comparison of post succession business performances.....	91
5.2.3 Factors influencing the business succession process.....	95
5.2.4 Model fit for initial satisfaction with the business succession process and post succession performance.....	108
5.2.5 Comparison of regression lines.....	115
5.2.6 Relationship between initial satisfaction and post succession business performance	115
5.2.7 Ethical behaviour and culture of the FOB.....	117
SUMMARY OF THE CHAPTER	118
CHAPTER 6 - GAINS FOR SCIENCE AND PRACTICE	120
6.1 THEORETICAL CONTRIBUTION OF THE STUDY	120
6.2 IMPLICATIONS IN PRACTICE.....	130
SUMMARY OF THE CHAPTER	135
CHAPTER 7- CONCLUSIONS	136
7.1 RESEARCH CONCLUSIONS AND RECOMMENDATIONS	136
7.2 GENERALIZATION OF FINDINGS	140
7.3 LIMITATIONS OF THE RESEARCH.....	141
7.4 RECOMMENDATIONS FOR FUTURE RESEARCH	141
7.4.1 Generalizing research findings.....	141
7.4.2 Further development of the knowledge base	141
BIBLIOGRAPHY	143
LIST OF PUBLICATIONS OF THE AUTHOR.....	157
CURRICULUM VITAE	160
APPENDICES	162

LIST OF FIGURES

Figure 1.1:	Structure of the research	29
Figure 2.1:	Alternatives for family business succession	36
Figure 2.3:	The 7 possible roles of internal stakeholders in a family firm.....	42
Figure 3.1:	Conceptual framework	53
Figure 4.1:	Sorting procedure to identify sample units.....	77
Figure 5.1:	Distribution of different people who are family successors.....	87
Figure 5.2:	Age distribution of successors.....	88
Figure 5.3:	Factors influence for the initial satisfaction.....	110
Figure 5.4:	Factors influence for the initial satisfaction of the family member successor	112
Figure 5.5:	Factors influence for the initial satisfaction of the unrelated manager successor.....	114
Figure 5.6:	Factors influence to the post succession performance.....	115
Figure 5.7:	Type of enterprise culture of FOB's.....	118

LIST OF TABLES

Table 2.1:	Business succession and performance.....	38
Table 2.2:	Identifying stakeholder influence concerning business succession	44
Table 3.1:	Stakeholders and stakeholder related influential factors	52
Table 3.2:	Variables of the study	52
Table 4.1:	School education structure in Sri Lanka.....	70
Table 4.2:	Dissimilarities between European and Sri Lankan family owned business.....	72
Table 4.3:	Most accepted definitions of SMEs in Sri Lanka.....	74
Table 4.4:	Self developed scales to measure the level of influence come from stakeholders	79
Table 4.5:	Reliability analysis.....	84
Table 5.1:	Age distribution of the successors.....	88
Table 5.2:	Distribution of the sample among the industries.....	89
Table 5.3:	Initial satisfaction with the business succession process	91
Table 5.4:	Successions and changes in business performance.....	93
Table 5.5:	Level of commitment of the successor	95
Table 5.6 :	Level of competence of the successor	97
Table 5.7:	Pre-training and experience.....	98
Table 5.8:	Incumbent's interest to let go	99
Table 5.9:	The relationship between incumbent and successor	100
Table 5.10:	Outside interest of the incumbent	101
Table 5.11:	Family harmony.....	102
Table 5.12:	Willingness to support successor.....	103
Table 5.13:	Family involvement for the management.....	104
Table 5.14:	Non-family owners commitment to the business succession	105
Table 5.15:	Non-family manager's commitment to the business succession.....	106
Table 5.16:	Acceptance and rejection of null hypothesis (influential factors and initial satisfaction about BSP).....	107
Table 5.17:	Acceptance and rejection of null hypothesis (influential factors and post succession performances).....	108
Table 5.18:	Multiple regression analysis to determine the initial satisfaction with the business succession process	109
Table 5.19:	Multiple regression analysis to determine the initial satisfaction with the business succession process for family member successors.....	112
Table 5.20:	Multiple regression analysis to determine the initial	

	satisfaction with the business succession process for unrelated manager successors	113
Table 5.21:	Multiple regression analysis to determine post succession performance.....	115
Table 5.22:	Tests of between-subjects effects.....	116
Table 5.23:	Relationship between successors initial satisfaction with the business succession process and post succession performances.....	117
Table 6.1:	Identified research gaps with the study.....	120
Table 6.2:	Key findings of the research and it link with past researches	124

LIST OF APPENDICES

- Appendix A - Research questionnaire
- Appendix B - Normality test
- Appendix C - Pearson correlation coefficients
- Appendix D - Tolerance, VIF and Durbin Watson test

LIST OF ABBREVIATIONS

Avg. ROA	Average Return on Assets
Avg. ROE	Average Return on Equity
BIMBO	Buy in Management Buyout
BSP	Business Succession Process
CEO	Chief Executive Officer
DD	Different Indifferent
EU	European Union
FOB	Family Owned Businesses
GDP	Gross National Production
IPO	Initial Public offerings
JV	Joint Venture
MBI	Management Buyin
MBO	Management Buyout
ROS	Return on Sales
S-K	Kolmogorov-Smirnov
SME	Small and Medium Enterprise
S-W	Shapiro-Wilk
US	United States

EXTENDED ABSTRACT

Post succession performance of family owned businesses has become ineffective. Literature specifies that inter-generational succession is the prime cause for succession failures. In this setting, current family owned businesses focus attention on finding alternative, profitable succession modes. The foremost purpose of this research was to compare performances of family and non-family successors. Secondly, this study evaluated the level of influence coming from each stakeholder group on business succession processes in various successor modes. Finally, this study measured the successor's willingness to work under the existing ethical climate and the culture of the business.

This study comprises two stages: Exploratory study and Formal Study. The exploratory study was used to systematically examine the empirical and theoretical literature. Then, by extrapolating, interpolating, and making logical connections among those, the study developed the conceptual framework and the hypotheses for the formal study.

The targeted population was selected were the successors of family owned businesses. The criteria to select the population were the family owned businesses that contain between 50 and 149 employees and who were involved in a business succession process within the last 10 years excluding the three years, 2007 to 2010. Sample units were selected through simple random sampling method and consist of 128 units. The main data collection modes were a structured research questionnaire mail-out, and also in-depth discussions held with successors. Data analysis was done mainly by using SPSS.

According to study findings, not all successors were satisfied with the business succession process. Unrelated manager successors have higher satisfaction than the family member successors, but neither group exceeds the moderate level. This study found that if successors were not satisfied with the business succession process, it badly affected their following business performance. All successors lowered business performance efficiency and recorded worse performance than the incumbent. However unrelated manager successors recorded better results than the family member successor in both categories. Therefore, if family members are not available or prepared for business succession, unrelated manager are a good alternative.

All stakeholders' related factors have a positive relationship to initial satisfaction with the business succession process. However, the relatively important factors to generate higher levels of initial satisfaction with the business succession process are successor's commitment, competence, pre-

training and experience, the relationship between incumbent and successor, family harmony and non-family manager's commitment. The relative importance of influential factors changes when the succession mode changes. When succession is conducted with a family member successor, the most important factors for success are their commitment, competence, pre-training and experience, family harmony and successor's relationship with the incumbent. However, when succession is done with an unrelated manager successor, their competence and other non-family managers' commitment to the business succession process are the most vital factors. The factors of relative importance to maximize business performance after the business succession process are: the successor's level of commitment; the relationship between the incumbent and successor; and also family harmony. The majority of existing family owned businesses and most successors prefer working according to Clan culture. This match can especially be seen between the incumbent and the unrelated manager successor. Some family member successors prefer to work under different cultural backgrounds such as Marketing and Hieratical.

There is some dissimilarity between the family owned businesses in Sri Lanka and in the European Union. There are however, also similar traits worldwide in stakeholder related influential factors on the business succession process. The relative importance of each factor might change from country to country and region to region.

This study is theoretically and practically significant. In practice, identifying the relationship between initial satisfaction with the business succession process and the business succession process encourages stakeholders to work for higher levels of satisfaction for the successor. Furthermore, the study recognizes unrelated manager successors as a suitable alternative succession mode for family owned business. The study recognizes factors of relative importance such as initial satisfaction with the business succession process and post succession performance. These help manage business succession processes in a successful manner. Finally, the study proposes the concepts of ethical climate and culture of family owned businesses.

This research contributes to the regional and international theoretical knowledge base. After reviewing literature, this study found a void of knowledge of business succession processes in Sri Lanka and seeks to fulfill that knowledge gap. This empirical research contributes to the international knowledge base by analyzing succession alternatives along with their post succession performances, and by evaluating and comparing stakeholder group influence through well organized integrated framework.

ROZŠÍŘENÝ ABSTRAKT

Firemní nástupnictví v rodinných podnicích přestalo být efektivní. Literatura uvádí, že hlavní příčina selhání spočívá v mezigeneračním nástupnictví. Z tohoto důvodu hledají rodinné podniky v současné době lukrativní alternativy pro rodinné podnikání. Hlavním cílem této disertační práce bylo především porovnat výkonnost firemního nástupnictví z hlediska rodinných a nerodinných nástupců. Dále tato studie různými způsoby hodnotila úroveň vlivu na firemní nástupnictví přicházející z každé skupiny zainteresovaných stran. V závěru studie měřila ochotu nástupce pracovat v rámci stávajícího etického klimatu a kultury podnikání.

Studie je rozdělena do dvou fází, na výzkumnou studii a formální studii. V rámci výzkumné studie je systematicky zkoumána empirická a teoretická literatura. Poté byl autorem vyvinut koncepční rámec pomocí extrapolace, interpolace a jejich vzájemnými logickými spojeními, jakož i hypotézy pro formální studii.

Cílová skupina dotazovaných byla vybrána z řad nástupců rodinných podniků. Kritéria vybraných dotazovaných obsahovala rodinné podniky s 50 až 149 zaměstnanci, jež byly zapojeny do firemního nástupnictví během posledních 10 let s výjimkou tří let (2007 - 2010). Ukázkové jednotky byly vybrány prostřednictvím příležitostného (jednoduchého náhodného) výběru a zahrnovaly nejméně 128 jednotek. Hlavním způsobem sběru dat byl rozeslaný strukturovaný dotazník a také hloubkové rozhovory s nástupci. Analýza dat byla provedena především za použití SPSS.

Podle zjištěných výsledků neexistuje mezi nástupci jednoznačná spokojenost s procesem firemního nástupnictví. U manažerů bez příbuzenského vztahu je zřejmá vyšší spokojenost než u nástupců z řad rodinných příslušníků, ale ani jedna z těchto skupin nepřevyšuje průměrnou úroveň. U všech nástupců byly zaznamenány horší výsledky než u stávajících manažerů, ale manažeři bez příbuzenského vztahu měli lepší výsledky než nástupci z řad rodinných příslušníků, a to u obou ukazatelů. Pokud tedy nejsou rodinní příslušníci k dispozici nebo nejsou na firemní nástupnictví připraveni, jsou manažeři bez příbuzenského vztahu schůdnou alternativou.

Všechny faktory zainteresovaných stran mají pozitivní vazbu na počáteční spokojenost s procesem firemního nástupnictví. Nicméně, relativně důležité faktory, které vytvářejí vyšší úroveň počáteční spokojenosti s procesem firemního nástupnictví, jsou loajalita nástupce, kompetence, příprava a zkušenosti, vztah mezi stávajícím manažerem a nástupcem, rodinná harmonie a loajalita k řízení nerodinného typu. Je-li nástupnictví vedeno prostřednictvím

rodinného příslušníka, relativně důležitými faktory pro celkový úspěch jsou jeho/její loajalita, kompetence a příprava, zkušenosti, harmonie v rodině a vztah se stávajícím manažerem vykonávajícím danou funkci. Je-li však nástupnictví vedeno prostřednictvím manažerů bez příbuzenského vztahu, jsou klíčovými faktory jejich kompetence a loajalita jiných nerodinných manažerů. Nicméně, relativně důležité faktory, které vytvářejí vyšší úroveň počáteční spokojenosti s procesem firemního nástupnictví, jsou loajalita nástupce, kompetence, příprava a zkušenosti, vztah mezi stávajícím manažerem a nástupcem, rodinná harmonie a loajalita k řízení nerodinného typu. Úroveň loajality, vztah mezi stávajícím manažerem a nástupcem a rodinná harmonie jsou poměrně důležité faktory nezbytné pro vyšší výkonnost podniku. Většina současných rodinných podniků a nástupců upřednostňuje při práci tzv. klanovou kulturu. Toto porovnání může být viděno zejména mezi stávajícím manažerem a manažerem bez příbuzenského vztahu. Někteří rodinní nástupci dávají přednost práci v rámci různých kulturních prostředí, jako je marketingové a hieratické.

Existuje jistá odlišnost mezi rodinnými podniky na Srí Lance a v Evropské unii. Avšak po celém světě jsou viditelné podobné vlastnosti u faktorů souvisejících se zainteresovanými stranami ovlivňujícími proces firemního nástupnictví. Relativní význam jednotlivých faktorů se mění od státu ke státu a od regionu k regionu.

Studie je významná jak po teoretické tak po praktické stránce. Praktická stránka spočívala v měření výkonnosti firemního nástupnictví formou dvou alternativ nástupnictví a definuje vedení prostřednictvím manažera bez příbuzenského vztahu jako nejúspěšnější způsob nástupnictví. Studie dále uznává faktory relativního významu pro počáteční spokojenost s procesem firemního nástupnictví a výkonnosti. V závěru popisuje změny v etickém klimatu a kultuře rodinných podniků, k nimž došlo v důsledku firemního nástupnictví.

Výsledky výzkumu této disertační práce přispívají do regionální a mezinárodní znalostní databáze. Po prostudování literatury byla prostřednictvím této studie nalezena mezera ve znalosti procesů firemního nástupnictví na Srí Lance a vynaložena snaha tuto znalostní mezeru zaplnit. Výsledky výzkumu přispívají do mezinárodní znalostní databáze prostřednictvím analýzy možností nástupnictví spolu s výkonností firemního nástupnictví a prostřednictvím hodnocení a porovnávání vlivu skupiny zainteresovaných stran formou dobře organizovaného integrovaného systému.

CHAPTER ONE - PRESENT STATE OF THE STUDY

The main objective of this chapter is to present the overall picture about the current state of this study. It includes the following sub-sections; the background of the study, research problems, research objectives, research questions, significance of the study, and the thesis overview.

1.1 Background of the study

According to O'Hare (2003) "Before multinational corporations, there was family business; before the Industrial Revolution, there was family business; before the enlightenment of Greece and Empire of the Rome, there was family business". This statement accurately outlines the history of this exceptional type of worldwide business unit. Family- Owned Businesses (FOBs) dominate the current world economy in particular eras in the past but also at present (Morck and Yeung, 2004). The current degree of business performance, though, is somewhat different. Current FOBs have problems sustaining their business. The reality is of course that FOBs are currently struggling in the worldwide crisis, with their problem of inheriting their business. In other words, *they are struggling for long-term survival after a new Chief Executive Officer (CEO) succeeded the business* (Chung and Liu, 2007).

There is no universally accepted definition for FOBs (Chrisman et al., 2005; Kim and DeVaney, 2003). According to Handler (1989a) "defining the FOB is the most obvious challenge facing FOB researchers" because various researchers define FOBs based on their research and consider various characteristics of this unit. Carsrud (1994) defined FOBs as "businesses in which ownership and/or policymaking are dominated by members of an emotional kinship group." Chua and Chrisman (1999) defined it as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition, controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families." Neubauer and Lank (1998) (cited in Mustakallio, 2002) expressed it as a "proprietorship, partnership, corporation or any form of business association where the voting control is in the hands of a given family."

In recent history, FOBs have increasingly been considered concerning policy decisions (Mandl, 2008), because they greatly contribute to economic and social development (Mandl, 2008). FOBs are actually the predominant form of business organization, and play a vital role in today's Capitalistic economy and social well-being. Beckhard and Dyer (1983) estimated the number of FOBs worldwide, and confirm that about 65% to 90% of all businesses in various

nations continue to develop this sector. According to Malhotra (2010), 80% of all businesses worldwide are family businesses. In Europe, more than 75% of all businesses are family owned. They contribute greatly to Gross National Production (GDP) in most nations and are quite proudly the main employment provider.

Because of these conditions, FOBs have become the dominant sector in the Capitalistic economy. In other words, if *FOBs perform well, they stimulate the economy, increase GDP and decrease the level of unemployment* (Sharma, 1997; Venter, Boshooft and Mass, 2005). Likewise, if FOBs perform poorly, they badly affect the national economy, decrease GDP and increase the level of unemployment. The social cost of this possible failure would contribute negatively to social and economic growth in any capitalist economy (Commission, 2006).

According to research findings, FOBs give *foremost preference to hand over the business to family members because their ambition is to preserve family company ownership*. To achieve this, they transfer management and control to the next generation (Morris, Williams, Allen and Avila., 1997; Lansberg, 1999), without considering the level of competence of the successor. The leading argument for this generational succession is the belief that family members can gather social capital, resources and specific knowledge on running the firm in a more efficient and profitable manner (Bjuggren and Sund, 2001). According to Davis, Schoorman and Donaldson (1997) *“the family successor could perform better than other managers because they are exposed to higher non-monetary rewards associated with the firms’ success that other successors do not share.”* They further argue *“to get solid, specific knowledge and high levels of trust from key stakeholders is very difficult to outsiders.”*

However, FOBs face one extremely vital issue with their generational business succession. According to Ward (1987); Davis and Harveston (1998); and Kets de Vries (1993) *“only 30% of FOBs survive into the second generation, and 15% survive into the third generation.”* Miller, Steier and Breton-Miner (2003) explain that poor Business Succession Process (BSP) is the central reason for this. This scenario has not only affected particular organizations, but has also directly affected the national economy due to lack of contribution.

Regarding the American Family Business Survey (1997) (cited in Sharma, et al., 2003a) BSPs define as *“the transfer of leadership, ownership or control from one family member to another - a goal shared by a majority of family firms”* and as *“a transfer the leadership one family member to another.”*

Conducting the business as a FOB , “each generation takes over the business from the previous generation, and this is the vital managerial challenge for the incumbent, owners, successors and family members” (Miller et al., 2003), but they have failed to do this in a successful manner. *BSPs have gone beyond that stage by considering alternative succession modes, not for family control but for the survival of the organization as a FOB.* Nelton (1997) expressed that *"families are now starting to recognize that it is not the end of the family enterprise if you bring in a non-family executive to lead the firm"*. In other words, at present there is a trend to be a FOB as a “*family owned - non-family managed*” model, not as a “*family owned -family managed*” model. Therefore, the business succession process of FOBs is better defined as “*the passing of the leadership baton from the founder/owner or incumbent owner to a competent successor, who will be either a family member successor or a non-family unrelated manager successor (De Alwis, 2011).*”

Further, Lauterbach, Vu and Weisberg (1999), and also Smith and Amoako-Adu (1999), and Lin and Hu (2007), all conducted research in comparing the financial performances of family member successors and non-family unrelated manager successors in public companies to identify the most appropriate successor. Chittoor and Das (2007) discussed making management more professional with three Indian companies using case study methods. Boeker and Goodstein (1993) discussed the impact of organizational performances and the composition of the board of directors for the selection of a future successor. *Those studies have contributed to the knowledge base of the field, but there is still an enormous knowledge gap to fill. No empirical research has been done on post succession performances of medium-size FOBs by comparing family member successors and unrelated manager successors.* One major objective of this research was to compare post succession performances of a family member successor with that of an unrelated manager successor in medium-sized FOBs through an empirically developed research base.

FOB stakeholders influence the succession process in various ways. The incumbent successor and family are the main stakeholders of the business succession process (Handler, 1989b). In the BSP, the incumbent leaves their position and gives their business handling authority to someone else. Sometimes, this will affect their recognition, and some are not happy to give up their position. Sometimes, they may think handing over power will cause future business problems. Under these circumstances, the incumbent refuses to withdraw from the business. If they have built the business themselves, it makes it more difficult to leave the position. Even after employing a successor who is a non-family manager, the owner may tend to influence the decision making phase. The successor is the one taking responsibility to lead the organization into a successful future. Now everyone’s eyes are focused toward them, as they

run the business and try fulfilling stakeholders' expectations. The challenges running the business for the successor are somewhat complex, especially when family members have different expectations for what they must do for the FOB. For instance, some family members may be directly involved with the FOB, and some not. However, all of them may have hidden or open expectations of goals for the FOB. The worst situation happens when the successor cannot accomplish those expectations from other family members, and then family members will go against the BSP as well as the successor. This most probably is experienced by successors who are outsiders. Therefore, the rapport of both parties of their commitment, trust and agreement to work is very important for a successful BSP.

An individual investor in the FOB who does not belong to the owner family is a further party to be considered. If they do not have confidence in the BSP, they may point fingers at it as a source of problems. Managers who are not family members can be identified as another party that influences the BSP due to them resisting change. Those managers have worked for a longer period with the incumbent and the company, but after succession they must work with a new manager. *This type of influence comes from different stakeholder groups of the FOB. However, no one has evaluated the impact of stakeholders on the BSP in a one interrelated framework.* This research attempted to fulfil this need, and this is its second goal. It evaluated the level of influence from stakeholders of FOBs on successful business succession processes comparing family member successors with unrelated manager successors under the same conditions.

As per the Schein (1985) (cited in Erakovich, Bruce and Wyman, 2002) organizational culture is the "basic assumptions and beliefs that are shared by members of the organization" and organizational ethical climate is the "collection of shared perceptions on what ethically correct behaviour is and how ethical issues should be handled" (Victor and Cullen, 1987, cited in Erakovich et al., 2002). If the organization is driven by ethical climate, it directly influence to the organizational efficiency (Dytrt and Striteska, 2010). Now FOB is going to change the leadership of the organization. *If his perception does not match with organizational ethical climate and culture, it badly effect to his personal satisfaction and the efficiency of the organization.*

As the situation exists after passing on management into the hands of the successor, the successor can influence the ethical climate and culture of the FOB. It can be influenced to the post succession performance. Therefore, there is a dilemma of whether the new successor continues within the existing ethical climate and culture or damages it. Therefore finally, this research expected to evaluate the successor's level of willingness to continue within that existing ethical climate and culture.

1.2 Problems of the study

As explained previously, BSPs of FOBs have become a serious issue for the longevity of this business entity. Therefore, there is a high tendency among researchers and practitioners to find feasible solutions to this succession issue, however in FOB literature, there are very few studies comparing different succession alternatives to BSPs (Chittoor and Das, 2007; Lin and Hu, 2007) and no one has researched stakeholder influences under the same conditions with different succession alternatives. This research aims to develop an understanding of this phenomenon, identified in the previous section. Hence, the problem statements can be stated as follows:

“Who is the best performer from the family member and the unrelated managers to take over the top management position for successful continuation of the business under the significant level of family involvement?”

And

“What are the influences from stakeholder groups on a successful business succession of a family owned business in generally and under alternative type of succession modes? How is the influence different with each type of succession mode?”

1.3 Research objectives

The aim of this research is to identify the most appropriate succession mode without damaging the FOB identity, and to examine the influence of each stakeholder related factors to the success of the BSP under different succession modes.

Therefore, the objectives are:

- i. To compare family member successors with unrelated manager successors based on the successors' initial satisfaction with the business succession process and also post succession business performance.
- ii. To evaluate the level of influence from each stakeholder group related factors on the business succession process, and also to evaluate this on each succession mode individually.
- iii. To fit the models for initial satisfaction with the business succession process and with post succession business performance based on the factors influencing the business succession process.

- iv. To compare influences from each stakeholder group relevant factors on the BSP with different successor mode: family members and unrelated managers.
- v. To evaluate the relationship between initial satisfaction with the business succession processes and post succession business performance.
- vi. To measure the level of willingness of the successor to act in accordance with the existing ethical behaviour and culture of the FOB.

1.4 Research questions

- i. Do the successors satisfy with their business succession process? Who in the successor mode is highly satisfied with the business succession process from family member successor and unrelated manager successor?
- ii. What type of successor is the most successful, that brings prosperity for the FOB?
- iii. What is the level of influence from stakeholders related factors to the post succession performance? What are the most influential factors from stakeholders on the initial satisfaction with the business succession process?
- iv. What is the level of influence from the stakeholder's relevant factors to the business succession process with a family member successor?
- v. What is the level of influence from the stakeholder relevant factors to the business succession process with unrelated manager successors?
- vi. What are the relatively important influential factors from stakeholders on the business succession process?
- vii. What are the relatively important influential factors from stakeholders on the business succession process when it is preceded by a family successor?
- viii. What are the relatively important factors from stakeholders on the business succession process when it is preceded by an unrelated manager?
- ix. Are there significant differences in the level of influence from each stakeholder's relevant factors when the succession mode is changed?
- x. Do successors initial satisfaction with the business succession process has a relationship with post succession performance?
- xi. Is the successor willing to continue under the presently existing ethical climate and culture? Is there a significant difference between family member successors and unrelated successors' expectations?

1.5 Significance of the research

There is a bulk of literature on various issues relevant to FOBs, but the majority of this is focused on inter-generational succession (Handler, 1994 and Wortman, 1994). This is due to poor performance the BSP brings short-term life to the entire unit (Handler, 1994). This poor result affects the business entity and eventually also the national economy. Therefore, business succession processes have become a fundamental topic of FOB research (Sharma, et al., 1996).

Almost 99% of the literature on FOB succession deals with inter-generational succession, and very few researchers have given their attention to alternative succession modes (Lauterbach et al., 1999; Smith and Amoako-Adu, 1999; Boeker and Goodstein, 1993; Chittoor and Das, 2007; Lin and Hu, 2007). However *no one has analyzed business performance after succession with the aim of comparing different succession models, especially in medium-sized FOBs.*

Not only does this study give an economical background, but also a physiological background. When the FOB is ready for the business succession process, there are few problems in the incumbent's mind. One particular problem concerns his personal life, which affects his readiness to step down. As they step down, they must undergo a psychological battle. If they are prepared to step down, a further two interrelated problems need to be solved. The first challenge is linked with the capability of the business to the family. The second challenge concerns the family's capability to sustain the business after the BSP. If the incumbent cannot conduct the business succession process in a successful manner, these two interconnected problems bring several critical issues to the FOB and the family. The incumbent, the successor, other family members and a few other stakeholders are involved in these matters and have some psychological issues. Potential successors must give their commitment to the takeover, while others must accept the succession plan and the successor. If that does not happen, then it is very difficult to get successful results from the process.

Researchers have given attention to different factors influencing the BSP such as:

- the incumbent (Ambrose, 1983; Handler, 1990, and 1992; Morris et al., 1997; Dascher and Jens, 1999; Dyck, Mauws, Strake and Mischke, 2002; Sharma et al., 2003a),

- the successor (Barach, Gantisky, Carson, and Doochin, 1988; Morris et al., 1997; Handler, 1990; Chrisman et al., 1998; Dascher and Jens, 1999; Sharma, et al., 2000; Sharma et al., 2003a),
- the family (Handler, 1990; Morris et al., 1997; Dyck et al., 2002)
- and the other stakeholders (Steier, 2001).

Some researchers have discussed the succession planning process and the difficulties in transferring capabilities from one person to another in order to run a successful business (Boeker and Goodstein, 1993; Fox, Nilakant and Hamilton, 1996; Morris et al., 1997; Cabrera-Suarez, De Saa-perez, Garcia-Almeida, 2001; Malinen, 2001; Dyck et al., 2002; Sharma et al., 2003a; Chittoor and Das, 2007).

Pyromalis and Rogdaki (2004) analyzed past literature and mentioned the lack of an integrated conceptual framework dealing with both dimensions of post succession performance of FOBs; the initial satisfaction and effectiveness of the business succession process. The conceptual framework developed by Morris et al. (1997) focuses on the effectiveness of succession. The framework tested by Sharma et al. (2000) endeavoured to develop a two-dimensional approach but finally focused only on initial satisfaction with the business succession process.

Pyromalis and Rogdaki (2004) developed a conceptual framework by considering a two-dimensional approach, but it did not address all independent variables in a proper manner. Chittoor and Das (2007) designed a good framework, but this was not empirically tested. Additionally, most of the studies were done without a proper theoretical background (Sharma et al., 2003b) and many of the published articles are simply based on casual observations rather than well designed empirical studies (Brockhaus, 2004).

Thus, Handler (1989a) suggested developing an advanced research design and the use of statistical tools to expand the literature in this field. This study empirically addressed established issues (through a well-developed conceptual framework and use of statistical analysis) using a strong theoretical base. This, to some extent, contributed to fulfilling the gap identified by Sharma et al. (2003b) and Brockhaus (2004).

The economy of Sri Lanka

Demographic trends in Sri Lanka indicate a considerable change in the age pyramid. Individuals 55 years and over constitute the fastest growing sector of

the population and this is a signal there may be a large number of business successions during the next two decades. Researchers must therefore give adequate attention to BSP problems, before these problems badly affect the national economy. Such a systematic and comprehensive study of FOBs has not yet been undertaken in Sri Lanka. This can be the foundation for developing new business knowledge about Sri Lanka.

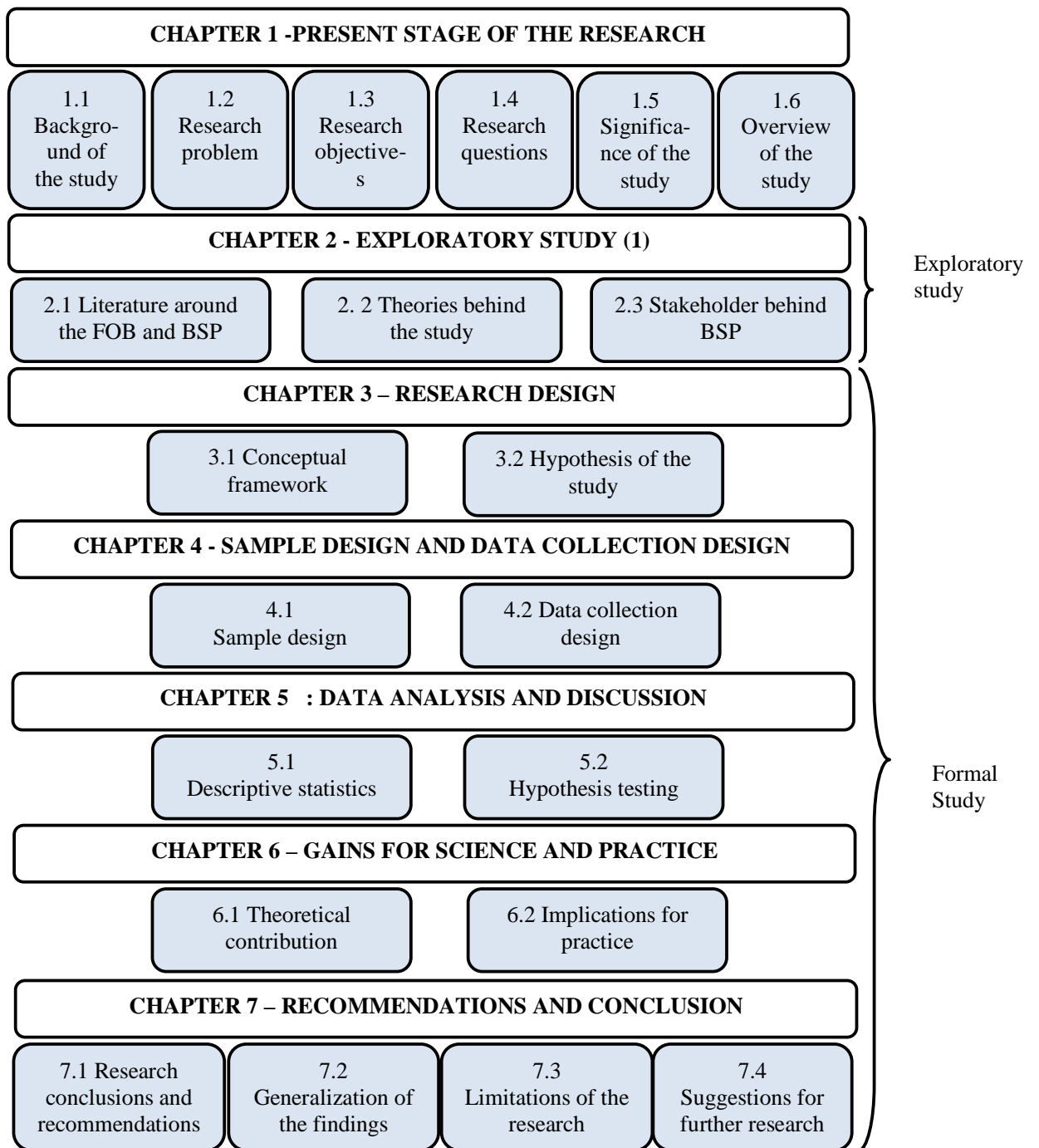
The world economy

According to the literature of Sharma (1997) and Venter et al. (2005), FOBs are one of the most significant contributors to wealth and employment creation in almost every capitalist country in the world. They have emphasized that FOB failure after a poor BSP badly affects the economy because it directly affects the GDP and the unemployment level. Therefore, most countries emphasize the need for successful development of the business succession process. New knowledge generated by this research will assist in fulfilling these existing requirements.

1.6 Thesis overview

This thesis has seven chapters. Chapter 2 examines the systematic, empirical and theoretical literature on BSPs and extrapolates, interpolates, and makes logical connections arising from research to develop the conceptual framework (chapter 3) for the formal study. Chapters 4 to 7 develop the formal study as shown in figure 1.1.

Chapter 2 discusses the literature that this study is based on. To fulfil this purpose, the chapter was divided into three main sub-sections. Subsection one is explaining FOBs and its background literature. It discusses the importance of FOBs in all capitalist economies, discusses various definitions in order to determine the most appropriate definition for this study, it discusses BSPs in FOBs and its impact on the total business, and also discusses various alternative models considered for BSPs and the different perspectives for measuring post succession performances. Subsection two concentrates on the stakeholder theory of firms, because this is the grounded theory of this study. In the final stage of the research review, various stakeholders are described along with their influences on BSPs, and also past research findings are explained, relevant to these groups.



Source: Designed by author

Figure 1.1: Structure of the research

Chapter 3 discusses research design. It extrapolates, interpolates, and makes logical connections between relevant literature to develop the conceptual

framework for the formal study and to develop a hypothesis based on this conceptual framework

Chapter 4 links exploratory study and formal study as discussed by Cooper and Schinder (2008), and is divided into two sub-sections: sampling design and data collection design. Under sample design, it explains the population of the study, sample selection methods, samples, and the expected procedure for sample selection. Under the data collection design, it explains data collection instruments, data collection methods, methods of data analysis, the study's interpretation and how reliable and valid the study is.

Chapter 5 presents data analysis and discussion based on the results. This chapter is divided into two sub-sections. The first subsection analyzes data based on descriptive statistics and discusses the findings and final section tests hypotheses and discuss the acceptance and rejection of hypotheses

Chapter 6 explains theoretical and practical gains of the study. It is divided into two sections: theoretical concepts and practical gain, and discusses this study's research contribution.

Chapter 7 is the final chapter. It explains the study's research limitations, suggestions for future research and also concludes the study.

Summary of the chapter

FOB is a business managed by members of one family or a small group of families. At present they dominate every capitalist economy throughout the world, but they struggle with inherited problems. One problem is short-term survival after BSP. They usually pass the FOB head management position from one family member to another. However, research findings show that most of these successors fail to conduct business successfully. Under those conditions, FOBs are now searching new succession models in order that the FOB survives. The second most popular succession mode for FOB BSP is the unrelated manager successor. When the BSP is done by family member successor or unrelated manager successor, a number of parties influence it because of their business interest, and those can influence the FOB either positively or negatively. This research compares this family member successor with unrelated manager successor to determine the most suitable successor mode and secondly, it evaluates how they influence the FOB. Finally it measures the successor's willingness to work under existing organizational culture.

CHAPTER TWO - EXPLORATORY STUDY

This chapter explains the research that this exploratory study is based on. It examined the systematic, empirical and theoretical literature on BSPs and it extrapolated, interpolated, and made logical connections between the literature to develop the conceptual framework for this formal study. This chapter is divided into three sub-chapters. Sub-chapter one presents the theoretical background of the research. It discusses FOB and their contribution to national and global development, a range of definitions for FOBs in order to determine the most appropriate definition for this study, and the background to BSP, and also various alternatives for BSP, different perceptions about post succession performance, and finally, it expresses past research findings about pre and post succession performance. Sub-chapter two discusses the stakeholder theory because it is the grounded theory of the conceptual framework. Under the third sub-chapter, the influence of various stakeholders on BSPs is explained.

2.1 Literature about family owned business and business succession processes

2.1.1 Family owned businesses and their contributions

Globally, FOBs are the prevalent form of business organizations, and they represent 60% to 75% of all worldwide enterprises - from the most developed countries to developing countries. In Europe, FOBs constitute about 70 % to 80 % of all business companies (Commission, 2006). These assessments, however, are highly dependent on how various countries define FOBs and the researchers involved. FOBs originated from any mode of business activities and under different formations and they are the highest contributor to GDP in capitalist economies, and about half of the GDP in the United States (US).

FOBs are the most dominant employment supplier of every capitalist economy (Sharma, 1997; Dyer, 1998; Miller et al., 2003). FOBs are an option for solving unemployment problems because they create new job opportunities, especially for family members (Commission, 2006), and also for the general public, mainly for women and older employees. FOBs account for an important part (about 40 % to 50 %) of European employment, but in some studies available, the FOB contribution to employment is estimated it might be at least 70 %. According to Shanker and Astrachan (1996), 80% of all organizations in the US are family - owned or controlled businesses, 12% of the GDP comes from this sector and 15% of all employment.

In Sri Lanka, FOB contribution is difficult to measure because they have not been identified as a separate cluster. To some extent though, their contribution

can be understood through contributions from Small and Medium Enterprises (SME), because the majority of SMEs is represented by FOB's (Aldrich and Cliff, 2003; Venter and Boshoff, 2007; Commission, 2006). In Sri Lanka's economy, SMEs are the predominant sector and it constitutes more than 50% of the GDP (Control Bank of Sri Lanka, 2010), constitutes 20% of the industrial value (Cooray and De Silva, 2007) and accounts for 70% of the nation's employment.

Under these conditions, FOBs should be recognized as the dominant business type in most economies in the world (Shanker and Astrachan, 1996; Heck and Stafford, 2001; Morck and Yeung, 2003).

2.1.2 Definitions of family owned businesses

If one or few families have the majority of ownership and the controlling power of the company, then simply it can be identified as a FOB. They perform significantly differently to non FOBs, especially concerning business growth and the level of profitability. Family involvement is a special feature of this business entity, which distinguishes FOBs as a specific type of business. Identifying family involvement in FOBs brought a fundamental step to recognizing them as an independent entity. There is still, however, no universally accepted term for FOBs. It has been described by different authors, writers, researchers and institutions in various terms such as a "family firm," "family business" or "family owned business." In this study, researchers prefer to use the term "family owned business (or FOB)" to describe them because it is the ideal term for the research framework.

There is no universal definition of a FOB. According to Westhead et al. (1998), different researchers use different definitions based their specific purpose. For instance, "researchers began defining the family business operationally by the components of a family's involvement in the business: ownership, management, and inter-generational succession" (Chrisman, Chua, and Steier, 2003b). According to Chua and Chrisman (1999), definitions of FOBs broaden from simply a majority of shares to 100% of shares.

Shanker and Astrachan (1996), distinguished FOBs into three categories: "broad," "middle" and "narrow" based on family management involvement. If a family is involved in day-to-day business activities and multiple generations work in the organization, then it should be identified as "narrow." In the same manner, if the family only attend to the business to set business strategy, they can be classified as "broad." "Middle" FOBs are those run by the founder or a descendent of the founder and which work with legal control of stocks.

Astrachan, Klein, and Smyrnios (2002) developed a new model for assessing to what extent family influence has on business organizations, using three dimensional powers, experience, and culture. Klein, Astrachan, and Smyrnios (2005), developed another scale named “F-PEC” to measure family influence on power, experience, and culture within a firm. Chrisman, Chua and Sharma (2003a), defined FOBs based on “familiness” which is current and next generation business control of a firm. Carsrud (1994), (cited in Westhead and Cowling, 1998) defined FOBs as when “A firm’s ownership and policymaking are dominated by members of an ‘emotional kinship group’ whether members of that group recognize the fact or not.”

Chua and Chrisman (1999), defined FOBs as

“The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.”

This definition elaborates the main features of the FOB, and clearly distinguishes family ownership from family management and/or governance. In some instances, owners are not involved in actively operating the business; however, they influence strategic decisions such as creating the vision and mission of the organization, influencing management succession and so on. Thus, FOBs can be divided into two sub-sections as —1) “*family owned and family-managed businesses*” and 2) “*family owned and governed but professionally managed businesses*” which separates ownership from management (Chittoor and Das, 2007). Dyer (1986) defined family business is an “organization in which decisions regarding its ownership or management are influenced by a relationship to a family.”

Considering the research framework, this study defines FOBs based on the definition by Neubauer and Lank (1998) (cited in Mustakallio, 2002). According to them, a FOB is “any form of business association where the voting control is in the hands of a given family.”

2.1.3 Business succession processes (BSP)

This study only discusses management succession, and it does not discuss ownership succession, though often both happen simultaneously. Top management succession is a particularly challenging event for any type of business organization because the successor’s approach, competencies and perception directly affect all aspects of the business, and also stakeholder’s expectations. The American Family Business Survey (1997) defines BSPs of

FOBs as "the transfer of leadership, ownership or control from one family member to another - a goal shared by a majority of family firms." Meijaard, Uhlaner, Flören, Diephuis and Sanders (2005) goes beyond this to define BSPs of FOBs as "...a transfer to someone within the family, to a third party, or to another company". Management buy-ins (MBI) and management buy-outs (MBO) can be considered examples of business transfers as well, as long as the existing economic entity survives." According to Beckhard and Burke (1983) (cited in Handler, 1994) BSPs are "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; a 'professional manager." According to Barry (1975) and Davis (1982) to have an actual BSP in FOBs, it must have three major components: 1) an incumbent/founder who hands over their leadership role, 2) a successor who accepts the leadership role, and 3) a system by which the handover takes place.

For FOBs, family members are interested in transferring management into another family member's hand, mostly transferring to the next generation's hand. This is because their intent is to preserve company ownership and management within the family. They transfer management and control into the hands of the next generation (Morris et al., 1997) without considering the competence level of the successor. The leading justification for this inter-generational succession is the belief that family members are able to accumulate social capital, resources and learn specific knowledge on running the firm in a more efficient and profitable manner (Bjuggren and Sund, 2001).

According to Davis et al. (1997), family successors might perform better than unrelated managers, because they have developed better non-monetary rewards which helps guarantee the firms' success. Additionally, Donnelley (1964), (cited in Alestalo, 2010), argues that "to get firm specific knowledge and higher levels of trust of key stakeholders is very hard for outsiders." According to previous research findings, only a limited number of FOBs survive to the second generation and more than two-thirds do not pass to the third generation (Shanker et al., 1996). Kets de Vries (1993) writes that only "30% of FOBs survive into the second generation, and 15% survive into the third generation". Poor successions are the main reason businesses fail to continue (Miller and Breton-Miner, 2003). Other causes are implementing incomplete and vague succession plans, selecting incompetent or unprepared successors, and also family conflicts (Dyer, 1986; Handler, 1990, 1992; Lansberg, 1999; and Morris et al., 1997). Due to this, there is a current trend to operate as a "family owned and non-family managed" business instead of the "family owned and family-managed" business.

Therefore BSPs of FOBs can be better defined as the “*transition of leadership from the founder - owner or incumbent-owner to a competent successor. The successor might be a family relative or non-family manager.*”

2.1.4 Alternative successors for business succession

Family member successor

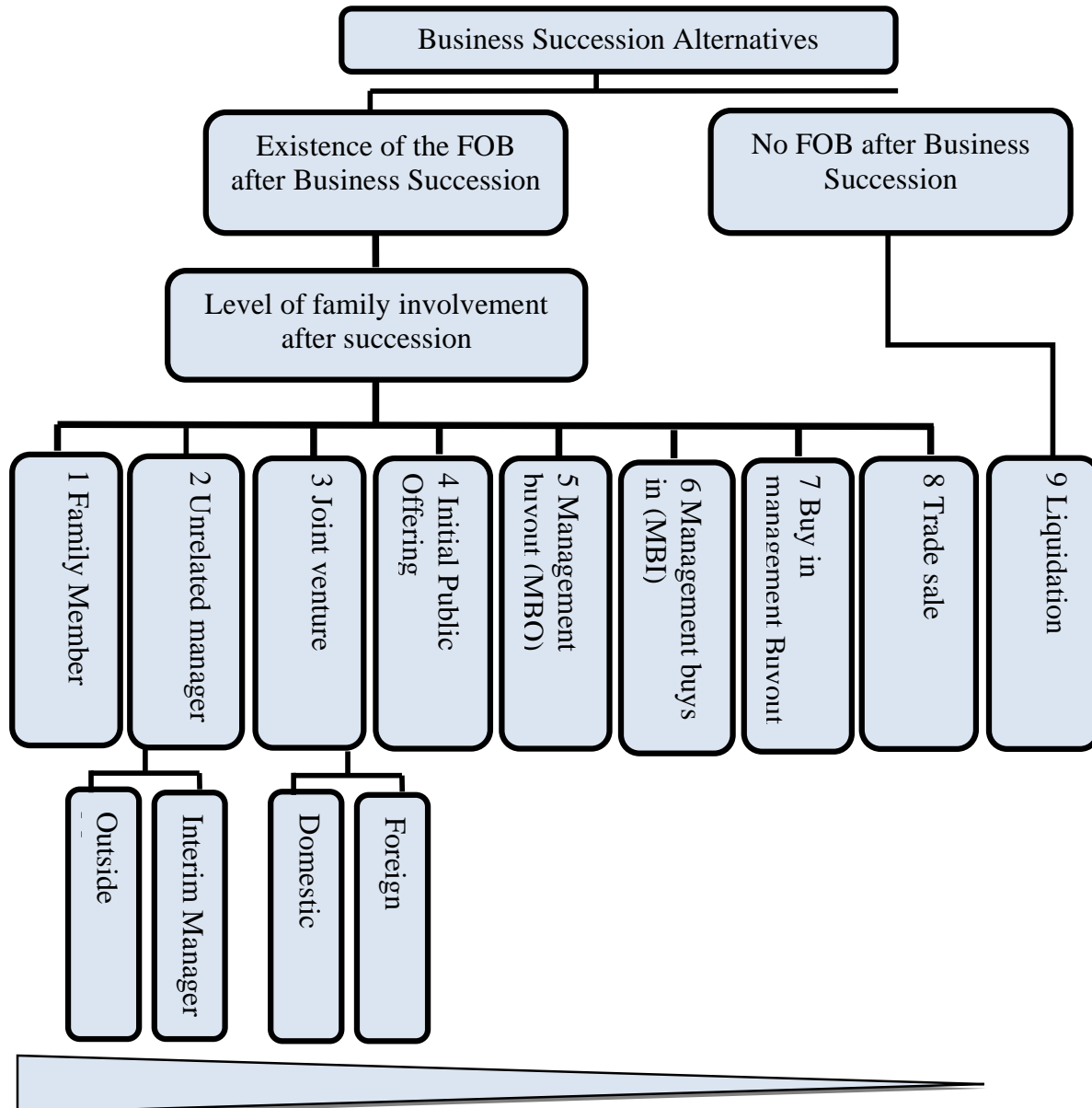
As mentioned earlier, FOBs give priority to handing over the business to other family members. In this instance, the business goes to the successor, who has related by blood to the incumbent. This transition is usually done from generation to generation. Sometimes, if no blood relatives are available, FOBs consider handing over the business to a person related to the incumbent-owner by law. Some researchers highly recommend that internal successors are more suitable than unrelated successors because they have greater knowledge of the firm and an established social network (Chung et al., 1987). Cabrera-Sua´rez et al. (2001), express that internal family succession can help FOBs sustain or achieve some competitive advantage over non-FOBs. It is vital that family members contribute to a smooth successor transition because they are the ones who have developed the existing corporate strategy.

Non-family unrelated manager successor

Sometimes family inter-generational succession is impossible due to such reasons like competent family members being unavailable, family members refusing to take over management or problems with the family member successor. Under these circumstances, companies must make a crucial decision about continuing the family business and protecting family identity. In order to protect family identity, FOBs must then consider appointing outside unrelated managers (Chittoor and Das, 2007). This means recruiting an unrelated manager successor to lead the company (the professionalization of the FOB) for an interim period until they find a family successor for long term posting as manager. In certain cases, it is very beneficial for the FOB to appoint an interim or “*regency*” manager (Matser and Lievens, n.d.) until a family successor is fully prepared for the management job. In this way, the family can maintain control of the family business, and it fills the managerial gap. Further reasons to appoint an interim unrelated manager successor are environmental pressures such as those from multinational companies, technological advancements in a field, competition from quality products at low prices, consumerism, media exposure, and lifestyle changes. FOBs must find external unrelated managers to run the business successfully.

Other alternatives for business succession

In addition to the above-mentioned succession modes, there are a number of other succession alternatives (see figure 2.1). Some researchers suggest trade sales as an alternative model for the BSP (Cromie, Stephenson, Monteith, 1995). This could be unattractive to businesses if a firm's identity is likely to be lost.



Level of family involvement after business succession

Source: DE ALWIS, A. C. International Joint Venture: The new way of thinking for the business succession, The international conference Hradec Economic Days, 2012, 31st January – 01 February 2012, p. 84-89

Figure 2.1: Alternatives for family business succession

Initial Public Offerings (IPO) is another alternative but is rarely a feasible solution (Poutziouris, 2002). Another option is the transfer of family firm ownership to an internal manager through a MBO, or the transfer to an external manager through a MBI. Westhead (1997) expressed that “Post-MBO/MBI there is a greater possibility that the firm’s identity and culture will remain the same, both of which are important for family firm owners.” An attractive feature of both MBOs and MBIs is that many incumbent managers may remain in their chief executive position, and family members can work continually in their current capacities. Family members could also deal with the company as they did before the succession, even though they have relinquished both ownership and managerial control.

Buy-in management Buy-out (BIMBO) is another mode of choice. Here, this “alternative is the combination of an MBO and an MBI and management is done by an internal FOB management team working together with an external, unrelated manager. This method merges knowledge of the existing team with the knowledge of an expert person in the field” (My Business, 2006). There is another alternative, of a Joint Venture (JV) with a domestic or an international partner, but this succession model has not received much research attention in studies (De Alwis, 2012). All alternatives for a BSP are shown in figure 2.1 below. These can be divided into two segments: 1) “the business exists after succession” and 2) “the business does not exist after succession.” This can be categorized in descending order from left to right based on “family involvement after succession,” with the left side showing more family involvement.

The most renowned succession mode is the succession of a family member. It allows the highest level of family involvement. The “trade sales” has the lowest family involvement level after succession. Professionalization of management allows the second highest level of family involvement and JV is the third highest level in this category. The following modes are in general order, from highest family involvement to lowest family involvement: IPO, MBO, MBI, and BIMBO.

2.1.5 Business succession and performance

An extensive search was done to find available literature on BSPs and its affect to post succession performance, but very few contributions were found. In total, 9 articles were reviewed, but the majority of them do not relate to the FOBs. Some compared FOB performance to non-FOBs. A few studies researched the relationship between performance before succession and its impact on selecting an appropriate succession mode, and other researchers evaluated the post succession performance with succession modes. The majority of research was conducted in the United States, Canada, the United Kingdom

and Australia, and only 2 theses conducted research in the Asian region. (See table 2.1).

Table 2.1: Business succession and performance

Author	Objective	Key findings
Amran and Ahmad (2010)	Examine the relationship between family successors' attributes and firm performance.	Founder-manager firms recorded worse performance than successor-manager firms.
Daily and Dollinger (1992)	Compare family owned and managed with professionally managed firms.	There are significant differences between FOB and non - FOB performances.
King (2003)	Evaluated performance after succession is attributed to differences in predecessors.	Successor's potential capability, commitment and skills bring positive results and better performance
Kotey (2005)	Examine the differences between family and non-family SMEs and their performances.	Small and medium-sized family firms perform better than non-family small and medium-size firms.
Lauterbach et al. (1999)	Identify the factors influencing successions, and measure post succession performance.	There is a relationship between successor selection and firm's performance. Weak performing companies give priority to appoint non-family successors.
Lin and Hu (2007)	Give background to family firms and their successor selected, and investigate the performance of CEOs from different backgrounds.	When a family member is a successor, it brings better performance.
González (2001)	Examine the impact of family control on the firms' performance	When the successor is a family member, it brings better performance than unrelated successors.
Smith and Amoako-Adu (1999)	Management successions immediate and long-term affects in financial performance	There is no significant difference between non-family insider successors and non-family outsider successors.

	within the Canadian family controlled firms	
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Source: Past researches shown above

2.1.6 Succession and post performance

There is no clear agreement among researchers on how to measure a successful or effective succession (Dyer, 1986; Handler, 1989a; Morris et al., 1997; and Cabrera-Suárez et al., 2001). Handler (1989a) and Sharma (1997), explain whether it is suitable to use the satisfaction level of the incumbent, the successor, and other family members as an indicator of whether the BSP is perceived to be successful. Sharma et al. (2001) express this as a “subjective assessment of an individual about the process and decision regarding the selection of a new top manager, based on perceptions rather than objective criteria.”

Handler (1989a) and Morris et al (1997) discuss the differences of the BSP experience from two perspectives. That is, how family members personally experience the succession process (subjective assessment), and the effectiveness of the BSP (more objective assessments of the outcome of the transition). Harvey and Evans (1995) and Handler (1989b) along with Goldberg (1996), point out that stakeholder satisfaction with the BSP indicates not only a successful BSP, but also the successor's ability to keep the family business healthy by sustaining growth and continuing to be profitable. Sharma et al. (2001) express business performance as a criterion to show the BSP was effective. It has become an evaluation criterion to determine whether the CEO will survive (Sharma et al., 2001).

Evaluating those situations, Venter et al. (2005) summarize it as follows:

... “in order to ensure the success of the succession process, all the different stakeholders involved in the process (the predecessor, successor, family, network, suppliers, etc.) must be satisfied with its outcomes, and the successor should have the ability to ensure the sustainability and financial security of the family business after the succession process has been completed.

Two-dimensional evaluation of the BSP, address to the uniqueness of the FOBs, (because it has subjective and objective indicators). Professionally managed business ownership is widely dispersed, and they usually employ business performance to measure success (Pitcher, Chreim, and Kisfalvi, 2000; Venter et al., 2005). However, maintaining good family relations is also an extremely important evaluation criterion (Venter et al., 2005) and in some instances, family members give priority to other members' personal satisfaction

instead of business profitability (File, Prince, and Rankin., 1994; Tagiuri and Davis, 1992).

Sharma et al. (2001) explain and expand the argument between these two opposing dimensions of success in management succession. According to them...

“Dissatisfaction with the succession process could cause interminable conflicts that make the succession ineffective. On the other hand, if the succession is not effective, dissatisfaction with the succession process, after the fact, could occur. In summary, studying satisfaction with the succession process is important because of its direct impact on the relationships among family members, an important consideration in many family firms, and because of its impact on effectiveness.”

Further they suggest that:

“The relationship between satisfaction and effectiveness is likely to be inter-temporal in nature (Sharma et al., 2001).”

The initial satisfaction with the business succession process generally encourages better performance and usually brings booming post succession business performance, and this excellent post succession performance brings FOBs some personal satisfaction. Likewise, if stakeholders are not satisfied with the BSP, this discourages them from performing their roles as well as possible in the proper manner, and this will affect post succession performance both directly and indirectly. This finally brings dissatisfaction to the whole business process. Post succession performance has a direct affect on the FOB and directly influences the level of satisfaction and hunger for the business unit to survive (Cabrera-Suarez et al., 2001; Dyer, 1986; Handler, 1990 and Sharma et al., 2001).

2.2 Theories behind the study

2.2.1 The stakeholder theory of the firm

The term “stakeholder” was first coined in 1963 by R. Edward Friedman, but he has changed his own definition number of occasions. Originally, he expressed stakeholders as “groups without whose support the organization would cease to exist.” Again in 1984, Friedman identified stakeholders as the groups “who can affect organizational performance and decision-making, as well as organizational performance and decision-making can be affected by the person.” In 2001, Freidman again describes stakeholders as “...groups who have a stake in or claim on a firm.” Again, in 2004 he defined them as “those groups

that are vital to the survival and the success of the corporation.” Friedman has suggested a number of definitions, but the most accepted definition is “...*any group or individual who can affect or is affected by the achievement of the organization objectives.*” This brings a broader and clearer view of what stakeholders are, by using the terms “*can affect or is affected by.*”

One of the main expectations of this stakeholder theory is to help corporate managers understand stakeholder expectations and interests, and to then manage those relationships more effectively. Stakeholder theory assists company managers and executives to increase the value of their business ventures and minimizes the damage against stakeholders. Or, in Friedman’s (2001) words: “managers bear a fiduciary relationship to stakeholders.” In point of fact, this concept changes the way of considering business organizations and managers. In the past, the manager’s main objective was to maximize the wealth of the owners. This concept however, redefines the organization’s purpose for existence. Freidman (2006) states that the “*organization itself should be thought of as a grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints.*”

Stakeholder management means creating suitable methods to manage various stakeholder groups and relations. Freidman (1984) expresses that “managing people should create and implement processes, which can satisfy stakeholders around the organization” Thus, the main role is “to manage and integrate the relationships and interests of stakeholders, employees, customers, suppliers, communities and other groups in a way that guarantees the long-term success of the firm” (Freidman, 1984). In 2010, Dyrtr and Striteska splits stakeholders again into six groups as customers, employees, managers, suppliers, shareholders, imitable groups and explain “*manage and create the ethical relations between stakeholders as a one of the essential role of the managers*”.

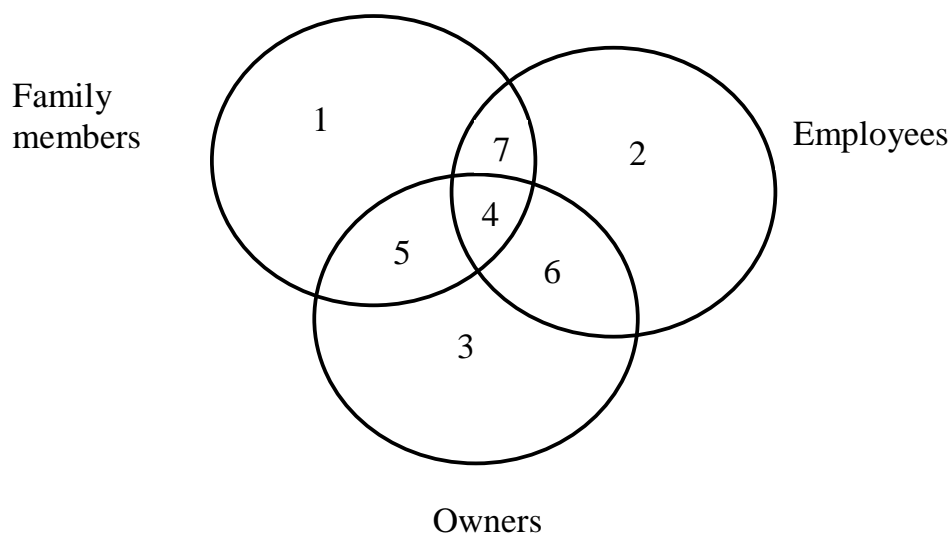
2.2.2 Stakeholder theory and family businesses

There are a number of special stakeholders can be identified with FOBs. The Incumbent/founder, active members of the owner’s family, non-family owners, family managers and non-family managers are all special groups that are compared with other business entities (Sharma, 2001). Further those can be divided into two groups: “internal stakeholders” and “external stakeholders.”

“Stakeholders involved with the firm either as employees (who receive wages), and/or owners (stakeholders), and/or family members are referred to as internal stakeholders. External stakeholders are those not linked to a firm either through employment, ownership or family membership, but can influence the long term survival and prosperity of a firm (Sharma, 2001).

Sharma (2003) further details internal stakeholders by her paper named “*Stakeholder mapping technique: toward the development of a family firm typology*” where she discusses ideas based on: Lansberg (1997), and Davis and Taguiri’s (1989) three circle model. Under those circumstances, she recognises 7 types of stakeholders (Figure 2.3) as:

- 1) Family members not involved in the business
- 2) Employees who are not family members
- 3) Non-family owners who are not involved in business operations
- 4) Family member owners who is an employee
- 5) Family member owners who are not involved in business operations
- 6) An employee owner who is not a member of the family
- 7) A family member who is an employee



Source: SHARMA, P. Stakeholder Mapping Technique: Toward the Development of a Family Firm Typology: Academy of Management 2002 annual conference in Denver [online], 2003, 1-23, [cit. 2011-01-28]. Available at: www.wlu.ca/documents/842/2003-01-MOB.pdf

Figure 2.3: The 7 possible roles of internal stakeholders in a family firm

2.3 Stakeholder influence on the business succession process

2.3.1 Introduction

This researcher applied Friedman’s definition (1984) in identifying stakeholders who influence the BSP. *This research discusses a very specific and*

fundamentally vital process of FOBs and therefore, it does not recognize stakeholders in the overall organization. Instead, stakeholders are now defined by altering Friedman's (1984) definition as: "...any group or individual who can affect or is affected by BSP in FOB." Different stakeholders have different expectation to get reach and based on that they can respond to the BSP. According to Lansberg (1988), the most common response is to "go against the BSP" because the BSP directly influences the successful continuation of the business unit. According to Sharma (2003), "*in family firms, all family members are stakeholders in the succession process as they can, to varying degrees, affect or be affected by leadership transitions.*"

Especially during the growth stage and pre-maturity stage of business development, organizations recruit outsiders to assist business management and administration. Those outsider managers usually work a long time with the founder / incumbent and get old with the company. They have influence when the incumbent plans to step down as this change creates a number of issues. After the BSP, they need to work with the new successor CEO manager. If the CEO does not accept these outsider managers as team members, then these elderly managers have problems surviving within the organization. Additional to this, the successor and elderly management may not belong to same age generation. Inter-generational conflicts can arise between the elderly management and younger successor and usually they "go against the BSP" (Lansberg, 1988).

In some instances, the founder/incumbent must issue company shares to external, non-related managers, friends and non-family relatives in order to solve financial difficulties of the FOB and to satisfy active participants in the business. These are other groups that can influence the BSP (Lansberg, 1988).

By reviewing and combining past literature, this research has been identified 5 individuals and/or groups of stakeholders in the BSP of FOBs. The terms: "level of involvement in the BSP", "BSP impacts on that specific group or individual" and "the level of influence affecting the BSP" are considered as criteria for this classification.

Under these criteria, "incumbents," "successors" and "family" are identified as the main stakeholders of BSP of FOBs and "non-family owners", and "non-family managers" are clustered as the minor stakeholders of BSP. Due to lesser involvement in the above-mentioned process, and insignificant levels of affect and ability to influence positively or negatively on the BSP, this study did not evaluate other stakeholders such as non-family employees, customers, and suppliers.

Table 2.2: Identifying stakeholder influence concerning business succession

Stakeholder	Level of involvement in BSPs	Level of affect on BSPs	Degree to which affected by BSPs
Incumbent	Very high	Very high	Very high
Successor	Very high	Very high	Very high
Owner-family	High	High	High
Non-family owners	Low	Moderate	High
Non-family managers	Average	Moderate	Moderate
Suppliers	Very low	Low	Moderate/Low
Customers	Low	Low	Moderate/Low
Non-family employees	Low	Low	Moderate/Low

Source: Developed by the author based on exploratory study

2.3.2 Main stakeholders in business succession

The Successor

Successor is one of the most important stakeholders with a legitimate claim on FOB and with a legitimate concern in the succession process. Sharma et al. (2001) comment on successor's influence as:

“In the absence of a successor who is willing and able to take over the family business there cannot be succession within the family. Because of the successor's ability to refuse or withhold cooperation, these individuals exercise great power over succession timing and the satisfaction of family members with the process.”

According to Barry (1975) and Chrisman et al. (1998), the lack of interest shown by a potential successor is one of the main reasons for an unsuccessful BSP. Morris et al. (1997) empirically show how significant the relationship is between the potential successor's level of interest and the likelihood the succession will succeed. Furthermore, Chrisman et al. (2003a) express and confirm the relationship between the level of commitment, the willingness to accept the new succession position, and post succession performance. Sharma et al. (2001) add that “when the successor is not interested to take over the business, commitment to the business cannot be expected from them. Then, finally, it will affect the level of satisfaction of the incumbent and other family members.”

Goldberg and Wooldridge (1993) define commitment as the successor's willingness to take over the business. Offers from other businesses with more attractive benefits, a poor relationship with the incumbent or/and the family members, or lack of self-confidence are the main reasons that lessen the successor's commitment. Considering this, Handler (1989a) and Lansberg and Astrachan (1994) put forward some suggestions to get the potential successor interested as "matching successor's career interest with opportunities he can reach through the FOB" (Handler, 1992), developing a desirable work environment (Handler, 1989b; and Lansberg and Astrachan, 1994) and enhancing the competencies of the successor.

Successors can be defined as *individuals who have the competencies necessary to take over the management position*. This statement clearly shows how important the competency levels are of the successor for a successful BSP. The ideal successor should be equipped with the relevant competencies to replace the outgoing manager. Lack of these competencies is the foremost reason for the failure of the whole business succession process. At least the successor should have the skills and competencies to run the business without damaging its current progress. That is the minimum level of competency expected from the FOB. In other words, the successor's level of competency should be equivalent to the incumbent's level of competency. If the new successor has the competencies to lead the business into a more profitable future, then the incumbent will share his personal experience and disclose business connections without any hesitation.

Ward (1987) explained that the successor's business development and preparation for the leadership role is the main determining factor for a bright future. In other words, the knowledge, skills and attitudes that the successor has acquired through internal and external training helps them gain confidence so they can successfully take over the business and manage it profitably. Secondly, a competent and willing successor will help get other employees committed to the BSP which includes the incumbent, family members and also confidence will grow among the stakeholders. Thus Morris et al. (1997), recognise the preparatory training of the successor as a vital factor for an effective succession. Internal business training in the firm is very important in order to be familiarized with the internal firm setting, culture, structure, resources and synergies. Preparatory training also helps to co-ordinate the management team of the organization, and this means it is more likely management and employees will support the successor during and after the BSP.

Likewise, external business training and experience is very useful to the successor. This brings a higher level of awareness, knowledge, credibility and confidence in running the business smoothly (Barach et al., 1988). Barach and

Gantisky (1995) showed that one of the main secrets behind brilliant performance after succession is when successors know how other businesses perform, how they react to their rival's strategies and the new successor should react to other businesses. Under these circumstances, Ward (1987) concluded:

“All in all, gaining experience outside the business is one of the strongest recommendations that can be made for successors. In all our interviews, no one who worked outside the family business regretted doing so. Many who did not wished that they had.”

The incumbent

There are two terms in this field of literature to describe the person who passes the leadership baton: “founder” and “incumbent”. The founder is the person who establishes the business. The term “incumbent” describes the family member who holds the highest managerial position and also owns most of the FOB. During the transition from first generation to second generation, the role of the “founder” and “incumbent” are similar. Both terms can be used for one specific individual. This study evaluated business successions and it also includes second generation to third generation transitions and so on. Therefore this study defines all such people as “incumbents”

De Massis, Chua, Chrisman. (2008) defines an incumbent as “the person who holds the top management position in a family business and who must relinquish that position before another family member can take over.” Sharma et al. (2001) states that “succession is the transfer of leadership from the former to the latter,” therefore this transition process under strict control of the founder and/or incumbent. Considering this situation, Sharma et al. (2003b) express that:

“Incumbent has a considerable amount of power to influence the nature and timing of succession and whether it is a quality process or not. The incumbent generally has enough legitimacy within the firm and the family to remain in power as long as he or she desires.”

If the incumbent is not willing to withdraw his involvement from managing the business, they postpone the entire BSP (Sharma, 1997). Because he is the CEO, if he withdraws his co-operation, the BSP cannot be actualized. In reviewing past literature Sharma et al. (2001), Davis (1982) and Handler (1989a) disclosed that the “business owner's inability of letting go is the most cited obstacle to effective succession.”

The founder-owner is the one who has most developed the business by devoting their financial and emotional investment. They have taken immense risks to establish and build up the business to its existing level. Sometimes, they

have sacrificed parts of their personal life for the business. Not only that, but in some instances they have had to forego a career in order to establish the company. In some cases, the CEO has built the business almost like it was their own child. Now they are faced with the decision to forsake their child. Stepping down is a difficult task, because they must cease their close relations with the business. They also might feel fear when they lose power, status or some personal identity as the managing director of the FOB (Sharma et al., 2003a). According to Lansberg (1998) "...one difficult deterrent to succession planning is the founder's reluctance to face his own mortality.

This is a very difficult psychological decision to take (Sharma et al., 2001) because in most cases, the founder's children have already left home, thus the CEO returns to an almost empty home where family activities have been reduced to a very low point. The founder has built their recognition from family members, close friends and sometimes social circles due to their capacity as the CEO (Lansberg, 1988). Thus, the incumbent must face possibly losing position, control, power, part of their identity, and stature in the community (Potts, Schoen, Engel, and Hulme, 2001). Kets de Vries (1985) elaborates this situation as "in most cases, an incumbent has a difficult time visualizing life without a significant leadership role in the family business."

As discussed previously, the incumbent's personal interest towards the business has bound them to the business. The higher the level of interest, they more they are tied to the business and it is very difficult to separate the business from the incumbent. When it is low, it is easier to separate. If they have some outside interests, this helps them forsake the business because it is easier for the successor to accept this novel change as a fresh start to life. Thus the urgency or lack thereof, of the incumbent to begin succession will partially depend upon these above-mentioned factors (Sharma et al., 2001).

Brockhaus (2004) and Lansberg (1988) proposed that the relationship between the incumbent and the potential successor is vital for successful BSP. Cabrera-Suarez et al. (2001) pointed out that this relationship is a bridge that transfers knowledge from the incumbent to the successor. There is some conflict between the incumbent and the successor at the time of the BSP which can damage the entire BSP because the potential successor may decline the appointment, or alternatively the incumbent may refuse to appoint the successor as their replacement (De Massis et al., 2008).

The family

"Family" is a multi-faceted term that includes variables like values, ethnicity, culture and/or generations. Families consist of people who have shared common

history, experience, emotional bonding and common future expectations and goals. Families can be divided into groups by considering their specific features: “biological families” who have a direct biological kinship; and “non-biological families” (or quasi-families) that do not have any biological kinship but have emotional relations, such as in-laws. As a group, family members are the most important internal stakeholders in FOBs. The successor must continually deal with families in financial and social transactions (Sharma et al., 2001). For successful continuation of the business, family managers must accept each other’s role, and if they reject the successor, it damages the entire BSP.

Churchill and Hatten, (1987) believed that family harmony helps the succession process be successful because it brings great trust and mutual understanding among participants (Dyer, 1986 and Handler, 1990). Malone (1989) included mutual respect, trust, understanding among family members, and the presence of open lines of communication as the main features to help family harmony. This brings a shared vision for their future (Sharma, 2001). Further, Morris et al. (1997) confirmed that the quality of family relationships is a reliable indicator of whether a BSP will be successful, more reliable than either succession planning or preparing heirs.

If there is family disharmony, it will badly affect the business such as discontinuing business involvement, put family stakes into jeopardy, and cause stakeholder powers to be dysfunctional. Those badly affected must still attempt to successfully continue on with the business. If the family chooses not to continue the FOB, the BSP cannot be seen to implement this decision. In some instances, children of the owner do not have any interest to join the FOB due to various reasons because family relationships are complex and people conflict with each other, which then damages the continuity of the business.

2.3.3 Minor stakeholders in business succession

Non-family owners

In family businesses, in most instances, the founder has complete control of ownership. In some instances though, due to various reasons, they have sold the firm and distributed shares to non-member outsiders, for instance, in order to collect finances. At other times, they have promoted some employees to owners of the company to encourage them to take responsibility. Those non-related, external minority owners who are old friends and/or close employees of the founder often resist succession plans in their own firms, and consequently they tend to avoid discussions of succession planning altogether (Lansberg, 1988).

Non-family managers

When the BSP is occurring, it not only influences just the family, the incumbent and the successor, it also influences the managers who have worked for a long period in the company. They face many emotional issues that lead them to resist planning the succession. This section discusses these senior, non-family cadre managers who hold higher positions in the company. This group is often composed of older managers. In some instances, they started their career at the time the company was established. Thus, they have a very close relationship with the founder. Over the years, the founder may have personally managed each of these senior manager's trainings, evaluation, compensation and tendered personal favours to the managers. When the founder steps down, they are in a dilemma, whether they can serve under new successor or not. Based on that, they make their own decision whether to go against or support the BSP.

Summary of the chapter

The aim of this research was to go a more comprehensive, integrated approach for studying BSP in FOB. This used a two-stage research design, comprising of an exploratory study and a formal study, as discussed by Cooper and Schinder (2008). Exploratory study is qualitative research, which formed part of the first phase of the research to determine the concepts to be included in the formal study and to support to the foundation and background of this study. The author has examined the systematic, empirical and theoretical literature on BSP in FOB and has extrapolated, and interpolated between the studies to develop a conceptual framework and hypothesis for the second part of this research.

The achievements of the exploratory study are given below:

1. It specified key definitions, concepts and constructs for the study (FOB, BSP, family member successor, unrelated manager successor, main and minor stakeholders and levels of influence).
2. It identified variables linked with FOB and BSP. This includes variables that measure the influence from each stakeholder related factor to the BSP
3. It identified previous research on BSP in FOB and helped focus this study and avoid duplicating research work.
4. It assisted with the development, refining and breaking down of the study hypothesis.
5. It refined the research design into the final blueprint that guided this study from the formation of the research conceptual framework and hypothesis to the report about the analysis of the collected data.

CHAPTER THREE – RESEARCH DESIGN

In this chapter the author shows how the study makes logical connections between the literature to develop a conceptual framework and hypothesis for the second part of the research. To achieve that objective, this chapter is divided into two sub-chapters. Under the first sub-chapter, it shows the conceptual framework and how it has operationalised with the variables. Sub-chapter two explains how this author developed the hypothesis based on the sub chapter one.

3.1 Conceptual framework

This study used the “*stakeholder theory of the firm*” as the grounded theory of the research. This conceptual framework has identified main stakeholders and minor stakeholders related factors of the BSP as the independent variables and the post succession business performance and initial satisfaction with the business succession process as dependent variables of the study.

The FOB’s main intention is to hand over the business to another suitable family member. However, in some situations, this is impossible due to a number of reasons such as unavailability of competent members within the family, and competent family members refusing to take over the company. Under these circumstances, the company must make two significant decisions. The first decision concerns the long-term existence of the FOB. In other words, this decision is about the continuation or liquidation of the business. The second decision is about family involvement in the business after the BSP. The first decision directly influences the second. If FOBs make a decision to liquidate the business, the business no longer exists for the second decision, i.e. about the level of family management involvement after the BSP.

There are a number of options that can be recognized as alternatives in the BSP such as appointing an unrelated manager successor, JV, IPO, MBO, MBI, BIMBO, or trade sales. The level of family identity and involvement continually diminishes due to the BSP in various degrees, from the alternative unrelated manager successor to a “BIMBO” and there is no family involvement with the last alternative - “Trade sales”. (See figure 2.1). This research was expected to compare the performance of *successors who are working under the highest level of family involvement*. Therefore, the first aim of this study was to compare “*family member successor*” with an “*unrelated successor*”, based on their post succession performances.

There is no definite agreement among researchers about what contributes to the successfulness or effectiveness of BSP in FOB. Some researchers suggest “*satisfaction of the BSP from the incumbent, the successor and other family*

members, as the indicator of the perceived success” (Cabrera-Suárez et al., 2001; Dyer, 1986). However, those researchers have considered only one side of the BSP, which is the main stakeholders’ (the incumbent, the successor and other family members’) satisfaction with the BSP. Apart from that, others have used “*successors’ ability to keep the FOB healthy*” as the measurement to appraise the business unit. Venter et al. (2005) and Sharma and Irving (2005) express the perceived success of the BSP is determined by the extent of satisfaction with the process and continued profitability. Handler (1989a) and Morris et al. (1997) also mention that “success has two interactive dimensions: satisfaction with the process and the effectiveness of succession.” Chrisman et al. (2005) express the importance of family relations and the effectiveness of the business entity, and they identified two perspectives to measure the success of the process: business performance and family harmony, and named these as “two pillars for family firm performance.” The author agrees with Cabrera-Suarez et al. (2001) ; Dyer (1986); Handler (1990); Morris et al. (1997); Sharma et al. (2001) and they believe that the success of the BSP is defined as “*the subsequent positive performance of the firm, the ultimate viability of the business and the satisfaction of stakeholders with the succession process.*” At last, a conceptual argument can be brought toward as an interactive relationship between these two dimensions of success in the BSP of FOB. According to Sharma et al. (2001) “...performance may also alter family member’s satisfaction with the succession process even in the absence of any changes in the relationships among family members.”

Under the second aim of this study, the level of influence coming from stakeholder related factors to the business succession process was evaluated. “*Stakeholders are any group or individual who can affect or is affected by the achievement of the firm’s objectives*” (Freeman, 1984). According to this theory, *the importance of a particular stakeholder in influencing the direction, decisions, and actions of the firm depends on that stakeholder’s stake, power, legitimacy and urgency* (Freeman, 1984). Thus, all the stakeholders this study has recognized have divided mainly into two segments as “*main stakeholders of the BSP*” and “*minor stakeholders of the BSP.*” Incumbent, successor and family who has the ownership of the FOB recognized as “*main stakeholders of the BSP*” according to Handler’s (1989a) classification. Non-family managers and non-family owners are recognized as “*minor stakeholders of the BSP.*” Later, the research identified each stakeholder relevant influential factors to the BSP as independent variables.

Table 3.1: Stakeholders and stakeholder related influential factors

Categorization	Stakeholder	Influencing factors
Main stakeholders	Successor	Level of commitment of the successor
		Level of competence of the successor
		Pre-training and experience
	Incumbent	Incumbents interest to let go
		Relationship between incumbent and successor
		Outside interest of the incumbent
	Family	Family harmony
		Willingness to support successor
		Family involvement for the management
Minor stakeholders	Non-family owners	Level of commitment to the business succession process
	Non-family managers	Level of commitment to the business succession process

Source: Developed by the author based on exploratory study

3.1.1 Operationalization of the variables

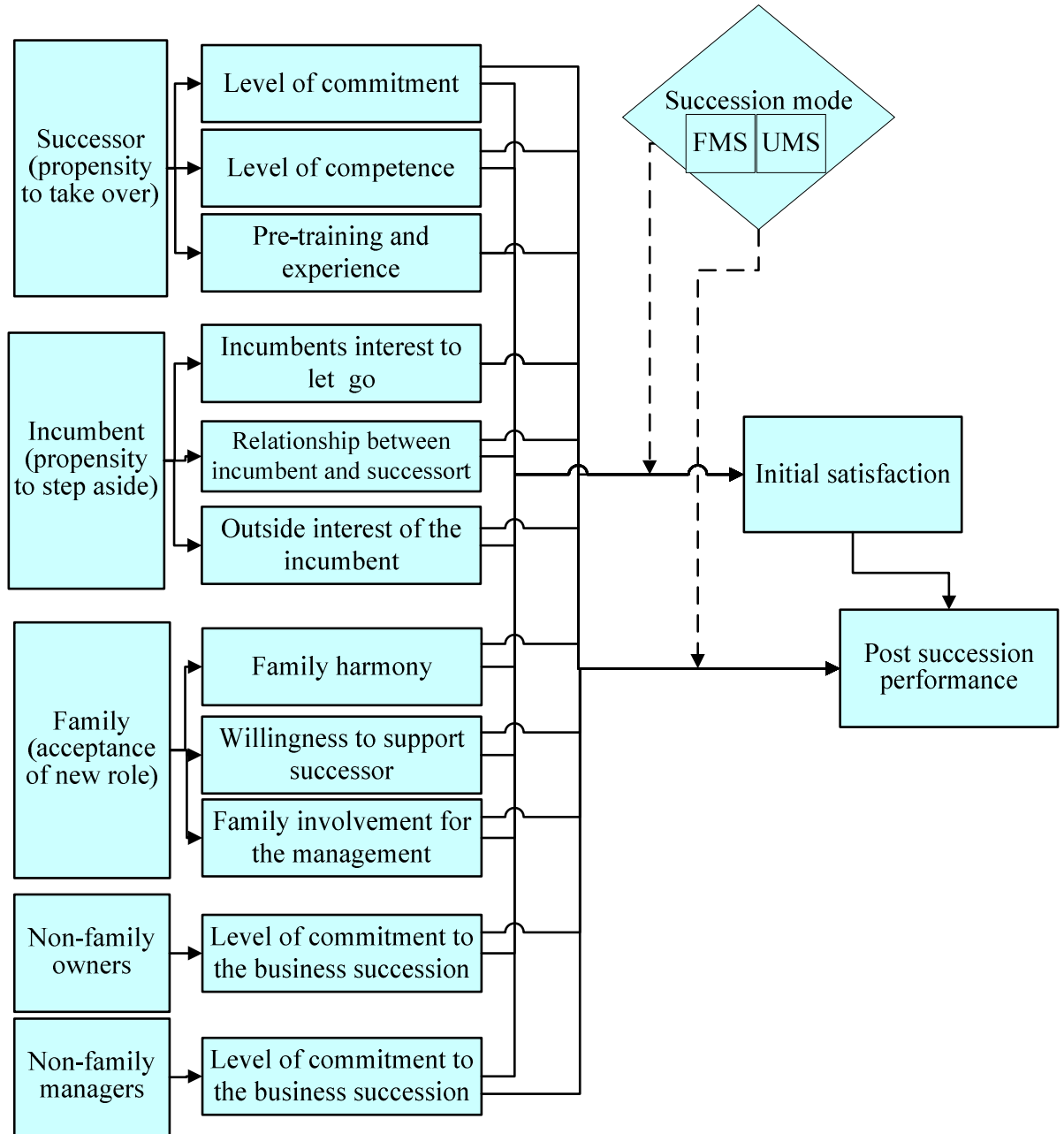
Independent and dependent variables of the study are shown in table 3.2

Table 3.2: Variables of the study

Type of variable	Variable
Dependent variables	1) Initial satisfaction about the business succession process (ISBSP)
	2) Post succession business performances (PSP)
Independent variables	1) Level of commitment of the successor (SCMI)
	2) Level of competence of the successor (SCOM)
	3) Pre-training and experience (STRA)
	4) Incumbent's interest to let go of the position (ILET)
	5) Relationship between incumbent and successor (IREL)
	6) Outside interest of the successor (IINT)
	7) Family harmony (FHAR)
	8) Willingness to support successor (FSUP)
	9) Family involvement for management (FMGT)
	10) Non-family owners' commitment to the succession process (NFO)
	11) Non-family manager's commitment to the succession process (NFMG)

Moderating (control) variables	Family member successor (FMS)
	Unrelated Manager Successor (UMS)

Source: Developed by the author based on exploratory study



Source: Designed by the author based on exploratory study

Figure 3.1: Conceptual framework

As illustrated in table 3.2, this study has identified 11 independent variables that can influence the BSP, and two dependent variables; initial statistician with business succession process and post succession business performance of the FOB. Moreover, there are two control variables for the study: family member successor and unrelated manager successor.

3.1.2 Independent variables

Successor (factors influencing the propensity to take over the business)

Level of commitment of the successor

A successor's true commitment and willingness are direct influences on the success of the BSP (Chrisman, Chua, and Sharma, 1998). If a successor refuses to take over the new position, it automatically stops the entire process. This can happen due to them having other opportunities with higher benefits. In addition to this, there can be a poor relationship with the incumbent or with the family, or lack of self confidence might be another common reason that decreases the commitment level of the successor. Successions are much more successful when the candidate-successor has a strong desire to lead the family business and finds this a fascinating challenge. Goldberg and Wooldridge (1993) define commitment as "the successor's willingness to take over the business" and it is considered to be a crucial factor in the success of succession in family firms (Chrisman et al., 1998). A strong commitment results when offspring wants to join the company, feel appreciated and profoundly welcome, are not forced by parents to be executives or successors, and can choose whether or not to join the family firm (Barach and Ganitsky, 1995). This research operationally defines the level of commitment from the successor as "*acceptance of the new position due to a desire to take the position into one's own hands*" and it was measured from three perspectives: "willingness to accept", "match with carrier interest" and, "personal desire to develop the FOB."

Level of the competence of the successor

The successor's interest to be a successor in itself is not sufficient. They should also be a very competent person, who can perform their duties at the expected competency level because this level of competency directly affects the current and future performance and the survival of the business in today's competitive, dynamic, drastically changing environment (Barach and Gantisky, 1995). According to Dun and Bradstreet (1972), 45% percent of all businesses fail due to the inappropriate appointing of successors. Some appointed managers are not competent enough to hold management positions; they may not be ready to be in the strategic decision table. Usually they themselves refuse to accept the position after identifying their incompetence. Sometimes, that refusal can be

raised from the family or from the incumbent, if they lack confidence in the successor. The central theme of the succession process is that the FOB management ends in the hands of a very competent and well-motivated successor (Matser and Lievens, n.d.). According to Chrisman, Chua and Sharma (1998), the following characteristics are deemed vital for candidate-successors: “integrity, commitment to the family business, ability to command respect from the personnel, decisiveness and interpersonal skills.” Some authors identify the characteristics of management skills as the competence of the successor. According to past literature, one point can be easily understood. Each and every researcher has explained at least one part of the competencies of the successor in order to be a successful replacement. Yet few have given attention to developing the structure of such competence. Porvaznik and Coll (2008) have developed a new way of thinking to fulfil this void in their book, *“Holistic Management, Pillars of Competence in Management”*. In this research author has used two criterions in the framework to test levels of competence of the successors: “professional ability”, and “practical skills”. Under this background, competence of the successor defined as *“capacity to discharge the position successfully”* (Porvaznik and Coll, 2008)

Pre-training and experience

The training the successor receives, either internally or externally, might have positive influences on a successful BSP. Ward (1987) discovers that the successor's development for the leadership role is one of the most important factors for survival after BSP. Internal business training brings early exposure to the organization, opportunities to become familiar with the internal settings and opportunities to work with the existing managers and workforce, and to develop capabilities need by the firm (Ward, 1987). Simultaneously, if they have external experience, this will help successors work with self-confidence (Dyer, 1986). Not only training, but pre-development planning is also needed at this point. This study defines the level of pre-training and experience as the *“how much respect the successor gains from the subordinates due to knowledge and familiarity with their position within a short period of time”* Here, in this study, was measured this factor from four perspectives: “gained academic qualifications”; “improved practical skills”; “internal experience”, and “external experience.”

The incumbent (factors influencing the propensity of the incumbent to step aside)

To measure the level of influence coming from the incumbent on a successful BSP, three factors were measured: the “incumbent’s interest step aside from the

position, the relationship between the incumbent and the successor and outside interests of the successor.”

The incumbent’s interest to let go

Through reviewing past literature, Sharma et al. (2001); Davis (1982) and Handler (1989a) all disclosed that the “business owner’s inability of letting go is the most cited obstacle to effective succession.” If the incumbent is not happy to step aside, that badly affects the entire BSP (Dyck et al., 2002; Sharma et al., 2003a; Dascher and Jens, 1999; and Sharma et al., 2001). According to Sharma (2001) “incumbent’s tendency to go out highly depends on the initial satisfaction with the business succession process, the level of relationship with the successor, and his confidence about his future protection.” If he does not have much propensity to step aside, it appears as though they are against the successor’s freedom to make decisions and strategic implementations. Therefore, “leave him go to attend to his interest” can be identified as one influential factor of a successful BSP. This study defines incumbent’s interest to let go as “*the incumbent’s confidence level on how the FOB will survive without his personal involvement, and their willingness to forsake the benefits generated by leaving the management position.*” This study measured the incumbent’s interest to let go from their position through four indicators: “preserving their controlling power in his hand during the succession process”; “the incumbent’s attitude towards company potentials to run without his presence”; “their degree of interest on the image they received from the company”, and “the level of interference to the business decisions after BSP.”

The relationship between the incumbent and successor

The level of the relationship built up between successor and incumbent is another factor that affects the BSP. Family member successors might have better opportunities to build up close relationships with other family members than non-relative successors. If they have a good relationship it might have a good influence on the overall succession process. If the incumbent has a greater share of ownership of the company after the transition of the leadership to another (family member or non-family manager), there is a great possibility to supervise the new successor very closely. That creates a principal-agent relationship between the incumbent and the successor. This study defines the relationship between incumbent and successor as “*Confidence in the successor’s capability to guide the FOB into a profitable future.*” This study measured the relationship between the incumbent and successor by studying two indicators: “the incumbent’s willingness to share confidential information”; and “the recognition given by the incumbent to the successor.”

Outside interests of the incumbent

According to Sharma (2001), “the urgency of the incumbent to begin succession will partially depend upon whether he or she has interests outside the business.” Therefore, if he or she has an interest in stepping aside, authorized personnel should consider this a matter of fact situation and let him or her leave the position without letting him or her interrupt the BSP. This study defines outside interest of the incumbents as “*the level of benefits given to the incumbent after he steps-down from management and the outside activities that the incumbent is involved with at the time succession takes place.*” Therefore, in this study, was measured this factor from two perspectives: “amount of outside activities” and “reorganization gained through outside activities”

Family (factors influencing acceptance of the new role)

The family can be identified as the next influential stakeholder group of the BSP (Chrisman et al., 1998; and Sharma and Rao, 2000) and if they act against the BSP, it will block the entire process of the BSP (De Massis et al., 2008; Lansberg, 1983).

Family harmony

The factors carrying a high level of influence on the BSP include family members’ commitments to the business (Dyck et al., 2002); their trust in the successor’s capabilities (Dyck et al., 2002; Sharma, 1997; Sharma et al., 2001); and their mutual agreement to accept the new successor and continue the business (Sharma et al., 2003a). Churchill and Hatten (1987); Dyer (1986); Handler (1990) all identified the combination of these qualities as increasing family harmony, and this generates a shared vision for every participant (Sharma et al., 2001). This study defines family harmony as “*the level of trust, commitment to business and mutual agreement among family members.*” Therefore, this study was measured “family harmony” through three indicators: “trust, commitment to the business”, and “mutual agreement.”

Willingness to support the successor

According to Tagiuri and Davis (1992), “an overlapping and interdependent relationship can be seen between the FOB, the owners of the business, and the family that controls the business.” If family members are not committed to the succession, it blocks the opportunity to demonstrate the requisite management abilities of the successor (De Massis et al., 2008). Moreover, most frequently, family members are more willing to offer higher positions to their relatives than

to outsiders. In addition, they should be very willing to share their knowledge and portfolio of professional capabilities with relatives. However, in some instances, family members that hold important roles in the company may threaten to leave the company because of dissatisfaction with the selection. Under this background, this study defines family member's willingness to the successor as "*how much family members conform to the selection of the successor*" and the study was measured it through two indicators: "sharing knowledge freely among members", and "continuing the family role of doing business without any disconnection."

Family involvement in management

Generally, the director of the board of any type of company is consisted the owners of the entity. It is not dissimilar with FOBs, and based on the level of ownership, family members take positions on the board of directors. If the business is totally owned by one company, on most occasions, the entire board is represented solely by family members. If a high percentage of family members are in executive positions, they have the power of decision making. In other words, without interference, they can decide the future direction of the company. This study defines family involvement in management as "*family member's active contribution toward decision making*". Therefore this study was measured this through two indicators: "expert evaluation vs. criticism of successor's decisions", and "the supportive role of being members of the board".

Non-family owners' commitment to business succession

Especially in medium-sized FOBs, there are opportunities to sell company shares to non-family members due to various reasons such as: the urgent requirement of raising funds, to successfully deal with the growth stage of business life, and to get non family, external knowledge. In some cases, non-family owners have invested in the FOB when considering the level of competence of the incumbent. Therefore, it is important that the successor has an eye for ambition and aspiration of non-family owners who are active in the family business. Sometimes there is a chance to refuse the new successor by non-family owners, if they think that the new appointment is a threat to them as well as to their investment. This study defines non-family owner's commitment to the business succession as "how confident non-family owner's are in the capacity of the selected successor, and the likelihood they will lead the FOB into a successful future." and study measures this factor through three indicators: objections to the appointment of the successor, efforts to withdraw the ownership, and encouragement given for the success of business succession.

Non-family manager's commitment to business succession

Bruce and Picard (2006) stated various conflicts that may happen among successor and non-family managers during the succession process and elaborated the damage that can occur. Senior managers are an essential part of the family business governance structure and their commitment directly affects the company performance. The senior managers are in charge of implementing the strategic direction decided upon by the successor. Actually, the majority of senior managers has been part of the business and with the incumbent for many years. Now the incumbent will give their position to the next generation or unrelated manager successor, whether they are a family member or not. Sometimes other managers will not be pleased to accept the new appointment and then non-family owners can be identified as constraints to the BSP. On the other hand, if they are pleased with the new appointment, they will perform in helpful ways. This study defines non-family manager's commitment to the business succession as "*how confident non-family managers are in the capacity of the selected successor, and the likelihood they will lead the FOB into a successful future.*" and this study was measured this factor through two indicators: acceptance of the appointment and the level of support given to execute various decisions.

3.1.2 Dependent variables

This study includes both subjective and objective measures to evaluate FOB performance. *It was measured subjectively by the initial satisfaction with the business succession process, and it has measured business performance objectively and subjectively.*

Initial satisfaction with the business succession process

Cabrera-suárez et al. (2001) and Dyer (1986) suggested using the satisfaction of the incumbent, the successor and other family members with BSP as an indication of the perceived success of the BSP. Sharma et al. (2003a) employed this performance indicator for their research on "predictors of satisfaction with the succession process in family firms." Sharma et al. (2001) collected data to measure satisfaction from incumbents and successors, but no data was collected from family members due to the limitation of the research framework. Their sample framework was FOBs that expected succession within the ensuing five years, and also those for which the event had occurred within the preceding five years. Under this research framework however, this study has collected data from FOBs who had their BSP within the period from 2000 to 2007. Therefore, it has failed to collect data from incumbents and their family members. Therefore, this study has come to the decision to measure initial satisfaction

with the business succession process of the successors of various business units. This study defines initial satisfaction with the business succession process as “*perceived satisfaction of succession before post succession FOB performance is accurately known.*”

Post succession business performance

This study used business performance as the second dependent variable. Business performance has several related terms such as business development, and business improvement. Riding (2005) illustrates that business performance can be divided into four categories: financial performance, customer base performance, employee base performance and environmental base performance. Jarvis, Kitching, Curran and Lightfoot (1996) have revealed in their organizational theories and accounting literature, that profit maximization is the central goal of firms. In that way, some studies have included both objective measures, which are obtained from organizational records (Seashore and Yuchtman, 1967) and subjective measures, which are perceptions collected from organizational members and stakeholders (Campbell, 1977).

In order to be objective, this study considered financial performance the same as business performance. Furthermore, Zahra (1991) emphasises that growth measures for performance may be more accurate and available than accounting measures of financial performance. Rosemond (n.d) (cited in Etzioni, 1964) has reported that performance should be viewed in relation to one or more goals in an organization, and has suggested percentages to measure performances for businesses. In this context, this author agrees that business performance is a valid indicator for assessing the effectiveness of BSP (Morris et al., 1997; and Goldberg, 1996). Hence, *this has been used to compare pre and post succession performances of FOBs.*

In various literature, relatively few papers endeavour to address this issue empirically, but most attempts focus on the comparison between family and non-family businesses (Daily and Dollinger, 1992 as cited in Wang., Watkins, Harris, Spicer, 2004) instead of the different modes of successes. Academics and researchers argue that business performance is a multi-dimensional construct (Fitzgerald and Moon, 1996 as cited in Wang et al., 2004). There are two highly recognise business performance modes for the evaluations named: the European Foundation Quality Management model and the American Malcolm Baldrige National Quality Award model. These provide a comprehensive framework that assesses companies directly and compares them with others. However, these two models are only highly appropriate for large-size companies and not medium and small sized organizations (Wang et al., 2004).

Financial outcomes enable managers and business owners to make decisions and plan business development (Jenkins, 1995 as cited in Wang et al., 2004). Financial outcomes are broadly utilized in the SME and entrepreneurship literature (Morris et al., 1997). However, there is broad agreement that no one single financial indicator can accurately and comprehensively capture business performance, particularly in the scope of small firms (Daily and Dollinger, 1992). Taking this into consideration, it is preferable to devise a multiple measure of financial performance and interpret the results based on one indicator in conjunction with other indicators. *This study used business performance as a second dependent variable.*

There are a number of performance evaluation tools available for profit-oriented organizations. Most of these techniques directly relate to the financial performance of the organization. “Profitability” and “management efficiency” are the indicators commonly used. Return on Equity (ROE), Return on Sales (ROS), Return on Assets (ROA) and Earnings per Share (EPS) are some common examples of profitability indicators. After considering the research population, this study expected to use *Average Returns on Assets (ROA) and Average Returns on Sales (ROS)*.

In order to be subjective, further, this study considered to use a scale to measure successor’s perception about business performance. For that, this study used scale named “*the perceived success of the succession process*” developed by Venter, Boshoff, and Maas in 2005.

3.1.3 Moderating (Control) variables

Moderating (Control) 1: family member successors

This research defined family member successor as “*individuals who have a relationship with the incumbent and family by blood or by law.*” In general, the transition will come from generation to generation, but sometimes, due to the unavailability of blood relations; there is consideration given to whether the business should be handed over to more distant, legally binding relations. Thus, this study considers both types of successors as family member successors.

Moderating (Control) 2: Unrelated manager successor

Professionalization refers to the adoption of unrelated managers to fill management positions, especially the CEO’s position (Zhang and Ma, 2009). The adoption of unrelated managers signifies the separation of ownership and control, or at least it dilutes the family control in the actual management of the business. Under these circumstances, the unrelated manager successor is defined in this research as “*an individual who takes full charge of the day-to-day*

operations while retreating to the board of directors to assume advisory and supervising duties.”

3.2 Hypothesis of the Study

Objective I: To compare family member successors with unrelated manager successors based on the successors’ initial satisfaction with the business succession process and also post succession business performance.

3.2.1 Hypothesis 1: Successor and post succession performances

Under hypothesis 1, this research evaluated the post succession performance of alternative succession modes. To reach this prospect, this study compared alternative succession modes with their post succession performance from two different perspectives: initial satisfaction and effectiveness.

(1) Initial satisfaction with the business succession process

Alternative hypothesis (H_{1.a}): *Initial satisfaction with the business succession process is significantly different with family member successors (μ_{SFMS}) to unrelated manager successors (μ_{SUMS})*

$$. H_1: \mu_{SFMS} \neq \mu_{SUMS}$$

(1) Business performance after BSP

Alternative hypothesis (H_{1.b}): *Post succession business performance of the two succession modes is significantly different. Performance of the family business successor (μ_{FMSBP}) is significantly different to the performance of the unrelated manager (μ_{UMSBP}).*

$$H_1: \mu_{FMSBP} \neq \mu_{UMSBP}$$

Objective II: To evaluate the level of influence from each stakeholder relevant factors to the business succession process, and also to evaluate this on each succession mode individually.

3.2.2 Hypothesis 2: Influence coming from successor related factors to business succession

Alternative hypothesis (H_{2.a1}): *Level of commitment of the successor significantly correlates with the level of initial satisfaction with the business succession process (SCMI2SSP).*

$$H_{2.a1}: P_{SCMI2SSP} \neq 0$$

Where:

SCMI2SSP = Influence coming from the successor's commitment on the level of initial satisfaction with the business succession process.

Alternative hypothesis (H_{2.a2}): *The level of commitment of the successor significantly correlates with post succession business performances (SCMI2BP).*

$$H_{2.a2}: \rho_{SCMI2BP} \neq 0$$

Where:

SCMI2BP = Influence coming from successor's commitment to the business performance.

Alternative hypothesis (H_{2.b1}): *The level of competence of the successor significantly correlates with the level of initial satisfaction with the business succession process*

$$H_{2.b1}: \rho_{SCOM02SSP} \neq 0$$

Where:

SCOM2SSP = Influence coming from the successor's competence to the level of initial satisfaction business succession process

Alternative hypothesis (H_{2.b2}): *The level of competence of the successor significantly correlates with the post succession business performances (SCOM2BP).*

$$H_{2.b2}: \rho_{SCOM2BP} \neq 0$$

Where:

SCOM2BP = Influence coming from the competence of the successors which affects post succession business performance

Alternative hypothesis (H_{2.c1}): *Pre-succession training and experience of the successor significantly correlates with the initial satisfaction with the business succession process.*

$$H_{2.c1}: \rho_{STRA2SSP} \neq 0$$

Where:

STRA2SSP = Pre-succession training and experience influencing the level of initial satisfaction business succession process.

Alternative hypothesis (H_{2.c2}): *Pre-succession training and experience of the successor significantly correlates with post succession business performance.*

$$H_{2.c2}: P_{\text{STRA2BP}} \neq 0$$

Where:

STRA2BP = Pre-succession training and experience influencing post succession business performance.

3.2.3 Hypothesis 3: Incumbent related factors influencing business succession

Alternative hypothesis (H_{3.a1}): *The incumbent's interest to let go significantly correlates with the initial satisfaction with succession process.*

$$H_{3.a1}: P_{\text{ILET2SSP}} \neq 0$$

Where:

ILET2SSP = The incumbent's interest to let go influence to the level of initial satisfaction business succession process.

Alternative hypothesis (H_{3.a2}): *The incumbent's interest to let go significantly correlates with post succession business performance.*

$$H_{3.a2}: P_{\text{ILET2BP}} \neq 0$$

Where:

ILET2BP = The incumbent's interest to let go influence post succession business performance.

Alternative hypothesis (H_{3.b1}): *The relationship between the incumbent and the successor significantly correlate with initial satisfaction with the business succession process.*

$$H_{3.b1}: P_{\text{IREL2SSP}} \neq 0$$

Where:

IREL2SSP = The incumbent's interest to let go influence to the level of initial satisfaction business succession process.

Alternative hypothesis (H_{3.b2}): *The relationship between the incumbent and successor significantly correlate with post succession business performance.*

$$H_{3.b2}: P_{\text{IREL2BP}} \neq 0$$

Where:

IREL2BP = The relationship between the incumbent and the successor influences post succession business performance.

Alternative hypothesis (H_{3.c1}): *Outside interests of the incumbent significantly correlates with initial satisfaction with the business succession process.*

$$H_{3.c1}: P_{IINT2SSP} \neq 0$$

Where:

IINT2SSP = Outside interests of the incumbent influence to the level of initial satisfaction with the business succession process.

Alternative hypothesis (H_{3.c2}): *Outside interests of the incumbent significantly correlate with the post succession business performance.*

$$H_{3.c2}: P_{IINT2BP} \neq 0$$

Where:

IINT2BP = Outside interests of the incumbent influence to the post succession business performance.

3.2.4 Hypothesis 4: Family related factors influence business succession

Alternative hypothesis (H_{4.a1}): *Family harmony significantly correlates with the initial satisfaction with the business succession process.*

$$H_{4.a1}: P_{FHAR2SSP} \neq 0$$

Where:

FHAR2SSP = Family harmony influences to the level of initial satisfaction business succession process

Alternative hypothesis (H_{4.a2}): *Family harmony significantly correlates with post succession business performance.*

$$H_{4.a2}: P_{FHAR2BP} \neq 0$$

Where:

FHAR2BP = Family harmony influences to the post succession business performance.

Alternative hypothesis (H_{4.b1}): *Family member's willingness to support successors significantly correlate with the initial satisfaction with the business succession process.*

$$H_{4.b1}: P_{FSUP2SSP} \neq 0$$

Where:

FSUP2SSP = Family members' willingness to support the successor influences to the level initial satisfaction with the business succession process.

Alternative hypothesis (H_{4.b2}): *Family members' willingness to support the successor significantly correlates with post succession business performance.*

$$H_{4.b2}: P_{FSUP2BP} \neq 0$$

Where:

FSUP2BP = Family members' willingness to support the successor influences to the post succession business performance

Alternative hypothesis (H_{4.c1}): *Family involvement in management significantly correlates with the initial satisfaction with the business succession process.*

$$H_{4.c1}: P_{FMGT2SSP} \neq 0$$

Where:

FMGT2SSP = Family involvement in management influences to the level of initial satisfaction with the business succession process.

Alternative hypothesis (H_{4.c2}): *Family involvement in management significantly correlates with the post succession business performance.*

$$H_{4.c2}: P_{FMGT2BP} \neq 0$$

Where:

FMGT2BP = Family involvement in management influences to the post succession business performance.

3.2.5 Hypothesis 5: Non-family owner's commitment on business succession

Alternative hypothesis (H_{5. a}): *Non-family owners' commitment significantly correlates with the initial satisfaction with the business succession process.*

$$H_{5.a}: P_{NFO2SSP} \neq 0$$

Where:

NFO2SSP = Non-family owners' commitment influences to the level of initial satisfaction with the business succession process.

Alternative hypothesis (H_{5. b}): *Non-family owners' commitment significantly correlates with the post succession business performance of the FOB.*

$$H_{4.5.b}: P_{\text{NFO2BP}} \neq 0$$

Where:

NFO2BP = Non-family owners' commitment influences to the post succession business performance.

3.2.6 Hypothesis 6: Non-family manager's commitment to business succession

Alternative hypothesis ($H_{6.a}$): *Non-family manager's commitment significantly correlates with the post succession business performance of the FOB.*

$$H_{4.c1}: P_{\text{NFMG2SSP}} \neq 0$$

Where:

NFMG2SSP = Non-family manager's commitment influencing the level of initial satisfaction with the business succession process.

Alternative hypothesis ($H_{6.b}$): *Non-family manager's commitment influencing post succession business performance of FOBs.*

$$H_{6.b}: P_{\text{NFMG2BP}} \neq 0$$

Where:

NFMG2BP = Non-family manager's commitment influencing post succession business performance.

Summary of the chapter

Under this chapter, author expected to describe how this study has made logical connections between the studies to develop a conceptual framework and hypothesis for the second part of the research. This study has identified eleven independent variables under five stakeholder groups; successor, incumbent, family, non-family owners and non-family manager, two dependent variables: initial satisfaction about business succession process and post succession financial performance. In addition to that study identified two successor modes; family member successor and unrelated manager successor as control variables of the study. The study expected to test six number of hypothesis. Under the first hypothesis, it was expected to compare two succession modes to identify the most suitable one and from hypothesis number 2 - 6 was expected to test the level of influence come from each stakeholder related factors.

CHAPTER FOUR - SAMPLE DESIGN AND DATA COLLECTION DESIGN

Chapter 3 explains how this research has designed a conceptual framework and developed hypothesis. In the first phase of this chapter, it elaborates on a sample design and a data collection design that is required to test the above-mentioned hypothesis. Under the sample selection, this study explains the population of the study, the sample, the sample selection method, and the response from expected population in the study. In the second phase of this chapter, it explains the data collection design, questions and instruments, data collection methods, data analysis, and also reliability and validity of collecting data.

4.1 Sample design

4.1.1 Population of the study

According to Dyck et al. (2002); Handler (1989a); and Vancil (1987) (cited in Sharma et al., 2003a), “rich qualitative studies conducted on succession have all observed that the process is lengthy, and it may take 15–20 years.” Therefore, identifying the exact time period of the BSP is a very hard task (Sharma et al., 2003a). To overcome this however, Sharma et al. (2003a) suggest *selecting a sample from a period when involved parties can perfectly remember incidents of the BSP.*

Therefore, this study screened the population of “*FOBs that have done their BSP within the period from 2000 to 2007*”. The study cannot include FOBs which have done their BSP after 2007 because three years of post succession business performance is required to identify and evaluate the most suitable succession mode for FOB succession (objective 1). Under these circumstances, the first screening criterion assumes that the BSP was completed within the time period 2000 to 2007, and secondly it assumes that memories of the BSP are relatively fresh in the minds of the successors and that their responses will be accurate. After considering the above-mentioned situations, the research populations are shown below.

“Family owned business has done their business succession process within the period of 2000-2007 with family member successor or unrelated manager in Sri Lanka.”

Due to a national database for screening being unavailable, SME database was used because according to the literature, the majority of SMEs are FOBs (Commission, 2006).

4.1.2 Sri Lanka

Sri Lanka is an island in the Indian Ocean located to the south of the Indian subcontinent. The total land area is 65,610 square km. The official languages are Sinhala and Tamil.

The population of Sri Lanka is 20.6 million (The Central Bank of Sri Lanka Annual Report, 2010) of whom the majority is Sinhalese (73.8%). Other ethnic groups are composed of Sri Lankan Tamils (12.6%), Indian Tamils (4.6%), Moors (7.2%), and also Malays, Burghers and others (0.8%). Sri Lanka is a multi-religious nation, but the majority is Buddhist (69.3%). Other main religious groups are Hindu (15.5%), Muslim (7.6%) and Christian (7.5%). In Sri Lanka, the average life expectancy is 74 years and the literacy rate is 88.6%. The literacy rate is one of the highest in the Asian region. In Sri Lanka, the annual population growth rate is 1% and the labour participation rate is 49% of the total population, and unemployment is at 4.9%. The labour force is employed in these sectors: public, private, self-employed and other, respectively: 14%, 41%, 31% and 13%.

GDP growth in Sri Lanka was 7.9% in 2009 (Central Bank of Sri Lanka Annual Report, 2010) and the highest contributor to the GDP is the services sector (59.3%). The agriculture and industry sector contributions are respectively 11.9% and 28.7%. The most dynamic economic sectors are wholesale and retail sales (23%); manufacturing (17%); transport and communication (14%); agriculture, livestock and forestry (11%); and banking, insurance and real state (9%). In 2010, Sri Lankan exports were greatly composed of textiles and garments (42%), other industrial products (29 %), and tea (16 %). In addition, it exports spices; diamonds, emeralds, coconut products, rubber products and fish. Sri Lanka is mainly an agricultural country and the main crop is rice. Tea, rubber and coconut are also important agricultural crops which, before 1980, were the main export commodity. Tea is still one of the major exports from Sri Lanka. There are a number of other main crops: cocoa and spices such as cinnamon, cardamom, nutmeg, pepper and cloves.

Sri Lanka has free education for all forms of education, from primary school to higher studies. Free schooling is given without considering such factors as social class or nationality. The structure of Sri Lankan school education can be divided into four groups: primary; junior secondary; collegiate: and also tertiary. Total studying time is about 12 or 13 years. According to law, it is compulsory to go to school until age 14. The school education structure is shown in the table.

Table 4.1: School education structure in Sri Lanka

Level	Grade and number of years	Final Target
Primary	1-5 (5 years)	Scholarship exam
Junior Secondary	6-9 (4 years)	Compulsory until grade 9
Collegiate	10-11 (2 years)	General Certificate of Education (Ordinary Level)
Tertiary	12-13 (2 years)	General Certificate of Education (Advanced Level)

Source: Data Management Branch, Ministry of Education

After successful completion of the G.C.E. advanced level exam, students can move into higher education. In Sri Lanka, schools conduct their curriculum in either the Sinhala or Tamil medium due to the great variety of ethnic groups in Sri Lanka. However, some schools have started to conduct classes in the English medium, especially from Junior Secondary level. There are approximately 9,675 government schools and about 200 private and international schools. The total number of school students is approximately four million. The ratio between students and teachers is 18: 1.

Sri Lankan higher education spreads to all fields such as trained, academics, professionals and specialists to fulfil requirements of the nation. However, selection to university has become very competitive. There are 15 universities and seven postgraduate intuitions under the national university umbrella. In addition to the national universities, a number of professional institutions are enrolled in the fields of law, accountancy, marketing, engineering, and information technology.

Under the constitution of the Democratic Socialist Republic of Sri Lanka, Sinhala and Tamil are the official languages and English is recognized as a link language. English is a compulsory subject from grade one to ten and is studied at least 5 hours per week. However 95% of students leave from school without being able to speak even a few words in English (Fernando, 2011). Most of undergraduate programs have shifted to English; however, most are not able to speak English fluently (Fernando, 2011). English is popular and commonly spoken among urban areas, especially among the educated classes. Today, it has become a link language for communication between different linguistic groups and is the business language. Without fluency in English, it is very difficult to acquire a job in the private sector.

4.1.3 Small and medium enterprises in Sri Lanka

In Sri Lanka, SME businesses are found in different sectors such as: agriculture, mining, fishing, industry/manufacturing, construction, the wholesale and retail industry, and services in rural, urban and real estate which serve local and international markets (Dasanayaka, 2008). According to Cabraal (2007), there is no official estimation about the number of medium-size SMEs. Further, he calculated the number of medium-sized SMEs based on enterprises filing their income tax returns. According to this count, the number of medium-sized SMEs is approximately 10,000 in Sri Lanka, and represents 15% of all enterprises. SMEs account for approximately 97% of all industries in Sri Lanka (Cooray and De Silva, 2007.). SMEs are a vital sector to any capitalist economy whether it is developed or still developing. SMEs play an essential role in the Sri Lankan economy as the main GDP contributor and employment provider. Their main market is domestic but there is a notable, growing trend for SMEs to export their products.

4.1.4 Sri Lankan families

The most important socio – cultural institutions of Sri Lanka are families, caste, educational classes and religion (Nanayakkara, 1999). In Sri Lankan families, husband and wife live with their unmarried children in the same house until the children marry. Sometimes, young married children also live with their parents until they find suitable separate accommodation, or they remain with their parents at the request from the family. With such a background it is called *Mahagedara* (or “big house”), whether the size of the house is small or large. The husband of the family is the most powerful person and he is the decision maker. However, if his parents live with them, the man should take his parents’ voice into account to some extent. The head man’s father can influence the day-to-day decision-making because on every occasion, the ultimate authority is in the hands of the eldest male of the family. On most occasions, the eldest man will not get involved in family matters because they give their attention to religious activities but despite this they still have the ultimate decision making authority. If father is not available in the picture, his position can be taken by the eldest son.

Sri Lankans put their attention on attaining personal self-esteem and respect from the family. They do not have individual plans to reach personal goals, but rather they have group targets (Budhadasa, 1999). There is a strong belief in collectivism due to social trends to live in an extended family, who also highly believe collectivism. This has come from the religious and social background of the society, and children are taught to be socially virtuous. After growing up, Sri Lankans are highly concerned about others who are poor and needy. They have

a high level of kingship bonds. With that background, individuals are prepared to share and support other family members, relatives and friends. This shows a “very strong socialization towards shared norm in achieving their expectations” (Gamage, Cameron, and Woods, 2003). Due to this child rearing pattern and value transmission pattern, children are highly dependent on their family throughout their life (Nanayakkara, 1999).

The Sri Lankan family value system develops social intimacy among individuals, and this pattern of behaviour can be seen with successful entrepreneurs also. They use this phenomenon of social intimacy as a mode of motivation as well as a measure of business success. Sri Lankan families are generally keen to share their wealth among their children and give their fixed properties including land and house to their sons (most parents give their house to the youngest son of the family) and their cash and jewellery to the daughters as dowry.

4.1.5 Cultural differences between FOBs in Sri Lanka and FOBs in the European Union

This study does not analyze the FOBs in the Czech Republic and Europe, but does evaluate the background of Sri Lanka FOBs. With this aim, this study applies the findings of Gupta (2009) to recognize just cultural dissimilarities between Anglo Europe FOBs and Sri Lanka FOBs. Those differences are shown in Table 6.3.

Table 4.2: Dissimilarities between European and Sri Lankan Family owned businesses

Anglo Europe	Sri Lanka
<ul style="list-style-type: none"> • The boundary between business and family is very distinct. There is no obligation to give financial assistance to one party from another when problems occur (<i>there is less mutual obligation</i>) 	<ul style="list-style-type: none"> • Family resources are separated from the FOB. But if one family member of the FOB faces problems, there is an obligation to help (<i>higher level of obligation to help each other</i>)
<ul style="list-style-type: none"> • Business reputation is very important. (<i>less ties between family and business reputation</i>) 	<ul style="list-style-type: none"> • Business reputation influences the family. (<i>higher level of reputation</i>)
<ul style="list-style-type: none"> • Clearly divided ownership 	<ul style="list-style-type: none"> • Undivided ownership
<ul style="list-style-type: none"> • Empowers professional managers take business decisions based on their expertise • There are barriers to overcome 	<ul style="list-style-type: none"> • Recruit professional managers however, family members make the main decisions. • There are some barriers to achieve

and a promotion ladder to climb of except proving competence, and to commit to the values set by the owner-family	top management positions. Higher levels of commitment, trustworthiness, close relationships and loyalty to the family open the path to promotion.
<ul style="list-style-type: none"> • Ownership is very structured which gives opportunities for family members to leave the business easily. • There is not much business commitment and family members are as concerned as other investors. 	<ul style="list-style-type: none"> • Due to joint ownership of business, there is an opportunity to leave the company. • There are higher levels of commitment but generally family members leave the FOB due to lots of acrimony with each other. This develops big rifts between members and the family.
<ul style="list-style-type: none"> • Business is accountable to family and non-family members 	<ul style="list-style-type: none"> • Business is accountable to the owner-family
<ul style="list-style-type: none"> • Family members have control based on their educational specialty (governance) 	<ul style="list-style-type: none"> • Family members have control of the business based on joint ownership
<ul style="list-style-type: none"> • Inter-generational succession is very competitive. • There is not much commitment. Future careers are decided based on individual choice. 	<ul style="list-style-type: none"> • Inter-generational succession is very much a cooperative event. Traditionally, the successor is the eldest son. • There is no gender equality as priority is given to male members. • Requires a higher level of commitment to join the business

Source: GUPTA V, Anglo vs. Asian family business: a cultural comparison and analysis, [online], 2009, [quot. 28 January 2012) Available on World Wide Web: http://findarticles.com/p/articles/mi_6777is_2_3/ai_n32095014/ and survey data, 2011

4.1.6 Sample and sample selection method

Different organizations, authors and other interested parties use diverse definitions based on purpose and therefore a universally accepted definition cannot be decided. By considering the research framework, this study used the definition given by Neubauer and Lank (1998), (cited in Mustakallio, 2002) to identify the research population. According to them, a FOB is “*any form of business association where the voting control is in the hands of a given family.*”

The definition of an SME has changed from country to country and even within countries. Different regions and different institutions adopt varying definitions for SMEs and some definitions include the workforce of the organization, the capital investment, turnover, or nature of the business. Sri Lanka does not have a nationally accepted definition for SMEs and different institutions adopt different definitions according to the purpose of various studies. However, the most widely accepted criteria for defining SMEs are that they have a number of employees, fixed investment, and have a certain nature of business (Cooary, 2003). In Sri Lanka, The National Development Bank (NDB), the Export Development Board (EDB), and the Industrial Development Board (IDB) all use the financial value of fixed assets as the criterion to define SMEs. The Department of Census and Statistics (DCS), the Small and Medium Enterprise Development (SMED), and the Federation of Chambers of Commerce and Industry (FDCCI) use the number of employees as the criterion (Kapurubandara and Lawson, 2006). The World Bank defines enterprise size in Sri Lanka based on the number of employees: those with fewer than 49 employees are small; those with 50 to 99 employees are medium-sized; and those with more than 100 employees are large. According to Dissanayake (2009):

“... most of these definitions are made according to organizational needs and purpose of interests about SMEs. Financial institutions, public sector authorities, non-governmental organizations (NGOs), trade and industry chambers, international organizations, researchers, SMEs service providers and consultancy firms have their own definitions based on their own criteria selection”

Table 4.3: Most accepted definitions of SMEs in Sri Lanka

Institution	Criterion	Medium Scale
Sri Lanka Standards Institution (SLSI)	No. of Employees	Between 50 - 249
Industrial Development Board (IDB)	Value of Machinery	Between SLRs. 4 Million to 10 Million
Ministry of Industry, Tourism and Investment Promotion	Value of fixed assets other than land and buildings	Up to SLRs. 16 Million
Federation of Chambers of Commerce and Industry of Sri Lanka	Capital employed	Between SLRs. 2 Million to 20 Million
Ministry of Small and Rural Industries	Total Investment	Between SLRs. Million 20 to 50 Million
Ceylon National Chamber of	i) Value of assets	Between SLRs. 4 Million

Industries	other than buildings and lands. ii) No. of employees	to SLRs. 20 Million Between 10 -50
Sri Lanka Export Development Board (EDB)	i) Capital investment excluding lands and building ii) Annual export turnover	More than SLRs. 40 Million More than SLRs. 100 Million
World Bank (for Sri Lankan country studies and loan programs)	No. of employees	Between 50-99
Dept. of Census and Statistics	No. of Employees	More than 25 (Year 2000) More than 10 (Year 2003/04)
Task Force for SMEs Development in Sri Lanka (2002)	Asset Value excluding land and buildings value	Not exceeding more than SLRs. 50 Million
Sri Lankan Apparel Industry, Task force on five year strategy (2002)	i) Export value ii) No. of Employees	SLRs. 101 Million to 250 Million 1 - 100
The Dept. of Small Industries	i) Capital investment ii) No. of Employees	Between SLRs. 25 – 5 million Between 50-100
White Paper on the National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka (2002)	No of employees	Between 30-149`
Project SMED (Small and Medium Enterprise Developers of Sri Lanka)	No of employees	20 - 99 persons
National Development Bank	i) Fixed Assets	20 million or less, excluding land and building

Source: Adapted from Dissanayake, 2009; Cooray, 2003; Cooray and De Silva, 2007, and Sumanasena, n.d.

However those definitions are based on mainly three indicators as number of employees, capital employed/total assets and turnover. Some difficulties can be

identified with these definitions, when author applies the criterion of capital employed / total assets, and turnover. This may well confuse figures due to inflation and technological improvement. Despite this, most researchers and relevant institutions use the following criteria to classify SMEs: the “value of the fixed assets” (excluding land and building), and the “number of employees in the enterprise” (Cooray, 2003). Due to the inflation factor, the author preferred to use only the “number of employees” for identifying FOB units for their study. According to Sumanasena (n.d)

“The most common categorization based on employees in Sri Lanka is 4 to 49 employees for small-scale enterprises, 50 to 149 for medium scale enterprises and more than 149 employees for the large scale.”

Thus, for this study, the population is defined based on the following criteria:

- 1) The sample unit must fit into the aforementioned definition.
- 2) The SME has had a succession within the period 2000 to 2007.
- 3) A family member successor or an unrelated manager successor has been appointed to the top executive senior position (CEO/ Chairman).

The database managed by the National Chamber of Commerce in Sri Lanka used to distinguish FOBs from SMEs. For selecting sample units, the following procedure has been applied.

4.1.7 Sample selection procedure

To reach this sample framework, the research has implemented the following procedure:

1. Send the questionnaire (appendix A) to the entire database by post / email and ask the sample group to complete and return the attached questionnaire.
2. Request the sample group to answer section one, especially designed to recognise whether an SME is within the sample framework or not. Under section 1 of the questionnaire, the successor must answer questions to verify features of the business units that match the sample framework:
 - Ownership of the entity
 - Number of employees
 - Whether they have had a BSP
 - The time period when the BSP was completed
 - Successor mode

3. If they have selected the answers (below), then that SME is identified as a sample unit and asked to answer the remainder of the questionnaire.
 - Majority of ownership belongs to owner-family
 - Employees are in between 50-149
 - We have done BSP within the period 2000 - 2007
 - Our successor mode is family member successor (FMS) / unrelated manager successor (UMS)

Figure 4.1 shows the above mentioned sample selection procedure.

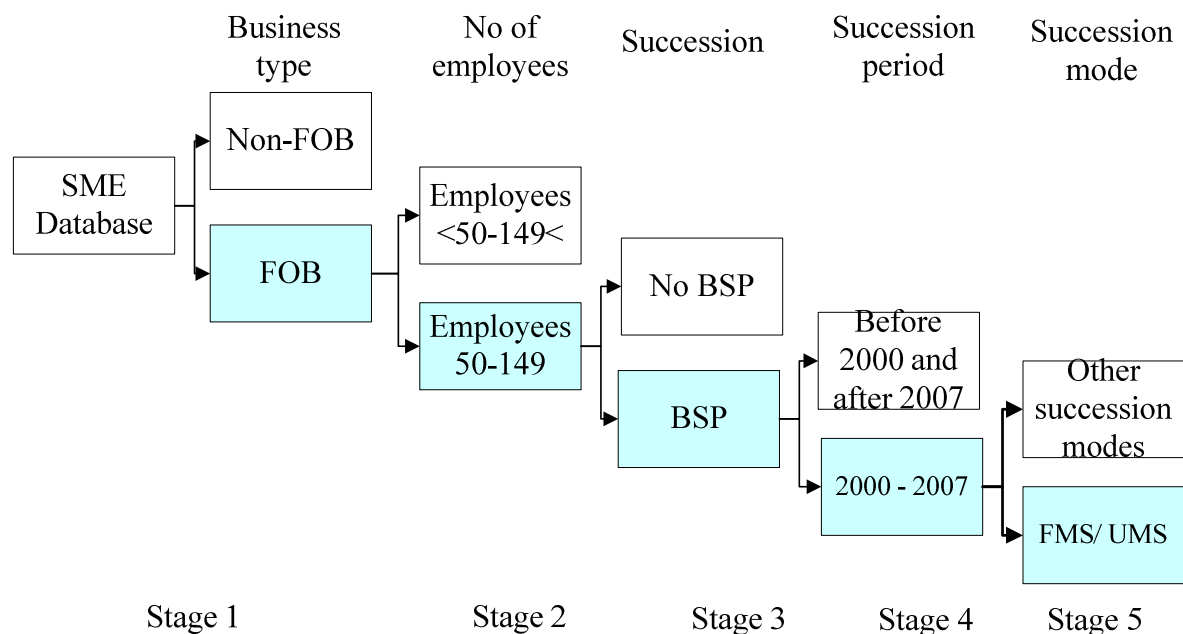


Figure 4.1: Sorting procedure to identify sample units

Source: Designed by the author

Under these circumstances, the research used a simple random sampling method by considering constraints faced during data collection.

4.1.8 Sample elements

Targeted respondents included FOB successors: family member successors and unrelated manager successors that had been appointed within the period 2000 to 2007 in medium-sized FOBs.

4.2 Data collection design

4.2.1 Instrument and questions

A structured research questionnaire that has developed by combining with universal accepted scales and author developed scales.

This questionnaire was basically divided into three sections by considering the following objectives:

Section 1: specially designed to verify which elements of the population should be subjects of the sample (refer to 4.2 sample selection procedure).

Section 2: designed to collect demographic information about FOBs and the sample element; the successor. This section also helped collect data on pre and post business performance (objective 1). This section included the following demographic information related to the successor and FOB:

Demographic information related to the successor:

- i) Categorization of the successor based on their relationship (family member successor or unrelated manager successor)
- ii) If the successor is a family member successor, then what is their relationship with the incumbent?
- iii) If the successor is an unrelated manager successor, what was their experience with the company before the succession?
- iv) Gender
- v) Age (when the successor was appointed)

Demographic information related to the FOBs:

- i) Business type
- ii) Composition of the Director of the Board.

These demographic factors were mostly measured with closed-answers, multiple choice and single response questions.

Section 3:

Independent variables: Stakeholder related factors were measured by the scales originally developed by the author based on the exploratory study. Further information about above self-developed scales are shown in the table 4.4

Table 4.4: Self developed scales to measure the level of influence come from stakeholders

Stakeholder	Number of statements	Type of measurement
Successors' factors influencing propensity to take over management	18	5-point Likert-type rating scale ranging from: 1 = strongly disagree; to 5 = strongly agree
Incumbent's factors influencing their propensity to step aside	10	
Family factors influencing acceptance of the new role	08	
The influence comes from non-family owners and managers	05	

Source: Author developed based on exploratory study

Dependent variables: In addition to the financial data, the study used Venter et al. (2005) “the perceived success of the succession process” scales for collecting business performance information subjectively. The original alpha values for this scale was 0.84. Initial satisfaction with the succession process was measured through the scale developed by Sharma et al. (2003a). This instrument was constructed by 12 statements which were equally weighted. Every independent variable was also a construct calculated as an equally weighted average of the relevant indicators. The original alpha values for this scale was 0.93.

Cameron and Quinn (1999) (cited in Duh and Belak, 2000) develop an assessment scale called the “Organizational Culture Assessment Instrument (OCAI)” in order to categorize business organizations based on their behaviour used to identify the successors’ willingness to continue under the presently existing ethical business climate and culture. (Because of these requirements, the original scale has been modified to match with these requirements.)

The questionnaire was originally developed in the English language, and then translated into Sinhala and the Tamil language. It was distributed in two formats: Sinhala and English format, or Tamil and English format, to increase the response ratio from the respondents.

4.2.2 Data collection methods

This study utilized postal and electronic mail surveys simultaneously as the data collation method due to the following reasons:

- 1) To obtain a higher level of response within a short period of time.
- 2) The population was scattered over the entire country.

- 3) There were difficulties identifying elements of the population
- 4) It gave a bigger opportunity to refuse without response (This research did not address exact sample units due to the unavailability of database who did their BSP within the period 2000 to 2007. Thus, it addressed the Managing Directors of SMEs in Sri Lanka and requested responses if they were suitable to fulfil the requirements of the sample framework. This approach can be used for the sample group to refuse without responding to the questionnaire).

The questionnaire was sent with a covering letter and return-paid envelope to ensure it was convenient for the respondents to submit their information. The first reminder was sent three weeks after the initial mailing and the second reminder was sent after six weeks. In addition, selected FOBs were personally visited to some selected FOBs in order to get a deeper understanding about their BSPs.

4.2.3 Data analysis and interpretation

This data analysis and interpretation stage consisted of five steps as shown below:

Step 1: Tests the assumptions of normality, linearity, outliers, multicollinearity and homoscedasticity

Most statistical tests rely upon certain assumptions and without verifying those assumptions, the results of the test could be misleading. Therefore, before analyzed, the data set was tested for checking the assumptions using the SPSS 17.00.

Step 2: Compare business performance after succession and initial satisfaction of two succession modes (objective I)

Step 2.1: Initial satisfaction about the BSP

To compare initial satisfaction with the BSP, two independent sample t-tests were applied.

$$T = (X_{FMS} - X_{UMS}) / (S_{XFMS-XUMS}) \quad 4.1$$

X_{FMS} = means of the FOBs run by family member successors

X_{UMS} = means of the FOBs run by unrelated manager successors

$(S_{XFMS-XUMS})$ – is a pooled or combined standard error, or difference between the means

Step 2.2: Compare post succession business performances

In most of the studies, student “t” test, and ANOVA have been utilized to measure performance of the organizations, but the new trend is to compare performance through Difference-Indifferences (DD) analysis. This can particularly be seen with recent family business research when it compares family successor performance with non-family successor performance; or family firm with non-family firm performance (Bennedsen, Nielsen and Pe´rez-Gonzalez 2006; Cucculelli and Micucci, 2008). Based on the suggestion given by Barber and Lyon (1996), Bennedsen et al. (2006), use non-parametric test statistics when analysing accounting based data due to the problem of outliers. By following the Bennedsen et al. (2006), this study also applied the Mann-Whitney test to compare post succession performance of these two successor modes.

$$Y_1 = \beta_0 + \beta_1 * T + \beta_2 F_{sucses} + \beta_3 * (T * F_{sucses}) + e$$

4.2

Where

Y1 = the difference in performance around BSP

T= time dummy

Fsucses = an indicator variable equal to one if the incoming successor is family member and zero if unrelated manager.

(T*Fsucses) = is the interaction of the time dummy and the successor dummy

Step 3: Evaluating the impact of influencing factors (objective II, III, and IV)

The Bivariate Pearson correlation was used as the statistical tool for measuring hypotheses 2 to 6. Tests of significance for the first above-mentioned hypotheses developed to understand the nature and relationship either positive (+0.1) or negative (-0.1) between independent variables and dependent variables, those were designed on an interval scale and measured by denoting “two tailed.” The generally accepted conventional level of significance, denoted by ‘sig’ or ‘p’ value is 0.5 in social science researches (Shekaran, 2009). In this study also the degree of correlation was accepted if the variables had a significance of $p \leq 0.5$, which reflected 95 or more times out of 100 make sense of relationship existing among the variables were fallen true. Multiple linear regressions were used to recognise relative importance of the influential factors and suitability of selected models was evaluated with Cp.

- The relationship between stakeholder related factors and initial satisfaction with the business succession process

$$ISBSP = \alpha + \beta_{1i}(SCMI) + \beta_{2i}(SCOM) + \beta_{3i}(STRA) + \beta_{4i}(ILET) + \beta_{5i}(IREL) + \beta_{6i}(IINT) + \beta_{7i}(FHAR) + \beta_{8i}(FMGT) + \beta_{9i}(FSUP) + \beta_{10i}(NFO) + \beta_{11i}(NFMG) + e$$

4.3

- The relationship between stakeholder related factors and initial satisfaction with the business succession process that had been done with a family member successor

$$SFMS = \alpha + \beta_{1i}(SCMI) + \beta_{2i}(SCOM) + \beta_{3i}(STRA) + \beta_{4i}(ILET) + \beta_{5i}(IREL) + \beta_{6i}(IINT) + \beta_{7i}(FHAR) + \beta_{8i}(FMGT) + \beta_{9i}(FSUP) + \beta_{10i}(NFO) + \beta_{11i}(NFMG) + e$$

4.4

- The relationship between stakeholder related factors and initial satisfaction with the business succession process that had been done with an unrelated manager successor

$$SUMS = \alpha + \beta_{1i}(SCMI) + \beta_{2i}(SCOM) + \beta_{3i}(STRA) + \beta_{4i}(ILET) + \beta_{5i}(IREL) + \beta_{6i}(IINT) + \beta_{7i}(FHAR) + \beta_{8i}(FMGT) + \beta_{9i}(FSUP) + \beta_{10i}(NFO) + \beta_{11i}(NFMG) + e$$

4.5

- The relationship between stakeholder related factors and post succession business performances (PSP)

$$PSP = \alpha + \beta_{1i}(SCMI) + \beta_{2i}(SCOM) + \beta_{3i}(STRA) + \beta_{4i}(ILET) + \beta_{5i}(IREL) + \beta_{6i}(IINT) + \beta_{7i}(FHAR) + \beta_{8i}(FMGT) + \beta_{9i}(FSUP) + \beta_{10i}(NFO) + \beta_{11i}(NFMG) + e$$

4.6

Where:

ISBSP = Initial satisfaction with the business succession process

SFMS = Initial satisfaction with the succession process done with a family member successor

SUMS = Initial satisfaction with the succession process done with an unrelated manager successor

PSP = Post succession business performance
SCMI = Level of commitment of the successor
SCOM = Level of competence of the successor
STRA = Pre-training and experience
ILET= Incumbent interest let to go
IREL = Relationship between the incumbent and the successor
IINT = Outside interests of the incumbent
FHAR = Family harmony
FSUP = Family willingness to support successor
FMGT = Family involvement in the management
NFO = Commitment of the non-family owners
NFMG = Commitment of the non-family managers

Step 4: Compare the level of influence coming from each stakeholder related factor when the succession mode change (objective IV)

There is an opportunity to change the level of influence coming from each stakeholder related factor when the successor mode is changed. In this final stage, the study compared the level of influence coming from each stakeholder related factor on alternative succession modes, to identify similarities and differences. For this purpose, this study used a chow test which tests whether the coefficients in two linear regressions in different data sets are equal (Lu, 2009).

Step 5: Evaluate successors willingness to work under organizational ethical climate and culture (objective VI)

Scale developed by Cameron and Quinn's (1999) (cited in Duh and Belak, 2000) "*Organizational Culture Assessment Instrument (OCAI)*" used to evaluate and analysis it qualitatively

4.2.4 Reliability and validity

Validity is encapsulated neatly by the word "accuracy" (Huck, 2008). The following procedures were used to minimize errors and maximize the validity of the research. To increase validity and reliability, the author used a pilot survey to pre-test the questionnaire. According to Cooper and Schinder (2008), this type of pre-testing reduces the risk of exhausting the supply of respondents and increases the sensitivity of respondents to the purpose of the study. Meanwhile, Litwin (1995) also suggested that pilot testing helps to identify errors in forming a study and presenting it. For the pilot survey, 10 successors were selected from the population, and the survey instrument was a structured questionnaire. Each successor took about 20 to 25 minutes to complete the questionnaire after the research objectives were explained. The author directly assisted the respondents to fill in the questionnaire by clarifying instructions and explanations. As a

result of the pilot survey, a number of changes were made to improve the clarity of the questionnaire and to improve the construct validity of the questionnaire. This helped to increase the efficiency of the questionnaire and survey data.

Moreover, to test the internal consistency and reliability of the study, it used Cronbach's alpha. Cronbach's alpha is a measure of internal consistency and examines how closely related a set of variables are as a group: decrease Cronbach's alpha and the average inter-item correlation is low – increase Cronbach's alpha and the average inter-item correlation is high. Prior to performing statistical analysis on the hypothesis, reliability and validity tests were conducted using SPSS 17.0 to confirm internal consistency. In general, reliabilities that scored less than 0.6 are poor; more than 0.8 are good; and those in between (within the range 0.6 to 0.8) are acceptable (Sekaran, 2009). Table 4.2 reports that Cronbach's alpha values of the variables exceed the 0.7. The research employed the scales developed by Sharma et al. (2003a) and Venter et al. (2005) for the present study. Sharma (2003) and Venter et al (2005) have confirmed that the scales were reliable (Cronbach's alpha values were within the acceptable range). However, these scales were translated to Sinhala and Tamil languages. Therefore, again a reliability analysis was done and all independent and dependent variables were within the acceptable range.

Table 4.5: Reliability analysis

Construct	Variable	Cronbach's alpha
Successor related factors	Level of commitment of the successor	.748
	Level of competence of the successor	.715
	Training and experience	.746
Incumbent related factors	Incumbent's level of interest to let go	.710
	Relationship between incumbent and successor	.724
	Incumbent's level of outside interest	.735
Family related factors	Family Harmony	.729
	Willingness to support the successor	.766
	Family involvement in the management	.754
Minor stakeholder related factors	Non-family owners' commitments	.749
Non-family manager's related factors	Non-family manager's commitment	.713
Business performances		.821
Initial satisfaction with the business succession process		.721

Ethical climate and culture	.695
-----------------------------	------

Source: Pilot survey, 2011

4.2.5 Response rate

In total, 156 responses were received during the data collection period. The number of useable returns is 128 (82%) and the number of non-useable returns is 28 (18%). The 28 responses had to be rejected particularly from hypothesis testing, since they did not have several key questions entirely completed. (Example: In question number 15: influence coming from non-family owners and non-family managers.) The overall response rate (useable returns 128; total population 3,458) suitable for hypothesis testing is 3.7%. The response rate on the web-based survey was less than that of the postal questionnaire. It is likely that companies apply a spam filter to e-mails from unknown sources, and secretaries usually check and filter incoming e-mails for the executive. This response was still a more than adequate response rate, given the number of parameters in the structural model to be estimated (Hair, Anderson, Tatham and Black, 1995). The 128 usable questionnaires were evenly split between two respondent groups: 86 questionnaires received from family member successors, and 42 received from unrelated manager successors. In addition to the statistical requirements of sample selection, this sample of the study can be matched with the study samples that have been used to evaluate post succession performance of FOBs and non-FOBs, therefore this sample size of the study is considered acceptable for this study (Cucculelli and Micucci, 2008).

Summary of the chapter

This chapter explains the elements of “sample design” and “data collection design”. According to that, the identified research population is “family owned businesses which have had their business succession process within the period from 2000 to 2007 with a family member successor or unrelated manager in Sri Lanka. Due to the unavailability of a database related to FOBs, this study addressed SMEs. A structured research instrument, i.e. a questionnaire, was used as the instrument to collect data. In addition, selected FOBs were personally visited to get a deeper understanding about their BSP. A questionnaire was sent to 3458 SMEs and 156 responses were received. The number of useable returns is 128 (82% of responses) and the number of non-useable returns is 28 (18% of responses). To test the validity of the questionnaire, it went through a pilot survey, and to test the internal consistency and reliability of the study, Cronbach’s alpha was used.

CHAPTER FIVE - DATA ANALYSIS AND DISCUSSION

This chapter shows how collected data is analysed to reach predetermined objectives and to verify hypotheses and discuss the findings based on the results. To present those in a logical manner, the chapter has divided into two sub chapters as descriptive statistics and hypothesis testing. First sub chapter presents data analysis based on section two of the questionnaire. Second sub chapter presents the results of hypothesis testing and how the study has reached it to the research objectives.

5.1 Descriptive statistics of the study

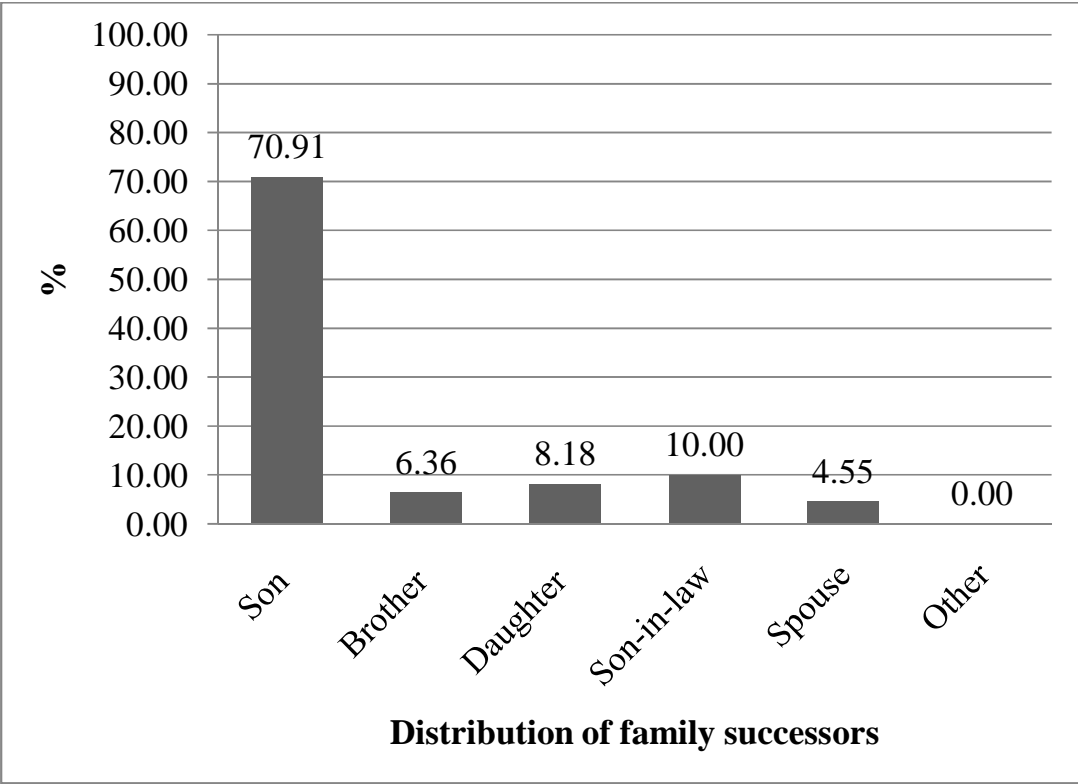
5.1.1 Tests the assumptions of normality, linearity, outliers, multicollinearity and homoscedasticity

The normality of the data set was evaluated by Kolmogorov - Smirnov (S - K) and Shapiro - Wilk (S - W) tests. Results are in significant levels of S - K and S - W (greater than 0.05 ($p > 0.05$)). Therefore the normality was assumed (Annexure B). Test for linearity measures whether the relationships between the predictors and the outcome variable are linear. It was tested through residual plots obtained by SPSS 17.00 and most of the residuals were scattered around zero point and had oval shapes. Box-plot diagrams were used to identify outliers of the above variables and ones the outliers appeared it was replaced by the mean of the sample set. The multicollinearity test was conducted here to disclose whether two independent variables are highly correlated or not. Pearson correlation coefficients were computed for this purpose and results are shown in Annexure C. According to the results shown in Annexure C, there is no strong positive or negative correlation between any pair of variables. It can therefore be concluded that there is no multicollinearity problem between any pair of variables selected for this regression analysis. Further it was tested with the Variance Inflation Factor (VIF) and tolerance to measure the impact of collinearity among the variables in a regression models. All the VIF values are below 10 and tolerance is above 0.2, therefore there is no multicollinearity of the data (Annexure D). Scatter plots of regression residuals and Durbin Watson test was used to measure homoscedasticity. The Durbin-Watson statistic has been in the range of 1.75 to 2.25 indicating the values are independent (Annexure D).

5.1.2 Business succession with family business successors (FMSs)

As shown in figure 5.1, the majority of FOBs are handed over to the son of the family. Of these sons, 57% are the eldest son of the owning family. The

second and third highest successor categories are respectively sons-in-law and daughters of the owning family (the total sampling unit is 110).



Source: Survey data, 2011

Figure 5.1: Distribution of different people who are family successors

5.2.3 Business succession with unrelated manager successors (UMSs)

82% of unrelated manager successors are managers who have pre-experience with the FOB, who have occupied a senior position in the FOB. Under these conditions, the majority of unrelated manager successors have taken over the business with enough appropriate understanding about the business and its surroundings. In some instances, they need to take over the business until family issues are overcome.

In most instances, they have been appointed for the transition period due to the unavailability of suitable successors within the family; or until a family member successor can be trained; because a family member refused the appointment due to family conflicts; or due to poor performance of the FOB. Most of the time, a person is appointed who has worked a long period with the FOB, is trustworthy, and who has been a top-level manager of the company.

5.2.4 Age distribution of the successors

Table 5.1 Age distribution of the successors

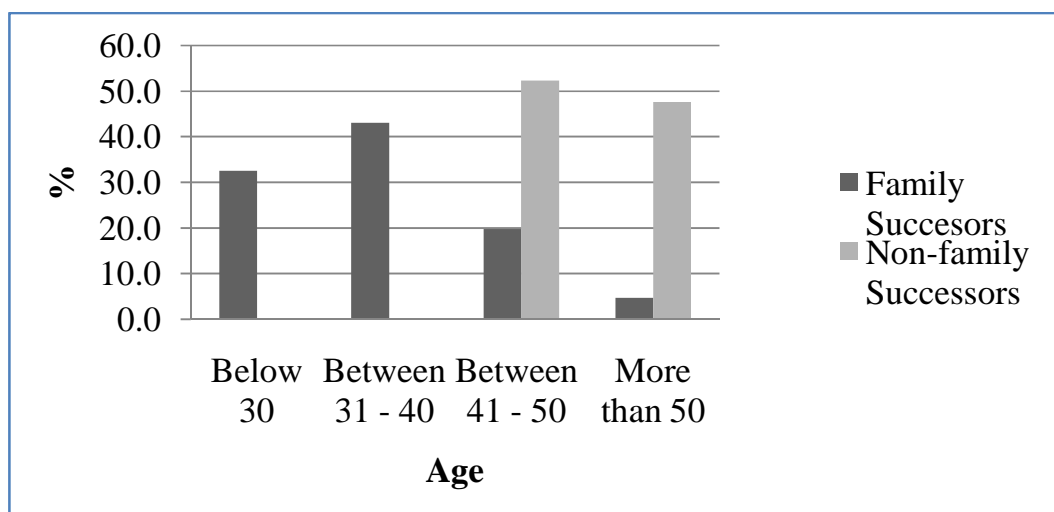
	FOBs which appointed FMS	FOBs which appointed UMS	F statistics (T test)
Age of the successor when he was appointed			
Mean	33.85	47.93	6.003*
Median	35	43	
Standard Deviation	7.10	6.53	
Maximum	51	55	
Minimum	23	35	

*Significant at 5% level.

Source: Survey Data, 2011

Table 5.1 presents descriptive statistics of the successor (president and/or CEO) appointed within the period of 2000 to 2007. The samples include 134 appointments except the cases that have not mentioned the age. To test whether a family member successor and unrelated manager successor are significantly different, the sample was tested with Mann-Whitney test statistics.

The results of this test is that “the age of the appointment for family member successor and unrelated manager successor are statistically significant different: $z = -7.969$, and $p < 0.05$. Family member successor has an average age of 35, while unrelated manager successor has an average age 43.



Source: Survey data, 2011

Figure 5.2: Age distribution of successors

5.2.5 Distribution of the sample among the industries

On average, 67.72 % of FOBs are transferred into the hands of family member successors and just 32.28% are transferred into the hands of unrelated managers. However, the level of priority has been changed from the industry to the industry. When more than 75% of FOB's in the industries of retail and wholesale, food and beverage, education, agribusiness, agro, agro processing, hotel, tourism, etc and health have been shifted to the hand of family member successor, however more than 50% of FOB's running by unrelated manager successor in the industries of communication IT, computer services, transportation, freight forwarding and other manufacturing industries (table 5.2).

Therefore, there is a trend can be seen with it. That is, when the industry is enhanced with technological background or when it is complex, it is handed over it to a very competent person in the field.

Table 5.2: Distribution of the sample among the industries

	Total number of FOBs	Family member successors	% of family member successors	Unrelated manager successor	% of unrelated manager successors
Retail and wholesale	35	32	91.43	3	8.57
Food and beverage	7	6	85.71	1	14.29
Education	5	4	80.00	1	20.00
Agribusiness, agro agro-processing	10	8	80.00	2	20.00
Hotel, tourism, etc	5	4	80.00	1	20.00
Health	13	10	76.92	3	23.08
Garments	5	3	60.00	2	40.00
Other services	2	1	50.00	1	50.00
Financial, leasing, stock broking insurance	20	9	45.00	11	55.00

Transportation and freight forwarding	5	2	40.00	3	60.00
Communication IT and computer services	14	5	35.71	9	64.29
Other manufacturing industries	6	2	33.33	4	66.67
Totals	127	86	67.72	41	32.28

Source: survey data, 2011

5.2 Hypothesis testing

5.2.1 Comparison of post succession performance

Objective I: To compare family member successors with unrelated manager successors based on the successors' initial satisfaction with the business succession process and also post succession business performance.

Initial satisfaction with the succession process

(1) Initial satisfaction of the business succession process

Alternative hypothesis (H_{1.a}): *Initial satisfaction with the business succession process is significantly different with family member successors (μ_{SFMS}) to unrelated manager successors (μ_{SUMS})*

$$H_1: \mu_{SFMS} \neq \mu_{SUMS}$$

A study compared the level of initial satisfaction of family member successors and unrelated manager successors. Family member successors levels of initial satisfaction (M = 2.63, SD = 0.65) expressed significant levels of difference with unrelated manager successors (M = 3.00, SD = 0.41), t (128) = 3.939, p = 0.000, and two-tailed df = 117.01.

According to the research findings, unrelated manager successors have a higher level of initial satisfaction than the family member successor.

Therefore, alternative hypothesis ($H_{1.a}$) is accepted. In other words, initial satisfaction with the business succession process between family member successors and unrelated successors is significantly different.

Table 5.3: Initial satisfaction with the business succession process

	All	Type of business succession		Difference
		Family member successor	Unrelated manager successor	
Initial Satisfaction	2.77	2.63	3.00	0.27*

* denotes significance at the 5 percent level

Dependent variable: Initial satisfaction with the business succession process

Source: Survey data, 2011

The average satisfaction with the BSP is 2.77. Under this condition, it can be concluded that not all successors are satisfied with the BSP that was carried out. The stakeholders around the BSP should consider the BSP because if they highly satisfied with the business succession, it will positively affect the performance of the business.

5.2.2 Comparison of post succession business performances

Alternative hypothesis ($H_{1.b}$): *Post succession business performance of the two succession modes is significantly different. (Performance of the family member successor (μ_{FMSBP}) is significantly different to the performance of the unrelated manager (μ_{UMSBP})).*

$$H_1: \mu_{FMSBP} \neq \mu_{UMSBP}$$

Table 5.4 presents the descriptive statistics of profitability measured by the ROA and ROS. The comparison of post succession performance between the two succession modes has become an extremely difficult issue to deal with. This became even worse in situations where social habits and inheritance norms strongly affect the successor selection in the transfer of business (Bertrand and Schoar, 2006) and the FOBs are pervasive in the economy. Therefore, a more detailed analysis was restricted to just the discussion of BSPs.

For the sub-samples of family member successor managed and unrelated manager successor managed FOBs, accounting data was used. The total sample

of companies that experienced a BSP in the time interval of 2000 to 2007 and which had accounting data available for the three-year window before and after the transition was 128 firms.

Table 5.4 presents the descriptive statistics of profitability measured by the Average Returns on Assets (Avg. ROA) and Average Returns on Sales (Avg. ROS). Profitability data is the simple average for each group. Family successions are almost entirely from the first to second generation transfers, whereas only 14 out of 86 transfers are to the third generation or further. The group averages reported in Table 5.4 have been calculated after including all 86 family successions.

Post succession performance shows a clear decline in profitability for both indicators in family member successor managed and unrelated manager successor managed companies: for the total sample, Avg. ROA decreases from 8.83 to 7.97, whereas Avg. ROS decreases from 7.72 to 6.76. The decline appears to be larger for family member successor managed FOBs than for unrelated manager successor managed FOBs, and it is statistically significant for both indicators.

Family member successor managed FOBs experience rather similar decreases in the post succession performance for both Avg. ROA and Avg. ROS (-0.89 and -0.81 respectively shown in Table 5.4), which suggests a post succession turnaround significantly different from that observed in unrelated manager successor FOBs. By contrast, unrelated manager successor managed firms exhibit a considerable post succession decrease in the Avg. ROA (from 0.77 to 0.62), whereas there appears to be a smaller affect on ROS. In this case, even if the observed changes in profitability are statistically significant, it can be presumed this is due to the post succession process in these FOBs.

The estimated results, as reported in table 5.4 (panel A for Avg. ROA and panel 2 for Avg. ROS), shows that succession causes a reduction in profitability, both in family member successor managed and unrelated manager successor managed companies, which signals the existence of costs due to succession in both types of firms. There is only a minor difference in Avg. ROA rates between family member successors managed and unrelated manager successors managed FOBs, though the intensity of the impact is quite different when profitability is measured by the Avg. ROS. In these cases, family member successor managed firms clearly underperform compared with unrelated manager successor managed FOBs.

Therefore, an alternative hypothesis is accepted. In other words, there are statistically significant differences between the post succession performances of

family member successors and post succession performances of unrelated successors.

Table 5.4: Successions and changes in business performance

	Type of business succession			Difference
	All	Family member successor	Unrelated manager successor	
Panel A : Avg. ROA				
Before	8.83 (.2665) [128]	9.34 (.3468) [86]	7.54 (.2296) [42]	1.80* (.5669)
After	7.97 (.2221) [128]	8.45 (.2778) [86]	6.77 (.2529) [42]	1.68* (.4670)
Difference	-0.85* (.3024)	-0.89* (.3777)	-0.77* (.3183)	-0.12* (.2836)
Panel B : Avg. ROS				
Before	7.72 (.1669) [128]	7.97 (.2102) [86]	7.09 (.2245) [42]	0.88* (.3076)
After	6.96 (.1231) [128]	7.16 (.2063) [86]	6.46 (.2422) [42]	.70* (.2784)
Difference	-0.75* (.2836)	-0.81* (.2422)	-0.62* (.2718)	-0.19* (.1890)

Note: unrelated manager successor show a decline in their performance, but less of a decline the family member successor.

A. Successors of FOB BSP are classified into two groups: family member successors whereby the entering successor is related by blood or law to the incumbent; and non-family manager successors who are not related.

B. Panel A reports the average ROA. Panel B reports the three-year average ROS before and also the three-year average after BSP. It also reports differences in these measures around the BSP and differences (differences-in-differences-DD) around the BSP. In all cases, the year of succession is neglected.

C. Standard errors are in parentheses and the numbers of observations are in square brackets. The sign * denotes significance at the 5 % level.

D. Dependent variables: Avg. ROA and Avg. ROS

Source: Survey data, 2011

Theoretically, family member successor performance must be higher than unrelated manager successor performance because family members have greater opportunities of receiving benefits from FOBs than outsiders, non-relatives. Family members can also easily utilize knowledge developed by family members, and the level of trust between successor and other family members directly affects this knowledge sharing. In addition to these factors, family member successors should have a higher degree of commitment toward the FOB because the company represents their own personal prosperity.

However, the results of the study go completely contrary to the theoretical back up hypothesis, and there are several reasons for this. The first generation of business management is usually more business-oriented than the second and following generations. The first generation took higher risks when they founded the family business. They gave first priority to develop the business and later focused on satisfying the family. When the business transfers to the second generation though, this type of business focus cannot be expected. In addition to this, conflicts between family members and the unnecessary involvement of the incumbent are other major reasons why the results show stagnation and decline.

Another factor is that FOBs which have appointed family member successors to have better pre-succession performance than the FOBs which have appointed unrelated manager successors. FOBs are generally more eager to transfer management outside the family when it has performed unsuccessfully or when there is no suitable family successor. This unrelated manager takeover of a poorly running FOB affects how family member successor managed post succession performance compares with unrelated manager successor managed companies.

According to research in Spain “firm performance does not influence the decision of that the next successor, because owners are highly concerned with long-term survival of the firm rather than with other relationships they have. They are quite professional and appoint whoever can lead the FOB into a successful future.” However, in Sri Lanka, the findings are totally different. Sri Lankans give their foremost priority to handing over businesses to family members. If relatives refuse this appointment then the appointment goes to another alternative option. Regarding the ethics of business, this is acceptable because this is a family business and it should be transferred from one generation to another.

Again, unrelated manager successor businesses have recorded better performances than the family member successor businesses during the period after the BSP. They have actually minimized the decline in performance more so than the family member successors. This can happen due to a number of reasons.

Unrelated manager successors have an established track record of performance. They have a number of years experience within or outside the FOB and have received management positions due to their proven track history of competence, they therefore do not need a grooming period; but this situation does not exist with family member successors. They must rely on their existing competencies and skills and training takes a period of time.

In addition to lack of competence, there are several other reasons for this poor performance. There are tensions between family goals and FOB objectives, and in a very small sub-set, problems develop when choosing a successor therefore, that selection cannot be recognize appropriate one for the appointment. Sometime, successors cannot take a correct decision due to the “nepotism”. It is a much more difficult task for the successor to make a decision to fire a family member due to misconduct or poor performance, In addition to that, the successor must work under a great deal of pressure because all family members have high expectations, and they are comparing them with the incumbent.

5.2.3 Factors influencing the business succession process

Objective II: the level of influence from each stakeholder relevant factors to the business succession process, and also to evaluate this on each succession mode individually.

Pearson correlation was applied to measure the level of influence coming from each stakeholder related factor. This section tests hypotheses numbers 2, 3, 4, 5 and 6 (chapter 3.2). This was conducted under three levels: as the combine sample (all successors); family member successor only; and unrelated manager successor only.

Successors’ factors influencing propensity to take over management

Level of commitment of the successor

Table 5.5: Level of commitment of the successor

Hypnosis No.	Relationship	Correlation	M	SD	N	Sig.
H2.a1	With initial satisfaction (All successors)	.604**	3.17	.60	128	.000
H2.a2	With post succession performance (All successors)	.346**	3.17	.60	128	.000
H2.a1	With initial satisfaction (Family successors)	.627**	3.09	.63	86	.000
H2.a2	With post succession	.463**	3.09	.63	86	.000

	performance(Family successors)					
H2.a1	With initial satisfaction (Unrelated successor)	.443**	3.33	.53	42	.003
H2.a2	With post succession performance (Unrelated successor)	.315*	3.33	.53	42	.040

* donate significance at 5 percent level (2-tailed)

** donate significance at 1 percent level (2-tailed)

Source: Survey data, 2011

The successor's level of commitment is defined as their level of interest to acknowledge the new appointment (Goldberg and Wooldridge, 1993). In reality, without the successor's commitment to the BSP, the future of the FOB is very indecipherable and this phenomenon is confirmed by this study.

A number of causes can be recognized as rationales why Sri Lankan potential family successors refuse this appointment.

1) Migration after highest studies

Many rich people send their children to Western countries for their higher education. After adapting to that foreign culture and atmosphere, some young people have decided to get permanent residencies in those countries.

2) Cultural clashes

Some young people become quite westernized and refuse to take over the traditional business of their family. In some instances, they start their own business without joining a FOB.

In addition to these main two reasons to decline succession, other issues are shown below:

- External work offers with high rewards
- A person's reservations with organizational ethical climate and culture
- Lack of self-confidence
- Lack of interest to be an entrepreneur
- Higher educational achievements in a divergent field and different career interests and aspirations
- Difficulties making fair decisions in FOBs due to unnecessary influences
- Reluctance to work in harmony with family members due to bad experience in their personal life

- Resistance to change (especially from the incumbent and older management) and unwillingness to acknowledge personal mistakes by family members
- Reluctance to accept forgiveness from family members
- Lack of appreciation received from the incumbent in past life incidents and family conflicts.

If the successor is not interested in their unprecedented appointment, it shows their dissatisfaction. On some occasions, they accept this appointment due to force coming from the owner-family or because they consider it as their obligation. If this is the case, it directly and indirectly influences the post succession performance because total commitment cannot be expected by these new successors.

Level of competence of the successor

Table 5.6: Level of competence of the successor

Hypnosis No.	Relationship	Correlation	M	SD	N	Sig.
H2.b1	With initial satisfaction (All successors)	.520**	3.03	.67	128	.000
H2.b2	With post succession performance (All successors)	.390**	3.03	.67	128	.007
H2.b1	With initial satisfaction (Family successors)	.590**	3.02	.71	86	.000
H2.b2	With post succession performance (Family successors)	.453**	3.02	.71	86	.000
H2.b1	With initial satisfaction (Unrelated successor)	.345**	3.05	.59	42	.025
H2.b2	With post succession performance (Unrelated successor)	.277	3.05	.59	42	.076

** denote significance at 1 percent level (2-tailed)

Source: Survey data, 2011

Successors can be defined “*as individuals who have the competencies essential to take over leadership from an incumbent when they vacate their position.*” In point of fact, this definition clearly shows how significant the competencies of successor are for a successful BSP and profitable continuity of the FOB.

This study discusses this fact with selected successors in Sri Lanka and clearly emphasises the following competencies as the most vital:

- Ability to set off new business contacts and capitalize on benefits from the ability to persuade and convince
- Ability to communicate well
- Ability to motivate and team building
- Ability to lead and the ability to have a broad mind, seeing one issue from various perspectives
- Ability to handle conflicts
- Ability to balance different interests from influential parties
- Creativity and innovation

Pre-training and experience

Table 5.7: Pre-training and experience

Hypnosis No.	Relationship	Correla-tion	M	SD	N	Sig.
H2.c1	With initial satisfaction (All successors)	.617**	3.12	.69	128	.000
H2.c2	With post succession performance (All successors)	.266**	3.12	.69	128	.002
H2.c1	With initial satisfaction (Family successors)	.612**	2.91	.65	86	.000
H2.c2	With post succession performance(Family successors)	.471**	2.91	.65	86	.000
H2.c1	With initial satisfaction (Unrelated successor)	.347**	3.54	.57	42	.004
H2.c2	With post succession performance (Unrelated successor)	.431*	3.54	.57	42	.004

* denote significance at 5 percent level (2-tailed)

** denote significance at 1 percent level (2-tailed)

Source: Survey data, 2011

Morris et al., (1997) and Ward (1987) recognize that pre-training of successors is a vital factor for effective succession. Unrelated manager successors are outsiders to the FOB and on most occasions, they have taken over the management position when the FOB has performed poorly. In other words, owners of FOBs have chosen to give controlling power to outsiders due to their higher level of competence and experience in the business field. This fact is directly shown by this empirical evidence. After putting the company in the successor's hand, the successor should have the essential skills to carry the FOB toward the company goals expected, fulfilling the organizational vision and

mission. For that, they must be equipped with vital skills, experience and attitudes.

Family member successors highly emphasize internal business training because this helps family members get familiar with the internal company setting, culture, structure, resources and synergies. It also gives an opportunity to integrate the management settings of the FOB, which assists them getting support from management and employees during and after the BSP. Particularly, unrelated manager successors promote their significant past experience in different capacities and different organizational settings.

Incumbent’s factors influencing their propensity to step aside

Incumbent’s interest to let go

Table 5.8: Incumbent’s interest to let go

Hypnosis No.	Relationship	Correlat-ion	M	SD	N	Sig.
H3.a1	With initial satisfaction (All successors)	.447**	3.35	.58	128	.000
H3.a2	With post succession performance (All successors)	.283**	3.35	.58	128	.001
H3.a1	With initial satisfaction (Family successors)	.485**	3.29	.56	86	.000
H3.a2	With post succession performance(Family successors)	.431**	3.29	.56	86	.000
H3.a1	With initial satisfaction (Unrelated successor)	.291	3.46	.61	42	.061
H3.a2	With post succession performance (Unrelated successor)	.206	3.46	.61	42	.521

** denote significance at 1 percent level (2-tailed)

Source: Survey data, 2011

The results show that the incumbent’s interest to let go positively correlates with initial satisfaction with the business succession process and post succession performance except unrelated manager successor.

In the Sri Lankan context, this is should not be a serious issue. Most Buddhist and Hindu elders are content to hand over the business in order for the successor to get ready for happiness in the next birth, or to reach “Nirvana” (to stop the

recurring process of birth and death). In some cases though, incumbents continue working with FOBs and influence them even after they step down.

Relationship between incumbent and successor

Table 5.9: The relationship between incumbent and successor

Hypnosis No.	Relationship	Correlation	M	SD	N	Sig.
H3.b1	With initial satisfaction (All successors)	.447**	3.30	.50	128	.000
H3.b2	With post succession performance (All successors)	.360**	3.30	.50	128	.000
H3.b1	With initial satisfaction (Family successors)	.564**	3.30	.53	86	.000
H3.b2	With post succession performance(Family successors)	.439**	3.30	.53	86	.000
H3.b1	With initial satisfaction (Unrelated successor)	.114	3.32	.48	42	.471
H3.b2	With post succession performance (Unrelated successor)	.206	3.32	.48	42	.192

** denote significance at 1 percent level (2-tailed)

Source: Survey data, 2011

According to lengthy discussions with both types successors, some said they received the opportunity to grow and develop under supervision from the incumbent. However, they said it brought mixed results. Due to the close relationship, the incumbent gave all knowledge and other business contacts without any hesitation. In some cases though, the incumbent interfered with business activities either directly or indirectly, and this close relationship infringed into the freedom of the successor’s decision making. The new successor though cannot take negative steps against the incumbent though, due to the closest relationship they have.

Some new successors strongly emphasise the positive points they gain from the incumbent such as self-confidence, encouragement and supervision during the grooming stage, whereas some successors complain about disturbances, negative responses to incidents, poor feedback and negligence.

Outside interests of the incumbent

Table 5.10: Outside interests of the incumbent

Hypnosis No.	Relationship	Correlation	M	SD	N	Sig.
H3.c1	With initial satisfaction (All successors)	.346**	3.13	.40	128	.000
H3.c2	With post succession performance (All successors)	.187*	3.13	.40	128	.035
H3.c1	With initial satisfaction (Family successors)	.273**	3.09	.44	86	.001
H3.c2	With post succession performance(Family successors)	.260*	3.09	.44	86	.016
H3.c1	With initial satisfaction (Unrelated successor)	.051	3.22	.30	42	.748
H3.c2	With post succession performance (Unrelated successor)	.182	3.22	.30	42	.249

* donate significance at 5 percent level (2-tailed)

** donate significance at 1 percent level (2-tailed)

Source: Survey data, 2011

When the incumbent has additional interests, apart from business activities, it positively correlates with the successor's initial satisfaction with the business succession process and post succession performance. This reduces the level of interest shown toward only business activities. In Sri Lanka, under Buddhist and Hindu cultural environments, people tend to concentrate on religious work as they become older. Generally, such people are happy to step aside from business activities, especially in order to begin their new role with religious and social work activity.

Family factors influencing acceptance of the new role

Family harmony

Table 5.11: Family harmony

Hypnosis No.	Relationship	Correlation	M	SD	N	Sig.
H4.a1	With initial satisfaction (All successors)	.444**	2.99	0.60	128	.000
H4.a2	With post succession performance (All successors)	.384**	2.99	0.60	128	.000
H4.a1	With initial satisfaction (Family successors)	.615**	3.01	.59	86	.000
H4.a2	With post succession performance (Family successors)	.443**	3.01	.59	86	.000
H4.a1	With initial satisfaction (Unrelated successor)	.096	2.95	.62	42	.546
H4.a2	With post succession performance (Unrelated successor)	.254	2.95	.62	42	.104

** denote significance at 1 percent level (2-tailed)

Source: Survey data, 2011

Family harmony directly influences the family member successor because if the family refuses to accept their appointment, or do not believe in their competence, or do not trust them, then the successor is unable perform well.

In the Sri Lankan context, family harmony and willingness to support the successor have not become strong issues because they are highly emphasis collectivism. Individuals are not working for their own self-esteem. They highly concern about people around him. Under this background, that family harmony and willingness to support a successor do not have identified as a big issue. In cases of unrelated manager successors, most families have taken the decision to appoint them due to a serious lack of alternatives within the family, and therefore they must learn to trust an outsider and give their commitment to their role in order to encourage maximum results.

Willingness to support the new successor

Table 5.12: Willingness to support successor

Hypnosis No.	Relationship	Correlation	M	SD	N	Sig.
H4.b1	With initial satisfaction (All successors)	.371**	2.87	0.54	128	.000
H4.b2	With post succession performance (All successors)	.129	2.87	0.54	128	.146
H4.b1	With initial satisfaction (Family successors)	.446**	2.84	.52	86	.000
H4.b2	With post succession performance(Family successors)	.241**	2.84	.52	86	.025
H4.b1	With initial satisfaction (Unrelated successor)	.135	2.94	.55	42	.395
H4.b2	With post succession performance (Unrelated successor)	.064	2.94	.55	42	.689

** denote significance at 1 percent level (2-tailed)

Source: Survey data, 2011

Willingness to support the new successor is statistically significant with the initial satisfaction with the business succession process, but there is no statistically significant relationship with the post succession performance for all successors. If family members are not content with the new appointment, they have the opportunity to work against successor and his appointment. In Sri Lankan culture though, in most families, the eldest son has more appreciation than any other family members and it is second only to respect for the father. Most of the time, the eldest son is directly involved in decision-making at home when the father is absent. Sometimes the father discusses issues with the son before making a decision. He has sacrificed lots of resources such as time and money in order other family members develop. In most cases, the eldest son does not get married until his younger sisters get married. In such a situation, he has automatically become the most powerful member in the family. If the circumstances are like this, then willingness to support the successor is not identified as highly important because family members are generally committed to the business and are happy to follow instructions given by the eldest son.

Family involvement in management

Table 5.13: Family involvement for the management

Hypothesis No.	Relationship	Correlation	M	SD	N	Sig.
H4.c1	With initial satisfaction (All successors)	.405**	3.12	0.67	128	.000
H4.c2	With post succession performance (All successors)	.238**	3.12	0.67	128	.007
H4.c1	With initial satisfaction (Family successors)	.460**	3.04	.62	86	.000
H4.c2	With post succession performance(Family successors)	.345**	3.04	.62	86	.001
H4.c1	With initial satisfaction (Unrelated successor)	.209	3.29	.75	42	.184
H4.c2	With post succession performance (Unrelated successor)	.263	3.29	.75	42	.093

** denote significance at 1 percent level (2-tailed)

Source: Survey data, 2011

Family involvement in management positively correlates with the successor's initial satisfaction with the business succession process and post succession performance under the sample categories of all (combine) and family member successor. It is statistically significant with both the initial satisfaction with the business succession process and post succession performance concerning the combine and family member successor. The presence of the family in the governance structure of the firm may be another source of strength. Consequently, the high percentage of family members sitting on the board of directors and in executive positions give more decision power to the family because altruism is expected from members toward one another due to kinship obligations.

Non-family owner's commitment to the business succession

Table 5.14: Non-family owner's commitment to the business succession

Hypothesis No.	Relationship	Correlation	M	SD	N	Sig.
H5.a1	With initial satisfaction (All successors)	.323**	2.85	.59	128	.000
H5.a2	With post succession performance (All successors)	.115	2.85	.59	128	.195
H5.a1	With initial satisfaction (Family successors)	.285	2.81	.58	86	.080
H5.a2	With post succession performance(Family successors)	.225*	2.81	.58	86	.037
H5.a1	With initial satisfaction (Unrelated successor)	.392**	2.96	.62	42	.010
H5.a2	With post succession performance (Unrelated successor)	.040	2.96	.62	42	.803

* donate significance at 5 percent level (2-tailed)

** donate significance at 1 percent level (2-tailed)

Source: Survey data, 2011

Non-family owners' commitment to the BSP is statistically significant on the successor's satisfaction with the BSP; however results show a weak correlation. Results do not show any significant relationship with post succession performance. Under the unrelated manager successor category, there is a statistically significant relationship recorded concerning satisfaction with the BSP.

In some cases, non-family owners invest in the FOB only after considering the level of competence of the incumbent. It is therefore important that the successor has an eye for the ambitions and aspirations of non-family owners who are active in the family business. Sometimes, there is a chance to refuse a family member successor by non-family owners, and work against his appointment. At the same time, they might be content to give the top management position to an outsider who has more experience and knowledge about the business and its surroundings.

Non-family manager commitment to business succession processes

Table 5.15: Non-family manager’s commitment to the business succession

Hypnosis No.	Relationship	Correlation	M	SD	N	Sig.
H6.a1	With initial satisfaction (All successors)	.319**	3.05	.66	128	.000
H6.a2	With post succession performance (All successors)	.036	3.05	.66	128	.689
H6.a1	With initial satisfaction (Family successors)	.134	2.84	.61	86	.219
H6.a2	With post succession performance(Family successors)	.170	2.84	.61	86	.117
H6.a1	With initial satisfaction (Unrelated successor)	.542**	3.49	.54	42	.000
H6.a2	With post succession performance (Unrelated successor)	.339*	3.49	.54	42	.028

* donate significance at 5 percent level (2-tailed)

** donate significance at 1 percent level (2-tailed)

Source: Survey data, 2011

In the Sri Lankan context, non-family manager’s commitment significantly influences the unrelated manager successor. The unrelated manager successor is an outsider of the owner-family, and mostly also an insider of the post-management team. If successors cannot receive commitment from his team members, the business becomes very difficult to manage. This is the main hidden factor behind this relationship.

All the successor, incumbent and family related factors are significantly correlated with initial satisfaction with the business succession process when successor is family member successor, however just successor related factors and non-family owners and non-family managers commitment are significantly correlated with initial satisfaction with the business succession process when unrelated manager successor is successor. Therefore when family member successor has appointed, those (incumbent and family) influential factors should be taken into account. But when unrelated manager successor is appointed, contribution of non-family managers is vital.

Table 5.16: Acceptance and rejection of null hypothesis (influential factors and initial satisfaction about business succession process)

Hypnosis No.	Family member successor	Unrelated manager successor	All Successors
H2.a1	Rejected	Rejected	Rejected
H2.b1	Rejected	Rejected	Rejected
H2.c1	Rejected	Rejected	Rejected
H3.a1	Rejected	Supported	Rejected
H3.b1	Rejected	Supported	Rejected
H3.c1	Rejected	Supported	Rejected
H4.a1	Rejected	Supported	Rejected
H4.b1	Rejected	Supported	Rejected
H4.c1	Rejected	Supported	Rejected
H5.a1	Supported	Rejected	Rejected
H6 a1	Supported	Rejected	Rejected

Source: Survey data, 2011

Table 5.17: Acceptance and rejection of null hypothesis (influential factors and post succession business performances)

Hypnosis No.	Family member successors	Unrelated Manager successors	All successors
H2.a2	Rejected	Rejected	Rejected
H2.b2	Rejected	Supported	Rejected
H2.c2	Rejected	Rejected	Rejected
H3.a2	Rejected	Supported	Rejected
H3.b2	Rejected	Supported	Rejected
H3.c2	Rejected	Supported	Rejected
H4.a2	Rejected	Supported	Rejected
H4.b2	Rejected	Supported	Supported
H4.c2	Rejected	Supported	Rejected
H5.a2	Rejected	Supported	Supported
H6. a2	Supported	Rejected	Supported

Source: Survey data, 2011

All successors, incumbent, family and non-family owner related factors significantly correlate with the post succession business performance when the successor is a family member successor, however, only the successor's competence and pre-training experience, and non-family manager's

commitment, significantly correlate with the post succession performance when the unrelated manager successor is the successor. The unrelated manager successor is actually appointed due to their competence and experience and there is a significant relationship between his competence and the non-family manager's commitment with post succession business performance. For family member successors, all the main stakeholder related factors are vital to the post succession performance.

5.2.4 Model fit for initial satisfaction with the business succession process and post succession performance

Objective III: To fit the models for initial satisfaction with the business succession process and with post succession business performance based on the factors influencing the business succession process.

According to this objective, the study planned to develop models to identify factors influencing the initial satisfaction with the business succession process and the post succession business performance.

Factors determining initial satisfaction with the business succession processes

Multiple regressions were conducted to determine predictor's that effect the successor's initial satisfaction with the business succession process. Table 5.18 summarizes the descriptive and analytical results. As the first step, pre-training and experience of the successor ($r = 0.617$) was entered into the model. It highly significantly correlates with the initial satisfaction with the business succession process. As the second step, all the remaining predictors were entered simultaneously.

The final regression equation is as follows:

$$SBSP = 1.077 + .309(SCMI) + .168(SCOM) + .189(STRA) + .253(IREL) + .176(FHRA) + .127(NFMG) + e$$

5.1

Where,

SCMI = Level of commitment of the successor

SCOM = Level of competence of the successor

STRA = Pre-training and experience of the successor

IREL = The relationship between the incumbent and successor

FHRA = Family harmony

NFMG = Commitment of non-family managers

The coefficient of multiple determinations (R^2) is 0.627 (adjusted $R^2=0.608$); therefore about 62.7% of the variation in the initial satisfaction with the business succession process is explained by pre-training and experience, commitment and competence of the successor, relationship between incumbent and successor, family harmony and non-family managers commitment. F statistics of the study: F (6,121) is 33.898, $p < 0.05$. At the $\alpha = 0.05$ level of significance, there is enough evidence to conclude that at least one of the predictors is useful for predicting initial satisfaction with the business succession process ; therefore the model is useful. In addition, to test the suitability of the model, the study used Mallows Cp. In this model, it is 9.367 and it is one close to number of influential factors (6) of the model.

Table 5.18: Multiple regression analysis to determine the initial satisfaction with the business succession process

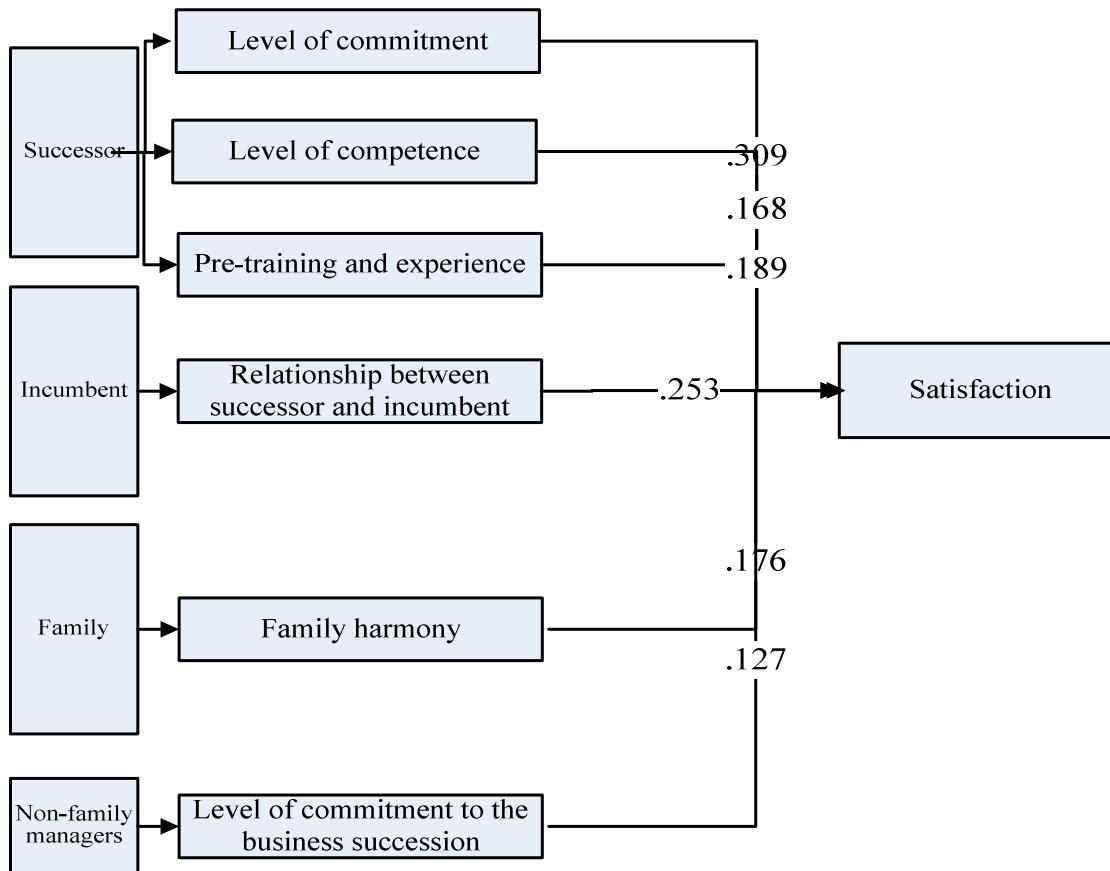
	Predictor	B	T	Sig.
	(Constant)	1.077	-3.489	.001*
	STRA	.189	2.942	.004*
	SCMI	.309	4.641	.000*
	SCOM	.168	2.792	.006*
	IREL	.253	3.321	.001*
	FHRA	.176	2.805	.006*
	NFMG	.127	2.307	.023*

* denote significance at 5 percent level (2-tailed)

Source: Survey data, 2011

The successor's level of satisfaction can be determined by entering 6 out of the eleven factors into the model simultaneously. Of that, 50% are related to “the successor's propensity to take over the successor role”. Those factors are: pre-training and experience; the level of commitment; level of competence of the successor; the “incumbent's propensity to step aside factor” (this is the relationship between the incumbent and the successor); the factor relating to “acceptance of the new role by family members” (i.e. family harmony); and finally, the level of commitment of the non-family manager. These help the author to determine the successor's satisfaction about the succession process.

When the successor is equipped with the relevant qualities (pre-training, experience and other competencies), and is highly committed to the FOB, it directly affects the other main and minor stakeholders’ satisfaction. This satisfaction helps the successor be committed to the BSP and they continue active participation in the FOB.



Secure: Survey data, 2011

Figure 5.3: Factors influencing initial satisfaction with the business succession process

Under these circumstances, the successor's competence and commitment will assist building up very good relations between the incumbent and successor because he trusts the successor. The incumbent will commit themselves to working with the successor. In the meantime, based on those capabilities, he can also develop better relations with family members. This facilitates good family harmony. Non-family managers appointed by the incumbent and who worked with them are highly concerned about the FOB and their future prospects with the company. However, the successor's commitment and competence will help improve their performance. Finally, they will give their fullest commitment to the BSP.

Factors determining the initial satisfaction with the business succession process when the successor is family member (FMS).

Multiple regressions were conducted to determine the predictor's that affect the initial satisfaction with the business succession process when it was done with a family member successor. Table 5.19 summarizes the descriptive and analytical results.

As the first step "level of commitment of the successor" ($r = 0.627$) was entered into the model. It was the highest statistically significant factor correlated with initial satisfaction with the business succession process (with a family member successor). As the second step, all the remaining predictors were entered simultaneously.

The final regression equation is as follows:

$$SFMS = 1.325 + .225(SCMI) + .143(SCOM) + .169(STRA) + .369(IREL) + .371(FHRA) + e$$

5.2

Where:

SCMI = Level of commitment of the successor

SCOM = Level of competence of the successor

STRA = Pre-training and experience of the successor

IREL = The relationship between the incumbent and successor

FHRA = Family harmony

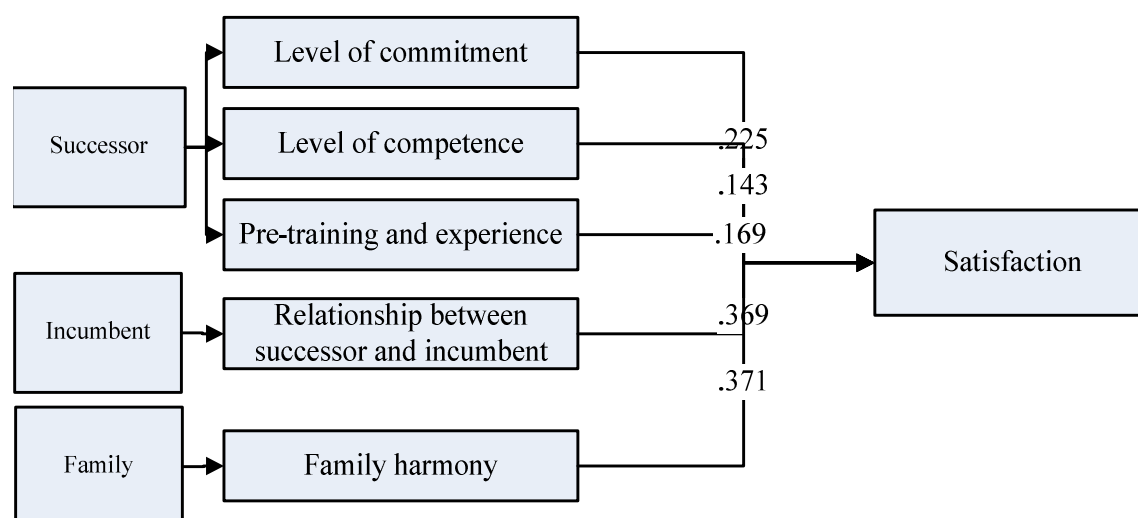
The coefficient of multiple determinations (R^2) is 0.840 (adjusted $R^2 = 0.705$). Therefore, about 84% of the variation in the initial satisfaction with the business succession process is explained by the commitment of the successor, the competence of the successor, family harmony, relationship between incumbent and successor and pre-training and experience. F statistics of the study: $F(5, 80)$ is 38.255, $p < 0.05$. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that at least one of the predictors is useful for predicting satisfaction about BSP when the successor is a family member successor ; therefore the model is useful. In addition to that, to test the suitability of the model, the study used Mallows Cp. In this model, it is 9.545 and it is one close to the number of factors (5) of the model.

Table 5.19: Multiple regression analysis to determine the initial satisfaction with the business succession process for family member successor (FMS)

Predictor		B	t	Sig.
	(Constant)	1.325	-4.373	.000*
	SCMI	.225	2.761	.007*
	FHRA	.371	4.750	.000*
	IREL	.369	4.268	.000*
	ITRA	.169	2.177	.032*
	SCOM	.143	2.063	.042*

* denote significance at 5 percent level (2-tailed)

Source: Survey data, 2011



Source: Survey data, 2011

Figure 5.4: Factors influencing the initial satisfaction of the family member successor

When these factors determine the satisfaction based on family member successor, it is slightly different from the main regression line developed for all successors. Here, the non-family manager’s commitment is omitted from the equation.

Factors influencing satisfaction with business succession process when the successor is an unrelated member successor (UMS)

Multiple regressions were conducted to determine predictors that affect the initial satisfaction with the business succession process when it was conducted

with an unrelated manager successor. Table 5.20 summarizes the descriptive and analytical results.

As the first step, non-family managers commitment ($r = .443$) was entered into the model. It was the highly significantly correlates factor with the initial satisfaction with the business succession process. As the second step, all the remaining predictors were entered simultaneously.

The final regression equation is as follows:

$$SUMS = .823 + .243(SCOM) + .414(NFMG) + e \quad 5.3$$

Where:

SCOM = Level of competence of the successor

NFMG = Commitment of non-family managers

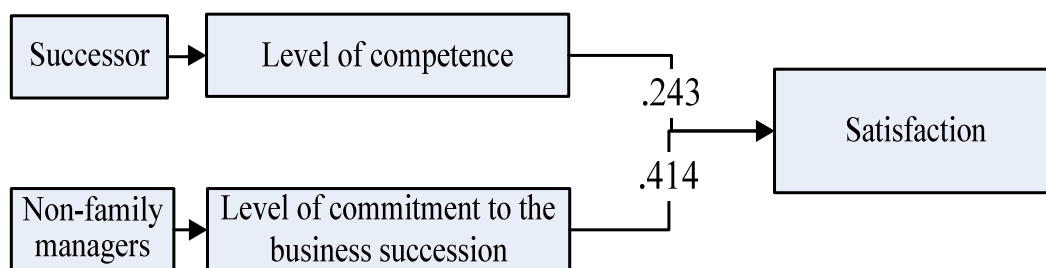
The coefficient of multiple determinations (R^2) is 0.640 (adjusted $R^2 = 0.383$). Therefore, about 64.8% of the variation in the initial satisfaction with the business succession process is explained by non - family managers' commitment to the BSP and the level of competence of the successor. F statistics of the study: $F(2, 39) = 13.325, p < 0.05$. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that at least one of the predictors is useful for predicting the initial satisfaction with the business succession process when the successor is an unrelated manager successor ; therefore the model is useful. In addition to that, to test the suitability of the model, the study used Mallows Cp. In this model it is 4.046 and it is one close to number of factors (2) of the model.

Table 5.20: Multiple regression analysis to determine the initial satisfaction with the business succession process for unrelated manager successors (UMS)

	Predictor	B	T	Sig.
	(Constant)	.823	1.947	.044*
	NFMG	.414	4.421	.000*
	SCOM	.243	2.813	.008*

* denote significance at 5 percent level (2-tailed)

Source: Survey data, 2011



Source: Survey data, 2011

Figure 5.5: Factors influencing the initial satisfaction of the unrelated manager successor

Only non-family manager's commitment and level of competence supported the equation when it was determined for the unrelated manager successor. In fact, successors are mostly appointed due to their competence. Secondly, new successors must gain support from other managers of the company, without which it is much harder to perform.

Factors determining post succession business performance (PSP) based on all FOBs

Multiple regressions were conducted to determine factors influencing post succession business performances. Table 5.21 summarizes the descriptive and analytical results.

As the first step commitment of the successor ($r = 0.390$) was entered into the model. It highly significantly correlates with the initial satisfaction with the business succession process; and as the second step, all the remaining predictors were entered simultaneously.

The final regression equation is as follows:

$$PSP = 1.213 + .619 (SCOM) + 1.126 (IREL) + 1.130 (FHRA) + e$$

5.4

Where:

SCOM = Level of competence of the successor

IREL = The relationship between the incumbent and successor

FHAR= Family harmony

The coefficient of multiple determinations (R^2) is 0.286 (adjusted $R^2 = 0.269$). Therefore, just about 28.6% of the variation in the post succession performance is explained by the commitment of the successor, family harmony relationship between incumbent and successor. The F statistics of the study: F

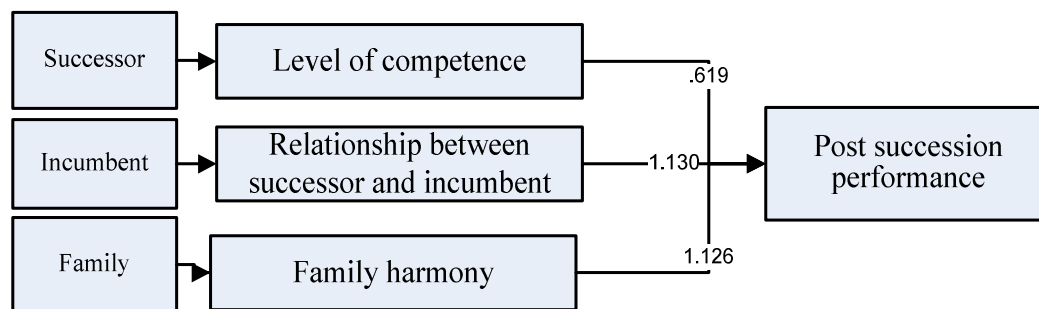
(2, 124) is 18.581, $p < 0.05$. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that at least one of the predictors is useful for predicting post succession performance. Factors identify that this equation is responsible for only 28.6% of variation of post succession performance. In addition, to test the suitability of the model, the study used Mallows Cp. In this model, it is 4.321 and it is one close to number of influential factors (4) of the model

Table 5.21: Multiple regression analysis to determine post succession performance

Predictor		B	t	Sig.
	(Constant)	1.213	-.906	.367*
	SCOM	.619	2.157	.033*
	FHAR	1.130	3.889	.000*
	IREL	1.126	3.105	.002*

* donate significance at 5 percent level (2-tailed)

Source: Survey data, 2011



Source: Survey data, 2011

Figure 5.6: Factors influencing post succession performance

Post succession performance is determined by three factors: the level of competence of the successor; family harmony; and the relationship between the incumbent and successor. However, these determinants only affect 28% of the variance. In other words, future researchers should test several new factors to determine the determinants of post succession performance.

5.2.5 Comparison of regression lines

Objective IV: To compare influences from each stakeholder relevant factors of the BSP with different successor models: family members and non-family unrelated managers.

Table 5.22: Tests of between- subject's effects

Source	Type III Sum of Squares	df	F	Sig.
Corrected Model	33.990 ^a	22	11.975	.000*
Intercept	1.974	1	15.301	.000*
SCMI	1.475	1	11.431	.001*
SCOM	.701	1	5.437	.022*
STRA	.220	1	1.703	.195
ILET	.136	1	1.050	.308
IREL	.535	1	4.150	.044*
IINT	.001	1	.009	.924
FHAR	.632	1	4.895	.029*
FSUP	.021	1	.159	.691
FMGT	.018	1	.140	.709
NFO	.652	1	5.057	.027*
NFMG	.265	1	2.054	.155

* donate significance at 5 percent level (2-tailed)

a. R Squared = .715 (Adjusted R Squared = .655)

Depended variable: initial satisfaction with the business succession process

Source: Survey data, 2011

To confirm whether the regression equations obtained for the initial satisfaction of family member successor and the unrelated manager successors were statistically different. The results of the Chow test (Chow, 1960) confirm that the overall regression equation for family member successions is significantly different ($p < 0.05$) from that obtained for unrelated manager successions. Furthermore, the difference occurs mainly due to the factors concerning the level of commitment of the successor; level of competence of the successor; the relationship between the incumbent and successor, family harmony; and also non-family owners' commitment.

5.2.6 Relationship between initial satisfaction and post succession business performance

Objective V: To evaluate the relationship between initial satisfaction with the business succession processes and post succession business performance.

Pearson's correlation coefficient was applied to test the relationship between the successor's initial satisfaction with the business succession process and post succession business performance. Table 5.23 shows the result. According to this result, these variables have a statistically significant relationship.

Table 5.23: Relationship between successor's initial satisfaction with the business succession process and post succession performances

Initial satisfaction	Sample type		
	All successors	Family member successor	Unrelated manager successor
Pearson Correlation	.564**	.776**	.361**
Sig. (2-tailed)	.000	.000	.019
N	128	86	42

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey data, 2011

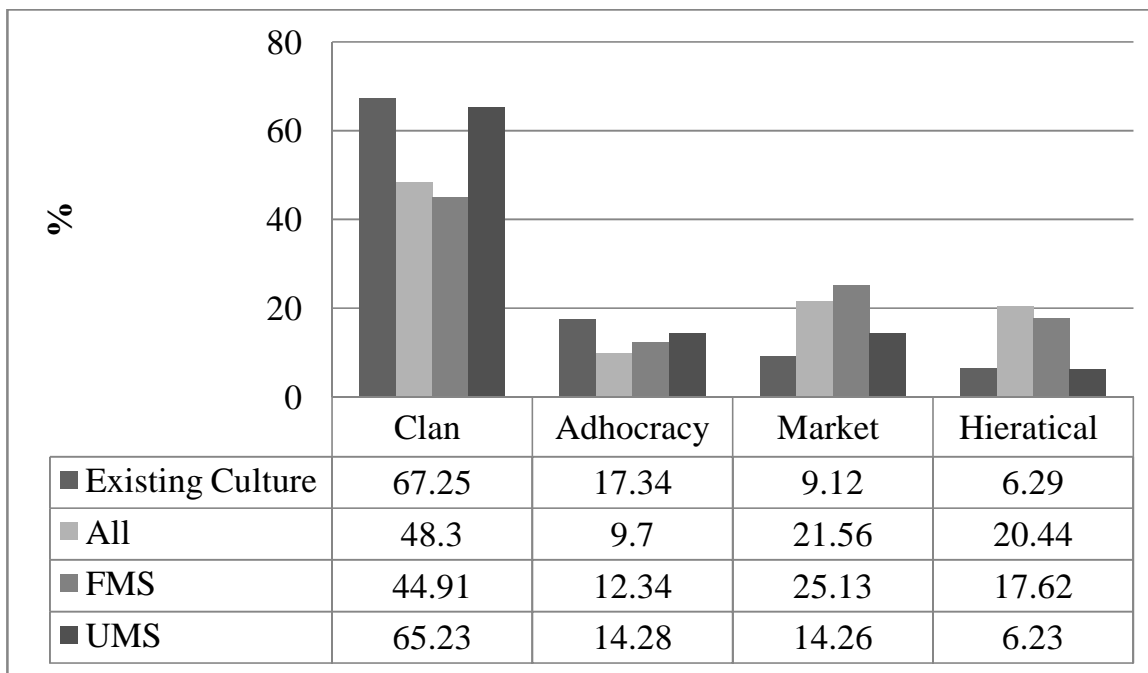
When the successor is satisfied with the BSP, it directly influences his post succession commitment to perform well for the business. It also affects the post succession performance and therefore the successor's satisfaction also highly influences factors of survival for the FOB. Therefore, the successor's satisfaction is the critical factor of the entire succession process.

5.2.7 Ethical behaviour and culture of the FOB

Objective VI: To measure the level of willingness of the successor to the existing ethical behaviour and culture of the FOB.

Figure 5.7 shows the existing culture developed by the incumbent (based on the successor's perception) and the expectations of different succession modes.

According to the successors' perception, most organizations have a clan culture. This means the business culture is internally focused and highly flexible. This is the expected organizational culture that the majority of successors should work by. Therefore, most successors do not have many ideas to begin drastic changes. There is not much difference between the existing culture and the unrelated successor's willingness to work. It may occur because most successors must work under the incumbent for a long period of time. If they are not able to adapt to the organizational culture, they cannot continue working their own way. However, some family successors are not happy with the current business culture and hence there is a trend to develop market and hieratical culture within their organization.



Source: Survey data, 2011

Figure 5.7: Type of enterprise culture types of FOBs

Summary of the chapter

This chapter explains how data was analyzed and discusses those findings in a descriptive manner. The majority of family member successors are the eldest son of the owner-family, and the majority of unrelated manager successors have post-experience with the FOB as top level managers. The majority of successors are male and there are no female unrelated manager successors. Unrelated manager successors have greater satisfaction with the succession process than the family member successors. However both unrelated manager successor and family member successor do not satisfy with BSP. Both family member successor and unrelated manager successor groups show a decline in performance when compared with the incumbent. However, unrelated manager successor performance is generally better than that of family member successor. Therefore, unrelated manager successors should be recognized as the most successful successor mode. Even so, on most occasions, unrelated manager successors have taken responsibility for a short-term period until a family successor is ready. All the identified factors have statistically significant relationships with initial satisfaction. All the successor-related factors: relationship between incumbent and successor, incumbent interest let to go; family harmony and commitment of non-family managers have statistically significant relationships with initial satisfaction with the business succession process. When all variables are considered together, then commitment of the

successor, the competence of the successor, pre-training and experience, the relationship between incumbent and successor, and harmony, are the factors influencing the family successors' initial satisfaction, however, competence of the successors, and non-family managers commitment the factors influencing the unrelated successors' initial satisfaction. Further study recognises the competence of the successor, relationship between incumbent and successor and family harmony as relatively important stakeholder related factors influencing to the post succession business performance. This study identifies statistically significant positive relationship between initial satisfaction with business succession and post succession performance. Lastly, it evaluates successor willingness about existing culture and found that the majority of successors are content with current culture and prepared to continue that business culture without initiating radical changes.

CHAPTER 6 - GAINS FOR SCIENCE AND PRACTICE

This chapter explains theoretical and practical contributions from this study. The author first identifies gaps of previous research and then shows how this study contributes to fulfill those gaps. Secondly, this study explains practical problems faced by FOBs during and after their BSP, and how this study assists in overcoming those problems in future BSPs.

6.1 Theoretical contribution of the study

In 2004, after analyzing past literature, Pyromalis and Rogdaki explained a lack of an integrated conceptual framework dealing with both initial satisfaction with the business succession process and post succession business performance. Some researchers have contributed to build their two-dimensional framework, however, they did not test these contributions empirically (Chittoor and Das, 2007). *With this background, this study successfully addresses this requirement for theoretical knowledge and contributes to global research in this area.* Handler (1989) suggests exercising quality research designs and use of statistical tools in order to develop literature in this field. This study addresses these issues empirically through using a well-developed conceptual framework and use of statistical analysis and a strong theoretical base. *Therefore, this contributes to fill the gap identified by Handler (1989), Sharma et al. (2003a), and Brockhaus (2004).*

This study discovered a number of research gaps through its exploratory study, and those are presented under the sub-chapter about stakeholders' influence behind the BSP (chapter 2.3) and in the conceptual framework (chapter 3.1). Here, the researcher expects to summarize those points before presenting the theoretical contribution.

Table 6.1: Research gaps identified in the study

Knowledge gaps identified	Level of relevance *		Analysis (sub chapter)
	Sri Lanka	Global	
1. Identifying successors' level of satisfaction with the BSP and compares this level of initial satisfaction between family member successors and unrelated manager successors.	XXX	XXX	5.2.1
2. Comparing post-succession performance	XXX	XX	5.2.2

between family member successors and unrelated manager successors and recognizing the most successful succession mode.			
3 Measuring level of influence from stakeholder related factors on the successor's initial satisfaction	XXX	XX	5.2.3
4. Measuring level of influence from stakeholder related factors on post succession business performance.	XXX	XX	5.3.3
5. Discovering relatively important factors influencing the initial satisfaction with the business succession process.	XXX	XXX	5.2.4
6. Discovering relatively important factors influencing the post succession business performance	XXX	XXX	5.2.4
7. Analysing the above-mentioned knowledge gaps (3-4) separately for family member successors and unrelated manager successors	XXX	XXX	5.2.3
8. Discovering relatively important factors influencing the initial satisfaction with the business succession process (for the family member successor)	XXX	XXX	5.2.4
9. Discovering relatively important factors influencing the initial satisfaction with the business succession process (for the unrelated manager successor)	XXX	XXX	5.2.4
10 Comparing regression lines of unrelated manager successors and family member successors to identify variations.	XXX	XXX	5.2.5
11. Evaluating the relationship between initial satisfaction with the business succession process and post succession business performance	XXX	XXX	5.2.6
12 Evaluating successors' willingness to continue with the existing ethical behaviour and culture of the FOB	XXX	XXX	5.2.7

* X = Adding new aspects to existing knowledge

XX = Compliments existing knowledge

XXX = Proposes new knowledge

Source: Developed by researcher based on exploratory study

Table 6.2 summarizes the research findings and links this with previous research results in the field of business succession processes in FOBs. The last

two columns of the table show the study's theoretical contribution in this field of knowledge and theory. Some researchers have compared post succession performance between a pair of alternatives such as: family member successors and unrelated manager successors; FOBs and non-FOBs; and again with sizes of companies such as small FOBs and publicly listed companies. For example, Chittoor and Das (2007) use three large-sized India FOBs. Cucculelli and Micucci (2008) analyze small-sized Italian FOBs. Lauterbach et al. (1999) measure the performance of small-sized US FOBs. Lin and Hu (2007) analyze Taiwa FOBs, while Gonzalez (2006) tested publicly-traded US family firms, and Smith and Amoako-Adu (1999) analyzed Canadian publicly- listed family firms. Venter and Mass (2005) analyse small and medium-sized South Africa FOBs. However, *no-one has analysed medium-sized family companies. Therefore, this study fulfils another global research gap* (refer to table 6.2, research question (ii)). *No-one has compared family member successors with unrelated manager successors in medium-sized FOBs. Therefore, this is the first research report to discuss this issue in such a specific manner.*

Different qualitative and quantitative studies have evaluated some factors that have influenced performance, particularly business performance (table 6.2 questions no. (iii)). However, this study, firstly evaluated all factors with one sample framework. Secondly, those influencing factors were tested with the both post succession performance indicators: satisfaction and effectiveness. Thirdly, this study originally included another two stakeholder groups to the study and a number of new influencing factors (non-family manager's commitment, family involvement to management and non-family owner's commitment) that no one address previously. For Sri Lanka, this expounds almost unprecedented knowledge.

Some of these evaluating factors are original contributions for global knowledge base, parts of this research complement existing knowledge, and some parts add new aspects to current knowledge (refer to table 6.2, research question (iii)). *This is the first empirical study that evaluates the influence from all stakeholder-relevant factors on BSPs under both perspectives of post succession performance.*

Under research questions (iv) and (v), this study again measures the correlation between each influential factors and the initial satisfaction with the business succession process and post succession business performance under both succession modes and finds results for each mode separately (refer to table 6.2 questions (iv) and (v)). This research is another original contribution for Sri Lanka as well as for the international knowledge base.

Under this section, the study develops two equations, one for the initial satisfaction with the business succession process (equation 5.1) and one for the

post succession performance (equation 5.4), based on stakeholder related influential factors. These introduce new knowledge eras which other researchers may contribute to and develop in order to produce more variety of dependent variables.

In addition to the above, this study develops another two equations, for two separate succession modes, in order to test their initial satisfaction with the business succession process (equations 5.2 and 5.3). These represent new approaches to knowledge for FOB knowledge base (results for questions (vii) and (viii)).

According to aforesaid findings, various factors influence the initial satisfaction with the business succession process and post succession performance of family member successors and unrelated manager successors. Therefore, it can be compared regression lines and identify significant differences (question (ix)). In answer to question (x) about the relationship between the initial satisfaction with the business succession process and post succession performance: a significant relationship was identified and it has a strong positive relationship. The final contribution from this study is research about the successor's willingness to work under the existing ethical climate and culture (x1).

Table 6.2: Key findings of the research and its link with past researches

Research question (Chapter 1.4)	Analysed in section	Brief summary of key findings	Level of significance of the findings	
			Global	Sri Lanka
i. Do successors satisfy with their BSP? Who in the successor mode is highly satisfied with the business succession process from family member successor and unrelated manager successor?	5.2.1	<ul style="list-style-type: none"> • Successors have only a “moderate level”, i.e. average satisfaction with the BSP they have had. • Unrelated manager successors have higher levels of “initial satisfaction” than the family member successors in medium-sized family companies. 	X	XXX
<p>Comparison with previous study results <i>The suggestion to use initial satisfaction as a measurement</i> Goldberg (1996), Handler (1989a), Harvey and Evans (1995), Sharma and Irving (2005), Venter and Mass (2005),</p>				
ii. What type of successor is most successful, that brings prosperity for the FOB?	5.2.1	<ul style="list-style-type: none"> • BSPs cause reductions in profitability, both in family member successor and unrelated manager successor managed companies. • Family member successor decline in profitability seems larger than unrelated manager successor managed companies. Therefore, under this background, unrelated manager successor can be recognised as the most successful one. 	X	XXX
<p>Comparison with previous study results (<i>supportive Studies</i>) Chittoor and Das (2007); Cucculelli and Micucci (2008); Lauterbach et al. (1999); Lin and Hu (2007); Pe´rez-Gonza´lez (2006); Smith and Amoako-Adu (1999); Venter and Mass (2005)</p>				

<i>The suggestion to use post succession performance as a measurement</i>				
Davis et al. (1997); Handler (1989a); Morris et al. (1997); Sharma and Irving (2005); Sharma et al. (2001)				
iii. What is the level of influence from stakeholders related factors to the post succession performance? What are the most influential factors from stakeholders on the initial satisfaction with the business succession process?	5.2.2	<p><i>Concerning initial satisfaction:</i></p> <ul style="list-style-type: none"> • All influential factors have a significant relationship, and level of commitment of the successor, pre-training and experience and level of competence of the successor have strong relationships on the initial satisfaction with the business succession process. <p><i>Concerning post succession performances:</i></p> <ul style="list-style-type: none"> • All have significant relationships except the family's willingness to support successor, non-family owners and non-family manager's commitment to the business succession process. • All show positive correlation, but none have a strong relationship 	XX	XXX
<p>Comparison with previous study results</p> <p><i>Initial Satisfaction</i></p> <p><i>Level of commitment of the successor</i> – Sharma et al. (2001)</p> <p><i>Incumbents interest to let go</i> – Barry (1975); Chrisman et al. (1998); Dascher and Jens (1999), Dyck et al. (2002); Sharma et al. (2001; 2003)</p> <p><i>With Post succession performances</i></p> <p><i>Level of commitment of the successor</i> – Barry (1975); Chrisman et al. (1998); Venter et al. (2003)</p> <p><i>Level of competence of the successor</i> - Dun and Bradstreet (1972)</p> <p><i>Pre-training and experience</i> – Barach et al. (1988); Dyer (1986)</p> <p><i>Incumbents interest to let go</i> – Handler (1989a); Sharma, Chrisman, and Chua (1997)</p>				

<p><i>Relationship between incumbent and successor</i> -Brockhaus (2004) <i>Family Harmony</i> – Churchill and Hatten (1987) <i>Family willingness to support successor</i> - Tagiuri and Davis (1992) <i>Non-family managers' commitment</i> - Bruce and Picard (2006) <i>Commitment of the successor and pre-training and experience</i> - King (2003) <i>The commitment of the successor , relationship between incumbent and successor and incumbents interest to let go</i> - Lansberg, (1988) <i>Commitment of the successor, Pre-training and experience, family harmony</i> - Morris et al. (1997) <i>Commitment of the successor, Pre-training and experience, incumbents interest to let go</i> – Sharma et al (2001) <i>Competence of the successor and pre-training and experience</i> - Barach and Gantisky (1995), Ward (1987) <i>Pre-training and experience and incumbents interest to let go</i> - Dascher and Jens (1999), Dyck et al. (2002), Sharma et al. (2003) <i>Incumbents interest to let go and family harmony</i> – Davis (1997)</p>				
iv. What is the level of influence from the stakeholder's relevant factors to the business succession process with a family member successor?	5.2.2	<p>Concerning initial satisfaction:</p> <ul style="list-style-type: none"> • All factors have significant relationships except non-family owner's and non-family manager's commitment to the business succession process. • All factors have a positive correlation and the commitment of the successor, the competence of the successor; pre-training and experience, family harmony and relationship between incumbent and successor have particularly strong relationships. <p>Concerning post succession performances:</p> <ul style="list-style-type: none"> • Apart from non-family manager's commitment, all others have significant relationships. • All factors have a positive correlation. 	XXX	XXX

<p>v. What is the level of influence from the stakeholder's relevant factors to the business succession process with unrelated manager successors?</p>	<p>5.2.2</p>	<p>Concerning initial satisfaction:</p> <ul style="list-style-type: none"> • Successor's commitment, competence, pre-training and experience, non-family owner's commitment and non-family manager's commitment have significant relationships. • All factors have a positive correlation. <p>Concerning post succession performances:</p> <ul style="list-style-type: none"> • The commitment of the successor, pre-training and experience and non-family manager's commitment have significant relationships. • All factors have a positive correlation. 	<p>XXX</p>	<p>XXX</p>
<p>vi. What are the relatively important factors from stakeholders on the business succession process?</p>	<p>5.2.3</p>	<p>Concerning initial satisfaction:</p> <ul style="list-style-type: none"> • Commitment and competence of the successor, pre-training and experience, the relationship between incumbent and successor, family harmony and non-family managers' commitment are the relatively important factors <p>Concerning post succession performance:</p> <ul style="list-style-type: none"> • The competence of the successor, relationship between incumbent and successor and family harmony are the relatively important factors 	<p>XXX</p>	<p>XXX</p>
<p>vii. What are the relatively important factors from stakeholders on the business succession process when it is preceded by a</p>	<p>5.2.3</p>	<p>Concerning initial satisfaction:</p> <ul style="list-style-type: none"> • The commitment of the successor, the competence of the successor, pre-training and experience, the relationship between incumbent and successor and family harmony are the relatively important factors 	<p>XXX</p>	<p>XXX</p>

family successor?				
viii. What are the relatively important factors from stakeholders on the business succession process when it is preceded by an unrelated manager?	5.2.3	Concerning initial satisfaction: <ul style="list-style-type: none"> • Level of competence of the successor and non-family managers' commitment to the business succession process are the relatively important factors 	XXX	XXX
ix. Are there significant differences in the level of influence from each stakeholder's relevant factors when the succession mode is changed?	5.2.4	<ul style="list-style-type: none"> • The overall regression equation for family member successors succession is significantly different ($p < .05$) from that obtained for unrelated manager successors succession. • This difference is caused mainly due to influence from level of commitment, level of competence, relationship between incumbent and successor and family harmony. 	XXX	XXX
x. Does successor's initial satisfaction with the business succession process has a relationship with post succession business performance?	5.2.5	<ul style="list-style-type: none"> • These variables have statistically significant relationship. • Strong positive correlation is recorded between initial satisfaction with the business succession process and post succession business performance. 	XXX	XXX
Comparison with previous study results Sharma et al. (2001)				

xi. Is the successor willing to continue under the presently existing ethical climate and culture? Is there a significant difference between family member successors and unrelated successors' expectations?	5.2.6	<ul style="list-style-type: none"> • According to the successors' perception, most organizations have a clan culture. • Clan culture is the expected organizational culture that the majority of successors should work by. 	XXX	XXX
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* X = Adds new aspects to existing knowledge

XX = Complements existing knowledge

XXX = Proposes new knowledge

Source: Developed by researcher by amalgamating study findings and exploratory study

6.2 Implications in practice

The above mentioned findings in this study have a number of important implications for future practice. This study provides practical solutions to problems faced by FOBs in Sri Lanka during their BSP. Those problems and practical solutions are given below.

1) Can unrelated manager successors successfully run family businesses? How is their performance?

According to the results of this study, performances decline after BSPs, with both succession modes. That decline though is lower with unrelated manager successors than with family member successors. This study therefore recommends unrelated manager successors as a preferably better succession alternative for medium-sized family companies, especially between two family member's successors. Further, if FOB wants to manage professionally, this is the best alternative. Trustworthiness and ability to properly manage FOBs to attain family expectations are vital factors for this consideration.

“Unrelated manager successors are a good alternative succession mode to fulfil the gap between two family member successions and when the FOB wants to manage it professionally.”

2) How to improve post succession performance

“Successors satisfaction highly depends on their own readiness, as well as commitment from all stakeholders to the business succession process”

According to research findings, successors have moderate (average) levels of satisfaction with business succession processes. This can actually be labelled the level of “no satisfaction or dissatisfaction”. Post succession performances show a downward trend from the incumbent to the successor. In other words, successors cause some damage to the business during their management period. This is not a good sign in order to successfully continue the business. According to the study, there is a positive relationship between the initial satisfaction with the business succession process and post succession performance. When the successor is satisfied with the BSP, this positively influences better financial performance in the company. It is therefore essential to recognise suitable methods to increase successor satisfaction. This study develops an equation for this purpose with the highly influencing stakeholder- related factors.

According to said findings, what directly influences the satisfaction is: the successor's commitment; competence; pre-training and experience; the relationship between incumbent and successor; family harmony; and the non-

family manager's commitment. Therefore, herewith the author suggests increasing successor satisfaction based on the aforesaid factors:

Increasing the commitment level of the successor

Successor commitment is the successor's psychological focus that pushes them to focus business behaviour on managing the FOB in the most profitable manner. Some successors join FOBs through genuine desire to be part of the FOB, called affective commitment. Some join because it is their obligation, called normative commitment; and others join due to lack of alternatives, called calculative commitment. The remainder join due to their inability to work outside the business, called imperative commitment. FOBs require successors who have affective commitment. There are a number of ways this author suggests raising commitment, as shown below:

- Align personal life expectations with those of the FOB
- Encourage risk-taking (best learnt from childhood)
- Appoint the successor as head of a department to motivate him
- Give opportunities to begin new business units under the FOB umbrella
- Set achievable targets in personal life and give praise on achieving goals
- Develop confidence by being encouraged
- Match the successor's career interests with that of the business
- Match their expected fringe benefits with company rewards
- Show various growth opportunities for the successor as the FOB develops
- Show the intangible benefits of the company
- Build trust about when an incumbent's step down
- Alter criticism to advice during the succession process
- Enhance required skills, encourage risk-taking and encourage new ideas

Increasing the competence level of the successor

As explained, FOBs are unique and cannot be entirely separated from the family. The successor all of a sudden plays a dual role as CEO of the FOB and also a family member in the owner - family. If they fail as a successor, it directly affects their role within their family. According to Porvaznik (2011), "Competence is the capability to discharge a certain position". Therefore, the successor's level of competence is critical for their personal success as well as successful growth of the FOB (De Alwis, 2010).

Porvaznik and Coll (2008) introduced a new framework named "*Model of discrimination of competence pillars*" and describe what competence is essential for success. They mention three pillars of competence: social maturity, professional ability, and also practical skills. According to this, if someone has

all three pillars, in other words “*holistic competence*”, then they are an individual with personal attractiveness and charisma that enables them to influence people around them and raise their happiness. This author suggests developing these competencies in order to be a successful successor.

Social maturity

- Knowledge of character qualities (Character) – the ability to solve stressful situations in appropriate ways, rather than with rudeness, anger and other expressions of temper.
- Knowledge of creative and discriminative qualities (Determination and creativity) - The successor should be very creative and also a strategic thinker.
- Knowledge of temperament qualities (Temperament) – The successor’s external perception and behaviour should match their role.
- Knowledge of somatic qualities (Somatic qualities) – the successor should have physical and psychological capabilities to face any stressful situation.

Professional ability (efficiency)

- Knowledge of methodology and systematic thinking (System thinking) – The successor should be a systematic thinker and be able to think with a broad perspective by seeing overall structures, patterns and cycles in systems, rather than seeing only specific events or part of the system.
- Knowledge of control units (Control of objects) – The successor should have knowledge of individuals, organizations and nations etc. They should be familiar with organizational settings, and the organisation’s purpose.
- Knowledge of the functions (Functions) – The successor should have knowledge of management functions, use of interrelationships, main responsibilities of management functions, delegation of power, and information sharing.
- Knowledge of information for control purposes (Control of Information) - The successor should have the competence to properly manage information.

Practical skills

- Knowledge of communication abilities (Communication) - The successor plays a dual role as CEO and family member, and to be successful in both, excellent communication skills are required in all formats.
- Knowledge of motivation abilities (Motivation) - FOBs are more complex than ordinary businesses because the managerial roles are performed by family members, relatives or non-relative employees. Successors should be able to balance both and show transparency in actions to get the fullest support from the entire FOB. This is not an easy task; for that purpose, the successor should have a good understanding about motivation.

- Knowledge and capability to work in a team and build team skills (Teamwork) - As the team leader, the successor should have lots of patience, an excellent ability to judge situations, empathy, the required degree of assertiveness, as well as other personality traits and abilities.
- Knowledge of self-management (Self control and time control) – the discipline to control individual personal reactions to stressful responsibilities and challenges in work and life. This involves managing time well and adapting to changing situations.

“The manager’s competence, their holistic, emergent feature is a characteristic given by his professional ability, social maturity and practical skills” (Porvaznik, 2011).

Increasing pre-training and experience opportunities

This study clearly indicates that pre-training and business experience positively influences the post succession business performance, as well as the initial satisfaction with the business succession process. These findings give great encouragement to conduct proper succession plans to enhance the capabilities by mixing relevant factors: proper education, training, and internal and external work experience.

Education –The education requires in the field of business management, and relevant technical background needed for particular businesses. It is also desirable to attend training seminars to get up-to-date knowledge in various fields.

External training and experience - This approach develops transferable skills in human capital and is highly beneficial. It enhances the successor’s level of confidence and allows the successor knowledge about technological and managerial applications and innovative ideas. It will also help them attain recognition from family as well as employers. If experience can be gained from various industries, it will help the successor to benchmark processes and procedures needed to improve. The most appropriate time to get external experience is before joining the company, which helps give them more respect within the FOB.

Internal training – This is the way of getting firm specific human capital. According to the resource-base view theory - valuable resources, difficult to imitate and unique resources create competitive business advantages. To absorb this, the successor should work within the business. In addition, grooming within the organization brings an opportunity to socialize with the organizational culture. To provide the necessary experience within the company, it is advisable

to use the most trustworthy managers and employees as mentors, who help the training period run smoothly.

Business Succession is a not an event. It has a long process. Therefore, it is better to start preparations for family member successor during childhood. The incumbent can discuss business matters during family gatherings. Later, the incumbent can bring the successor to the FOB and ask them to learn specific abilities. Secondly, he can take his support for incumbents work. When he is familiar with the business, the managerial responsibility can pass into the successor's hand. After satisfying the requirements, the incumbent can pass on responsibility to the successor.

“Training and experience, both internal and external, on one hand develops knowledge and skills, and on the other hand brings socialization”

Developing better relationships between the incumbent and successor

Incumbents are human; and cannot be expected to forget everything overnight. They should be prepared to play the role as an advisor or member of the board; however this involvement should not to be unnecessary involvement against successor's decisions or hidden control of managers who have worked under them when he was CEO. They can discuss issues but cannot force the successor to work according to his orders, which badly affects the successor's level of satisfaction. In some cases, the incumbent prefers to work in another capacity, as explained, but must remain in his role as agreed. They must respect the power of the successor and other governing bodies. It is advisable to seek outside work like developing charitable organizations, and be an active member of temples, or mosques. People can also spend time with their grandchildren, as most elders do.

Maximizing family harmony, encouragement and sharing knowledge

Every family has their own way of relating to each other. However, some influences can come from culture and ethical beliefs of society. To develop family harmony, parents must play a big role. They must introduce a number of values in order to enhance family harmony. Some strategies for maximising family harmony are given bellow:

- Develop trust among each other through positive communication.
- Select the successor during their childhood and train them for their job. At some time, it is advisable to identify other member's roles according to their competencies, and train them accordingly.
- Discuss future plans in an open forum of family members.
- Document all transactions in the proper manner.

- Fair treatment for all family members.
- Be honest and open to one another.
- Give opportunities to openly discuss differences.
- Discuss all issues, no matter how small.
- Help those who have problems and do not give up on the person.

Commitment of non-family managers

To develop more commitment from non-family managers, the following strategies can be utilized:

- Train the successor under the most trusted managers during the BSP.
- Develop good relationships between the successor and the managers during the successor's childhood.
- Enhance the successor with required competencies as it helps to trust them as an appropriate successor.
- Hold social gatherings with top managers and family members.

Summary of the chapter

This study provides significant and powerful contributions to the body of academic and practical knowledge about business successions in family owned businesses. As the literature review reveals, most research has focused on inter-generational business succession and very little research has concentrated on other succession modes. Furthermore, very little research has been done empirically. No research has been done with a complete conceptual framework covering all stakeholder groups concerning BSPs. With this background, this research compares family member successors and unrelated manager successors, and identifies unrelated manager successors as the most suitable mode for changing managers in future successions. Secondly, it has explored influence from every stakeholder related-factor on BSPs. Thirdly; this study has developed equations based on the level of influence coming from each stakeholder related factor on BSPs, both for initial satisfaction and for post- succession business performance. Further, it has identified changes of influences when the successor mode changes. Finally, it measures the willingness of successors to continue managing the business under the existing ethical climate and culture. These findings, to some extent, fulfil various theoretical gaps in various fields. On top of that, findings based on research done on influential factors will assist BSPs be more profitable, by managing BSPs more effectively. Under the second sub-chapter, this study will elaborate on how these findings can be used to develop FOBs, especially medium-sized FOBs in Sri Lanka.

CHAPTER 7- CONCLUSIONS

This chapter begins with conclusions and recommendations, then presents limitations of the study, and finally presents recommendations for further research.

7.1 Research conclusions and recommendations

When the incumbent is getting close to retirement, the FOB and the owner-family is in a dilemma about the new successor appointment, and success after the new appointment. If this process fails, that occurs just occasionally, it is the biggest loss in the entire life of the business entity. It is clearly not a regular incident in these generic types of businesses. Succession usually means one generation handing management to the next generation. Most managers and family members do not have any experience with business succession processes. On some occasions, just the incumbent has some understanding of what is going to take place, due to the fact that he was the successor in the last transition.

A successful changeover is extremely dependant on two foremost decisions. The first one is choosing the appropriate successor, and the second one is managing influential factors so as to maximise successor satisfaction because this directly affects post succession performance of the business unit, not only that, however the successor's willingness to work under the existing ethical climate and culture of the FOB is a crucial influence, because it has great influence on performance.

Under these circumstances, the author was in a conceptual puzzle: are successors satisfied with the business succession process? Do family member successor diminish organizational performance? Can unrelated manager successors perform better than the family member successors? What are the factors influencing successful business succession process, and so on. Finally, this motivated the author to conduct empirical study to investigate those questions.

In the first stage, the author conducted an exploratory study to recognise performance measurement indicators, and stakeholders around the business succession and their influence. Based on these findings, the author developed a conceptual framework and hypothesis for the formal study. Medium-sized FOBs who have gone through a business succession process within 2000 – 2007 are the identified population for this study. A mail survey was conducted, some in-depth discussions were held with successors to collect data, and finally statistical analysis was used to test hypothesis and find answers. Based on these analyses, the study solves the conceptual puzzle.

According to aforesaid findings, successors are not satisfied with the business succession process. This is true of all the succession modes. Unrelated manager successors have higher satisfaction than the family member successors but no successors achieve more than the moderate level of satisfaction. This level achieved indicates “no dissatisfaction and no satisfaction” and this is dissatisfactory for the future of the FOB. If CEOs do not satisfy the way of appointing them, it badly affects the performance.

According to empirical findings from this study, *successors have had a damaging influence on business performances, true for family member successors as well as unrelated manager successors. All successors recorded lower performances than the incumbent, which is a discouraging sign for the future existence of the FOB. The incumbent is the one who took the most risks to start the business, built the business over an extended period of time and thus he has greater experience and capacity than the successor. There are though, many opportunities to groom potential successors to the required business ability levels before the succession process.*

This study compares performances of family member successors with that of unrelated manager successors, based on both subjective and objective indicators in order to recognise the most successful successor under the highest level of family involvement. *Unrelated manager successors recorded better performance than the family member successors in both perspectives. They have higher levels of satisfaction with the business succession process and better business performance.*

According to performance, unrelated manager successors are most suitable to take over management from the incumbent, however it is not the most appropriate appointment when family members demand to be the successor. On one side, it will create a number of inter-family conflicts and it badly affects the day to day business activities. From another perspective, FOBs belong to the family and if they do not have an opportunity take the lead in their own company, they are unlikely to get this opportunity outside the company. It is far better to encourage that committed member to acquire the required competence and give them the chance to manage the company. However, when a FOB does not have an available family member, an unrelated manager successor is the best alternative to consider. Not only that, if owners require running the FOB under professional management, then this is a good alternative.

Though all stakeholders-related factors have positive relationships with the BSP process (significant relationship with initial satisfaction with the business succession process), the relatively important factors are the level of commitment of the successor, level of competence of the successor, pre-

training and experience , the relationship between incumbent and successor, family harmony, non-family managers' commitment. In other words, if FOBs successfully manage the above factors, it helps increase the successor's initial satisfaction with the business succession process and finally helps to achieve a successful post succession performance.

The successor's level of commitment is one of the most critical factors for the success of the BSP, common for both family member successors and unrelated manager successors. Both successors highly emphasise the importance of commitment to obtain the management position, which is further empirically confirmed by the study. No-one can be appointed by force but in some situations, due to obligation to the family, some family members take the business into their hands without much real commitment. Their interest and career then do not line-up with each other. In this situation, it is difficult to expect great performance from the successor. Therefore, the family must take necessary measures to develop higher levels of commitment among potential successors.

To manage the FOB successfully, the level of competence is the most important factor. Successors should be equipped with professional efficiency, practical skills and social maturity. The well-equipped successor carries responsibility on behalf of all the main stakeholders, i.e. the successor himself, the incumbent and the family. If the successor wants to be a successful entrepreneur, they must put effort into acquiring the essential competencies. If the incumbent wants to be wise and save their company, they must commit themselves to train the successor. If the family wants to constantly reap benefits from the FOB, they must give their full support and encouragement to prepare the successor.

Pre-training and experience is the next factor of influence. FOBs should have a clear succession plan to prepare the successor with the required business skills and experience, both externally and internally (further recommendations are discussed in chapter 6.2).

The relationship between the incumbent and the successor is the next critical factor. If the incumbent has developed a good relationship with the successor, it directly increases the successor's confidence, and opens a path to pass knowledge from the incumbent to the successor and to become aware of other supportive hands around the FOB including customers and suppliers. Therefore, the incumbent's involvement is vital. Their involvement developing family harmony is another critical role.

Family harmony is the next critical factor. If family members decrease their commitment to the FOB and their involvement in its activities and/or resign from holding company positions during the business succession process, it

shows their unwillingness and dissatisfaction with the new appointment. It could also be a sign of their lack of trust about the business future with the new successor. On the contrary, if family members continue in their positions and are committed to supporting the successor, it shows a willingness and trust with the new appointment. *If family members give their undivided support to the new successor, willing to share knowledge without hesitation, to help them during difficult situations, and to stand with the successor to protect the company, then it increases the successor's satisfaction and also increases post succession performance.*

Non-family managers' commitment is the next factor. If the incumbent has developed a good affiliation with the successor then the non-family manager's commitment to the BSP is not a vital issue. If that relationship is very poor though, then the non-family managers can be a strong group of enemies of the BSP. The incumbent then must play a vital role in developing relationship between the successor and non-family managers.

If the FOB appoints an unrelated manager, other non-family managers are a critical factor for the success because if family members are not ready to be the successor, some managers build up hopes to be appointed the leadership. When a company appoints a manager from among those managers who has built up hopes, or a complete outsider, there is a greater chance they will go against the business succession process and the successor. Then, a difficult situation develops within the FOB. Therefore, the non-family manager's commitment has to be taken before appointing unrelated manager as a successor.

Successor's commitment, competence and his pre-training and experience, relationship with incumbent, family harmony and commitment of non-family managers are the relatively important factors to increase level of satisfaction. However *the relative importance of influential factors changes when the succession mode is changed.* When succession is conducted with a family member successor, the most important factors are their commitment, competence, pre-training and experience, family harmony and relationship with the incumbent. However, when succession is carried out with an unrelated managerial successor their competence and other non-family manager's commitment to the business succession process are vital.

This study measures factors of relative importance to maximise business performance after business succession processes; as per the results, those factors are the level of competence of the successor; the relationship between the incumbent and successor; and family harmony. *One crucial point is that without the successor, the incumbent and the family's real involvement, the BSP cannot be successful.*

The competence of the successor is the most important factor for the successful business succession. Relationship with incumbent and successor and family harmony are the next. *Therefore, this study again confirm successor, incumbent and family as the most influential stakeholders of the business succession process of family business.*

According to study findings, the successor's satisfaction with the business succession process directly influences business performance. Simultaneously, the level of commitment, family harmony, and the relationship between incumbent and successor all directly influence both initial satisfaction with the business succession process and business performance.

Finally, this study measures the successor's willingness to work under the existing ethical climate and culture. *According to research findings, most FOBs have a definite clan culture.* Family businesses usually maintain very close relations with employees, whether they are family members or not. The founder/incumbent function as mentors and put great emphasis on mutual trust and commitment. Likewise, *most successors are content to lead the organisation in a similar fashion.* Most unrelated successors are content to maintain current business culture without introducing major changes. Most unrelated manager successors have taken the management position for a short period of time and therefore do not want to do way of performing. Some family member-successors are keen on market culture and some are keen on taking more business risks. Some are highly concerned about productivity improvements, *but it can generally be concluded that the majority of incumbents and successors prefer to lead the same type of organization.*

7.2 Generalization of findings

There are a number of differences between FOBs in Sri Lanka and European Union countries (chapter 4.4). On the other hand though, there are a number of similarities between Sri Lanka and European countries concerning influential factors on the business succession process of FOBs. Due to literature about southern Asian and Sri Lanka being unavailable, this study is heavily based on literature about the Western world. In other words, the study developed its conceptual framework and hypothesis based on Western literature. This study acknowledges the influential factors already proven by various Western researchers (refer to table 6.2).

The main difference is those do not have test in one sample framework. They have tested those in different formats; qualitatively and quantitatively. Those studies have considered only a few factors such as family influential factors, successor-related factors, and incumbent-related factors. *These factors are*

common all over the world, but the relative importance of each factor changes from country to country, and region to region. In other words, some factors were dropped from the equation concerning Sri Lanka, but these factors can be included in the equation when it measures the Czech Republic. Factors included for Sri Lanka can be omitted from the equation when tests are done for the Czech Republic.

7.3 Limitations of the research

This is the first study that empirically evaluates an integrated model of stakeholder related factors impacting on the business succession process in medium-sized FOBs. Using quite a large sample, this addresses issues to obtain a better understanding of the succession process. This approach deviates from the current approach in this field: anecdotal evidence, case studies, and small-scale descriptive studies. This study attempts to significantly contribute to the body of knowledge of business succession processes in medium-sized FOBs however there are still further areas needed to investigate. Due to the lack of a database for Sri Lanka, the number of sample units is limited to 126. Therefore, study evaluations are limited to multiple regression. This study presents a generic model of stakeholder related factors influencing the business succession process and future researchers may conduct research with larger sample sizes to better generalize findings with more sophisticated statistical tools.

7.4 Recommendations for future research

This author presents further research suggestions under two subheadings: generalizing research findings for the whole world, and further development of findings.

7.4.1 Generalizing research findings

This study presents a generic model to evaluate the relationship between stakeholder's related influential factors and post succession performance. *However, future research may well focus on confirming these results by analysing a larger sample.* Furthermore, research is better conducted in diverse countries which have a dissimilar cultural background. This may be done by dividing the total sample into segments: first generation to second succession, and also second generation to third succession etc...

7.4.2 Further development of the knowledge base

This model considered only 11 independent variables: three factors each from the successor, the incumbent, and the family; one factor from the non-family manager, and one factor from the non-family owners. Researchers though may identify other influential factors relating to each stakeholder by scrutinizing

various literatures. They can then include these factors into the research framework and testing process. This model is only based on stakeholders concerning the BSP. Additionally, the succession plan, taxation regulations and mode of legislations can all influence the BSP. It is therefore better to develop a conceptual framework with that all and test the factors influencing the BSP.

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Lecturer [Probationary] – University of Kelaniya, Sri Lanka – 2005 – 2007

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APPENDICES

Appendix A - Research questionnaire

30/3C
De Mel Road
Lakshapatiya
Moratuwa
Sri Lanka
Phone: 0714444269

01.06.2011

Business Succession in Medium Size Family Companies

Dear Participants,

As a PhD student of Tomas Bata University in Zlin, the Czech Republic, I am conducting a research on “**Business succession in medium-size family companies**” to fulfill part of my educational requirements. This questionnaire is designed for studying the level of influence comes from each stakeholder groups to the business succession. As a family business successor who has been appointed through intergenerational succession or recruited by the owners, the information you provide through the attached questionnaire definitely help me to get better understanding about business succession. Because you are the great resource person who can give a correct picture on how each stakeholder group influences the success of the business succession.

Any information obtained in connection with this study will be remained as confidential. I will appreciate, if you could complete the following questionnaire and send it back to me.

Thank you very much indeed for your valuable time and cooperation. I greatly appreciate your help in furthering this research endeavor.

A. Chamaru De Alwis [Researcher]

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Section 1

1. Read the following four statements and tick the correct answer.

	Yes	No
Does the whole or majority of ownership of the company belong to one family or few families?	<input type="checkbox"/>	<input type="checkbox"/>
Are the number of employees at present between 50-149?	<input type="checkbox"/>	<input type="checkbox"/>
Has the new successor been appointed in between the year 2000 -2007?	<input type="checkbox"/>	<input type="checkbox"/>
Are you a family member or close relative of the owner's family or outside manager, recruited to run the organization?	<input type="checkbox"/>	<input type="checkbox"/>

If all the answers are “**Yes**” please go to section 2 and 3 and if at least one answer is “**No**”, please stop answering the questionnaire and ignore the questionnaire.

Section 2

2.1 Personal information

2. Please tick the correct answer

How did you receive the chairmanship [post of CEO/ Chairman] of the company?

Because I am a family member of the past Chief Executive Office [CEO]/ Chairman, thus past CEO/ Chairman and other family members appointed me as the new CEO/ Chairman of the company.	
I am an outsider from owner-family : I was recruited /appointed as CEO by the company	

3. If you are family member, please mention relationship to the incumbent / founder

Son	
Brother	
Daughter	
Son-in-law	
Spouse	
Other [Please write]	

4. If you are outsider from the owner family and appointed as a CEO/ Chairman

(1) I have worked with the company prior to my appointment as a CEO/ Chairman	
(2) I did not work with the company prior to the appointment as a CEO/ Chairman	

5. Sex : Male Female

6. Age : ----- years [When you were appointed]

2.2 Family Owned Company

7. Business Type [Please tick]

Manufacturing	
Wholesale and retail	
Communication	
Financial	
Real estate	
Hotel and restaurants	
Transportation	
Mixture of business [Number of businesses]	
Others [Please specify]	

8. Composition of the Director Board [Please write]

Family members	
Non-family members	
Total	

9. Business performances before and after business succession

	Last three years before the succession			Year of the succession	First three years after succession		
ROA %							
ROS %							

Section 3

10. Please respond as candidly as possible to the following statements by circling a number between 1 and 5 that represent your organization as it was first three years after business succession, with 1 representing unsatisfactory and 5 fully satisfactory.

Completely satisfied - 5

Fairly satisfied - 4

Moderately satisfied - 3

Satisfied up to some extent – 2

Not at all satisfied - 1

Please indicate the extent to which you satisfy with the following statements.		5	4	3	2	1
1	The family business has performed as well or better since the management/ leadership of the business was handed over to me					
2	The family business has proved to be sustainable since the management/ leadership of the business was handed over to me					
3	The relationships among family members are positive after the management/ leadership of the business was handed over to me					
4	The relationships with stakeholders (network, suppliers, etc.) are intact after the management or leadership of the business was handed over to me					
5	I improved/increased the revenues and profits of the family business after the management/leadership of the business was handed over to me					

11.Satisfaction with the succession process

Please indicate the extent to which you satisfy with the following statements.		5	4	3	2	1
1	The manner in which the succession process was managed.					
2	The manner in which the choice of successor was communicated to family members actively involved in the business.					
3	The manner in which the choice of successor was communicated to family members not actively involved in the business.					
4	The manner in which the choice of successor was					

	communicated to key non-family managers.					
5	The process used to determine the potential candidates for succession.					
6	The criteria used to select the successor.					
7	The process used to train the successor.					
8	The process used to familiarize the successor with the business.					
9	The process used to familiarize the successor with the employees of the business.					
10	The financial arrangements for the outgoing president of your firm upon him/her retirement.					
11	The criteria used for determining the distribution of ownership after the transfer of leadership to the successor.					
12	The suitability of the chosen successor					

12. Successor (Factors influencing the propensity to take over the business)

Please indicate the extent to which you agree with the following statements.		5	4	3	2	1
1	At the time of succession, I had a strong desire to take over business.					
2	At the time of succession, I had a strong interest to build up my carrier with this company.					
3	At the time of succession, I was willing to put in a great deal of my effort beyond that normally expected, in order to assist the company be successful.					
4	At the time of succession, I thought this position would bring very good self image to me.					
5	At the time of succession, I had a recognized this CEO/Chairmanship as a rewarding career for my future.					
6	At the time of succession, I had a great deal of confidence in my ability to manage the business successfully.					
7	At the time of succession, I felt that I have capacity to understand real causes of issues in organizations and know just where to work to address them.					
8	At the time of succession, I had a good					

	understanding about organizational setting, the purpose of the existence of the organization.					
9	At the time of succession, I had good idea about information needs					
10	At the time of succession, I knew management functions and their use, interrelationship with each other.					
11	At the time of succession, I had excellent communication skills in all formats such as reading, writing, speaking and listening.					
12	At the time of succession, I felt that I can motivate all the employees (family and non family) successfully					
13	At the time of succession, I had competence to work as team leader					
14	At the time of succession, I had capacity to manage time and very complex , stressful situations.					
15	At the time of succession, I had an academic qualification[s] that prepared me to take over the business.					
16	During the succession process, I was regularly attending to business-related courses/seminars and that prepared me to take over the business.					
17	At the time of the succession, I was very much familiar internal setting of the business, due to post experience gathered through working in the company.					
18	At the time of succession, I had experience in different business setups other than that I obtained from this company and that prepared me to take over the business confidently.					

13.The incumbent (factors influencing the propensity of the incumbent to step aside)

Please indicate the extent to which you agree with the following statements.		5	4	3	2	1
1	At the time of succession, outgoing Chairman/CEO did not want to preserve controlling power in his hand.					
2	The outgoing Chairman/CEO of our business felt that his or her presence in the business was necessary to keep it running.					
3	At the time of succession, past president did not concern					

	about the loss of image that he had received through the company as a Chairman/CEO.					
4	Former CEO/ Chairman did not interfere any of my decisions after my appointment.					
5	At the time of succession, former CEO /Chairman did not have confidence about my competencies.					
6	During the succession process, the retired CEO/ Chairman and I were willing to share information with each other.					
7	During the succession process, former CEO/Chairman introduced me to his business network without any hesitation.					
8	At the time of succession, former CEO/ Chairman gave his acceptance to me as his successor.					
9	At the time of succession, incumbent has build good reorganization due to his non-business activities such as charitable work etc					
10	At the time of succession, incumbent had lot of outside activities to attend					

14.Family (factors influencing acceptance of the new role)

Please indicate the extent to which you agree with the following statements.		5	4	3	2	1
1	At the time of succession, family members believed me as the best selection to appoint as next CEO/Chairman.					
2	At the time of succession, family members committed to the business at their level best.					
3	At the time of succession, family members mutually agreed to appoint me as a successor [new chairman/CEO].					
4	At the time of succession, family members had confidence about my capabilities.					
5	At the time of succession, family members freely shared their knowledge with me.					
6	At the time of succession, family members mutually agreed to continue their service they have provided to the company.					
7	Family members who involve in business activities highly committed to success of the succession process.					
8	Higher percentage of family members in board of directors influenced to my decisions negatively.					

15. Influence comes from non-family owners and managers

Please indicate the extent to which you agree with the following statements.		5	4	3	2	1
1	At the time of succession, there were no objections from non-family owners against my appointment.					
2	At the time of succession, there was no request come from non-family owners to withdraw their ownership of the company.					
3	At the time of the succession, non-family owners encouraged me for accepting the post of CEO/Chairman.					
4	At the time of the succession, non-family managers believed me as a best selection as a successor,					
5	Non-family managers highly committed to implement the changes that I have done after my appointment.					

16. Please write your other aspects of the business succession issues

17. “Organizational Culture Assessment Instrument (OCAI)”

Select most suitable statement from each four statements for the current culture and your willingness

1. Dominant Characteristics		Current culture	Your willingness
A	The organization is a very personal place. It is like an extended family. People seem to share a lot of them.		
B	The organization is a very dynamic entrepreneurial place. People are willing to stick their necks out and take risks.		
C	The organization is very results oriented. A major concern is with getting the job done. People are very competitive and achievement oriented.		

D	The organization is a very controlled and structured place. Formal procedures generally govern what people do.		
	Total		
2. Organizational Leadership			
A	The leadership in the organization is generally considered to exemplify mentoring, facilitating, or nurturing.		
B	The leadership in the organization is generally considered to exemplify entrepreneurship, innovating, or risk taking.		
C	The leadership in the organization is generally considered to exemplify a no-nonsense, aggressive, results-oriented focus.		
D	The leadership in the organization is generally considered to exemplify coordinating, organizing, or smooth-running efficiency.		
	Total		
3. Management of Employees			
A	The management style in the organization is characterized by teamwork, consensus, and participation.		
B	The management style in the organization is characterized by individual risk-taking, innovation, freedom, and uniqueness.		
C	The management style in the organization is characterized by hard-driving competitiveness, high demands, and achievement.		
D	The management style in the organization is characterized by security of employment, conformity, predictability, and stability in relationships.		
	Total		
4. Organization Glue			
A	The glue that holds the organization together is loyalty and mutual trust. Commitment to this organization runs high.		
B	The glue that holds the organization together is commitment to innovation and development. There is an emphasis on being on the cutting edge.		
C	The glue that holds the organization together is the emphasis on achievement and goal accomplishment. Aggressiveness and winning are common themes.		
D	The glue that holds the organization together is formal rules and policies. Maintaining a smooth-running organization is important.		

	Total		
5. Strategic Emphases			
A	The organization emphasizes human development. High trust, openness, and participation persist.		
B	The organization emphasizes acquiring new resources and creating new challenges. Trying new things and prospecting for opportunities are valued.		
C	The organization emphasizes competitive actions and achievement. Hitting stretch targets and winning in the marketplace are dominant.		
D	The organization emphasizes permanence and stability. Efficiency, control and smooth operations are important.		
	Total		
6. Criteria of Success			
A	The organization defines success on the basis of the development of human resources, teamwork, employee commitment, and concern for people.		
B	The organization defines success on the basis of having the most unique or newest products. It is a product leader and innovator.		
C	The organization defines success on the basis of winning in the marketplace and outpacing the competition. Competitive market leadership is key.		
D	The organization defines success on the basis of efficiency. Dependable delivery, smooth scheduling and low-cost production are critical.		

Appendix B – Test of normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROA AFTER	.049	128	.200	.935	128	.016
SATISFACTION	.081	128	.095	.970	128	.647
COMMITMENT	.065	128	.200	.975	128	.072
COMPETANCE	.055	128	.200	.976	128	.226
PRE-TRAINING	.064	128	.071	.944	128	.310
LET TO GO	.067	128	.123	.980	128	.145
RELATIONSHIP	.066	128	.200	.960	128	.053
OUTSIDE	.073	128	.175	.953	128	.310
INTEREST						
HARMONY	.076	128	.065	.942	128	.224
FAMILY	.068	128	.200	.928	128	.176
SUPPORT						
FAMILY INVOL	.065	128	.154	.945	128	.154
MINOR SHARE	.114	128	.145	.904	128	.065
NON-FAMILY	.064	128	.200	.924	128	.225
MANAGER						

a. Lilliefors Significance Correction

Dependent variable: Satisfaction

Appendix C - Pearson correlation coefficients

	SCMI	SCOM	STRA	ILETT	IINT	IREL	FHAR	FSUP	FMGT	NFO
SCOM	.476**									
STRA	.486**	.499**								
ILETT	.309**	.294**	.475**							
IINT	.224*	.418**	.353**	.334**						
IREL	.200*	.214*	.323**	.175*	.168					
FHAR	.334**	.455**	.350**	.160	.069	.255**				
FSUP	.267**	.138	.294**	.252**	.358**	.267**	.215*			
FMGT	.414**	.108	.404**	.258**	.189*	.136	.296**	.320**		
NFO	.098	.002	.108	.089	.120	.024	.091	.150	-.071	
NFMG	.201*	.056	.342**	.127	.027	.182*	.178*	.148	.253**	.056

** donate significance at 1 percent level

* donate significance at 5 percent level

Source: Survey data, 2011

Appendix D – Tolerance, VIF and Durbin Watson test

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-1.077	.309		-3.489	.001		
PRE-TRAINING	.189	.064	.213	2.942	.004	.589	1.697
COMMITMENT	.309	.067	.305	4.641	.000	.715	1.399
COMPETANCE	.168	.060	.185	2.792	.006	.701	1.427
RELATIONSHIP	.253	.076	.211	3.321	.001	.766	1.306
HARMANY	.176	.063	.174	2.805	.006	.804	1.245
NON-FAMILY MANAGER	.127	.055	.138	2.307	.023	.863	1.159

a. Dependent Variable: SATISFACTION

Durbin Watson test – 1.958

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-1.213	1.339		-.906	.367		
COMPETANCE	.619	.087	.189	2.157	.033	.752	1.330
HARMANY	1.130	.009	.310	3.889	.000	.907	1.103
RELATIONSHIP	1.126	.025	.260	3.105	.002	.822	1.217

a. Dependent Variable: ROA AFTER

Durbin Watson test – 1.703

Coefficients^{a,b}

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
5 (Constant)	-1.325	.303		-4.373	.000		
COMMITMENT	.225	.081	.213	2.761	.007	.617	1.619
HARMONY	.371	.078	.340	4.750	.000	.720	1.389
RELATIONSHIP	.369	.086	.296	4.268	.000	.765	1.308
PRE-TRAINING	.169	.078	.169	2.177	.032	.613	1.632
COMPETANCE	.143	.069	.155	2.063	.042	.649	1.540

a. Dependent Variable: SATISFACTION

b. Selecting only cases for which TYPE OF SUCCESSOR = 1.00

Durbin Watson test – 1.809

Coefficients^{a,b}

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
2 (Constant)	.823	.423		1.947	.059		
NON-FAMILY MANAGER	.414	.064	.542	4.421	.000	1.050	1.123
COMPETANCE	.243	.046	.345	2.813	.008	1.265	1.045

a. Dependent Variable: SATISFACTION

b. Selecting only cases for which TYPE OF SUCCESSOR = 2.00

Durbin Watson test – 1.797