

## AN ASSESSMENT OF THE DETERMINANTS OF SUCCESSOR DEVELOPMENT IN FAMILY BUSINESSES

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**Purpose:** The primary objective of this study is twofold: Firstly, to assess some of the determinants of successor development in family businesses with the focus on the role of the senior generation family members, and secondly, to make practical recommendations on actions that families can take to ensure successful management succession.

**Research methodology:** The construct validity of the measuring scale was assessed by means of an exploratory factor analysis and by calculating Cronbach alpha coefficients. Thereafter, the correlation between the variables was explored by means of correlation analysis, t-tests and effect sizes.

**Findings:** In this study the exploratory factor analysis provides some evidence of construct validity, but further research is needed before the measuring scale can be utilised to diagnose these issues in small and medium-sized family businesses. It is recommended that more advanced statistical procedures for scale validation, such as structural equation modelling, should be utilised in further development of the questionnaire. Supplementary research on the use of the measuring scale is also necessary to refine its norms.

**Practical implications:** The importance for family businesses is that a better understanding of the determinants of the senior generation's role in the development of the prospective successor could contribute to the successful transfer of the business from the senior to the younger generation family members. It is, however, important to provide feedback on the diagnosis based on the proposed scale to individual family businesses.

**Originality/Value:** Understanding the determinants of the role of the senior generation owner-manager in the development of the prospective successor is important to sensitise both role-players', as well as the senior and younger generations regarding their expectations, fears and needs in the process. This makes this measuring scale a useful tool to identify the state of these factors in the family business.

**Conclusion:** This study confirms the important role that the senior generation family members play in the development of the younger generation successors to ensure that the prospected successor is competent to successfully manage the family business after management succession and to ensure the sustainability of the family business

**Key words and phrases:** family business, management succession, development of the successor

### INTRODUCTION

Family businesses made an important contribution to wealth creation in the world (Farrington, 2009:64; Venter & Boshoff, 2005:283; Basu, 2004:13; Morck & Yeung, 2004:391; Astrachan & Shanker, 2003:212). Family businesses, however, face the dilemma of long-term survival (Brenes, Madrigal & Molina-Navarro, 2006:373). Successful succession is critical to the sustainability of the family business. A variety of maladies can lead to their downfall, but none is more lethal than the problem of succession. Schuman (2004:1) highlighted that to improve the chance of survival and success across generations, a family business should engage in a deliberate programme of planned career development of the younger generation family members (Aronoff & Ward, 1992a, 1992b). The senior generation family members play a critical part in the continuous process of building leadership capacity to meet the needs of the future. The purpose of this article is to investigate the role of the senior generation family members in the development of the prospected successor and to develop a scale to assess the determinants of their role in family businesses.

Various definitions of family businesses exist. A detailed discussion of all these definitions, however, falls outside the scope of this study. For the purpose of this study, the definition of Ibrahim and Ellis (2004:5) was adopted. They defined a family business as follows: at least 51 percent of the business

is owned by a single family; moreover, at least two family members are involved in the management or operational activities in the business; and the transfer of leadership to next generation family members is anticipated. The South African National Small Business Act (1996) and National Small Business Amendment Act (29/2004:2) classify micro-, very small, small and medium-sized businesses as businesses that employ an equivalent of less than 200 full-time paid employees.

This study commences with the research problem and objectives, followed by a literature review on the latent variables measuring the role of the senior generation family members in the development of the successor in family businesses. The empirical study is then described, followed by the limitations of the study and suggestions for future research, and the suggestion of practical business solutions to ensure effective development of the younger generation prospective successors in family businesses.

### **PROBLEM STATEMENT**

As family businesses are a primary contributor to economic development and job creation in the world, their general lack of longevity is a cause for concern. There are numerous reasons why family businesses are sold or close their doors after only one generation of family ownership. Many simply lack a qualified successor who wants to continue the business. Others are in rapidly consolidating industries and lose out to larger competitors. But, most important, large numbers fail because of succession failure mainly as a result of the inability of the successor to successfully manage the family business after succession.

The senior generation family members play a critically important role in the development of the younger generation prospected successors. The parents have to create an environment in which young people come to embrace the concept that being a future leader in the family business is a desirable goal. This requires a culture in which leadership is appreciated and honoured. It is thus necessary to gain a better understanding of the determinants of the role of the senior generation, in most of the instances the owner-manager, in the development of the successor generation.

This study aims to expand on the limited information that exists regarding management succession in small and medium-sized businesses by investigating the determinants of the role of the senior generation family members in the development of the prospected successors. This study will only assess some of the determinants of the role of the senior generation family members, i.e. the perceived competence of the prospected successor, participative management by the senior generation, the preparation of the prospected successor and the realisation of the potential of the younger generation in the family business.

### **RESEARCH OBJECTIVES**

The primary objective of this study was to propose a scale for measuring the determinants of the development of prospective successors in small, micro- and medium-sized family businesses within the South African context. In order to address the primary objective, the following secondary objectives were formulated:

- To obtain insight into the dynamics of the development of prospective successors in family businesses by means of a literature study.
- To identify the scale items that could measure the role of the senior generation in the development of prospective successors in family businesses.
- To validate the proposed measuring scale by means of statistical analysis.
- To examine the relationship (correlation) between the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor.
- To examine the relationship between the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective

successor and the demographic variables gender, generation and business size by means of t-tests and effect sizes.

- To offer recommendations to improve the measuring scale.
- To suggest practical business solutions to ensure effective development of the younger generation prospective successors in family businesses.

## PROPOSITIONS

P1: The measuring scale has acceptable construct validity.

P2: The measuring scale has acceptable reliability.

P3: There is a correlation (relationship) between the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor.

P4: There is a difference between the perception of male and female family employees with regard to the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor.

P5: There is a difference between the perception of the senior and younger generation family employees with regard to the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor.

P6: There is a difference between the perception of family members employed by small and medium-sized family businesses with regard to the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor.

## LITERATURE REVIEW

Few challenges require more of a business owner than passing on the family business to the next generation (Aronoff & Ward, 1992a:1). Family members' lifelong hopes, dreams, ambitions, relationships, and personal struggles with mortality all come to play in succession planning (Van der Merwe, Venter & Ellis, 2009:4, 5). The perception of the senior generation family members about the capability of the prospective successor to successfully manage the family business after succession is crucial for a successful management transition.

For the purpose of this study, the role of the senior generation family members (parents) in the development of the prospective successor of the younger generation (offspring) included the following aspects: perceived competence of the prospective successor, the preparation of the prospective successor, participative management and the realisation of the potential of the prospective successor.

As far as possible, scales were used that have demonstrated acceptable validity and reliability in previous empirical studies (e.g. Sharma, 1997; Venter, 2003). Where that was not possible, self-generated scales were used to measure the latent variables. Refer to Appendix 1 for a list of the scales measuring the latent variables.

### **Perceived competence of the prospective successor**

Having the founder plan to disengage from the business is necessary, but by itself it is not sufficient to ensure a successful transition. The other ingredient is a competent replacement (Dyer, 1986:126). The development of a capable successor is a critical factor in family business succession (Rawls, 1999:179).

Voeller, Fairburn and Thompson (2002:79) recommend that one starts by determining what kind of leadership (entrepreneurial or managerial) the business needs for the years ahead and then define what specific qualities and skills the type of leader will require. Rawls (1999:180) supports this first step and stated that the core set of skills is similar across various industries.

As stated by Ibrahim and Ellis (2004:227), and confirmed by Lansberg (1999:182) as well as Neubauer and Lank (1998:150), a smooth and effective succession process requires that the offspring gains acceptance, credibility and legitimacy among family members and non-family members. The offspring needs to work hard to prove themselves. This process should be negotiated up front with the successor as to identify specific skills and competencies that have to be met at every stage prior to moving to the next stage (Chrisman, Chua & Sharma, 1998:20). No matter how painstaking the planning process is, it should be clear throughout that the successor is ultimately responsible for his or her development (Aronoff & Ward, 1992b:16).

The latent variable, **perceived competence of the prospective successor**, includes aspects such as whether the prospective successor has the necessary skills, knowledge and experience to successfully manage the family business after the transfer of management (Venter, 2003; Chrisman *et al.*, 1998:20; Sharma, 1997).

### **Preparation of the prospective successor**

Care given to the career paths of the next generation is an essential part of the development of successors (Neubauer & Lank, 1998:60). Thus, senior generation owner-managers must help successors to develop the necessary skills to actively participate and contribute to the overall successful operation of the business and also be able to lead the business in new directions (Buchholz, Crane & Nager, 2000:26).

The senior generation family members must be supportive of the needs of any family member when they enter the family business. Systems must be established so that all family members have the opportunity to gain expertise over time (Neubauer & Lank, 1998:150). This requires the setting of realistic objectives and standards, providing challenging assignments and diverse experiences and offering education and training as appropriate.

Successors learning experiences must be carefully monitored, receive the right mix of challenges and responsibilities, be rotated through different areas of the business and they must receive feedback on their performance (Jaffe, 1991:198). Therefore, in order to successfully make the transition from one generation to the next, family businesses must design a process of grooming and developing the successor generation of the family into the skilled leaders who can shepherd the business through the inevitable crises, changes and growth of the competitive future (Solomon, 1998:13).

Ibrahim and Ellis (2004:225) emphasise that preparing the offspring for the future roles, should begin at a very early stage and after they have joined the family business. This includes their participation and willingness in different business events (Lansberg, 1999:169; Maas *et al.*, 2005:57). As a young manager, the successor should be involved in a management development programme from the outset of his / her career (Rawls, 1999:188; Bork, 1993:114; Aronoff & Ward, 1992b:15, 16). Assuming there is reasonable management aptitude; success depends upon the quality of the management orientation and training programme (Rawls, 1999:188). The implementation of a well thought out management training and support programme is in most cases critical to the succession process (Rawls, 1999:188).

This preparation of the prospective successor thus includes aspects such as academic qualifications and education (Chrisman *et al.*, 1998:20; Sharma, 1997:35), outside work experience (Chrisman *et al.*, 1998:20; Aronoff & Ward, 1992a:18), the existence of a formal development programme (Aronoff & Ward, 1992a:15), active encouragement of the prospective successor to develop him- or herself and to be receptive for learning (Matthews *et al.*, 1999:164; Aronoff & Ward, 1992b:16), and the gaining of enough experience at all levels in the business (Chrisman *et al.*, 1998:20). This latent variable was labelled **preparation of the prospective successor** in this study.

### **Participative management**

Neubauer and Lank (1998:150) state that competence does not come about by osmosis. Systems need to be in place to enable the potential successor the opportunity to gain expertise over time. This

necessitates the setting of realistic objectives and standards, providing challenging assignments with diverse experiences, offering education and training as appropriate and ensuring feedback on performance.

The role of the senior generation owner-manager is critical in the preparation of the prospective successor for the task ahead. It is, however, an active process and a participative management approach is essential to groom and develop the prospective successor. Included in participative management, is the art of delegating. Aronoff and Baskin (2005:21) summarise delegation in family businesses as follows: "Delegating means giving up that very thing you would often like to hold onto most – authority – while retaining the thing you would most like to give up – responsibility".

The senior generation family members should actively create opportunities for the younger generation to grow and develop. They have to listen to new ideas from the younger generation, include the younger generation in key meetings with suppliers, customers and advisors, delegate authority, involve them in decisions that may affect him or her and encourage them to participate in and question key decisions (Aronoff & Baskin, 2005; Schuman, 2004; Aronoff & Ward, 1992a; 1992b). This latent variable was labelled **participative management** in this study.

#### **Potential realisation**

The willingness of the younger generation or prospective successor to manage the family business may be influenced by how well the successor's career interests and other personal needs are aligned with opportunities in the business, whether the opportunity exists to exercise influence in the business and the possible rewards from the business (Venter, Boshoff & Maas, 2003:3). Successors are more likely to reach their potential through doing and through organised communication and mentors, peers and industry contacts who share experience and insight (Aronoff & Ward, 1992b:16). The authors emphasised that these learning opportunities do not just happen in a family business. They must be planned. An effective successor development plan should strike a balance between meeting the needs of the business while giving the successor a wide range of challenges, experiences and opportunities.

The family business, under the leadership of the senior generation owner-manager, should provide opportunities for the prospective successor to grow and develop, to use his or her particular skills and abilities and to fulfil her or his personal and career goals in the family business. It is, however, an active process and it is important to create a climate conducive for the realisation of the potential of the prospective successor (Aronoff & Baskin, 2005:21; Schuman, 2004; Aronoff & Ward, 1992a, 1992b). For the purpose of this study, the latent variable was labelled **realisation of the potential of the prospective successor**.

## **RESEARCH METHODOLOGY**

The research methodology of this study includes the development of the questionnaire, the study population, the process to gather the information and the statistical analysis as set out below.

#### **Development of the measuring scale**

The literature review provided valuable insight into the dynamics of the role of the senior generation family members in the development of the prospective successor. Based on the literature study, four latent variables were identified that could be used to measure the perceptions of family members regarding the development process. These are: *perceived competence of the prospective successor*, *preparation of the prospective successor*, *participative management* and *potential realisation of the prospective successor*. A measuring scale was designed to evaluate these latent variables.

The measuring scale was developed in three phases. These are: The items to measure each latent variable were formulated after a comprehensive review of the family business literature. The scale was then tested with a single family business; subsequently the instrument was piloted at nine family

businesses with 71 family members who completed the pilot questionnaires. The measuring scale was then refined after each phase, followed by the drafting of an adapted version of the scale.

The third version of the scale (used in this study) assessed the four latent variables with 23 statements on the basis of a seven-point Likert-type scale ranging from Strongly Disagree (1) to Strongly Agree (7).

### **The study population**

The target population of this study was small and medium-sized family businesses in South Africa. Numerous attempts were made to secure a database of family businesses in South Africa, but to no avail. Therefore, it was decided to use a convenience sample, by means of the snowball sampling technique, to identify the family businesses that participated in this study. A list of 185 family businesses willing to participate in the study was compiled as a result of these efforts.

The sampling technique and methodology are consistent with that of other family business researchers who have been constrained by the lack of a national database on family businesses (Eybers, 2010; Farrington, 2009; Van der Merwe & Ellis, 2007; Adendorff, 2004; Sonfield & Lussier, 2004; Venter, 2003).

### **Data collection**

Family businesses listed on the database were subsequently contacted to identify the individual family members in the particular family based on the family tree. Questionnaires were then mailed to these family members. Each questionnaire was sent with a covering letter that guaranteed the confidentiality of the responses, as well as a return-paid envelope in order to make it as easy as possible for respondents to participate in the research. A total of 270 usable questionnaires were returned from 77 family businesses, which were subjected to further statistical analysis.

### **Statistical analysis**

The data collected were statistically analysed, using STATISTICA (Statsoft, 2008) and SPSS (SPSS, 2008). Construct validity of the measuring scale was assessed by means of an exploratory factor analysis and by calculating Cronbach alpha coefficients. The relationship between the three extracted factors was examined by means of correlation analysis. Thereafter, the relationship between the demographic variables, family employee gender and generation, business size, and the constructs was explored by means of t-tests and effect sizes.

## **FINDINGS**

The findings of this study include a discussion of the demographic information, the construct validity and reliability of the questionnaire and the relationship between the variables.

### **Demographic information**

The majority of the 270 participating respondents were under the age of 40 years (46.30%), 11.85% between the ages of 40 and 49, with 41.85% over the age of 50 years. Approximately two-thirds of the respondents were male (64.44%). A total of 45.56% of the respondents were senior generation family employees (parents), with 44.07% representing the younger generation family employees (offspring). The rest of the family employees (10.37%) represented in-laws (married to younger generation family members) and other family employees, such as uncles, aunts or cousins.

A total of 16.88% of the 77 family businesses who participated in this study can be categorised as micro- and very small businesses in the South African context (10 employees and less) and 59.74% small businesses (between 11 and 50 permanent employees). The rest (23.38%) can be categorised as medium-sized businesses (between 51 and 200 employees).

### Construct validity of the measuring questionnaire

To assess the discriminant validity of the 23 items measuring the role of the senior generation family members in the development of the prospective successor, an exploratory factor analysis was conducted using the computer programme SPSS (SPSS, 2008). In this study, there was theoretical justification to believe that the factors measuring the development of the prospective successor would correlate with each other, therefore an Oblimin oblique rotation was performed on the principal components of the exploratory factor analysis, as suggested by Field (2009:643). The correlation matrix for these three constructs indicate correlations of 0.355, 0.441 and 0.487 respectively between the three constructs confirming that an oblique rotation should have been used (Field, 2009:643; Ellis & Steyn, 2003:53). The relatively low correlations between the three constructs, furthermore, indicate a lack of multicollinearity (Field, 2009:223).

Kaiser's criterion was used to determine the number of factors to be extracted, namely to retain factors with eigen-values greater than one (Field, 2009:647). A total of 17 of the 23 items demonstrated sufficient discriminant validity by loading to a sufficient. Six items did not load as expected and were deleted. The pattern matrix of the remaining 17 items is provided in Table 1. Factor loadings greater than 0.40 were considered significant.

**Table 1: Pattern matrix of Oblimin rotated-principal component factor analysis <sup>(1)</sup>**

Item <sup>(2)</sup>	Factor 1 <sup>(3)</sup> : Participative management	Factor 2: Perceived competence	Factor 3: Potential realisation
Part6	<b>0.818</b>	0.100	0.044
Part4	<b>0.774</b>	0.164	-0.031
Part2	<b>0.769</b>	-0.150	-0.028
Part5	<b>0.657</b>	0.041	-0.180
Com3	<b>0.645</b>	0.253	0.038
Part1	<b>0.615</b>	0.106	-0.169
Prep1	<b>0.573</b>	-0.078	-0.158
Com5	0.006	<b>0.835</b>	-0.074
Com4	-0.011	<b>0.834</b>	-0.116
Prep5	-0.106	<b>0.771</b>	-0.233
Com1	0.319	<b>0.666</b>	0.185
Com2	-0.078	<b>0.632</b>	-0.149
Prep2	0.123	<b>0.559</b>	0.127
Pot3	0.087	0.082	<b>-0.770</b>
Pot4	0.143	0.061	<b>-0.762</b>
Pot1	0.029	0.140	<b>-0.733</b>
Prep4	0.315	-0.036	<b>-0.591</b>
Cronbach Alphas	<b>0.872</b>	<b>0.837</b>	<b>0.768</b>

(1) Loadings greater than 0.40 were considered significant

(2) The items included in the factor analysis are provided in Appendix 1

(3) The three extracted factors were labelled as follows:

Factor 1: Participative management by the senior generation owner-manager (**participative management**)

Factor 2: Perceived competence of the prospective successor (**perceived competence**)

Factor 3: Realisation of the potential of the prospective successor (**potential realisation**)

Three factors with eigen-values greater than one, explaining 62.09% of the variance before rotation, were extracted in the exploratory factor analysis. After rotation, these factors could be identified as the theoretical dimensions of **participative management by the senior generation owner-manager (participative management)**, **perceived competence of the prospective successor (perceived competence)** and **realisation of the potential of the prospective successor (potential realisation)**. When factors are correlated, sums of squares of loadings cannot be added to obtain a total variance explained for the rotated factors as in the case of uncorrelated factors (SPSS, 2008).

The Kaiser-Meyer-Olkin measure of sampling an adequacy of 0.936 indicates that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009:647). Bartlett's test of sphericity yielded a  $p$ -value of smaller than 0.0001, indicating that correlation between variables is sufficient for factor analysis.

Factor one, labelled **participative management by the senior generation owner-manager (participative management)**, comprised seven items. The factor incorporates the latent variable *participative management*, but two items classified under the latent variables *competence of the prospective successor (Com)* and *preparation of the prospective successor (Prep)*, i.e. Com3 and Prep1, also loaded onto this factor. The following items loaded onto this factor, namely: Part6, Part4, Part2, Part5, Com3, Part1, Prep1 (Table 1).

The second factor, labelled **perceived competence of the prospective successor (perceived competence)**, comprised six items. The factor incorporates the items classified under the latent variable *perceived competence of the prospective successor*, i.e. Com5, Com4, Com1 and Com2, and two items of the latent variable *preparation of the prospective successor*, i.e. Prep5 and Prep2. The loading of the two items that were initially classified under the latent variable *preparation of the prospective successor*, onto this factor has high interpretation value and furthermore makes sense in practice.

The third factor, labelled **realisation of the potential of the prospective successor (potential realisation)**, comprised four items and incorporates mainly the latent variable *potential realisation* and incorporates the following items, namely Pot3, Pot4 and Pot2. The factor, however, also comprised the item Prep4. The incorporation of the item, Prep4, into this factor makes sense in practice.

The factor loadings indicated that the initial classification of six items under the latent variable *preparation of the prospective successor* (refer to Appendix A) was faulted. Two of the items (Prep3 and Prep6) did not load as expected and were deleted. Four items, namely Prep1, Prep2, Prep4 and Prep5, loaded onto other factors.

The exploratory factor analysis, together with the interpretability of the factors, provides some evidence of construct validity. Proposition 1, postulating that *the measuring scale has acceptable construct validity (P1)*, can be accepted.

### Reliability of the questionnaire

In order to assess the internal consistency between the items of the measuring questionnaire, Cronbach alpha coefficients were calculated (Page & Meyer, 2000:292). The Cronbach alpha coefficient is based on the average correlation of variables within a test (SAS Institute, 2005:295). The greater the Cronbach alpha coefficient is, the more reliable the scale. Nunnally and Bernstein (1994:265) suggest that for acceptable reliability the Cronbach alpha coefficient should be greater than 0.7.

All 270 participants' responses were used to determine the reliability of the extracted factors (refer to Table 2). The results in Table 1 suggest that the questionnaire used in this study, to assess the role of the senior generation in the development of the prospected successor, has acceptable reliability, with no one factor measured with a Cronbach alpha value below the customary cut-off value of 0.70 suggested for internal consistency (Nunnally & Bernstein, 1994:265). Proposition 2, postulating that *the measuring scale has acceptable reliability (P2)*, can thus be accepted.

### Relationship between the constructs

To investigate the relationship between the three constructs, the Pearson correlation coefficients ( $r$ ) were calculated and are presented in Table 2 (Field, 2009:177). Factor scores for each participant were computed as the average of all items contributing to the relevant factor. This means that missing values for an individual were automatically replaced by the average of the other responses contributing to the relevant factor for the specific individual. The scores of family members belonging



to a specific family can be considered to be dependent on that family's situation. As independence of data is a critical assumption of correlation analysis, the average counts for each of the 77 families were taken as data points in the correlation analysis.

In order to determine whether the effect of the relationship between two constructs is important or meaningful, the size of the effect should be measured. Effect sizes are useful because they provide an objective measure of the importance of an effect (Field, 2009:56, 57). A correlation coefficient of 0 means there is no visible relationship, and a value of 1 means that there is a perfect relationship. Cohen (1992) made the following widely-accepted suggestions about what constitutes a large or small effect:

- $r = 0.10$  (small effect): in this case, the effect explains 1% of the variance
- $r = 0.30$  (medium effect): the effect accounts for 9% of the variance
- $r = 0.50$  (large effect): the effect accounts for 25% of the variance (Field, 2009:57)

**Table 2: Correlation between constructs**

Variable	Participative management	Perceived competence	Potential realisation
Participative management	1.00	0.571**	0.657**
Perceived competence	0.571**	1.00	0.508**
Potential realisation	0.657**	0.508**	1.00

\*\* Correlations significant at the  $p = 0.01$  level (2-tailed)

The results in Table 2 indicate that there are statistically significant ( $p < 0.01$ ) correlations between all the construct combinations. Furthermore, based on Cohen's guidelines (Cohen, 1992), practically significant (large effect:  $r > 0.500$ ) correlations between all the construct combinations were calculated. It can thus be accepted that *there is a correlation (relationship) between the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor* (Proposition 3).

### Comparing the mean differences between constructs for demographic variables

An advantage of drawing a random sample is that it enables one to study the properties of a population with the time and money available (Ellis & Steyn, 2003:51). In such cases, the statistical significance tests (e.g. t-tests) are used to show that the result of the difference between two means is significant. The authors highlighted that the  $p$ -value is a criteria of this, giving the probability that the obtained value or larger could be obtained under the assumption that the null hypothesis (e.g. no difference between the means) is true. A small  $p$ -value (e.g. smaller than 0.05) is considered as sufficient evidence that the result is statistically significant. Statistical significance, however, does not necessarily imply that the result is important in practice as these tests have the tendency to yield small  $p$ -values (indicating significance) as the size of the dataset increases (Ellis & Steyn, 2003:51).

Data obtained from convenience sampling are, according to Ellis and Steyn (2003:51), often erroneously analysed as if it were obtained by random sampling. These data should be considered as a small population for which statistical inference and  $p$ -values are not relevant. Statistical inference draws conclusions about the population from which a random sample was drawn, using the descriptive measures that have been calculated. Instead of only reporting descriptive statistics, effect sizes can be determined. The effect size is independent of sample size and is a measure of practical significance (Ellis & Steyn, 2003:51). Although the results of the t-test will be discussed, the findings of this study resulting from a convenience sample method will be based on the effect sizes ( $d$ -values).

The differences in the means between the extracted factors, namely **participative management**, **perceived competence of the successor** and **potential realisation of the prospective successor** (see Table 1), for the demographic variables **gender** (male and female) and **generation** (senior and younger) of the participating family members were examined by paired t-tests and effect sizes (*d*-values), because the responses of members of the same family can be considered to be dependent. The analysis was performed on a family level, where the average scores for each of the 77 families were taken as data points. The difference between the means of small and medium-sized businesses (**business size**) regarding the constructs will, however, be examined by independent t-tests and effect sizes.

Effect sizes (*d*) will be interpreted, according to Cohen's guidelines, as follows: small effect (*d* = 0.2), medium effect (*d* = 0.5) and large effect (*d* = 0.8). Results with medium effects can be regarded as visible effects and with  $d \geq 0.8$  as practically significant, since it is the result of a difference having a large effect (Ellis & Steyn, 2003:51-53; Thompson, 2001:80-93; Cohen, 1992:155-159). Table 3 shows the relationships between the three constructs and the demographical variables gender, generation and business size respectively, with the mean ( $\bar{x}$ ), standard deviation (*s*), t-test (*p*-value) and effect sizes (*d*-value).

**Table 3: The results of the differences in means between the constructs for different demographic variables**

<b>Gender</b>								
<b>Construct</b>	<b>Male</b>			<b>Female</b>			<b>Comparison</b>	
	<i>n</i> *	$\bar{x}$	<i>s</i>	<i>n</i>	$\bar{x}$	<i>s</i>	<i>p</i>	<i>d</i>
<b>Participative management</b>	53	5.608	0.668	53	5.433	1.037	0.191	0.18
<b>Perceived competence</b>	53	5.655	0.793	53	5.461	0.893	0.093	0.23
<b>Potential realisation</b>	53	5.616	0.764	53	5.547	0.840	0.582	0.08
<b>Generation</b>								
<b>Construct</b>	<b>Senior</b>			<b>Younger</b>			<b>Comparison</b>	
	<i>n</i>	$\bar{x}$	<i>s</i>	<i>n</i>	$\bar{x}$	<i>s</i>	<i>p</i>	<i>d</i>
<b>Participative management</b>	77	5.876	0.669	77	5.238	1.053	<0.001	0.67
<b>Perceived competence</b>	77	5.558	0.948	77	5.522	0.965	0.461	0.03
<b>Potential realisation</b>	77	5.886	0.731	77	5.306	1.089	<0.001	0.59
<b>Business size</b>								
<b>Construct</b>	<b>Micro &amp; Small</b>			<b>Medium-sized</b>			<b>Comparison</b>	
	<i>n</i>	$\bar{x}$	<i>s</i>	<i>n</i>	$\bar{x}$	<i>s</i>	<i>p</i>	<i>D</i>
<b>Participative management</b>	59	5.486	0.738	18	5.737	0.749	0.214	0.33
<b>Perceived competence</b>	59	5.527	0.750	18	5.666	0.846	0.506	0.16
<b>Potential realisation</b>	59	5.501	0.777	18	5.953	0.677	0.029	0.58

\* Indicates the number of businesses that were included in the specific analysis

The results indicated no statistically significant difference ( $p < 0.05$ ) in the mean values between the perceptions of males and females with regard to the three variables, **participative management**, **perceived competence of the prospective successor** and **the realisation of the potential of the prospective successor**. Although male participants rated the three constructs more positively than their female counterparts, the differences were not practically significant and only a small effect ( $d =$

0.18;  $d = 0.23$  and  $d = 0.08$  respectively) could be determined. Proposition 4, postulating that *there is a difference between the perception of male and female family employees with regard to the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor (P4)*, can thus not be accepted.

With regard to the comparison between the mean values of the senior and younger generation's family members on the three variables, statistical significance differences ( $p < 0.05$ ) between the mean values on the factors **participative management** and the **realisation of the potential of the prospective successor** were calculated. Only medium effects or visible effects ( $d = 0.67$ ;  $d = 0.59$  respectively) were, however, calculated. The results indicate that, although the average scores for senior generation family employees are higher than those for younger generation family employees, it could not be regarded as a practically significant difference between the perceptions of senior and younger generation family employees regarding participative management and the realisation of the potential of the prospective successor. Based on Cohen's guidelines (Ellis & Steyn, 2003: 51-53, Cohen, 1992: 155-159), proposition 5, postulating that *there is a difference between the perception of the senior and younger generation family employees with regard to the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor (P5)*, cannot be accepted.

Family members employed by medium-sized family businesses rated only one construct, the **realisation of the potential of the prospective successor** ( $p = 0.029$ ), statistically significant more positively than family members employed by small family businesses, but the differences were not practically significant and only a medium effect ( $d = 0.58$ ) could be determined. It is thus clear that, although the average scores for family members employed by medium-sized family businesses are higher than those for small family businesses, it could not be regarded as a practically significant difference between the perceptions of family members employed by medium or small family businesses regarding the realisation of the potential of the prospective successor. Proposition 6 postulating that *there is a difference between the perception of family members employed by small and medium-sized family businesses with regard to the constructs, i.e. participative management, perceived competence of the prospective successor and the realisation of the potential of the prospective successor (P6)*, based on Cohen's guidelines (Cohen, 1992: 155-159), cannot be accepted.

## LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The study attempted to make a contribution to the body of knowledge on the role of the senior generation family members in the development of the younger generation family members in order to prepare the younger generation family members to successfully manage the family business after succession. This study, however, only assessed some of the determinants of the role of the senior generation in the development of the younger generation family members and can be regarded as an exploratory study. More comprehensive research is still needed to clarify all the underlying dimensions of the development of the younger generation family members to enhance our understanding of these issues.

This study focuses only on the role of the senior generation owner-manager in the development of the prospective successor. Literature suggests, however, that the younger generation is ultimately responsible for their own development (Aronoff & Ward, 1992b:16). It is thus important that the development of the successor should be viewed from the perspectives of both role players. This should be taken into account in further research on this topic to give us a better understanding of both role-players' roles in the development of the successor and ultimately the successful management of the business after the transfer of leadership.

Although family businesses from all provinces in South Africa participated in this study, due to the convenience sampling technique, this cannot be considered to be representative of all small and medium-sized family businesses in South Africa. Care should therefore be exercised in the

interpretation and utilisation of the results, and the findings of the study cannot be generalised. In other words, the typical family business could be underrepresented in the sample.

In this study, the exploratory factor analysis provides some evidence of construct validity, but further research is needed before the measuring scale can be utilised to diagnose these issues in small and medium-sized family businesses. It is recommended that more advanced statistical procedures for scale validation, such as structural equation modelling, should be utilised in further development of the questionnaire. Supplementary research on the use of the measuring scale is also necessary to refine its norms.

### **RECOMMENDATIONS TO UTILISE THE MEASURING SCALE**

In this study, a measuring scale to assess the perceptions of family members regarding the role of the senior generation family members in the development of the prospective successor in family businesses was developed. A benefit that family businesses can derive from completing the questionnaire is that all family employees can obtain a personal advantage from the diagnosis – especially the younger generation family members who often feel left out of the buzz of the business (Van der Merwe *et al.*, 2009:12). Involvement in the diagnosis is important for their sense of acceptance within the family business and ownership in the planning, policy and decision-making processes in the business, resulting in building mutual trust and respect between the senior and younger generation family employees.

By completing the questionnaire, the senior and younger generation family employees are given the opportunity to air their opinions about sensitive issues such as the perceived competence and preparation of the successor generation that otherwise are often ignored or simply just not discussed at family forums, but are most important for the current and future success of the business. Completing the questionnaire could also ignite a new interest and consciousness of the family dynamics of the family business. An invigorating alignment of interests to the benefit of the whole family and the business could come into being. It is, however, recommended to keep the answers confidential. Confidentiality could ensure honesty and open-heartedness – critical to determine the underlying attitudes of individual family members on the various items investigated. It is, however, important to provide feedback on the diagnosis to individual family businesses to ensure the transfer of knowledge to family businesses in order to make the results of the diagnoses useful in practice (Van der Merwe *et al.*, 2009:12).

This study focused only on the assessment of the role of the senior generation family members in the development of the prospective successors. It is, however, important to take note of management succession planning as well as the responsibility of the prospective successor in the development of him- or herself. Successors should empower themselves and be eager and receptive to learn. These aspects should, therefore, also be assessed during the diagnosis.

### **MANAGERIAL IMPLICATIONS AND PRACTICAL RECOMMENDATIONS**

The senior generation owner-manager should actively take the lead in the training and development of the prospective successor. They should create a climate where the younger generation family members can develop their management and leadership skills, and ultimately are willing to take over the responsibility of the future leadership of the family business. Prospective successors should, however, understand that they are responsible for their own development. They should therefore be eager to learn and be receptive.

This study confirms a strong positive relationship between a participative management approach and the perceived competence and the realisation of the potential of the younger generation family members. This means, in practice, that a participative management approach and mentorship by the parents form the foundation of the development and empowerment of the younger generation family members. The senior generation owner-manager should over time

withdraw from the business operation, delegating more managerial responsibilities to the prospective successor. This will gradually prepare them to take over the executive management of the family business in the future.

The development of the prospective successor to successfully manage the family business in the future is only one step in the transfer of the management and ownership to the next generation family members. Succession is an emotional issue that could create serious conflict in the family business. Family businesses should, therefore, start to plan for succession at an early stage, just after the younger generation entered the family business. It is important to address the issue of succession before it becomes personal and emotional and can therefore be addressed more comfortably and more rationally.

The discussion of management succession on a regular basis during family forum meetings can also play a pivotal role to ensure the success of the family business. It is important that both role-players in the development of the younger generation understand each other's responsibilities, needs and fears. Informal family meetings can provide a good forum for the expression of thoughts and feelings of the development of the younger generation in particular, and the planning of ownership and management succession in general.

## CONCLUSION

This study reports some evidence of construct validity and reliability of a scale to measure the role of the senior generation family members in the development of successors in small and medium-sized family businesses in South Africa. Three factors describing the theoretical dimensions of **participative management**, **perceived competence of the successor** and **potential realisation** (see Table 1), were extracted.

Strong bivariate correlations of between 0.508 and 0.657 were calculated between the constructs. This means that, for instance, there was a strong positive correlation between the perceptions of the participating family members regarding participative management by the senior generation family members and the perceived competence of the prospective successor. There is also a strong positive correlation between the perceived competence of the younger generation and the realisation of the full potential of the younger generation. In other words, the more the family business is managed by means of a participative management style by the senior generation owner-managers, the better the perceived competence and the realisation of the full potential of the younger generation family members will be. The findings thus confirm the literature (Aronoff & Baskin, 2005; Schuman, 2004; Aronoff & Ward, 1992a, 1992b).

The direction of causality and the influence of other variables on a specific bivariate correlation could not be determined. Care should, therefore, be taken when interpreting the correlation coefficients. Further research on these constructs is recommended to gain more insight into the causality of the constructs.

No practically significant relationship could be found between the constructs, **participative management**, **perceived competence of the successor** and **potential realisation** and the demographic variables **gender** (male and female) and **generation** (senior and younger family employees) of family employees respectively, as well as for family members employed by small or medium-sized family businesses. Although P4, P5 and P6, based on Cohen's guidelines, cannot be accepted in this study (Cohen, 1992:155-159), it is important to take note of Thompson's argument (Thompson, 2001:80-93) not to use Cohen's guidelines in an overly rigid manner to interpret the differences in means between variables. More empirical research is, therefore, needed to further examine these differences and to establish norms for future interpretation.

This study confirms the important role that the senior generation family members play in the development of the younger generation successors to ensure that the prospected successor is

competent to successfully manage the family business after management succession and to ensure the sustainability of the family business (Aronoff & Baskin, 2005; Ward, 2004:27; Aronoff & Ward, 1992). Understanding the determinants of this role is important to be sensitive for both role-players', the senior and younger generation, expectations, fears and needs in the process. This makes this measuring scale a useful tool to identify the state of these factors in the family business.

To conclude, Aronoff and Ward (1992b:41) made the following statement that captures the role of the senior generation family members in the development of the prospective successor:

*"The art of teaching is the art of assisting discovery. It requires patience, and it demands activity by the student more than by the teacher. It requires letting go rather than taking charge, standing aside rather than wading in".*

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**Appendix 1: Items measuring the latent variables**

<b>Item</b>	<b>Statement</b>
<b>PERCEIVED COMPETENCE OF THE PROSPECTIVE SUCCESSOR</b>	
Com1	The younger generation family member has the necessary skills to do his/her work well
Com2	The younger generation family member has acquired relevant outside experience that better equips him/her to make a success of the family business.
Com3	The younger generation family member has the ability to influence the strategic direction of the family business
Com4	The younger generation family member has sufficient training to do his/her work well
Com5	The younger generation family member has sufficient knowledge and experience to do his/her work well
Com6	The senior generation executive manager feels that the younger family members are capable of managing the family business after his/her retirement
<b>PREPARATION OF THE PROSPECTIVE SUCCESSOR</b>	
Prep1	The senior generation family members encourage the younger generation family member to attend training courses and seminars
Prep2	The younger generation family member has an academic qualification that better equips him/her to make a success of the family business
Prep3	The younger generation family member knows what the required skills, experience and knowledge are to be successful in his/her particular job
Prep4	There is an active attempt to prepare the younger generation family member to manage the family business in the future
Prep5	The younger generation family member has acquired enough experience (at all levels) in the family business to be successful
Prep6	There is a personal and leadership development plan in place to train and develop the younger generation family member
<b>PARTICIPATIVE MANAGEMENT BY THE SENIOR GENERATION OWNER-MANAGER</b>	
Part1	The senior generation family members listen to and consider new ideas from the younger generation family member
Part2	The senior generation family members include the younger generation family member in key meetings with suppliers, customers and advisors
Part3	The senior generation executive manager is willing to delegate authority to younger family members
Part4	The senior generation family members encourage the younger generation family member to participate in making important decisions
Part5	The senior generation family members encourage the younger generation family member to air his/her views whenever he/she does not agree with a decision
Part6	The younger generation family member is consulted when decisions are made that affect him/her in the family business
<b>REALISATION OF THE POTENTIAL OF THE PROSPECTIVE SUCCESSOR</b>	
Pot1	The family business provides opportunities for the younger generation family member to grow and develop
Pot2	The family business provides opportunities for the younger generation family member to use his/her particular skills and abilities
Pot3	The younger generation family member is able to realise his/her potential in the family business
Pot4	The family business provides opportunities for the younger generation family member to fulfil his/her personal and career goals
Pot5	A policy exists to actively unlock the younger generation family member's leadership potential