Development of small and medium-sized enterprises — an international perspective
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an international perspective

Editors
Marcela Rebeca Contreras Loera, Łukasz Sułkowski, Andrzej Marjański

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Contents

Introduction .................................................................................................................. 5

Chapter One, Organizational Culture ........................................................................ 9
Łukasz Sułkowski, Identity, culture and values of family SME in Poland ................. 11
Sergio Levin Kosberg, Angel Wilhelm Vázquez García, Configuration of the organizational culture in a small family enterprise. The case of Nursery Yautapec in Morelos, Mexico ................................................................. 25
José Octavio Molina Germán, Ana María Larраñaga Núñez, Leadership and organizational culture in the company of hosting ................................................................. 41

Chapter Two, Planning and strategy .......................................................................... 63
Marcela Rebeca Contreras Loera, Elizabeth Olmos-Martínez, Martín León Santiesteban, The cooperative and tourism planning ....................................................... 65
Andrzej Marjański, Succession in family business – main challenges and barriers .................................................. 83
María Estela Torres Jaquez, Marcela Rebeca Contreras Loera, Fisheries cooperative organization and business nature: the planning .................................................. 93
Aída Alvarado Borrego, Social dimension of small business in Mexico. The case of the cooperative .................................................. 107
Zenaida Zulema Delgado Peraza, Marketing as a development strategy for small enterprises .................................................. 125

Chapter Three, Challenges ....................................................................................... 135
Krzysztof Safin, Change and continuity in the management of small and medium enterprises .................................................................................................................. 137
Jarosław Ropega, The process of business failure in Polish small enterprises .......... 149
Ewa Więcek-Janka, Conflicts and crises in a family enterprise – a model approach .................................................................................................................. 161
Renata Lisowska, Stimulants and barriers to the development of SMEs located in marginalised regions ................................................................. 175

Chapter Four, Development and competitiveness .................................................. 191
Krystyna Leszczewska, The business model as a concept of enterprise management .................................................................................................................. 193
Diana del Consuelo Caldera González, Zugaide Escamilla Salazar, Karina Peredo Barrientos, Floriculture businesses in the state of México: analysis of some factors that determine their competitiveness ................................................................. 205
Adrianna Lewandowska, Maja Sajdak, *Consequences of value-based management for developing the organisational agility potential of a family business* .................................................. 229

Tulus T.H. Tambunan, *Development of export-oriented MSMEs in Indonesia* ................................................................................................................................. 245

Danuta Janczewska, *Identification of logistic processes factors stimulating of competitiveness in SMMEs. An example for confectionery branch in Poland* ...... 261

Laura Elena Benítez Campaña, *Competitive strategy: a reflection for the case of SME's Sinaloa* ........................................................................................................ 275
Andrzej Marjański
University of Social Sciences

Succession in family business — main challenges and barriers

Abstract: Succession in a family business is a difficult, complex and multifaceted process aiming to maintain continuity of the business in the hands of a family. Many scientists, researching the subject of family business, agree that succession distinguishes family businesses from other enterprises. The basic factor which determines the favorable outcome of succession process is early planning and good relationships between the senior and junior and generally within the family. In the article the author, having done the research, identified key challenges and barriers to succession in Polish family businesses. 

Key-words: family business, succession, early planning, challenges and barriers of succession.

Introduction
Family businesses plan their activities and development in a multigenerational perspective. In order to execute this plan, it is necessary to carry out succession, which is a great challenge, both for the enterprise and the family who runs the business. In family businesses succession determines the organization development, hence in order to maintain the continuity of activities and succeed in a multigenerational dimension family enterprises must acquire the knowledge how to transfer ownership and authority from one generation onto another. Succession is a complex, delicate and both strategically and psychologically difficult process. It covers not only the area of enterprise management and ownership but also the sense of control of one’s life. In a family business the main point is not purely the transfer of assets but it is also necessary to form with successors common vision of the future of the enterprise which is to last and develop despite the generational shift. There must be the agreement between the senior and junior concerning further activity of their company and generational role reversal. We can put forward the thesis that beneficial succession
will occur only when it is a planned action including the preparation of the senior and junior, enterprise and family for the business takeover by a younger generation. This planning must be multifaceted and flexible.

The issue of succession has been the subject of much empiric research of family business, bringing practical and theoretical results. The initiatives of the European Parliament and the Commission point out the necessity of supporting succession processes. Those institutions introduced pilot activities in the area of research of transfer of specialized knowledge which is to support the process of enterprise transfer and a potential successor. The Minister of Economy formed in April 2013 the National Council of Entrepreneurship which perceives the issue of maintaining enterprise continuity as essential.

The objective of this article is to learn about the nature of succession in a family business and to point out key challenges and barriers in a succession process. The conclusions were drawn based on foreign and national reference books, as well as the analysis of the research which was done by research teams from several research centers and the author’s own research.

**Nature of succession in family businesses**

A family business is an economic unit based on family relationships and interdependencies which aims to maintain in the future a permanent and determinant family influence on business through participation in ownership, management and responsibility with the intention of transferring it onto the next generation. Thanks to succession, i.e. an intergenerational transfer of authority and ownership, the enterprise changes but maintains the continuity of activity and management through the successors. Intergenerational shift management is a typical key element of a family business strategy. Succession poses one of the biggest threats to the enterprise’s continuity. The conducted research presents a range of crucial factors which are necessary to understand the nature and complexity of succession in family businesses [Blumentritt, Mathews, Marchisio 2013, s. 51].

It is agreed that succession differentiates family businesses from among other enterprises. It includes all elements of unit management, such as: company’s strategy, personal strategy, corporate culture and ownership structure. It is a key and typical element of a family business strategy [Sułkowski, Marjański 2011, pp. 37–38]. The decision about succession is not symbolic but it affects the enterprise survival. One of succession objectives is to ensure continuity of activities and further development of the enterprise which is the source of family’s income. Key objectives include: selection and preparation of an adequate successor, retaining most important employees who influence the company’s
activities and development. We must point out the necessity to treat fairly other close family members and to meet the needs of the senior who transfers assets and authority in his enterprise. Ownership, legal and tax changes should be carried out in the manner which would not disturb the enterprise functioning.

Succession itself is a process which may last up to several years. The takeover of the enterprise by the successor is a final act of a succession process which brings about basic changes in the life of both the company and family. The time which has passed since the introduction in 1989 of socio-economic reforms in Poland made the succession in Polish family businesses a stable element, just as in other mature free market economies. Establishing and further development of a family business was a great challenge for many company owners who set up their companies twenty years ago. Presently they are facing a new and previously unknown perspective of transferring the company into the hands of their successors.

This decision is bound to be difficult, which is understandable. The first generation of Polish entrepreneurs, who set up their businesses together with other family members, invested not only their money but also time and emotions. Today they must start thinking about their current activity and about future, how their company will function after transferring it into the next generation.

It can be stated that favorable succession is critical as it determines to a great degree a continuity of the business and chances for its further development. If an enterprise wants to be successful long-term it must be able to transfer ownership and management from one generation onto the next. Readiness for succession must be considered in many aspects, such as: family preparation, financial and legal readiness. The degree of succession planning positively correlates with the business size, its successes and the scope of strategic management application [Malone 2002, pp. 36–37].

Succession in family businesses is in many cases a delicate subject, causing many challenges, emotions and barriers. It can be noted that they form a triad covering three areas: management of a company, family issues and property transfer. None of those areas is easy and if combined they can destroy both the enterprise and family. Therefore it is important to prepare those who are going to release authority and those who are taking over the family business. Succession brings about a whole range of activities, events and organizational changes, during which there occur complex interactions between the leader and successor as well as family members and employees [Salvato, Corbetta 2013, pp. 236–237].
Key factors affecting succession

Survival and development of a family business depend on a successful involvement of family members from the next generation. Carrying out a beneficial succession process requires relying on emotional aspects of the relationships between the younger generation, successors and a family business and on other factors affecting succession [Björnberg, Nicholson 2012, pp. 374, 385].

Factors which have key influence on the success of a succession process include a lack of planning and it is one of the main causes of failure or loss of control by the family after the founding generation has left. A lack of succession planning may lead to negative consequences and is bound to cause stagnation in the company. Human life cycle determines the fact that the owners of family businesses have a limited professional life as they start their professional activity at about thirty and carry it on till about sixty or seventy. Then they hand over their company and responsibilities to their successors. Inevitable passage of time (biological imperative) implies that both the family and enterprise should be ready for ownership and management transfer and should plan for succession [Ježak 2003, pp. 221–222]. Managing the company at the age when one does not want to or cannot make innovative and proactive decisions is a threat both for the enterprise and owner’s family. Sudden death or serious illness of the company’s founder is often the period full of threats which can cause stagnation or even bankruptcy.

Other crucial factors relate to the senior or his successor. It is important for the senior to be willing to hand over the enterprise but it is equally important for the successor to be interested in and willing to take over the family business. One of the factors impacting the whole process are the benefits that the successor may have from the takeover, such as the possibility to pursue his professional career, satisfaction and financial security. Confidence on the part of the owner who runs the company in his successor’s skills and intentions is a next important determinant of favorable succession. Potential successors who can hardly wait for the decision about succession feel that the senior destroys their professional career. A lack of clear succession perspective is the source of conflict which spoils the relationship between the senior and junior as well as family life.

Other important factors are the relationships within the family running the enterprise which should enable family members to communicate well with the successor. There is a significant correlation between the quality of the relationships within the family and succession planning. Good relationships between the current leader, who is open to change, and his successor are manifested by high confidence level, mutual support, openness and sincerity in interpersonal contacts and the readiness to recognize the other person’s merit and they determine a favorable succession outcome.
The successor’s willingness to take over the business is an important factor which determines if succession in successful or not. Parents should not pressure the children to work in their family business but they should present to them a realistic image of the enterprise and teach them to take over. The successor should be free to decide if he wants to get involved professionally in the family business. Professional preparation, education and experience acquired in other companies facilitate a take-over from the older generation, while good relationships between the senior and the junior facilitate the generational shift. It is suggested that the period of acquiring experience outside of a family business should last at least five years and should let the successor feel autonomous, independent and self-confident. It will limit a “silver spoon” phenomenon, i.e. overprotection of parents, which often incapacitates the successor [Hollander 2002, ss. 538–539].

A lack of succession plan may pose the threat of significant problems with finance and property, because in many cases those issues are very complex. Unfortunately, in many family businesses those issues remain a taboo. Taking into the account the fact that most enterprises are sole proprietorships, in the event of the owner’s sudden death the company’s situation becomes unclear and there is a big problem with maintaining continuity of the enterprise’s activity.

Many family businessmen do not manage to transfer the business from one generation onto another. Four main factors leading to this failure include:
- a lack of the enterprise’s ability to maintain in the market;
- a lack of succession planning;
- a lack of willingness on the part of the owner to transfer his business;
- a lack of willingness on the part of the offspring to take over the business.

Those factors individually or in a configuration make it difficult or impossible to carry on succession. However, the basic reason for this failure is a lack of succession planning. A good succession plan in most cases makes it possible to maintain good business and family relationships. A plan of property transfer is important for the family and the enterprise as it is to ensure further functioning of those two systems.

Key challenges and barriers of succession processes in Poland

In Poland research has recently been done on the strategies and course of succession processes and it allows us to point out the complexity of succession forms as well as key challenges and barriers facing Polish family businesses. This research has been conducted by Ł. Sułkowski, A. Winnicka-Popczyk, K. Safin, A. Marjański. It is worth mentioning the research by the Orłowski’s team from z PricewaterhouseCoopers and A. Surdeja and K. Wach [2010]. In
2009 at the request of the Polish Agency for Enterprise Development Research Pentor Team, Sułkowski and Marjański did representative research of family business which allowed us to obtain more detailed knowledge about the issues related to succession [Kowalewska, Szut, Lewandowska, Kwiatkowska, Sułkowski, Marjański, Jaguszyński-Krynicki 2009]. A whole range of data about succession was acquired from the latest research done within the project Value Codes and Succession Strategies in Polish Enterprises which was conducted by Safin’s team [Safin, Pluta 2013, pp. 11–37].

Research results analysis allows us to identify selected key challenges and barriers which occur in the process of family business succession.

Tendency to carry out succession. Succession has taken place in a relatively small number of businesses, it can be estimated as from 15% to 20%. Most Polish enterprises were set up after 1989, therefore it cannot be expected that in the group, which was covered by the research, there will be a big amount of companies where succession has already been conducted. Most businessmen are going to transfer the company to the next generation but there is a wide diversity concerning their involvement in a succession process. In most Polish family businesses succession is on the planning stage. In is worth mentioning that the will to carry out succession is much bigger in the businesses with longer tradition (over 20 years of activity) and it increases with the size of the enterprise. It can be said that in many companies many businessmen are not aware of the significance and impact of succession on the future of the enterprise and owners’ family.

Succession planning is a key issue. Almost two thirds of the companies expressed their willingness to hand over the business to the next generation but only every third one has a succession strategy (plan). Only in 10% of the companies this strategy is formalized. Representatives of medium businesses are definite leaders in this area. A small degree of succession process formalization causes anxiety. In many surveys one can notice a distinct discrepancy between the declarations about the importance of drawing up a succession plan and its fulfillment. In the companies with a written succession plan a succession process is noticeably more effective. The people who were convinced about the necessity to hand over the company to their successors declared that they have a formalized or not formalized succession plan. It is worrisome that about 40% of the companies believe that a succession process should last for about a year while only 20% of the respondents are aware that a well prepared succession process may last up to several years.

Knowledge about legal aspects of succession is a next challenge which businessmen face. The respondents positively assessed their knowledge about legal aspects related to handing over their companies to the next generation.
Over two thirds described their knowledge as definitely good or rather good. Only 16% admitted to some deficits in this respect but only 5% said that the level of their knowledge was bad or definitely bad. It seems that in reality the knowledge of the respondents can be lower than their declarations. This is evidenced by a high percentage of responses “rather good”, which may cover partial knowledge or knowledge based on their expectations concerning legal aspects of succession. Definitely good knowledge was most often declared by the respondents who had a written succession plan (68%). Such a positive opinion about legal aspects of succession was less frequently declared in the businesses where a succession strategy did not have a written form (20%).

**Lack of corporate order** in a family business is evident in the fact that family business’ owners may be afraid to transfer authority, which can correspond to the tendency to overestimate their skills and underestimate those of the successors. One of the characteristics of family businesses is combining ownership and managerial functions, which significantly strengthens the position of the managing owner and his impact on the future of his enterprise. Moreover, in the situation when an enterprise is based on a patriarchal or even authoritarian model of management putting off the thoughts about succession may be related to fears of losing control. The most important barriers in this respect include: inadequate authority and property structure and problems with corporate communication. It seems crucial that a successor should get acquainted with the corporate culture of the enterprise.

**Common vision for the future** or more specifically in many instances a lack of defined common vision of the senior and his successor leads to a whole range of disadvantageous situations within the company immediately after the transfer. A new manager of the family business often rapidly introduces changes into the vision and values which have been binding so far, which adversely influences the relationships in the family, within the company and in its environment.

The **selection of the successor** by the two thirds of the businessmen who think about transferring their company to the next generation and who relate succession to a certain person or people. Every other successor (55%) currently works in the enterprise, whose owner he is to become in the future; 41% are employed under an official contract while the rest works for the enterprises in an informal manner. 12% of the successors work in another business. Slightly over 29% of the respondents declare that the successors currently do not work at all. This fact may cause many anxieties and lead to their poor preparation.

**Successor’s education.** Over half of the successors have formal education which is related to the area of the enterprise’s activity. Planning future education with the potential succession in mind is mostly typical for medium-sized enterprises.
Necessity to take over the company’s management fast. If succession is the result of a sudden and unexpected event (necessity to take over the responsibilities fast) only 22% of enterprises believe that their current preparation of the successor is definitely good. In 43% cases the preparation is considered as “rather good” but this seems to be an overvaluation. Experts’ opinions question the truth of such a high number of businesses which are so well prepared for “sudden” succession.

Summary
The problem of many developing family businesses is a lack of early succession planning. The owner, who usually runs the whole enterprise, has a sense of total control over the company and does not feel any need to share his property and authority. The company transfer to the offspring is put off till some vague future, as the owner associates it with the loss of influence, inactivity or even death. Unfortunately, there are no simple formulas for successful succession. It is a long process of both business and educational character. A managing owner cannot give up his educational responsibilities towards his own child in favor of any consultant or school. It must be noted that all the above mentioned challenges and barriers are only a part of the problems facing a family business in succession process. Undoubtedly, the most important barriers to favorable succession in a family business include: poor relationships and contacts within the family, inadequate authority and property structure and problems with corporate communication.

It must be remembered that every succession is different and implies the necessity to make tough decisions about its form and timing. However, succession must not be feared and delayed if the company is to remain in the hands of the family. Just as any undertaking it must be clearly thought through and planned.

Certainly the biggest problem here is a lack of thinking and succession planning or thinking and carrying it out in dramatic situations when there is no time to do it well. Beneficial succession is not a dramatic process because seniors have enough time to prepare their successors to take over the role of a new leader. However, every succession process is accompanied by strong tensions and emotions and all its participants should be prepared for it.

Research of succession processes in family businesses demonstrate that there are no two identical enterprises and there are no two identical succession strategies. Every succession is different and must take into account the reality of a given enterprise and the complexity of family relationships. However, it always depends on wisdom and ability to predict. Unquestionably, succession
is one of the biggest challenges facing every leader who is going to transfer his company to the next generation.

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