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## **Preparing for internal non-family succession**

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### **Aim of the paper**

Succession represents a subject that is frequently discussed in academic research. A noticeable majority of research focuses on issues relating to family businesses succession (e.g. Handler, 1994; Sharma, Chrisman, & Chua, 1997; Cabrera-Suárez, De Saá-Perez, & García-Almeida, 2001; Dyck et al., 2002; Sharma, Chrisman, & Chua, 2003; Le Breton-Miller, Miller, & Steier, 2004; De Massis, Chua, & Chrisman, 2008; Van der Merwe, Venter, & Ellis, 2009) and corporate succession (Friedman, 1986; Zajac, 1990; Bagby, 2004; Groves, 2007). The study of non-family succession / SME business transfers to externals, however, appears to be rather scarce in quantity. This situation is somewhat surprising considering the demographic developments and the fact that in many countries (e.g. Belgium, the Netherlands), the majority of business transfers are actually non-family (Camerlynck, Ooghe, & De Langhe, 2005; Van Teeffelen, Uhlaner, & Driessen, 2011; Van Teeffelen, 2012), or are set against the background of declines of family business succession, for example, in Austria (Mandl & Obenaus, 2008), Germany (Schlömer & Kay, 2008) as well as in other European countries (European Commission, 2002). Additionally, as Sambrook (2005) rightly stressed “not all small businesses are family firms, where there are “natural” (and possibly competing) successors waiting within the “family labour market” (p. 583).

Addressing this issue, this study attempts to contribute to a better understanding of non-family succession. Thereby the main interest is on succession planning and on creating a directional “how-to approach” to succession. This “how-to approach” is being designed for a case company, yet will



hopefully also be beneficial to companies encountering similar challenges in their succession processes.

## **Contribution to literature**

The paper presents insights into an alternative way of SME succession, namely internal non-family succession, thus it contributes to the literature in several ways. By focusing on internal non-family SME succession, it broadens our understanding of different types of succession. Therefore, it somewhat relativizes current succession research which mainly addresses intergenerational succession (e.g., Sharma, Chrisman, & Chua, 2003; Le Breton-Miller, Miller, & Steier, 2004; De Massis, Chua, & Chrisman, 2008; Van der Merwe, Venter, & Ellis, 2009). Additionally, the study of succession planning in SMEs is enlarged by demonstrating the relevance of employee involvement and performance measurement systems, therefore making succession planning both more complex and more complete. Finally, the findings are summarized by proposing a how to approach which highlights critical aspects in the course of succession preparation.

## **Data and results**

### *The case company*

The company was founded in 1997, as a general partnership company by two non-related founders, with its base of operations in a small town in Austria. According to the initial predications of the two owners, their firm will be undergoing its internal company succession within three to five years time. However, under current conditions, the non-related owners have emphasized their desire to keep a majority of their company shares, foster a selected managing-director from within the company, namely a non-related, long-standing employee, and withdraw themselves from daily operations once the succession has been completed.

### *Research design and methodology*

This paper is based on a single-case study, including semi-structured interviews, observations and document sightings. A single-case study approach has the power to provide rich and unique insights into topics which are under-researched (Eisenhardt, 1989). Against the background that an opportunity existed to investigate a firm that was at the time of study preparing its succession, a single-case study approach was preferred to multiple-case studies. This situation provided the chance to study internal non-family succession from a real-time perspective rather than a retrospective perspective. Moreover, as one of the researchers was involved in working with the company, full access to the company with regard to different techniques of data collection was possible. The data analysis of interviews was conducted by applying Miles and Huberman's (1994) data display and analysis approach. This process

involves three sub-processes comprising data reduction, data display, and drawing and verifying conclusions.

### *Findings*

The owners have decided on selecting an internal candidate because they have had the opportunity to assess the potential candidates for several years and were therefore able to evaluate their development and capabilities over an extended period of time. Additionally, the owners have had time to establish personal relationships with the candidates and thereby also evaluate their strengths and weaknesses over the years. The skills and traits the successor candidates should possess include: proactiveness, honesty, and reliability, among other traits mentioned separately by the owners. By defining these characteristics and also putting them into writing, the owners were able to form a more objective impression of the suitability of the candidates. A further reason why the owners desire an internal candidate is because he knows the organization and structure of the company, how operations are run, and he has pre-existing relationships with suppliers and customers of the company, thereby effectively reducing the training efforts and the post-succession adjustment period.

With regards to the determination of the successor, both owners mentioned they will make their selection based on their subjective perceptions, influenced by the historical development of the candidates, by personal conversations as well as through intensive observations, of the performance and capabilities of the available candidates. For the successor training, the findings suggest that the most prominent knowledge factors imparted to the successor are the owners' networks and contacts and the resulting relationships with suppliers and customers. Concerning the transfer of knowledge, both owners suggested completing this section by implementing a step-by-step process with increasing task responsibility for the successor, whereby transferring the most success-relevant knowledge is preserved until the end of the grooming phase for risk-deviating purposes. Furthermore, the findings suggest that the owners will share their knowledge by the means of communication, business meetings with customers and suppliers, and task-relevant training.

Involving the key employees in the preparation phase of the succession process is of critical importance for the owners of the company. By including key employees, the owners want to demonstrate the employees' value in the company and moreover, they aspire to increase acceptance of the successor and aid in avoiding resistance in the post-succession scenario. Findings also suggest that by involving the relevant employees in the succession process, the owners hope to prematurely uncover potential complications between the successor candidates and the staff.

Having a holistic overview of the significant success factors of the company, and being able to monitor their development, is especially important in this case study. In order to ensure that this process will be handled objectively, a series of financial and non-financial performance measurements

systems are necessary. Findings suggest that the most prominent performance measures after the transfer of power are of financial origin, namely profit and turnover. Additional important measure included sustainability - referring to how business is conducted and customer-supplier relationships are handled, and employee satisfaction, which is necessary to keep employee fluctuation low and therewith diminish the risk of losing valuable knowledge and business relationships.

### **Discussion and practical implications**

It was found that the owners would choose a successor with the appropriate traits over a candidate with a complete skill set but who was incongruent to the trait requirements of the owners, as long as he was capable of also extending his knowledge. The most important traits were proactiveness, social competency, and a strong sense of responsibility.

Due to this case being one of internal succession, the owners placed a strong emphasis on grooming the successor, as they would remain invested in the company after the transfer of power, and therefore they were dependent on the success of the company despite their withdrawal from its daily operations. The most important knowledge that the owners wanted to impart on the successor was their network of customers and suppliers. Therefore, a logical connection between a relay succession process and the knowledge transfer of intangible assets was discovered, confirming previous research (e.g. Cabrera-Suárez, De Saá-Perez, & García-Almeida, 2001; Durst & Gueldenberg, 2010). It was also found that the owners wanted to involve the key employees in the succession process in order to demonstrate their importance to the company and provide them with the opportunity to partake in the succession process. They also hoped to minimize potential problems between the key employees and the successor and therewith foster a prosperous post-succession scenario. Performance measurements were considered for the successor selection phase, the successor training phase, and additionally as a way to enable the owners to monitor the post-succession endeavors by the successor. Therefore, performance measurements provided a potentially overlooked method of objectively measuring a successor candidate's suitability, served as an indicator for the candidate's adherence to his responsibilities, and they provided the owners with the opportunity to intervene in a timely manner in case of mismanagement by the successor, thus giving them some control over succession planning and its success, though this control may be fragile, seeing as a well performing candidate does not necessarily amount to a well performing managing director. On the other hand, performance measurements may also support the potential successor as they provide him/her with the opportunity to identify whether the company is ready for succession.

Amalgamating the knowledge gained led to the creation of a succession guide for the preparation phase of internal non-family SME succession. The succession guide includes incremental explanations

of how to approach the issues of successor selection, training, employee involvement, and the implementation of performance measurement systems into the process.

From a practical point of view the succession guide appears to be a valuable tool for preparing the company owners for their succession process. The findings may also be useful for other incumbent-owners of SMEs with similar company circumstances who plan to proceed with internal non-family succession. In addition, our findings provide useful insights to consulting firms offering business transfer advice. Using the succession guide consulting firms may be enabled to expand their field of assistance.

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