



A Study on Effects of Characteristics of Successor on Support from Employees on Family Business Succession and Perceived Continuous Profitability

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Abstract

Background/Objectives: Succession is important issue determining the survival of the business in family business and has been addressed in many ways, however, most of the studies emphasized only the willingness of manager for succession and trust relationship with successor. The purpose of this study was, therefore, to investigate whether, in addition to willingness of manager for succession, the

perceived characteristics of successor and support from employees through trust in successor are also important in successful succession.

Methods/Statistical Analysis: The research model and hypotheses were developed based on previous studies. The characteristics of successor, shard value, support from employees of the succession, and expected continuous profitability were investigated through questionnaire survey in 167 SMEs considering the succession of the family business.

Findings: The results of empirical analysis showed support on the hypothesized relationship among variables. The values shared by current manager and successor were found to mediate partially the characteristics of successor and support from employees of the succession, these two factors are important in succession process. The support on and trust in succession were found to have also on the expected continuous profitability.

Improvements/Applications: The employees, among many stakeholders in family business succession process, are most important factor in generating profit after succession, therefore their support is very important. In the process of preparing for family business succession, therefore, it is important to induce support of employees by improving their ability in the training and making their values and current managers' one being shard. These are expected to be helpful in completing successful succession of family business and generating continuous profit.

Key Words : Family Business, Succession Of Family Businesses, Characteristics Of Successor, Shard Value, Support And Trust, Continuous Profitability.

1 Introduction

The family business is a world-widely common phenomenon and most of them are maintained and developed by management succession between family members. The succession of family business is defined as handing over of leadership baton from the founder to successor who is family or non-family member [1]. The general meaning of succession of family business is transference of owner-

ship or management right through inheritance or gift without any other change in business. Most of Korean small and medium enterprises (SMEs) are a family business and, the fact that the average age of their CEOs is over 60 is making the succession of family business an important issue in terms of their competitiveness and employment and industrial and social perspectives. Although the succession of family business has been addressed continuously in the research field on family business, most of them were on tax support system and preceding variable of succession of family business.

Despite the manager has an intention to transfer the business to a successor, if the successor refuses the undertaking it is inevitable to hire professional manager or sell the business. Sharma defined the failure of succession as bankruptcy of or being sold to outsider of company [2].

Santiago pointed out that, for successful succession of family business, the keeping of consistency of the transferred value in the process of succession is more important than formal planning of succession [3]. The consistency influences the employee's perception of the successor and their support on the succession and the expectation on performance after succession, and thus is likely to have positive effect on sustainable management in future.

The main purpose of family business succession is ensuring evolution to a sustainable company, therefore, the important task for successor after founder generation is the achievement of growth and sustainability of company by cooperating with employees and stakeholders and responding to changes over time. Considering this perspective, it is also important, for successful succession, to find out factors leading to the dissonance between successor and existing members and to correct them.

The purpose of this study was, accordingly, to analyze the overall awareness that possessed by organization members who are major contributors in the process toward reputable long-lived company capable of establishing sustainable growth and continuous profit after successful succession of family business. The findings of this study are expected to provide understanding about perceptions by organizational members on the family business succession and implications useful in studying characteristics of successful succession.

2 Materials and Methods

2.1 Literature review

2.1.1 Characteristics of Successor

The preparation and learning by successor to be a leader is most important in successful succession [4]. It is very important, for an organization, keep the ineligible successor from exercising authority. One of the most addressed factors as the characteristics of the successor in family business succession literature is the successor's ability. The voluntary willingness for succession, in addition, is also important, and Venter et al. proposed strong expectation for inheriting a family business with voluntary willingness, happiness resulting from working for family business, putting efforts beyond normal level, telling proudly others of their own working for family business, and confidence in and ability of managing family businesses as such characteristics.[5]

The organizational commitment is defined as the extent to which strong trust and attachment for value and goal of organization [6].

The characteristics of successor, in this study, were classified into succession willingness of successor, ability of successor, trust from manager, and organizational commitment, which were used as research variables.

2.1.2 Support from Employees

The employees are key stakeholder along with the current manager and successor in the whole process of family business succession. There has been often a disagreement between the successor and the existing employees after succession of the family business, resulting in failure, and good example is recently and daily reported conflicts between an ineligible successor of an airline and their employees.

The term support has been used exchangeable with such terms as preference, attitude, or acceptance on a policy, and is defined generally as favorable attitude or behavior expressed through personal assessment of the policy [7].

The supports from employees, in this study, were classified into trust in successor and support for succession decision, which were used as research variables.

2.1.3 Shared Value

The value refers to preferring something to other things in a situation. From the standpoint of the organization, it is a value inherent in the system of the organization that does not change easily even if the members change.

The core values of the company in the organizational culture are often used in the same sense as shared values because core values must be shared by all employees. O'Reilly and Chatman defined shared value as 'belief in valuable something or importance, in other words, a principle or criterion that a particular individual or group regards as important [8]. Specifying in more detail, shared value can be defined as 'a set of values agreed strongly and shared by members of a particular group'.

The shared values, in this study, were defined as one shared by current manager, successor, and employees who are key stakeholders in succession of family business.

2.1.4 Expected Continuous Profitability

The continuous profitability is defined as subject awareness of the financial performance to be expected to be generated by use of resource and capability by company. It is uncertain whether the successor will be able to achieve the same or better performance as the current manager after the succession. The successor, therefore, should be trusted by the stakeholders in the process of succession as to the possibility of realizing profit.

Successful succession can be confirmed by the performance of the company after succession [9]. In other words, evaluation of whether the succession is successful or not is based on the performances such as company's sales and profits, market share, relationship with the existing suppliers and local community, and the relationship with existing employees. Both financial performance and non-financial performance should be included because the performance of the family business should be considered in terms of both family and business [10].

2.2 Research Model

We developed a research model for the purpose of this study, as shown in [Fig. 1], based on previous studies on succession of family business.

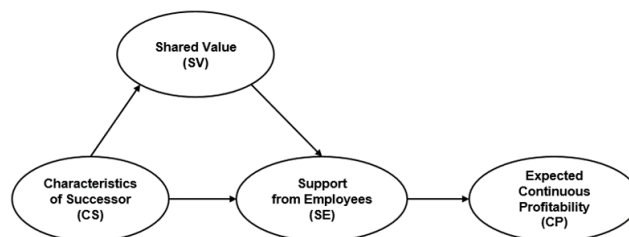


Figure 1: Research Model

2.3 Research Hypotheses

The successor, in the process of succession, should be trusted by the stakeholders in terms of the likelihood of profit realization. Successful succession requires the successor to have the ability and willingness enough to receive recognition and trust from current managers and stakeholders [11]. Meaning that successors' ability in business and voluntary willingness for succession have a positive effect on successful succession among families.

This study developed following hypotheses based on relationship among research variables and related previous studies.

H1: The characteristics of successor have positive effect on the shared value perceived by employees.

H2: The characteristics of successor have positive effect on the support from employees of family business succession.

H3: The shared value perceived by employees has positive effect on the support from employees of family business succession.

H4: The support from employees of family business succession has positive effect on the expected continuous profitability.

H5: The shared value perceived by employees mediates the relationship between the characteristics of successor and support from employees of family business succession.

2.4 Method

2.4.1 Population and Sample Characteristics

This study selected SMEs that are operated by managers over 60 years old who are expected to be considering the succession of the family business and conducted self-report questionnaire survey with the senior managers of the selected companies for five months from June, 2016 through the online questionnaire tool of Google. The collected questionnaires were 192 and after excluding incomplete ones, 167 questionnaires were statistically analyzed using SPSS 22 and AMOS 22.

2.4.2 Operational Definition and measurement of Variables

The characteristics of successor was set as independent variable, support from employees as dependent and independent variables, shared value as parameter, and the expected continuous profitability as dependent variable. These variables, for the expression as measurable form, were defined as shown in [Table 1] based on previous studies [5, 9, 12, 13]. The verified measurement items used in each questionnaire were measured using Likert 5-point interval scale.

Table 1: Operational Definition of Variables

Research Variable	Operational Definition	Measured Items
Characteristics of Successor	Characteristics such as capacity and philosophy of successor perceived by employees	Succession willingness of successor, Ability of successor, Trust from manager, Organizational commitment (four items)
Support from Employees	Favorable attitude or perception, of the overall succession, by employees	Policy support from manager, Trust in Successor, Cooperation with successor, Pride in Company (four items)
Shared Value	Core value shared by current manager, successor, and employees who are key stakeholders in succession of family business	Share of company vision, Share of object, Mutual trust and communication, Succession processes and satisfaction of them (four items)
Expected Continuous Profitability	Employees' expectation of continuous financial and non-financial performance after succession	Expected growth and profitability, Development of core value, Reward accompanied by growth, Consistency in organizational culture (four items)

3 Results and Discussion

This study, for the test of hypotheses, conducted structured questionnaires and analyzed the items using SPSS 22 and AMOS 22

statistics packages.

3.1 General Characteristics of Sample

[Table 2] shows general characteristics of samples. For the sales of previous year, companies under 5 billion won occupied 55.7%, and for the employee number, companies under 50 persons occupied 70.7%. The most frequently reported company age was 5-7 years occupying 31.1% and companies of age over 10 years, a criterion for tax benefit in business succession occupied 19.8%.

Table 2: General Characteristics of the Sample

	Division	N=167	%
Sales volume (won)	Less than 10 billion	37	22.2
	Between 10 billion to 50 billion	56	35.5
	Between 50 billion to 100 billion	35	21.0
	More than 100 billion	39	23.4
Number of employees	Fewer than 10	55	32.9
	10 to 49	63	37.7
	50 to 99	19	11.4
	More than 100	30	18.0
Company performance	Less than 5 years	48	28.7
	Between 5 to 10 years	52	31.1
	More than 10 years	33	19.8

3.2 Validity and Reliability Analysis

The validity and reliability analysis was performed, as shown in [Table 3], before testing hypotheses. The confirmatory factor analysis was performed to check validity and principal component analysis and orthogonal rotation method were used to simplify factor extraction and factor loading. The selection criteria were eigen value over 1.0 and factor loading over 0.4, and items that had insufficient explanatory power reflected in lower factor loading were excluded sequentially. Five factors were extracted following a previous study and were designated as shown in [Table 3]. These factors explained 80.748% of variance, indicating sufficient explanatory power. The reliability of each variable was analyzed by determining Cronbach' value, and as shown in [Table 3], the values were .806-.895, suggest-

ing no confounding factor on reliability, so all variables were used in analysis.

Table 3: Exploratory Factor Analysis and Reliability Test

MV		SV	CP	SE	CS	Ca
SV	4	.857				.895
	3	.799				
	2	.751				
CP	3		.865			.867
	2		.828			
	1		.772			
SE	4			.798		.889
	3			.781		
	2			.757		
CS	1				.821	.806
	2				.762	
	4				.722	
Eigen-value		2.584	2.502	2.446	2.158	
Variance (%)		21.533	20.850	20.380	17.984	-
Accumulation Variance %		21.533	42.383	62.763	80.748	

KMO=.888, Bartlett's $\chi^2=1361.114$, $p=.000$

CS: Characteristics of Successor

SV: Shared Value

SE: Support from Employees

CP: Expected Continuous Profitability

3.3 Confirmatory Factor Analysis and Measurement Model Analysis

The confirmatory factor analysis was performed to test uni-dimensionality of each variable before performing analysis of hypothesized relationship among variables, and the results showing t value under 1.965 [Table 4] indicates that the latent variables explain sufficiently corresponding measurement variables.

Table 4: Confirmatory Factor Analysis

MV		B	SE	β	t	p
CS	1	1.000		.699		
	2	.937	.109	.750	8.613	***
	4	.991	.105	.877	9.459	***
SE	4	1.000		.883		
	3	1.031	.079	.802	13.002	***
	2	1.114	.072	.887	15.381	***
SV	4	1.000		.887		
	3	1.007	.068	.868	14.713	***
	2	1.006	.075	.822	13.487	***
CP	3	1.000		.828		
	2	1.038	.079	.901	13.075	***
	1	.832	.077	.759	10.835	***

- SE: Standard Error ** $p<.01$, *** $p<.001$

The goodness of fit was checked with criteria of $Q(<3.0)$, $RMR(<.05)$, CFI and $TLI(>.90)$, $RMR(<.05)$ and $RMSEA(<.80)$ and the results showed that this model has excellent goodness of fit, as shown in [Table 5], even without excluding items based on squared multiple correlation coefficient.

Table 5: Goodness of Fit of Measurement Model

χ^2	dF	p	Q	CFI	TLI	RMR	RMSEA
95.978	48.000	< .001	2.000	.964	.951	.044	.078

The convergence validity was tested using AVE and CR values and the results, as shown in [Table 6], showed acceptable convergence validity with AVE value over .5 and CR value over .7. Table 6 also shows the test result of discriminative validity. This validity was determined using method proposed by Fornell et al., that accept this validity when extracted average variance is over product of correlation coefficients among variables ($AVE > \phi^2$).

Table 6. Distinction validity analysis

MV	CS	SE	SV	CP	C.R.	AVE
CS	.538				.833	.626
SE	.660	.652			.895	.740
SV	.710	.710	.612		.911	.774
CP	.440	.732	.586	.331	.865	.683

3.4 Analysis of Research Model

The goodness of fit of research model was checked using finally determined measurement model and as shown in [Table 7], the results of $Q(<3.0)$, $RMR(<.05)$, CFI and $TLI(>.90)$, $RMSEA(<.80)$ satisfied criteria.

Table 7. Goodness of Fit of Research Model

χ^2	dF	p	Q	CFI	TLI	RMR	RMSEA
99.324	50	< .001	1.986	.963	.951	.045	.077

3.5 Hypotheses Test

The research model was found to be valid, and [Table 8] and [Fig. 2] show the result of path coefficient analysis for hypotheses test.

The higher score of characteristics of successor was found to increase scores of support and trust from employees (standardized coefficient, $\beta=.280$, $p<.01$), and also have positive effect (standardized coefficient, $\beta=.736$, $p<.001$) on expected continuous profitability. The higher score of characteristics of successor was also found to have effect on shard value (standardized coefficient, $\beta=.714$, $p<.001$), thus positive effect on support from employees (standardized coefficient, $\beta=.525$, $p<.001$)

Table 8. The Structural Path Coefficients of the Research Model

Structure Path	<i>B</i>	<i>SE</i>	β	<i>t</i>	<i>p</i>
CS $\rightarrow$ SV	.613	.144	.496	4.263	***
CS $\rightarrow$ SE	.465	.129	.416	3.595	***
SV $\rightarrow$ SE	.430	.093	.475	4.605	***
SE $\rightarrow$ CP	.580	.115	.487	5.069	***

** $p<.01$, *** $p<.001$

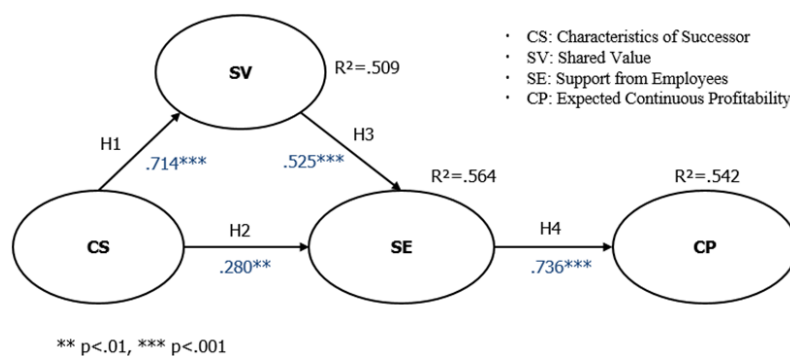


Figure 2: Path coefficient analysis

To test whether the shard value has mediating effect on relationship between the characteristics of successor and support from employees, the statistical significance was test using bootstrapping method in AMOS, and the result showed that, as shown in [Table 9], the path of characteristics of successor $\rightarrow$ shard value $\rightarrow$ support from employees' was significant, thus the H5 was accepted.

[Table 10] shows the results of hypotheses test.

Table 9. The Mediation Effect Path Coefficients of Research Model

Structure Path	B	SE	β	t	p
CS $\rightarrow$ SV $\rightarrow$ SE	.407	.094	.714	4.349	***

** $p < .01$, *** $p < .001$

Table 10: The Results of Hypothesis Testing

Hypothesis	Hypothesis to Be Tested	Result
H1	The characteristics of successor have positive effect on the support from employees of family business succession.	Accept
H2	The characteristics of successor have positive effect on the shard value perceived by employees.	Accept
H3	The shard value perceived by employees has positive effect on the support from employees of family business succession.	Accept
H4	The support from employees of family business succession has positive effect on the expected continuous profitability.	Accept
H5	The shard value perceived by employees mediates the relationship between the characteristics of successor and support from employees of family business succession.	Accept

4 Conclusion

4.1 Findings and Implications

The results of this study suggest that, in order to raise support and trust in the succession of family business in family business succession, which is the key resource for future sustainable growth, it is necessary to share the core values of managers and successors and to improve characteristics of successors. This is expected to be used as practical information useful for the family business considering the succession of the family business. The generalization of the findings, however, should be cautiously because the companies where the succession of the family business will not be actually progressed due to the limitation of the questionnaire collection. It is recommended for the future studies to include only companies that are in the process of succession, in order to identify the characteristics of current managers.

This study selected SMEs that are operated by managers over 60 years old who are expected to be considering the succession of the family business and analyzed the overall awareness possessed by organization members who are major contributors in the process toward reputable long-lived company capable of establishing sus-

tainable growth and continuous profit after successful succession of family business.

The results of hypotheses test are as follows:

First, the characteristics of successor (ability, succession willingness, trust, and organizational commitment) were found to have positive effects on share value and support from employees of family business succession.

Second, the trust in successor and support from employees of family business succession were found to have positive effects on continuous profitability perceived by employees.

Third, the value shared by key stakeholders in family business succession was found to have positive effect on support from employees of family business succession and mediating effect on the relationship between the characteristics of successor and support from employees of family business succession.

The results of this study are considered to provide following understandings about perceptions by organizational members on the family business succession and implications useful in studying characteristics of successful succession.

First, it is necessary, in order to achieve successful outcomes in family business succession process, to acquire the trust and support of stakeholders along with the training to improve the capacity of the successor, suggesting that the support of the employees is an important factor.

Second, the successor of the family business requires management ability and trust from employees in terms of basic competence, and in order to increase trust, firm expression of the willingness for succession and emphasis on trust from manager.

Third, the results of this study suggest that the succession of the family business should be prepared not only for relocation of the wealth in the family, but also for employees who are key stakeholder and it is also important to find out factors leading to the dissonance between successor and existing members and to correct them.

4.2 Limitation and Future Studies

Follows are the limitations of this study and recommendations for future studies.

First, the generalization of the findings is limited because the

companies where the succession of the family business will not be actually progressed due to the limitation of the questionnaire collection, therefore it is recommended to expand population in future study.

Second, it is recommended, in analysis, to reflect various factors such as experience by successor of working in other company, diagnosis of organizational culture, experience by employees of succession in other company.

5 Acknowledgment

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