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Business succession planning: a review of the evidence

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Abstract

Purpose – This article aims to review business and academic literature on the topic of business succession planning (BSP). The purpose is to allow the vast quantity of evidence and opinion to be contextualised, and enable a better understanding of the key themes within BSP, particularly with respect to small, family-owned businesses.

Design/methodology/approach – An extensive literature search of business magazines, journal databases, textbooks, and relevant reports and citations was carried out. A categorisation of the evidence, involving over 400 articles, allowed informed discussions on the key themes surrounding BSP.

Findings – Key findings include family succession, legal, financial, and fiscal components, barriers against implementation, and methods for managing the process. A detailed summary of these and other topics is given, which together constitute the critical themes which should be borne in mind by businesses facing BSP.

Research limitations/implications – The main weakness of this paper is the lack of theoretical development. However, the findings prompt key areas for future research, and help to contextualise the topic for any potential new developments in succession planning.

Practical implications – Despite the need for further scientific and validated studies, businesses are urged to devote sufficient resources and attention towards succession to promote long-term survival and prosperity.

Originality/value – This paper allows researchers and business practitioners to obtain a wholesome reflection on the key themes within BSP, which are often exacerbated by the sheer volume of diverse opinion. The value of this paper is that it amalgamates the available evidence and offers a detailed, informed insight into the current state of research and practice in business succession.

Keywords Leadership, Organizational change, Business planning, Strategic management, Career development

Paper type Literature review

Introduction

Built on the idea of change, the roots of business succession planning (BSP) lie within anthropology and the study of kinship (Fox, 1967, pp. 16-7, 1993; Fortes, 1970, p. 305; Parkin, 1997, pp. 22-3, 127). Early work into business succession by authors such as Christensen (1953), Gouldner (1954), Trow (1961), and Guest (1962) helped to fuel its dissemination into a wider management context, which in the present day encompasses leadership planning, change management, human resources, and indeed almost any area of business involving change. While it may not have received as much attention in the general management literature as one might expect, it is unarguably a critical issue for any corporation, team, or individual, to consider how it plans for the future.

One definition of BSP is:

> The transfer of a business that results from the owner's wish to retire or to leave the business for some other reason. The succession can involve a transfer to members of the owner's

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> family, employees, or external buyers. Successful succession results in a continuation of the business, at least in the short term (Martin *et al.*, 2002, p. 6; SBS, 2004, p. 7).

Thus, in broad terms, it is a process through which companies plan for the future transfer of ownership and/or top management. However, care should be exercised so as to not confuse succession planning with replacement planning. While replacement planning is often referred to as a means of risk/crisis management aimed at reducing the likelihood of catastrophe from the unplanned loss of key personnel (Rothwell, 2001, p. 7), succession planning entails a longer term and more extensive approach towards the training and replacement of key individuals (Wolfe, 1996; Rothwell, 2001, p. 7). Consequently, a more expansive definition is:

> A deliberate and systematic effort by an organisation to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement (Rothwell, 2001, p. 6).

In this context, BSP encompasses not only top-level management, but also a breadth of other factors. It can cover issues such as the procedures necessary for a successful transfer, legal and financial considerations, psychological factors, leadership development, and exit strategies. As mentioned above, early work on family succession was based on the study of kinship, and as we shall see, this is still often intertwined with BSP.

The bulk of research associated with BSP concerns small- to medium-sized businesses (SMEs (companies with up to 250 employees)) but there is also a body of work-related larger companies, including multinationals. Succession issues are generally applicable to organisations regardless of size, sector, and geographic location.

Statistical data compiled by the Small Business Service (SBS) in the UK reveals that SMEs accounted for over 50 per cent of employment in 2003 (SBS, 2003a, b). In Wales and Northern Ireland, this figure is even greater at over 70 per cent of all employment, while a similar trend can also be observed in many other areas in the UK (SBS, 2003a, b). Manifestly, we are talking here of a substantial proportion of the British economy, and as will be shown in the examination of existing research presented here, there is a serious threat to the future prosperity of existing SMEs in terms of the lack of adequate succession planning.

Among the variety of notable work relating to BSP in the UK, the SBS (2004) has recently complied a report in conjunction with the Department of Trade and Industry (DTi) which identifies the problems associated with business succession, thus highlighting the Government's concerns in this area. Similar concerns can be found in Europe, as encapsulated in documents produced by The European Federation of Accountants – FEE – (FEE, 2000); and in the USA, via the Small Business Administration (SBA), and BSP issues in Australia, Finland, Canada, and China have also been reported in the literature. The clear message that can be gleaned from all this is that BSP is a global issue, yet it is an area where comparatively little rigorous research has been carried out, particularly with respect to methods of application. The aim of this paper is to synthesise the available evidence in order to provide a broad reflection of how BSP affects various types of businesses, to report on approaches towards the use of BSP including barriers against it and financial and legal matters, to identify evidence relating to best practice, and to highlight gaps where further work might justifiably be carried out.

Methods

A number of decisions had to be made with regard to how the relevant BSP literature was to be unearthed for this research, in particular the sources of information, and the search terms to be used when accessing databases. In order to capture a broad coverage of BSP literature, searches were carried out using the following sources:

- BSP textbooks;
- academic journal databases available at the University – Emerald, Science Direct, Wiley InterScience, Kluwer, JSTOR, and EBSCO;
- web sites of relevant business-support communities and governmental organisations (such as SBS and DTi); and
- other significant BSP articles/reports cited in the literature.

Search criteria for databases included BSP-related terminology even if apparently related only indirectly, such as terms related to business exit strategies, management training/development, and leadership. The searches began with articles central to the BSP debate, and from there moved to articles on possible related topics. Searches were carried out by combining each term shown in column 1 with each in column 2 in Table I using AND and OR operators – for example, (business AND succession) OR (management AND succession). Categories searched were abstract, titles, and keywords. No restrictions were placed on publication date or journal subject.

Over 400 articles and nine books were found via electronic sources and deemed to cover BSP in a significant amount of detail. A further 100 or so articles and reports were identified through citations (because of the iterative nature of this exercise, the precise number of articles considered is not given here, but those central to this study can be found in the bibliography). Articles ranged from commentary found in business magazines to well-conducted surveys and methodology in academic journals, from case studies to BSP textbooks. Some had to be excluded as being too brief for the final analysis (this applied mainly to commentaries in business magazines). The number of hits may be considered modest in comparison to those available within established management disciplines such as marketing, tourism, or accountancy, but the breadth of issues revealed was noteworthy.

Summary of main findings

Context of BSP and general issues

Hawkey (2002) and Sherman (2003) draw attention to various types of business exit:

- family succession;
- management buy-ins and buy-outs (see also FEE, 2000; Howorth *et al.*, 2004);

Table I.
Terms used in electronic search

1. Context	2. Topics
Business	Succession
Management	Transfer
Planning	Retirement
Ownership	
Leadership	

- franchising and licensing – where the owner sells the right to use the business' trademarks and systems in return for fees and royalties but is no longer responsible for financing the business;
- joint ventures – as a partial exit to spread the company's investment;
- public listing on stock exchanges;
- mergers with another company; and
- cessation of trading, liquidation.

Co-Operatives (2003) also provides an outline of other forms of ownership transfer:

- benevolent successions/disposals – when the owner gives the business to employees, or sells it to them under favourable conditions;
- divestment and contracting out – where large companies sell off subsidiaries, or contract a service out and allow the workforce to buy a part of the business or undertake the contract themselves; and
- rescues – saving a part of a business which is in some difficulty.

There is, then, no shortage of options for business transfer. But as will be discussed in more detail below, a sizeable proportion of businesses lack adequate succession plans, and while it should not be assumed that closure necessarily reflects failure (see Headd, 2003), only around 5 per cent to 15 per cent of family businesses, in Europe at least, reach the third generation, and 30 per cent of closures may be considered transfer failures (FEE, 2000; Le Breton-Miller *et al.*, 2004; SBS, 2004). The driving force behind BSP is to facilitate the going-concern of a business, and to reduce the obvious threats to local economies brought about by business closures (even if closure is a plausible exit strategy). These statistics may not be too surprising when one takes into account the wide spectrum of business and even non-business contexts affected by BSP. Concerns related to planning for succession can be seen to feature heavily in industries as diverse as those shown below (only a selection of references are noted here):

- accountancy (Frances, 1993; Arlinghaus, 2000; Torrisi-Mokwa, 2003);
- automobiles (Guest, 1962; Grady, 2002; Yoswick, 2004);
- construction (Fairweather, 2000);
- credit unions (Yancey, 2001; Courter, 2003; May, 2003; Johnson, 2004a; Lanphear, 2003);
- education (d'Arbon *et al.*, 2002; Fink and Brayman, 2004);
- entrepreneurial firms (Peay and Dyer, 1989);
- environmental (Liu and Ashton, 1995; Haneveld and Stegeman, 2005);
- financial advice/planning (Lieblein and Wevodau, 2003; Grau and Grable, 2004);
- food (Papiernik, 2000);
- franchises (McKenna, 1996; Schaeffer, 1999, 2001);
- healthcare (Husting and Alderman, 2001; Abrams, 2002; Fruth, 2003; Rollins, 2003);
- IT (Kindley, 2002; Kubilus, 2003; *HR Focus*, 2004);

- law firms (*Law Office Management & Administration Report*, 2001, 2003, 2005; Taylor, 2003; *Compensation & Benefits for Law Offices*, 2004);
- local government and public services (Schall, 1997; Johnson, 2004b; Ibarra, 2005);
- multinational corporations such as McDonald's, Disney, and Walmart (Johnson, 1998; Ellis, 2003; Flahardy, 2004; *Business Week*, 2005);
- politics (Rush, 1962; Bunce, 1979, 1980; Mauzy, 1993);
- sport (*Personnel Today*, 2002; Rowe and Rankin, 2003; Giambatista, 2004);
- venture capital firms (Sheahan, 2004); and
- military (Larsson *et al.*, 2003) and unexpected events , e.g. consequences of terrorism (Greengard, 2001).

Even the above list is by no means exhaustive, since BSP plays a role in virtually any business or social context where the element of continuity is desirable. In addition, the spread of BSP is on an international scale, with reports in the literature covering areas including the USA, the UK, Canada, Europe, Russia, Australia, and China.

The range of BSP issues is thus very wide, such that it is not obvious how it can most usefully be categorised. Nevertheless, the following topic areas provide workable divisions:

- family and organisational issues;
- legal, finance, and tax issues;
- other barriers against BSP; and
- practical approaches to BSP

Family and organisational issues. BSP literature usually falls into one of two broad categories – succession within family-owned firms (retaining of ownership and/or running of a company by family members), and within those which are not family-owned. While the issue of family or non-family succession within a particular company is not necessarily an indicator of company size (for instance, companies with an early history of family succession such as Ford and Disney have become multinationals), it is nevertheless within the area of smaller, family-run businesses where the bulk of BSP research has been done (SBS, 2004). Indeed, as will be seen in the discussion below, the issue of family- and non-family succession has become a widespread area of debate. The first part of this section looks at family-based succession, the second at succession outside of family circles.

An early evaluation by Trow (1961) of over 100 SME manufacturing companies revealed that finding a family successor appears to be engrained in succession mentality. Briefly, the process is described as follows. If the principal owner has a son, he is the first successor to be considered. If the son is too young, not interested in the business, or is considered to lack ability, succession is postponed. If, however, the owner departs, the son will become the successor regardless of any shortfalls. Only if the owner has no heir will other persons from inside or outside the firm be considered for succession, but for this, Trow points out that small family-owned firms generally experience greater difficulty in attracting successors from outside the organisation.

While it can be argued that such an approach may not be the most efficient, nor even in the best interests of a company, the reasons for its coming about are clear enough.

Having established a successful business, an owner has an understandable desire to leave it in the hands of his/her children, who as a result may receive preferential treatment (Cromie *et al.*, 1999). Nor should it be assumed that such nepotism is necessarily to the detriment of the company in question, since there is some evidence to suggest justifiable economic reasons behind it (Lee *et al.*, 2003). But it may be fraught with problems: the difficulty of ensuring that the family successor can acclimatise to the firm's past, present, and future (Miller *et al.*, 2003); the unwillingness of the current incumbent to step aside; the potential successor's aversion to taking over, disagreement among family members, non-acceptance of individual roles (IOD, 1996; Sharma *et al.*, 2000, 2003); lack of adequate control of emotional issues necessary for maintaining trust between family members (Therrien, 2004); and the sheer absence of any perceptible succession planning, especially in SMEs (Berman Brown and Coverley, 1999; Huang, 1999; Janjuha-Jivraj and Woods, 2002; Chung and Yuen, 2003; Snyder, 2003; Wang *et al.*, 2004). As palliatives, there is a whole host of suggestions as to how transitions can be better managed (discussed in a later section), how to develop contingency plans (Wolosky, 2003), and even the possibility of management buy-ins (typically by external entrepreneurs) and buy-outs (by senior members already in the firm) (Howorth *et al.*, 2004) aimed at ensuring an effective succession and the long-term survival of the firm.

One key practical aspect seems to stand out. In order to ensure the long-term prosperity of succession to family members, nurturing and mentoring are essential for developing and maintaining the founder's entrepreneurial values and drive (Ibrahim *et al.*, 2004). The point is emphasised by Morris *et al.* (1996) who note that successful heirs are generally observed to be well-prepared in terms of educational background and experience, and to have spent a number of years working at all levels within the company concerned. Successful family transitions also enjoy positive family relationships with limited conflict, rivalry and hostility, and good levels of trust (Morris *et al.*, 1996). Such factors cannot be dismissed lightly, as amply demonstrated in a study by Smith and Amoako-Adu (1999), where an analysis of stock prices of Canadian firms revealed that the mere appointment of a new and relatively inexperienced family member resulted in a loss to shareholders of -3.2 per cent over a mere -1 to $+1$ days surrounding the announcement.

Allied to family succession is the issue of gender. While the literature on this topic is not as extensive as in some other areas directly related to BSP, there is evidence to suggest that women are rarely considered as succession candidates (Martin, 2001; Dawley *et al.*, 2004), although in an examination of women's basketball coaching, Dawley *et al.* (2004) found no performance difference between men and women successors, particularly over the long term: it would appear that stereotypes may not be justified. In family firms, the preference for sons rather than daughters to succeed often means that provisions for daughters to become successors is neglected (see Dumas, 1990), and in some cases, leading to intense sibling rivalries which result in harmful effects to both the organisation and family relationships (Friedman, 1991; Harvey and Evans, 1994). Gender discrimination has also been reported within specific companies, with several accounts of women suffering double discrimination during succession planning – lack of constructive feedback about their performance, and lower confidence due to this lack of information (McArthur and Phillips, 1994). The climate seems to be firmly that of male domination when it comes to succession. As for companies owned and run by women, Cadieux *et al.* (2002) found some evidence that females corroborate with their male counterparts in terms of there being a lack of preparation for succession, but the genders differ with respect to individual, organisational, and capital issues which influence their decisions towards BSP (Harveston *et al.*, 1997).

Organisations which do not face issues of family succession, encounter different challenges. Whereas family succession often provides a natural incentive for owners to plan for their succession (whether or not any action is actually taken), owners/CEOs of publicly-owned firms or firms without an obvious next of kin are obliged to find alternative motivation for implementing a succession plan. Fiegener *et al.* (1994) and Welsch (1993) have found that the key differences in BSP between family and non-family firms is that the former generally favour more personal, relationship-centred approaches to successor development, while the latter prefer formalised, task-oriented development approaches. Consequently, one likely advantage of BSP within non-family organisations is that certain biases towards family members (such as those mentioned above) can be put aside, thus, in theory, making for more informed decisions. Examples of this in practice are typified by the realisation of the importance of succession planning in many large corporations (see Ellis, 2003): it has led to direct success in companies such as McDonald's (Flahardy, 2004) and WalMart (Johnson, 1998). However, according to some reports, the lack of it or seemingly ill-structured succession processes are manifest in multinational heavyweights such as Coca Cola and Disney (Sherman, 2003; *The Economist*, 2004; *Business Week*, 2005), and even in non-profit organisations (Santora *et al.*, 1997; Santora and Sarros, 2001).

Overall, non-family succession draws attention to a plethora of issues grounded in the general management literature including organisational change (Beugelsdijk *et al.*, 2002; Haddadj, 2003), organisational learning (Virany *et al.*, 1996), ethics and procedures (Vancil, 1987), leadership (Bass, 1999), shareholder/stockmarket reactions to CEO succession announcements (Davidson *et al.*, 1993, 2001), ideological influences of the outgoing CEO (Haveman and Khaire, 2004), and a vast collection of other prescriptive viewpoints. At the heart of these is the need for a clear understanding of the purpose of succession planning within a company, and a precise definition of its future aspirations so that continued prosperity and transformation can be directed by the succession plan, current management, and eventual successors (Wolfe, 1996; Hawkey, 2002). While it is clearly beyond the scope of this article to cover all business aspects connected to BSP, the important message highlighted here is the psychological difference between family-motivated succession and that of pure corporate and financial interest. Yet the ultimate intention of both parties remains the same – finding a suitable and competent successor, which in turn has led to a veritable proliferation of suggestions as to how BSP should be tackled in practice. These are considered in some detail in a later section.

Legal, finance, and tax issues. While psychological and corporate issues play a large role during succession planning, there are three other essential elements that cannot be overlooked: legal, finance, and tax:

(1) *Legal*. Co-Operatives (2003) provides a good outline of the legal obligations surrounding a business transfer in the UK. Depending on the type of business, which is essentially one of two categories – smaller, unincorporated companies (e.g. sole traders, partnerships, and charities), and larger, incorporated organisations (such as public limited companies and private-share companies) – there are various legal considerations which should be borne in mind when a business has new ownership. The specific procedures pertaining to these cases

will not be repeated here, but the key issue is that succession within each individual type of business entails different legal procedures as to how the business is transferred to a new owner. The complexities of the process range from relatively straightforward transfer of assets via monetary payment to the outgoing owner, to intricate planning of share transfers. A similar guide to legal issues is to be found in FEE (2000), which despite being aimed at European businesses, covers issues relevant to BSP in general, draws attention to the following key areas:

- Transferring or changing the legal form of the business:
  - partnership;
  - limited company;
  - public limited company; and
  - tax changes due to transfer/conversion.
- Ensuring the legal continuity of the business:
  - via national schemes to promote succession (if available);
  - by retaining relationships built-up by the business (goodwill), especially those based on legal and contractual agreements;
  - by establishing a business continuity trust; and
  - by the use of family and business agreements.

For the USA, Sherman (2003) provides an extensive checklist to help companies maintain legal compliance, which is similar to the above – readers are advised to consult these, and advice from legal experts for specific issues applicable to their company. In addition to the legal aspects of actually transferring a business, a firm also needs to take into account numerous employment legislations which affect BSP procedures. A summary of US legislation can be found in Rothwell (2001), where of those specified, special attention is advised for employee selection procedures to avoid possible grievances.

(2) *Finance*. A study by File and Prince (1996) draws a salient distinction between succession planning (generally that of managing the task of leadership transition) and estate planning (transition of financial resources – i.e. ownership – and management of tax obligations). Crucially, organisations engaged in succession planning must be aware that while it is imperative that psychological and managerial issues are dealt with, the transfer of tangible or financial assets can often determine the actual success or failure of succession (see File and Prince, 1996).

There are two key elements of financial concern affecting the succession process – a valuation of the monetary worth of the business for a possible sale, and methods of raising adequate finance for the process. Hawkey (2002) and Sherman (2003) warn of the wide selection of methods available for valuation, all of which entail considerable variability in assessing how much a business is worth, not to mention other dependent factors such as ever-changing market conditions and buyer/seller circumstances. It comes as no surprise, therefore, that business valuation has been termed an "art" rather than a science, acting merely as a guide as to how much a business is worth rather than the price a buyer would actually pay (Hawkey, 2002). Although the valuation process is essential for both successor and incumbent during succession, it should be strictly reserved for financial professionals familiar with accounting and financial concepts, as it is anything but straightforward. During valuation, factors surrounding possible impediments to sale also need to be considered. Hawkey (2002) distinguishes various types of impediment which threaten the prospect of selling a business and which vary in terms of their propensity to reduce its value. These include excessively high sale price, lack of profitability, excessive spending, lack of suitably trained staff, and poor business premises. As a result, any business should first seek to identify the factors which undermine its value, then determine how they can be resolved.

Raising adequate finance also forms an essential part of the transfer process. Three main types are identified in Co-Operatives (2003), namely grants, debt, and equity, where the choice and availability usually depend on the legal entity of the given business (e.g. sole trader, partnership). BSP may appear to be an ongoing process requiring few additional resources, but the evidence shows that transfers typically require significant financial investment, particularly when management buy-ins or buy-outs are on the agenda. While it is reported that smaller, family-based transfers are not generally threatened by financial constraints, many issues in relation to raising finance for succession remain problematic. Concerns which need to be addressed include the ease or otherwise of obtaining finance for business transfer compared to start-up; whether finance providers consider risk to be higher or lower for existing or new businesses; the effects of business size, location, and sector; the extent to which there is adequate access and awareness of sources of finance (SBS, 2004). For take-overs, the cost may be even higher because the business may require strategic reorganisation, thus extra capital – the FEE reports a study carried out in Germany where the capital requirement for take-overs is 60 per cent higher than for business start-ups (FEE, 2000). In the UK, there is also some indication that firms in deprived areas, places where the issue of business transfer is likely to represent much greater economic significance, may experience extra difficulty in obtaining finance (SBS, 2004). As a result, European countries have developed special funds to assist with business transfer, such as the Small Firms Loan Guarantee in the UK, and similar initiatives in countries such as Belgium, Germany, and France (FEE, 2000; SBS, 2004).

(3) *Tax*. Fiscal matters are arguably the most important financial component a company has to consider when preparing for business transfer. Given international variation in tax policies, and the many different types of tax and their effect on succession, detailed insights into specific procedures would form the subject of several articles. Such articles would have to cover capital gains tax, threshold/allowance/reduced rates, value-added tax, and other taxes such as stamp duties and registration tax, gift/inheritance tax and double taxation (the transfer of assets other than land which operate in more than one country) – all of which vary between countries. A useful description of some of these taxes and subtle differences between unincorporated and incorporated businesses can be found in Co-Operatives (2003). Nevertheless, a general view of the likely hurdles can be identified.

The FEE (2000) divides taxation into two categories depending on the type of business transfer – disposal and retention. In the UK, a review of literature by the SBS (2004) found that modifications in tax policies have helped to encourage succession in smaller businesses. In particular, the introduction of a Capital Gains Tax Taper Relief, which reduces tax on business assets from 40 per cent to 10 per cent, contributes significantly towards transfer in SMEs. In the USA, similar initiatives of tax relief can be found for small family-owned businesses, but there are concerns regarding the amount of gift and estate taxes incurred by large corporations during succession, which have led to severe difficulties in transferring assets to new owners (Dascher and Jens, 1999; Weinstein, 2001; Sherman, 2003). As a result, one area where there has been increasing attention in the USA is in the distinction between C- or S-corporations – the former being regular corporations, the latter having elected a different tax status with the American Internal Revenue Service. The advantage for companies with S-status is that they can bypass corporation tax, but they are subject to tighter ownership restrictions (Vandenack, 2004; Weinstein, 2001). The importance of tax planning and the complexities surrounding various options and scenarios are reflected in extensive work by Sherman (2003) and White *et al.* (2004), and is a fervent encouragement for companies of any size and sector to seek the guidance of Chartered Public Accountants (Parrish and Brown, 2002; Malson, 2004; Capassakis, 2004).

Other barriers against BSP. While the aforementioned issues provide some insight into the barriers which are largely unavoidable during the BSP process, an examination of the literature reveals various additional obstacles that a firm is likely to face.

A wide range of possible reasons for succession failure can be found in studies such as those by Friedman (1986), Perry (1995), *HR Focus* (2001), Martin *et al.* (2002), Hutton (2003), Karaelvi and Hall (2003), and Miller *et al.* (2003). On the whole, these outline common organisational shortfalls, such as the lack of strategic goals, lack of involvement by the CEO, poor business performance, and failure to develop appropriate training and personnel initiatives. In SMEs, an early study by Christensen (1953) specified key reasons such as limited number of suitable employees, lack of long-term planning, poor skills of the current incumbent to train new successors, and not wanting employees "to stand around" when they are being trained as successors. There is also a notable connection between succession planning and the age of owners/managers: it seems that those in their late 50s are most vulnerable to succession failure (McCarthy, 1996; Martin *et al.*, 2002). However, in a recent survey of human resource professionals (*HR Focus*, 2003), the most significant concerns in terms of practical application were:

- cost of BSP and lack of resources;
- other work/time demands;
- overcoming resistance/company politics; and
- need for performance management.

Additional barriers also exist within family-firms, factors of which relate closely to the issues discussed in previous sections. Hubler (1999) and Getz and Petersen (2004) identified the main barriers specific to family succession to be in the areas of:

- a lack (or absence) of heirs;
- life-stage incompatibilities (e.g. parents too old, children too young);
- children do not want to take over the business;
- children hold negative impressions of the business;
- gender (prejudicial treatment of daughters as mentioned earlier); and

- the business is not viable or inheritance taxes/legal issues make succession impractical.

Readers with a special interest in family firms are also advised to see Handler and Kram (1988) and Handler (1994).

It is therefore not without justification that BSP is considered in many quarters as a troublesome process. Despite the obvious advantages of a successful transfer, simply considering these difficulties might often be sufficient to deter any organisation (family or otherwise) considering the idea of setting up a succession plan. Such are the degrees of complexity and uncertainty that Rhodes (1988) and Kirby and Lee (2004) actually advised against conventional succession planning, or at the very least, avoiding those showing any indication of a variety of characteristics – such as those which are bureaucratic, inflexible, focused on hypothetical situations, and use succession and replacement charts. On the basis of some evidence in the area of BSP, the advice above is not entirely without justification. As already seen, companies must consider and eventually deal with a broad range of issues (legal, finance, and tax) even without any level of succession planning. Added to problems of cost, time, and the need to develop appropriate management, BSP entails a distinct level of risk with comparatively little or even no guarantee of success. Even if a firm were properly to manage all the various aspects, and to decide to formulate a succession plan, the problem of "how?" still remains.

Having said that, it should be noted that that various succession methods have been developed. Although Friedman (1986) demonstrated that formal procedures do not necessarily lead to better reputation or performance, formal succession plans have been shown, at least, raise the likelihood of success (Naveen, 2000). And, while it will be seen in the next section that the issues relating to devising a succession plan are even more challenging than those already discussed, there nevertheless exist avenues leading to a holistic approach. And even if these do not solve all succession problems, simply thinking about them may be half the battle.

Approaches to BSP

There is no shortage of advice (proven or otherwise) in the literature on how BSP should be tackled in both family and non-family firms. Such advice ranges from the largely anecdotal, to case studies based on experience and evidence, and comparatively rare studies based on scientific methods. With respect to anecdotal studies, there does appear to be a general consistency in the advice given (even across a broad spectrum of industries). The central theme is to encourage firms to consider the factors associated with BSP, such as preparation, business planning, involvement of outgoing owners/CEOs, and continuous monitoring and evaluation of the succession process – see, for example, Eisenman (1995); Cashman (2001); Cohn and Khurana (2003); *Strategic Direction* (2004). The messages can also be found in case studies, with the difference being that they are supported by some degree of evidence. These include the attempt to highlight best practice in succession (Beeson, 1998, 2000; Rothwell, 2002; Karaelvi and Hall, 2003), insights into practices within specific companies (*Management Development Review*, 1997; Kiger, 2002; Aitchison, 2004), and those of a largely descriptive nature (Rothwell, 2001; Beugelsdijk *et al.*, 2002; Haddadj, 2003; Ibrahim *et al.*, 2004). From here, surveys and scientific studies such as those of methodological development provide a somewhat deeper insight into specific issues.

Those which stand out are tools for leadership and competency development (Klagge, 1996; Cacioppe, 1998; Kur and Bunning, 2002), and rare, but valuable studies into a validation of the suggested approaches to BSP. For instance, Le Breton-Miller *et al.* (2004) and Pitcher *et al.* (2000) provide useful analyses of the most popular factors within a succession plan; Wang *et al.* (2004) analyse the relationship between succession factors and business performance; and Dyck *et al.* (2002) describe a more generic approach towards the succession process.

The reality is, however, that it is difficult to discern any general consensus, and thus to ascertain a precise, wholesome approach to succession planning. The lack of a common standard draws attention to research gaps, and the opportunity for existing evidence to be appraised and amalgamated into a single practical tool. While it has been suggested that the reason for the lack of a single approach is that there is no "right" way for succession (FEE, 2000; Rothwell, 2001), an attempt can be made to elicit the techniques which are likely to feature within it. Such work would at least help to contextualise the sheer volume of opinion. From an examination of the available literature, it is clear that the BSP process consists of three main components, namely, consideration of BSP issues, development of a succession plan, and application of methods. An examination of the key findings for each of these components is given below.

Advice on general issues. Four points have been highlighted by the FEE (2000) as requiring careful consideration during succession, and which form a useful summary of issues described in previous sections. These are:

(1) Psychological and business issues. Examples include:
   - family and non-family issues;
   - gender; and
   - business planning and objectives (see Wolfe, 1996; Hawkey, 2002).

(2) Legal issues:
   - sole-trader, partnerships, limited company; and
   - legislation regarding the succession of these businesses.

(3) Financial issues:
   - business valuation; and
   - methods of funding for business transfer.

(4) Tax issues: burden of tax during a transfer (e.g. capital gains, inheritance, VAT).

Development of succession plan. It is in this area of BSP that one finds the most diverse range of advice. On the whole, succession plans tend to be an expansion of the BSP issues given above, but with the distinction that action is encouraged. The advice varies according to the target audience – for example, a plan devised by and for law firms (*Law Office Management & Administration Report*, 2001, 2003, 2005) will obviously be different from one developed by and for healthcare professionals (Husting and Alderman, 2001; Abrams, 2002; Fruth, 2003). There is also a great deal of variability when it comes to the size of a succession plan: Le Breton-Miller *et al.*'s (2004) extensive study offers a list of over 50 factors which should be taken on board, and Shelly (2001) describes a 30-item list, as opposed to the comparatively modest five-factor lists given by Abrams (2002) and Kindley (2002). However, the approach suggested by Pitcher *et al.* (2000) (described previously by Gorden and Rosen (1981)) encapsulates what a plan should consist of during the BSP process:

- antecedents –, e.g. pre-succession company assessment and valuation, nature of current owner/CEO departure, current owner/CEO characteristics;
- events – leadership development, successor characteristics, finding a suitable successor; and
- consequences – post-succession company performance, stock-market reactions, leadership evaluation.

Particular attention should be placed on an assessment of the current business to determine its fitness for succession (antecedent). In essence, companies considering succession need to evaluate their current position and the characteristics of the business to see whether or not it is actually the best exit option – some businesses are, for all practical purposes, more suited for closure. This emphasis on preliminary assessment is strongly advised by the work carried out by, amongst others, FEE (2000), Pitcher *et al.* (2000), Rothwell (2001), Martin *et al.* (2002), Co-Operatives (2003), and Sherman (2003), the techniques of which are examined in the next section. With respect to timeframe, it is suggested that thorough plans require many years to develop – typically between three and ten years before the owner is due or likely to leave (Shelly, 2001; Hawkey, 2002; Martin *et al.*, 2002; Murray, 2003; SBS, 2004), while more rough-and-ready plans may drawn up in around 20 weeks (Co-Operatives, 2003). In addition, it is reported that it takes up to 12 to 18 months for new managers to adjust to the new working environment and become productive (Kransdorff, 1996; Yapp, 2004). The result of this evidence, therefore, is that there is no exact specification for a succession plan – it simply needs to be appropriate to the firm in question.

Application of methods. In contrast to the abundance of literature on various aspects of BSP, comparatively little can be found on scientific and validated methods for its application, a problem which is commonly reported in the literature – see extensive studies and reviews by Gorden and Rosen (1981); Martin *et al.* (2002); Garman and Glawe (2004); SBS (2004). The following is a brief account, limited to where there is a good level of methodological insight, of methods pertaining to each of the three stages within the succession plan:

(1) *Antecedents*. As highlighted above, an appropriate assessment of the business should be carried out before the application of any succession plan. As a suitable starting point, Martin *et al.* (2002) describe a practical method of identifying the succession characteristics of an SME by measuring three factors – business objectives, assets, and skills and expertise – referred to as the succession and exit position (SEP). Similar factors are also detailed in Co-Operatives (2003). Bjuggren and Sund (2001) and Hawkey (2002) also provide useful insights into how best to determine an appropriate exit strategy, offering a greater emphasis on fiscal aspects (such as those listed in the above sections). On personnel, Wolfe (1996) and Rothwell (2001) draw attention to the routine succession of positions within an organisation, which need to be examined rigorously in order to reduce the wastage of trying to fill vacancies

that are no longer necessary. The strength of these techniques is to enable businesses to see if succession planning is likely to be the best approach, or whether an alternative exit strategy may be more appropriate. In addition, a formal valuation of the financial worth of a business should be carried out by financial professionals, and possible impediments to sale need to be considered (see discussions above).

It is also necessary at this stage to consider the issues of family or non-family successors as mentioned above, and more precisely, how to put methods into action for identifying and preparing a likely candidate. Again, there is only a sparse collection of formal methods for this purpose, but Wolfe (1996) and Pynes (2004) examine how human resource management (HRM) practices should be merged with succession planning in order to encourage effective transfers. In addition, Sharma and Irving (2005) present a useful summary of four key antecedents which underlie the commitment of successors – affective (desire), normative (obligation), calculative (opportunity costs), and imperative (need) – and produce varying levels succession effectiveness and company performance. Specific to family succession are approaches such as encouraging active involvement of family members (see Stavrou, 1998), an outline of issues which may affect heirs' decisions to take over the business (Stavrou, 1998), and a consideration of critical factors which can be used to test suitability of potential successors before actual implementation of BSP (Barach and Ganitsky, 1995).

(2) *Events*. The one area which appears to rise above all others with respect to methodology is that of leadership development. While no attempt has been made here to delve into the intricacies of this field, as it is simply beyond the scope of this article, we offer a brief examination of the methods most pertinent to BSP.

Typical approaches for leadership development include elaborate planning, implementation of training initiatives, and assessments of employees for leadership qualities (Cacioppe, 1998; Kur and Bunning, 2002; Larsson *et al.*, 2003). For this, Rothwell (2001) describes extensive job and person assessment for the development of potential successors in order to determine the best succession options. These can be divided into "traditional" methods of moving existing employees within an organisation to new positions as and when required, and "alternative" approaches such as job rotations (employees filling various positions for short periods to help them gain experience), talent pools (spreading the role by appointing many employees across more positions), and outsourcing. Meanwhile, Blake and Mouton's (1964, 1985) managerial grid is also an interesting application, which helps to identify and assess potential leaders, as well as provide insight into how various managerial styles shape the running of an organisation. Assessment aside, Fosberg and Nelson (1999) have shown that using a dual leadership structure – i.e. where different people hold the chair of the board and CEO positions – can help to reduce costs and facilitate an orderly succession. Another technique is relay succession. Briefly, this involves identifying a successor in advance, who is then appointed to a senior position and trained by the incumbent owner/CEO, with the obvious advantage that it promotes a more gradual and seamless transfer (Vancil, 1987;

Shen and Cannella, 2003; Santora, 2004). While a formal method for its application is yet to be developed, some evidence to be found in the literature suggests that it leads to better post-succession business performance (Zhang and Rajagopalan, 2004). To this end, Dyck *et al.* (2002) specify a four-stage process as a framework for relay-succession: sequence (skills and management styles), timing (time elapsed since transfer of leadership), baton passing (mode of succession), and communication (trust, shared vision, quality of communication).

Another method worthy of attention is the sociometric technique (also referred to in succession literature as 180- and 360-degree feedback). It involves asking people within a specific group to nominate and assess other individuals in the group, and while it is not new, it does merit more research in the context of BSP. Its greatest strength is that it enables any organisation to perform an assessment of internal candidates who are considered by the entire firm to be the best successor based on key criteria, and hence reduces the risk of subjective decisions by a few key individuals. Klagge (1996) illustrates how sociometry may be used to help identify potential succession candidates according to leadership qualities. A similar approach has also been described specifically for family firms, where the parent and child assess each other in order to help determine the readiness of potential successors to undertake leadership – see Matthews *et al.* (1999).

Benchmarking for best practices is also an important technique to be included as it encourages companies to take into consideration the successful aspects of BSP which have been implemented by other businesses (Wolfe, 1996). The difficulty with this approach, however, is that it requires direct information (usually lengthy interviews and discussions) from those who are thought to be "the best" at succession planning. Clearly, while some insight might be gleaned from the literature (as is the case in this article), companies may not always be entirely forthcoming when it comes to sharing the secrets behind their success.

(3) *Consequences*. Having planned for a timely succession, the final stage of the plan involves an assessment of its effectiveness. While it is always difficult to obtain a true indication of "success", particularly over a relatively short timeframe, and it being virtually impossible to compare results with an alternative strategy (such as choosing a different successor, or employing a different business strategy), methods are available to provide some insight.

Following from the issue of leadership development discussed in the previous section, Blake and Mouton's (1964, 1985) grid theory can be used to evaluate leadership qualities. However, while the approach can provide a useful assessment of the qualities of new and old leaders based on previous planning and execution, there remains the tricky issue of whether or not succession has actually led to an increase in company profit, or at any rate, profit is not less than previously. Consequently, approaches which generally dominate evaluation proceedings are those demonstrating the use of statistical techniques (commonly as correlation measures) to analyse the effect of succession factors (such as preparation, family influence, and planning activities) on post-transfer performance (Zajac, 1990; Pecotich *et al.*, 1998; Wang *et al.*, 2004). Specific to family firms, Harvey and Evans (1995) draw attention to issues which may need to be resolved on post-succession, including assessing and dealing with conflicts, repairing relationships in the family, defining new roles, and continuous monitoring of the business and the family. Allied to these are generic methods of assessing the effects of succession on stock-market performance in larger corporations (Davidson *et al.*, 1993, 2001; Smith and Amoako-Adu, 1999). However, amid these techniques, Rothwell (2001) details the link between BSP and training evaluation, and the need to translate existing HRM evaluation techniques into a generic, formal assessment procedure. He advises that assessment should consist of four levels – customer satisfaction, programme progress, effective employee placements, and organisational results. Decisions also have to be made on how assessment is carried out, whether anecdotally (case by case –, e.g. individual jobs, specific problem areas), periodically (analysis of an individual component of a succession plan at different times), or programmatically (in-depth, objective analysis of the whole process) (see Rothwell, 2001). In the absence of a general consensus, these examples provide a taste of how formal evaluation studies can be carried out.

In summary, it can be seen that the various BSP processes described in this article contain the elements shown in Figure 1.

Summary and conclusions

This article has offered a broad reflection on the key themes which emerge from the BSP literature. Issues addressed have included the context in which business succession takes place, psychological, legal, financial, and fiscal matters, and where available, the key methods used in the BSP process. It can be seen that there is a lack of research in this area, in particular, on established and reliable methodology for the entire BSP process. It is also evident that BSP is not an individual or small-group effort. It requires continuous investment of time, resources, and support by the given company as a whole, and input and advice from financial and legal experts. But even if formal plans are developed and implemented, they will simply raise the chance of success and not guarantee it.

The most telling issue of all, however, is that the advice available in the literature clearly lacks consensus. Not only are there stark differences between advice in general management articles, but also within texts where the topic of BSP is considered in great detail. A good example is that of Wolfe (1996) compared with that of Hawkey (2002). Wolfe certainly provides a practical approach towards succession planning, where issues are made transparent and actions are encouraged. Yet Hawkey, good on financial aspects, presents a completely different viewpoint. Succession planning is generally considered to be a unique, case-by-case process, where a one-size-fits-all mentality is simply not appropriate, and thus the wide variation in viewpoints cannot be avoided. It also covers a large number of topics, from finance to law, leadership to human resources, training to performance measurement – little or no area is excluded. No text on the topic can therefore ever be sufficient to cover all related issues, just as no individual can purport to be proficient in each and every area. This goes some way as to explaining the possible shortfalls of academic work in BSP, as the key issue is not the difficulty of conducting the necessary research, but how all the different fields of study can be linked together effectively, and crucially, how the process can be made into a practical reality for the business world.

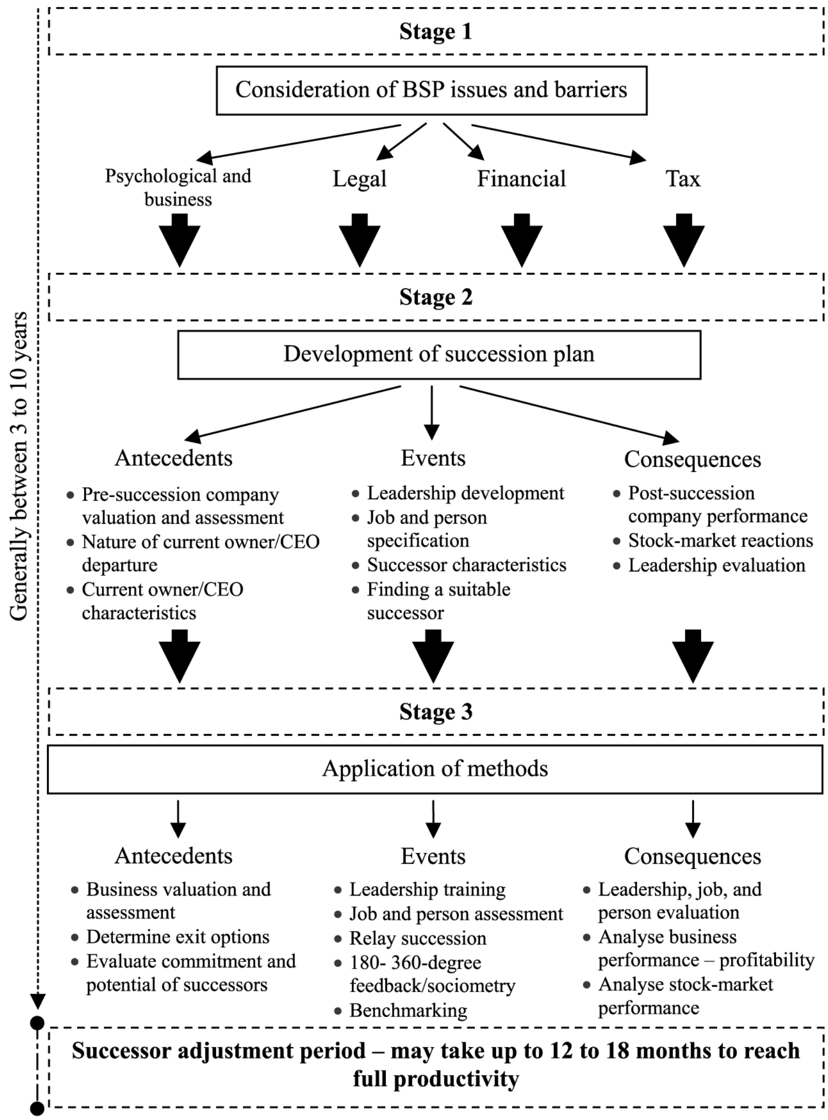

Figure 1.
General structure of the BSP process

As with the study of kinship, succession planning simply cannot be subjected to one golden rule, just as no amount of planning can ensure children turn out exactly the way their parents want them to. It therefore remains a strong argument that BSP can never be adequate to guarantee seamless, successful transfers. However, as we have seen, the BSP umbrella contains individual processes, all of which can be controlled to a degree by certain methods. It is to be hoped, at the very least, that the degree of uncertainty associated with succession planning can be reduced. In particular, for small companies without the resources of large corporations, the evidence provided here should go some way to promoting continued survival and prosperity. It cannot be taken to be a generic plan for succession planning, but it is hoped that it provides an appropriate starting point to enable the mass of information to be put into a cohesive context.

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