Leadership Succession Planning Contributions Towards Family-Owned Business Performance and Sustainability in South Africa

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Abstract – Worldwide, family business has gained prominence as one of the critical vehicles for creating employment and hence made a contribution in the efforts to eradicate poverty. However, most family business lack of leadership succession planning, which eventually lead to low levels of performance and lack of sustainability. The purpose of this study was to investigate the relationship between leadership succession planning, performance, and sustainability of family businesses. A qualitative methodological approach was utilized where participants were selected using purposive and snowball sampling methods. Semi-structured interviews were used in collecting data and the collected data was analyzed thematically. The study found that leadership succession planning is linked to sustainability and general performance within family businesses. Conversely, it was found that levels of sustainability and failure of family businesses are related to their inability to come up with effective succession leadership planning. This finding confirms the vital role that leadership succession planning plays in enhancing the performance and sustainability of a family business.

Keywords – Family-Owned Business, Leadership, Succession Planning, Business Performance, Sustainability

1 Introduction

“Family-owned business” refers to a business whereby control, and ownership of the business are within the founding members of the business and where the members of the family are directly engaged in the day-to-day activities with the main strategy of transferring the business to the next family generation (Mahomed & Mtembu, 2021). Family business can be described as a business whereby family members are actively involved in the management of the business and contributes to the business capital with the intention of transferring the business to the next generation (Kiwia, Bengesi & Ndetytabula, 2020). However, in this study, family-owned business is described as one that includes two or more members of the same family who share ownership and have an interest in the same business venture. All the operational processes,
including the functions and controlling activities of the business venture lie within the members of the family (Mwansa & Serumaga-Zake, 2022).

Researchers such as Kiwia, et al. (2020) and Mohamed & Mtembu (2021) observe that leadership succession planning influences business performance and sustainability. However, these studies lack explanatory depth in terms of how interactions between leadership succession planning, performance and sustainability of family-owned businesses eventually can translate into the high failure rates. Hence, the need for further research.

Hence, this study aimed to explore an in-depth explanation of the interactions and the effect of leadership succession planning on performance and sustainability of family-owned businesses in South Africa.

2 Literature Review

2.1 The Role of Leadership Succession Planning in Enhancing Performance and Sustainability of Family-Owned Business

In South Africa, it was observed that although family businesses are considered as one of the highest contributors to employment and wealth creation in the country, the lack of sustainability is worrisome. This has been linked to leadership succession planning across generations (Gomba, 2014). Failure to manage leadership succession planning can harm the sustainability and performance of small-scale family-owned businesses (Mohamed and Mtembu, 2021). A thorough analysis on leadership succession planning challenges within family businesses shows that about 66% of business ventures collapse in the course of leadership transition to the next generation, while in the third generation only a mere 15% make it (Williams et al., 2013). However, the emerging challenge on family businesses that relate to the impact on the business sustainability and general performance has not been researched adequately (Deephouse & Jaskiewicz, 2013).

It is a known fact within family businesses that leaders who are prepared and willingly ready to mentor their inheritors before retiring are certainly encouraged to develop a family business enterprise known as succession. Further, scholars such as Jones et al. (2017) conclude that having a planned leadership succession promotes, accord, and inspires members of the family to become dedicated and sustain the business of the family.

Cho et al. (2017) found that only a mere 7% of the 50-year-old businesses owned by families were found to have survived into the third generation although previously, Sharma and Dave (2013) observed that only a mere 13% made it to the third generation because of not having effective leadership succession planning.

2.2 Description of Family-Owned Business and Their Roles

The classification of family-owned businesses is unusually diverse; family-owned businesses differ in the sense that they have unique features, different historical origins and distinct culture of operation (Neubauer (2003: 270). Leadership Succession Planning Contributions Towards Family-Owned Business Performance and Sustainability in South Africa
Family-owned business firms have over time evolved to include the extent of how the business itself is influenced by members of the family (Neubauer, 2003). A business owned and managed by the family is one comprising intergenerational roles and management functions, and this entails that the control functions and managerial activities are generally conveyed from one generation to the other (Mohamed and Mtembu, 2021). The importance of family ties in relation to inherent desire and leadership transition was highlighted as a way of making sure that there is a smooth transition to the future generation or next generation of the members of the family (Cho et al., 2017). Thus, this notion of businesses owned and managed by family members emphasises how important it is to understand and balance the economic sustainability and the objectives of the family.

According to Poza and Daugherty (2013), a holistic concept of family-owned businesses is based on the family association as well as interest in handing over the same business entity to the future generation is problematic. They further state that family businesses are regarded as exceptional synthesis involving the following attributes:

- The business entity is controlled by members of the family who has higher shareholding or two or more or 15% shareholding.
- The members of the family who have the strategic power on leadership and issues of management; and
- Relationships concerning the members of the family are frequently of more concern.

In concurrence with this conception, Kiwia, et al., (2020) observe that family-owned businesses refer to businesses whereby family members are actively involved in the management of the business and contribute to the business capital with the intention of transferring the business to the next generation. Coffman (2014) highlighted several factors defining family-owned businesses as businesses whereby two immediate members of the family work 40% on a full-time basis and that the business should be in operation for five years.

The conception of family-owned businesses also includes the decision-making powers and the voting rights of the family members involved in the business; the size of the family businesses must be sufficient to meet all the needs of the members of the family concerned (Coffman, 2014). Family-owned businesses can also be conceptualised as businesses that are controlled and managed to achieve long-term strategic vision of the business firm; and these types of businesses are frequently managed and owned by members belonging to the same family. Coffman (2014)’s family-business definition involves elements of sustainability within generations of families and that a business includes two or more members of the same family who share ownership and have an interest in the same business venture. All the operational processes, including the functions and controlling activities of the business venture lie within the members of the family. The concepts of a family business and family-owned business are used interchangeably in this research study. Sharma et al. (2001:18) observed an increase of interest in the role that businesses owned and managed by families do in supporting economic development; and found that the economic value addition by family businesses is only
coming to be known and can be undeniably considered as a contributor to the world economy.

Poza and Daugherty (2013) show that a total of 96% of the businesses in the United States of America are known as a family-owned business and contribute a total of 49% towards the country’s GDP. Basco (2015) classifies family businesses as the most common forms of business owners around the world and therefore considered family businesses as a widespread phenomenon. About 70% to 90% of the total GDP in the world comes from family-owned businesses (Cho, Okuboyejo & Dickson, 2017).

Similarly, in South Africa about 60% of businesses listed on the stock exchange are owned and controlled by families (Venter et al., 2010). Additionally, these businesses which are run and managed by family members in South Africa contribute 30% towards the country’s GDP and employ a workforce close to 60% (Tanzwani, 2010). Family businesses in South Africa are categorised as small or medium enterprises based on their sizes (Van der Merwe et al., 2009). They contribute significantly to South Africa’s socio-economic development in areas such as the creation of economic wealth and also creating employment opportunities (Venter et al., 2010).

2.3 Business Performance and Sustainability

In general, the word performance is commonly used to measure how well a process or strategy attains its intended objectives, and it entails a measure of how well the family-owned business venture is doing. It also implies how well the same family business is managed, and the value that it offers to its clients and shareholders (Ankrah & Mensah, 2015). The two important financial indicators for family-owned business performance include “profit” which entails a measure of return on capital employed, and “profit margin” referring to the magnitude of return on capital employed. The complexity of the economic environment in which business operates requires more than just the use of historical financial data to determine how well and sustainable a business venture is doing. This is because financial indicators such as profit and margin do not give a full perspective of the shareholder value and therefore do not show the linkages between financial and non-financial metrics of business performance (Ankrah & Mensah, 2015).

It has also been observed through research that high failure rate of small businesses such as those owned by families is ascribed to their use of inadequate performance measures (Maduekwe and Kamala, 2016). The researchers claim that often small companies over-rely on financial metrics of performance at the expense of non-financial ones, which Ankrah and Mensah (2015) also agrees with as real drivers of business value and sustainability. For this reason, the study will also draw on several other indicator frameworks, including using one more performance measurement indicator framework known as the balanced scorecard. The balanced scorecard is arguably one of the most well-known and used business performance measurement frameworks (Ankrah & Mensah 2015). Its main advantage is that it integrates non-financial metrics such as results on customer satisfaction, internal control processes, and business improvement planning activities. It also includes...
leadership succession attributes to give a better picture of how well a business is financially doing (Kaplan and Norton, 1996). According to Ankrah and Mensah (2015), the performance of a business venture should be looked at from four angles that can easily be represented in a balanced score card. These are customer perceptions, financial aspects, internal control processes and innovation and learning perspective.

As already alluded to the researcher made sure that more than one performance indicator framework is used to determine how well the involved family business ventures were doing. The measure of performance also entails a determination of how sustainable the same family businesses are or likely to be, given the changing South African economic environment.

3 Theoretical Framework

Juhdi, Pawan and Hansaram, (2013) state that businesses that operate using leadership planning theories have tended to be better performing and more sustainable hence, the application of these theories in this study. Peter Drucker’s (1967) common-sense theory explored issues around what executive leaders do and not do to lead their businesses successfully (Charan, 2005). This common-sense theory postulates that a direct and optimal association exist between a business current succession leadership planning and its overall performance and sustainability.

Adler, Berry, and Doherty (2013) further argue that this positive relationship is premised on the belief that having a leadership succession plan allows for new individual family members to take charge and bring new ideas and skill to mitigate the failures of the previous leader. With this observation, Swider and Ning Li (2013) say that business organization put in place leadership succession plans to achieve improved profitability and sustainability. That being the case, Grusky (1963) pointed out that common sense simply entails that current leaders of family businesses firms are expected to carefully choose potential successors with adequate experience and knowledge to bring about the desired business performance. In concurrence, Dohrn, Lopez and Reinhardt (2015) claim that a knowledgeable person with relevant experience should be selected to replace the outgoing leader to boost the performance of the organization as articulated by the common-sense theory. Therefore, because of its shortfalls as pointed out by Adler et al. (2013), the common-sense theory of leadership succession in this study was used in collaboration with other views. While common-sense theory suggests that changing leaders will result in increased enthusiasm and better business performance, several scholars such as Dohrn et al. (2015) have argued that improvement can only occur under certain circumstances and not always.

The vicious cycle theory of succession planning can be traced back to work done by Grusky in the 1960s. According to Grusky (1963), the vicious cycle theory is based on the claim by critics of the common-sense idea that events of succession leadership do not always support the business sustainability and general performance of the business enterprises. Grusky (1967) argued that changing leadership was counter-productive due to its destabilisation.
effect on the work environment, and the forced adaptation by organizational staff to working with a new leader or leadership approaches. He clinched that the vicious cycle theory acknowledges that changing leadership is harmful to the business’s performance. Researching in the context of leadership succession within the sporting field, Rowe et al., (2005) found that changing leadership within season derailed the overall performance of National Football League teams. Accordingly, the vicious cycle theory alerted us to the negative relationship between leadership succession and the performance and sustainability of an organization. This negative relationship can be understood from the observation that the change of leadership from one individual to the other often disrupts the way business was operating (Kim and Choi, 2013). It is also important to note that, where leadership succession happens frequently, the organizational performance tends to suffer.

As illustrated in Figure 1 below, the vicious cycle theory of leadership succession suggests that a business organization planning to change its leadership or management does that due to the poor performance of the business, but notes when a new leader fails to perform as anticipated she/he will also be replaced. Where this trend continues, it becomes a vicious cycle whose effect translates into more disruptions and low staff morale, both of which negatively affect the performance of the business. Such disruption frequently results in the inadequate general performance of the company (Kim & Choi, 2013).

Figure 1: The vicious cycle theory of leadership succession Adapted from Boyd et al., (2014)

Scholars such as Grusky (1967) argue that not all leadership changes are negative. Others, for instance, Boeker (1992) highlighted that not every leadership succession outcome had been found to directly relate to the performance and sustainability of a business organization. It is such critique that
gave birth to another theory of leadership succession known as ritual scapegoating theory, put forward by Gamson and Scotch (1964).

The vicious cycle theory arguably resonates with some of the tenets of the opponent-process theory of leadership succession. Hollenbeck, DeRue and Nahrgang (2015) argue that the triggers of leadership succession emerge from the situation of negation: put simply, failures of the current leadership, that potential successors use to vie for the leadership position, not knowing that when it is their turn to lead similar negation situations will arise. Closely related to this tenet of an opponent-process theory of leadership succession is that once the cycle of replacement continues, it is often very disruptive and harmful to the performance of the organization.

The ritual scapegoating theory of leadership succession was born out of the shortfalls embedded in the vicious cycle theory. According to Gamson and Scotch (1964), the ritual scapegoating theory asserts that none of the interplays exists among succession leadership, business sustainability and the general performance of the business enterprises. Elaborating on their assertion Gamson and Scotch (1964) argued that the leader is the only one of the many factors that determine how a business organization performs. Both scholars see the leader, be it in a family-owned business or more massive corporation, as just a symbolic figure with limited influence on the way the business is run and or ultimately performs.

It is important to mention that Gamson and Scotch’s (1964) assertion regarding the ritual scapegoating theory was based on their critique of Grusky (1963) study in which his findings indicated that a negative correlation has existed among the frequency of leader succession and the performance of a business organization. To put it in simple terms, Gamson and Scotch’s (1964) claimed that there was no conclusive evidence that change in leadership affects the performance of a business organization. In summary, a theory of ritual scapegoating entails that the performance of business firms relies on the capabilities of attracting critical skills as well as organizational policies than merely its leadership.

Brown (1982) claimed that other administrative personnel and the policies of the general manager are critical in the long run. Such conclusions are interesting to this study and were deployed to interpret the data generated in the study. Elaborating on the ritual scapegoating feature of this theory and trying to compare it to the vicious cycle theory, Grusky (1963) states that powerful top managers are less likely to be dismissed; even during the periods of dismal organizational performance, as they can quickly shift the blame for the business’s failures onto their subordinates.

## 4 Research Methodology

The qualitative methodology was used in this study because the researcher had to obtain in-depth knowledge through the semi-structured interviews about how leadership succession planning affects performance and sustainability of the family-owned businesses. Face-to-face semi-structured interviews
were used to collect data (Marshall & Rossman, 2016). This also enabled the researcher to observe non-verbal behaviour of the participants.

The researcher used purposive sampling and snowball sampling to select the 15 family-owned businesses that participated in this study. The selection of the sample of data-rich family-owned businesses was made possible by the insights that the researcher gained during the review of literature and profiling of family-owned business in South Africa. The researcher came up with what Flyvbjerg (2006: 41) called “typical cases” with the potential to provide more information about the situation being studied. The data was analyzed thematically; this included generating themes by classifying and rephrasing the data through the means of visuals and narratives, relating the research findings to the literature review to validate the results and entailing ongoing iterative and emerging process. Atlas.ti was used to analyze the data (see Smit, 2002).

5 Results

In this section, the analyzed data is presented according to the theme that emerged, originating from excerpts of interview transcripts. The theme was based on factors motivating leadership succession planning. Although responses from interviewed participants varied, it is important to note that only those excerpts that spoke directly to the theme are presented in section 5.1 below:

5.1 Motivation for Leadership Succession Planning

Out of 15, Participants 1, 2, 3, 8, 10 and 14 provided beneficial insights into what they consider as the key motivating reasons for families to undertake leadership succession planning. For example, Participant 1 said:

“I want to retire next year. I had seen [a] situation at Stellenbosch where a lady who owned a large nursery in the Western Cape, her husband was murdered, and the business fell apart. That was maybe on the back of my mind. Sooner or later, I am going to be completely retired” (Participant 1).

To Participant 2, it means:

“...there will be continuity in the business if you have leadership succession planning. Look, you have got to plan otherwise what’s going to happen if you did not plan for your business when the younger generation comes into the business, they wouldn’t know how to run the business, That’s why I believe for the business to be sustainable, you have to groom a possible successor by equipping him with various practical experience.” (Participant 2).

While Participant 3 also concurred on the issues of ageing and retirement by saying:

“Since then I have been running the business, and now I am also handing it over slowly to my firstborn son because I am about to retire” (Participant 3).
Still alluding to the realities around ageing and death and also the quest to ensure business continuity Participant 8 said:

“The business must keep operating even if I die or retire so that the family can keep depending on it”.

Participant 10 further talked of the same need for business continuity as one of the reasons for having an effective leadership succession plan in place. Participant 10 was quoted saying:

“This business has to continue, and it has to continue feeding, and educating the family, as well as our employees who equally depend on it as their source of income. We have to work hard and pass it on to our children when we retire or when something happens to us” (Participant 10).

And lastly, Participant 14 referred to how he had started a family business management of which he now wants to hand over to his son and does not want the business to close in case something happens to him. This again relates to fears around ageing and death, both of which are realities that family-owned businesses have to plan for. Participant 14:

“It was my life ambition to work for myself. The determination was there to better my life with very poor parents. The greatest honour I had was to prove a point to my parents, and it was a success story that I could be somebody they could be proud off because they never had the opportunity, and what I am saying is that he just didn’t have a drive to be able to do things on his own. Because you must remember I don’t want to work anymore. So how is he going to pass that on to his siblings, or if something happens to him and he pass away, is the business going to die?”.

The fear of what would happen to a family business when current leader retires or become incapacitated, and the need to safeguard business continuity, or its sustainability emerged as one of the reasons why family-owned business perceives leadership succession planning as very important. This motivation can also be understood, as reflected in the comments made by participants, by the realities such as ageing, death and the fact that most families are to a great extent reliant on their businesses for survival. The need to ensure the continuity of family business is further highlighted in the responses made by participants as presented below.

Referring to the importance of business continuity and leadership succession planning, Participant 1 further elaborated saying that:

“Making sure the business is sustainable if I step down or retire or die whatever. It ensures sustainability of the business. I have got competent family members involved in the business. But if anything happens to me, the business will still be sustainable. Family will be around, but even then we plan to grow the company, and in order to do that, we would have to have competent people to take over positions. The business was affected in very a positive way because it has grown compared to where it was when I first took over the leadership”.

Participant 3 was quoted saying:

“It ensures the longevity of the business and tradition which translates to secure employment for the employees both family members and
non-family members. A new successor will bring in new ideas to the business and make it become more profitable because he or she does not want to see the business fail. In my case, I think I have worked hard, that’s why it’s in existence today. My aim was to work hard and to expand the business. Fortunately, I managed to achieve that, and our profit margin was high. We would like to keep the business going, and keep the family going and also continue playing a role in employment and entrepreneurship”.

While Participant 9 also concurred by saying:

“It is important because it ensures the continuity of the business when the owner retires or dies, and it also continues to feeds the remaining family. It is based on performance, what the successor will be able to bring to the business that will make it sustainable. If it has been operating at a loss, I would have closed long time ago, but through hard work, I am managing. If the new leader is accepted by the rest of the family, it all goes well, and the business expands because of the new ideas that the successor comes with”. (Participant 9)

Observations presented in this section represents the views and experiences of the participants. These results are then discussed further in the next section with a considered literate review.

6 Discussion

In this section, the researcher draws on both study results and literature to discuss the factors motivating leadership succession planning and how it relates to performance and sustainability of a family-owned business.

Studies conducted by Rothwell (2010) and Perret (2016) revealed that one of the reasons for families to undertake leadership succession planning is mainly the desire for continuity and sustainability of the family business across different generations. Perret (2016) did also refer to leadership succession planning as a process which ensures improved general performance and continuity of an organization, and this view is in resonance with what has emerged in this study (Participants 2, 3, 8, 10 & 14). Mohamed and Mtembu (2021) conception of succession leadership planning also confirmed the inherent concern and significance of ensuring continuity that is integral to the way leadership succession planning is viewed and managed.

The owners of the family businesses who participated in this study also linked their understanding of leadership succession planning to the performance and sustainability (continuity) of their family businesses and this was quite interesting (Participants 1, 3 & 9). Several scholars had already confirmed the interplay between succession leadership planning, business sustainability and general performance of a business enterprise. Swider and Ning Li (2013) alluded to this observation when they argued that business organizations put in place leadership succession plans to achieve improved profitability and sustainability. In Peter Ducker’s (1967)’s common sense theory existence of a direct and optimistic association between business current

Leadership Succession Planning Contributions Towards Family-Owned Business Performance and Sustainability in South Africa
succession leadership planning and its overall performance and sustainability is confirmed. Drucker (1967)’s common-sense theory also confirmed the direct and optimistic association that exists between a business current succession leadership planning and its overall performance and sustainability. Embedded in the common-sense theory is the claim that leadership succession planning is, as illustrated by data generated in his study, valued for its role in ensuring sustainability and improvement of the general performance of a family business venture (Participants 1, 3, & 9). Continuity or sustainability and the quest to take the family business to another level of performance is, therefore, as emerging in this study, key reasons for leadership succession planning. This observation can be understood from both the theoretical propositions discussed in Section 3, coupled with what has already been pointed out the fear of what happens if the current business leader dies. Positive relationship allows new individual family members to take charge for purposes of bringing in new ideas (Adler et al., 2013). This is consistent with what participants presented about how they see and experience leadership succession planning as a motivation for the desire to ensure business continuity and improved performance (Participants 3 & 9). Furthermore, the study confirmed that leadership succession planning is linked to sustainability and general performance within family-owned enterprises as suggested by Tagiuri and Davis (1982). Effective leadership succession planning contributes to improved performance and sustainability of a family-owned business (Participants 2, 3, and 9). This is consistent with Swider and Ning Li (2013) and Price Water Coopers (2011).

Conversely, this study also found that levels of sustainability and failure of many family-owned businesses are related to their inability to come up with effective succession leadership planning (Participants 1, 2, & 14). This observation confirms the vital role that leadership succession planning plays in enhancing the performance and sustainability of the family-owned business. This finding agrees with Cho et al., (2017). Another interesting observation from the study was that leadership succession planning entails strategic replacement of critical individuals over time and capacity development within the business firms to ensure that effective general performance is maintained (Participant 1). This is also consistent with Perret (2016) and Rothwell (2010) arguments.

As discussed earlier, the study, therefore, concluded that leadership succession planning in the context of family-owned business is directly linked to the quest to ensure business continuity and improved performance. However, it is also essential as suggested by several scholars, that the extent to which leadership succession planning affect performance and sustainability is determined by how well the plan is managed, and that in some cases negative results are experienced. This was also observed by Rowe et al. (2005). The negative effects on the business sustainability and performance could be attributed to destabilization effects on the work environment, and the forced adaptation by organizational staff to working with a new leader or leadership approaches. Hence while it is generally accepted that leadership succession planning is often linked to improved business continuity and performance, it is also true that in some cases, family businesses have suffered the
consequences of the same process. This is consistent with findings of other scholars such Cho et al., (2017) and Perret (2016).

7 Conclusion

Participants alluded to the fact that they are motivated to undertake leadership succession planning because of the realities around death and ageing and the quest to ensure continuity of the family businesses. The fear of the business sustainability emerged as one of the reasons why family-owned businesses perceive leadership succession planning as very important. Therefore, sustainability and the quest to take the family business to another level of performance is the key reasons for leadership succession planning which reveals a direct relationship between leadership succession planning, sustainability, and general performance within family-owned businesses. On the other hand, the study also found that levels of sustainability and failure of many family-owned businesses are related to their inability to come up with effective succession leadership planning. This observation confirms the critical role that leadership succession planning plays in increasing the performance and sustainability of the family-owned businesses.

8 References


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