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Succession of Family Businesses in Palestine

Claudie S. Salameh

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Succession of Family Businesses in Palestine

انتقال الشركات العائلية بين الأجيال في فلسطين

Prepared By:
Claudie S. Salameh

M.Sc. **Birzeit University** **Palestine**

Supervisor:
Dr. Nojoud Habash

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Prepared By: Claudie S. Salameh
University Number: 1135063

Supervisor: Dr. Nojoud Habash

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The names and signatures of the examining committee members are as follows:

1- Dr. Nojoud Habash
(Chairman of supervisory committee) Nojoud Habash

2- Dr. Samir Baidoon
(Member of supervisory committee)

3- Dr. Suhail Sultan
(Member of supervisory committee) Suhail Sultan

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ABSTRACT

Purpose – The main purpose of this research is to investigate the factors that affect family-owned businesses succession process as well as outcomes and to present the necessary recommendations for effective succession planning.

Design/Methodology/Approach –This research adopts the qualitative research design, utilizing the content analysis methodology, and capitalizing on in-depth semi-structured interviews with 16 persons who are purposively selected from family businesses in Palestine to explore their perceptions and interpretations of the main factors that affect succession planning and outcomes of these businesses.

Findings – The key findings of this research paper clearly illustrate that the top challenges facing family businesses in Palestine are: (1) the general political and economic situation in the country, (2) increasing competition locally and internationally, (3) financial-related problems, (4) introducing new products and services, (5) finding more customers and markets locally and globally.

The results also indicate that family businesses regard family business continuity, maintaining family unity, protecting the family name in the market, and protecting the family heritage and wealth as the most important benefits of succession planning.

In addition, it is found that the good father-son relationship is viewed as one of the most critical factors that positively affects the outcomes of succession of family businesses. On the other hand, rivalry among family members is one of the factors that negatively affect succession outcomes.

Moreover, preparing successor during the life of the current business leader is considered the best alternative for family businesses. On the other hand, having a written succession plan is not popular to most family businesses.

Finally, family and management dimensions of family businesses are the most critical factors that affect, positively or negatively, the process as well as the outcomes of succession of family businesses.

Recommendations –The research provided some recommendations to family businesses so as to effectively plan their succession. The recommendations include, among other things, conducting effective communications among family members, separating ownership and management, having boards of directors with independent directors, using trusted advisors in succession issues, training successors, and putting in place an effective communication mechanism among family members.

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CHAPTER ONE
INTRODUCTION

This chapter intends to give a background about the study, state its problem, highlight its importance, determine the objectives to be achieved, and finally outline the organization of study.

1.1 Background

It is well known that family businesses have a significant contribution to the social and economic welfare and development of nations all over the world. Specifically that family business plays a major role in employment creation, economic growth, and wealth formation. For example, family-owned businesses make nearly 59% of the employment in the United States. Additionally, these businesses yield approximately 50% of the country's GDP (Kuratko & Hodgetts, 2004). Worldwide, family-owned businesses account for 90% of the total businesses in the USA (Davis & Harveston, 1998). Moreover, family-owned businesses generate around two-thirds of the German GDP and employ nearly half of the labor force in the UK (Cespedes & Galford, 2004). Supporting such facts, Yasser (2011) argue that one measure of their dominance is the proportion of family enterprises to registered companies; this is estimated to range from 75% in the UK to more than 90% in South Asia, Latin America and the Far and Middle East.

Across Europe, about 70% - 80% of enterprises are family businesses and they account for about 40% - 50% of employment. On the one hand, a large share of European small and mid-sized family enterprises (SMEs) are family businesses, and some of the largest European companies are also family businesses. On the other hand, similar to the European economy in general, the family business sector is dominated by SMEs and particularly by micro enterprises with less than 10 employees (Austrian Institute for SME Research, 2008).

In Palestine, there is increasing concentration on family-owned businesses as these businesses generate 95% of private sector's revenues and employ about 80% of the labor force (Kumar, 2011).

It is not surprising, therefore, that family-owned businesses have gained more and more attention in the literature lately. Nevertheless, family-owned businesses are fronting substantial challenges where one of the most important of these is the issue of succession decisions. (Sharma, et al., 2003; Venter, et al., 2005; De Massis, et al., 2008; Daspit et al., 2015).

Succession of family-owned businesses is the process of transferring both ownership and leadership from a predecessor to a successor from the next generation who may or may not be from the family (Sharma, 2004; Steier & Miller, 2010). In other words, family business succession is defined as the process of transforming management and ownership of the business to family members from the subsequent generation including family assets where family members primarily play a central role in management and ownership succession (Grant, 2011).

Transformation of ownership to family members or to outsiders is regarded as a difficult process. Consequently, the presence of a succession plan in place is a sign of more chances of business survival when moving the business from one generation to the following one (Federation of European Accountants, 2016). In contrast, not having a well-designed succession plan may lead the business to encounter financial loss, which in turn leads to the risk of discontinuity in the end.

Because one of the main problems that family-owned businesses in Palestine face is the succession of ownership and management to the subsequent generation (Sabri, 2008), this study aims to investigate the factors that affect family-owned businesses succession plan and to analyze the factors that affect the succession output as indicated in Figure 1.1.

Figure 1.1: Succession Plan

1.2 Problem Statement

Several studies (Cadieux et al., 2002; Miller et al., 2003; Poza & Daugherty, 2014) as well as practical cases argue that effective succession of family-owned businesses is a critical part for these businesses to continue. These studies argue that there is a risk of not having sustainable family businesses over the long run due to lack of well-documented succession plans depending on systematic, unbiased, and early preparation.

In the Palestinian case, family businesses lack the needed awareness of the importance of succession planning, the thing that creates the need to investigate the factors affecting succession planning process. Therefore, this study is going to find out why there is weak or even no consideration of having succession plans to enhance and improve the managerial role in establishing, performing, and maintaining a successful family business with the ability to extend and survive through multiple generations.

Hence, the primary objective of the study is to investigate the factors that influence family-owned businesses' succession in Palestine through answering the following questions:

1. What are the most critical challenges that face family-owned businesses in Palestine?

2. To what extent do family factors affect family businesses' need to have a succession plan?

3. To what extent do business factors affect the family-owned businesses' need to have a succession plan?

4. What are the main obstacles that affect family-owned businesses' succession process?

5. What are the main factors that influence succession outcomes of family-owned businesses in Palestine?

1.3 Importance of Study

This study derives its importance from the following points:

1. Family-owned businesses comprise the largest percentage of businesses in many countries. In Palestine, for example, family-owned businesses represent more than 99% of total private sector (Sabri, 2008).

2. Recently, family-owned businesses have been a top priority on the governments' policy agenda in developed as well as developing countries all over the world (Ramona et al., 2008).

3. Succession is regarded as one of the most difficult problems that family-owned businesses have to deal with all over the world, and particularly in developing countries including Palestine (Lam, 2009).

4. Effective succession of family-owned businesses leads to family business continuity. On the other hand, unsuccessful succession may lead to business failures (Ward, 2000).

5. Succession failure is a severe problem to family-owned businesses and their employees in particular as well as to the prosperity of the economy in general (Duh, 2012).

6. Despite the significance of succession to family business continuity, studies exclusively concentrating on this topic look to be very limited and scarce, particularly in Palestine (Lucky et al., 2011).

1.4 Objectives of Study

The main objective of this study is to investigate and analyze the factors that affect family-owned business's succession in Palestine through:

1. Addressing the main reasons of succession planning process's failure facing family businesses in the Palestinian economy.

2. Concluding recommendations that increase the survival percentage of family businesses through generations.

3. The research will contribute to fill in the gaps in the succession issues in the Palestinian context.

1.5 Organization of Study

The study is divided into the following chapters:

Chapter One presents a general background on the study, states the problem of study, highlights its importance, and specifies the objectives to be achieved.

Chapter Two reviews the related literature.

Chapter Three presents the theoretical framework of the study.

Chapter Four describes the research methodology.

Chapter Five discusses data analysis and discussion.

Chapter six features case study of Izhiman coffee chain company, one of the most successful family businesses in Palestine.

Chapter Seven presents the key conclusions of the study and makes the necessary recommendations. It also gives some directions for future research.

CHAPTER TWO
LITERATURE REVIEW

This chapter intends to review the related literature by providing a review of the concept of family-owned businesses, the importance of these businesses, the concept of succession in family-owned businesses, the importance of succession, the succession process, and then the factors affecting family-owned business's succession.

2.1 Definition of Family-Owned Businesses

Numerous studies have been undertaken to explain the theoretical and operational definitions of family-owned businesses. The emphasis of most of these studies has been on defining family-owned businesses to differentiate them from non-family businesses. However, none of these efforts has led to a generally accepted definition. Table 2.1 summarizes the most important of these definitions.

Table 2.1: Definitions of Family-Owned Businesses

Year	Author	Definition
2011	Lorna	A business that will be transferred to the family's next generation to run and control.
2009	Huang et al.,	An organization that is possessed and/or controlled by members of a family or kinship group.
2007	Leach	A business where a specific family holds over 50% of the business (shares) and the family has the majority of top management positions.
2007	Miller et al.,	A business where several members of the same family are engaged as owners and/or managers, either simultaneously or over time.
2005	Astrakhan et al.,	An enterprise emerging out of the family's needs, built on the family's capabilities, worked by its hands, and directed by its ethical and spiritual values, continued by family commitment, and transferred to its sons and daughters.
2005	Maas et al.,	A business where a certain family owns over 50% of the

Table 2.1: Definitions of Family-Owned Businesses

Year	Author	Definition
		business (shares) and the family has the majority of top management positions.
2003	Sirmon & Hitt	A business in which at least two family members are engaged as owners and/or managers.
2002	Koiranen	A business in which at least two family members are engaged both as owners and managers.
2001	Sharma et al.,	A business that is run with the intent to pursue the vision of the business held by a leading coalition controlled by family members.
1996	Morris et al.,	A business where ownership and policy making are controlled by members of a kinship group.
1994	Dyer & Handler	A whole system resulting from several sub-systems, including the founder as an entity, the family-member as an entity, and the business as an entity.
1994	Carsrud	A business where ownership and policy making are controlled by members of kinship group.
1990	Handler	A business managed by at least one family member.
1989	Handler	A business possessed and run by a family member or more.
1987	Churchill & Hatten	A founder-run business in which there is expectation that the business will be transferred to the next generation.
1987	Ward	A business that is expected to be transferred to the family's next generation to run and control.
1982	Davis & Tagiuri	An enterprise in which two or more extended family members affect the direction of the business through the exercise of kinship ties, management roles, or ownership rights.

2.2 Importance of Family-Owned Businesses

Family businesses are vital to the notion of free market. They represent the economic norm of private ownership, the political norm of pluralism, as well as the social norm of family (Ward, 1997). According to Ryan (1995), family businesses are quickly growing as a main form of businesses in developing and developed counties and thus they are expected to have more future influence.

Thus, family-owned businesses are a major contributor to the economic growth of any country. Winter et al., (1998) suggested that family businesses are very crucial to the economy and society. Klein (2000) said that family-owned businesses are very pertinent in the German economy.

Therefore, the importance of family-owned businesses cannot be ignored. They are active in generating employment, enhancing economic growth, as well as creating wealth. According to Astrachan & Shanker (2003), the greatest part of the America's wealth is attributed to family businesses and they represent 80%-90% of all businesses in North America. They also concluded that international family businesses contribute to approximately 64% of the GDP or $5,907 billion and employ nearly 62% of the labor force in the USA.

Based on that, Kuratko & Hodgetts (2004) reported that family-owned businesses are behind 59% of the jobs in the US, and generate about half of the country's GDP.

This has been supported by the result of PWC (2012) when they conducted a study on family businesses in the Gulf region and found that about 80% of GDP from sectors other than the oil sector is produced by family businesses.

Family-owned businesses are important for the health of economies, especially in developed ones where entrepreneurship is highly encouraged. Several studies undertaken in several countries have emphasized the importance these businesses play in national economies (IFERA, 2003; Mandl, 2008).

The majority of businesses are family-owned ones and these businesses make up the biggest percentage of businesses in many countries (Kuratko & Hodgetts, 2004). Several studies show that a family or another controls approximately 92% of businesses in the USA (Kuratko & Hodgetts, 2004; Lam, 2009). Davis and Harveston (1998) proposed that family-owned businesses are the most prevailing form of businesses in the United States representing roughly 90% of the total businesses in the country.

Bird et al., (2002) stated that family-owned businesses have been the power since the ancient times. Family businesses play a major role in economic development of countries and are considered as an engine for economies in terms of employment creation and tax collection. Furthermore, family-owned businesses have the same characters as small firms in that they are flexible which enable them to be run by owners who are primarily family members. Family-owned businesses have been in existence for a long period and have been recognized as engines to economies especially during hard times.

To highlight the impact and scope of family-owned businesses globally, it is necessary to say that family-owned businesses account for two thirds of businesses all over the world (Interview with John Davis, Harvard Business School, 2015). An estimated 70% to 90% of global GDP is generated by family-owned businesses. 50% to 80% of job opportunities in most countries worldwide are made by family-owned businesses (European Family Businesses, 2012). 85% of start-up enterprises are established with family money (European Family Businesses, 2012). In most countries all over the world, family-owned businesses form 70% to 95% of all businesses (European Family Businesses, 2012). 65% of family-owned businesses are looking for stable income growth during the coming five years (PWC, 2012).

According to KPMG (2013):

In Europe: Family-owned businesses account for a turnover of 1 trillion Euros (60% of all European businesses), account for 9% of the GDP in the European Union, and generate over 5 million careers in Europe (40% to 50% of employment).

In India: Family-owned companies represent two-thirds of the GDP, make up 90% of gross industry output, generate 79% of employment in the private sector, and produce 27% of total employment.

According to PWC (2012):

In Middle East: Most of the area's GDP- other than the oil sector- is generated by family businesses and more than 80% of the businesses in this area are run or controlled by families.

In UK: Family businesses produce 25% of GDP. Three-quarters of family businesses have procedures in place to deal with issues/conflict between generations.

Finally, no less than 50% of businesses in the USA are family-owned. More than 50% of listed companies in the USA are also family-owned (Harvard Business School).

2.3 Definition of Succession in Family-Owned Businesses

In an analysis of family businesses by MassMutual (1993), three activities of family businesses displayed high association with family business continuity: (1) strategic planning, (2) a dynamic board of directors, and (3) regular family meetings. Unfortunately, succession planning alone is not enough. The key idea is that planning is important particularly if it involves family members from various generations and people from outside the business.

To clarify more the key role of succession in having a sustainable and a survival family business, we will start with defining this expression from different points of view:

Woodman (2017) supported the result of Surdej (2010) who pointed out that succession in family businesses is concentrated on dealing with how to keep and possibly increase family wealth while at the same time ensuring an effective transfer of a business. Whereas De Massis et al. (2008) stated that succession in family businesses refers to the situation where the leader who leaves a managerial position and the successor who assumes that position are family members.

Succession in a family business is broadly seen as the process of transferring both ownership and leadership from an incumbent to a successor from the next generation who may or may not be from the family (Sharma, 2004; Steier & Miller, 2010).

Succession planning is the process whereby businesses plan for the transmission of ownership. It happens when the business owner desires to leave the business and at the same time desires to continue the business. The motivation behind this is to transfer ownership of the business to any of the family members instead of closing the business. Succession planning is usually regarded as a unique process in which a one-size-fits-all approach is not suitable (Sambrook, 2005).

Beside the above, we can not ignore the point of view of Sharma et al., (2001) when they said that family business succession is defined as the procedures taken to move management control from a family member to another.

In the same trend, both of Coleman and Carsky (1999) argue that family business succession is the process of transforming management and ownership to the family members from the following generation. In addition, the succession process could involve the assets of the family. Usually, family members play a major role in management and ownership successions. As such, an effective management of the family will have a major impact on the success of the succession process.

Another simple definition of succession is presented by Bass (1990) who argued that succession is the process of substituting one leader with another like a political process, connected with handover of power and accompanied by significant changes in the business and its strategy. The key purpose of succession is therefore to accomplish structural and strategic renewal.

Adding to the above rich definitions, there is the point of view of authors like Beckhard and Burke (1983) who argue that succession of family businesses has been defined as moving leadership from the founder to a successor who may be from the family or an outsider.

Finally, Alcorn (1982) came to explain that the term "succession" refers specially to changes in top management, although changes happening at lower levels may display some of the same indicators as top management succession. She suggested that the emphasis needs to be on top management of a business since the key problem arises when the change occurs in the top position.

2.4 Importance of Succession in Family-Owned Businesses

Chrisman et al., (2003) contended that a successful family business succession could assist in preserving the fundamental and tacit business knowledge that family members have gathered and that such knowledge aids family businesses retain competitive advantage over non-family ones.

One of the most important strategic matters in family-owned businesses is succession (Chua et al., 2003; Ibrahim et al., 2001) but also one of the most challenging issues to manage (Handler & Kram, 1988; Lansberg, 1988).

Researchers agree that succession is one of the most important stages of family businesses' life cycles due to its substantive effect on businesses' strategy, culture, and survival (Ahlers et al., 2014; Cater & Kidwell, 2014; Handler, 1994).

Bjuggren and Sund (2001) as well as Matthews et al., (1999) showed that just 30% of family businesses worldwide last to the 2nd generation whereas less than 14% continue beyond the 3rd generation.

Davis et al., (1998) reported that only 30% of family-owned businesses survive beyond the 1st generation while nearly 10% to 15% continue beyond the 3rd generation. Likewise, Lam (2009) reported that the high probability of family business failure has made the matter of succession the most serious one. He further said that the impact of family business discontinuity is very risky and damaging since it leads to loss of careers and family assets.

Neubauer and Lank (1998) found that one of the most important variables affecting the continuity of a family business is whether the succession process from one generation to another is planned and implemented.

Numerous studies (Beckhard & Dyer 1983; Lansberg, 1988; Maynard, 1999) found that when owners and/or managers leave their positions, less than one-third of family businesses continue beyond the next generation.

Cliffe (1998) stated that just one-third of family-owned businesses had succession plans. Janjuha-Jivraj and Woods (2002) found that only 30% of businesses continued to the 2nd

generation and about 16% moved to the 3rd generation. Also in the same study Cliffe stated that top management in half of of the family businesses would change by 2008. The majority of these businesses did not have succession plans in 1998. More than 66% of these businesses have no documented strategic plans.

As stated by Santiago (2000), many researchers view succession planning as the key to effective successions. In addition, they said that if the succession process agrees with family values, succession is likely to be successful, whether planned formally or not.

For family businesses, succession planning is a main issue of worry. It is a direct process whereby the business will be moved to the following generation. While successful succession of CEOs is a vital aim for these businesses, without the next generation's leadership and management the business cannot continue as a family-owned business (Barach & Ganitsky, 1995).

Sharma et al., (2003) revealed that succession planning is the first and one of the most significant parts of the succession process and has two key objectives: (1) selecting the successor which includes setting criteria or creating a pool of candidates (Le Breton-Miller et al., 2004) and (2) preparing for the succession of management and ownership from one generation to the other.

Theorists agree that business continuity from a generation to another depends greatly on succession planning (Christensen, 1953; Dyer, 1986; Handler, 1989; Lansberg, 1988; Rosenblatt et al., 1985; Tashakori, 1977; Ward, 1987).

Succession is so vital to the business's continuity that Ward (1987) defined family businesses in terms of possibility for succession when he defined family business as one that will be passed on for the family's next generation to manage and control.

2.5 Succession Process in Family-Owned Businesses

The succession process consists of different phases that most usually contain the following elements: (1) preparation, (2) integration, (3) joint management, and finally (4) predecessor retirement (Cadieux et al., 2002; Murrey, 2003).

Succession in family-owned businesses can be seen as a process with exact pre-arrival and post-arrival stages (Gersick et al., 1999). Handler (1994) suggested that succession can be classified depending on the tasks and roles played by predecessors and their descendants. Stavrou et al., (1998) suggested a three-level model that clarifies the succession process. The first is the successor's pre-entry phase in which he or she learns from the incumbent about the business. The second level represents an entry phase in which the key issue is incorporating the descendants into the business. The final level includes the possible successor's promotion to hold a management position.

Handler (1991) determined three exact phases in the transfer of family-owned businesses: (1) individual improvement of the successor before working inside the business, (2) business engagement of the successor, and (3) leadership succession.

Churchill and Hatten (1987) established a life cycle methodology to define the succession process between father and son in a family business. They characterized four phases: (1) a phase of owner-management in which the owner is the only family member who is directly engaged in the business, (2) a training and improvement phase in which the offspring learns business operations, (3) a partnership phase between the father and his son, and (4) an authority handover phase in which responsibilities move to the successor.

The stage model of father-son succession developed by Longenecker and Schoen (1978) divide the succession process into seven stages. Three of these stages occur before the successor joins the business as a full-time employee. The third stage usually ends by the age of 24 (Longenecker & Schoen, 1975) and is followed by four stages of more engagement in the business. Therefore, the seven stages are: (1) the pre-business stage in which the successor may be inactively aware of some aspects of the business, (2) the introduction stage in which the successor is introduced to business members even though he or she has not yet worked in the business even as a part-time employee, (3) the preliminary-practical stage in which the successor works in the business on a part-time basis, (4) the practical stage in which the successor joins the business as a full-time employee, (5) the advanced practical stage in which the successor undertakes management responsibilities, (6) the early succession stage in which the successor undertakes the presidency, and (7) the mature succession in which the successor becomes the actual leader of the business.

2.6 Factors Affecting Family-Owned Business Succession

In reviewing succession planning of family businesses and the variables to be taken into account by owners in succession planning, Castillo (2009) proposed a framework outlining effective succession plans for family businesses. The framework suggested variables like: (1) management of relationships, (2) creating a team to lead, (3) looking for leadership, and (4) preparing successor.

According Mulholland (1997) there three classes of internal factors that affect succession planning: (1) successors' preparation, (2) motivation to work in the family business, and (3) successors' ability to develop social relationships that may result in commercial benefit.

As for the first point, Morris (1997) classified the factors that determine the preparation level of the possible successor into the following: (1) level of formal education, (2) training obtained from the incumbent, (3) work experience, (4) entry-level position, and (5) number of years working with the family business before the succession occurs. Le Breton-Miller et al., (2004) found that there is a direct relationship between the preparation level of possible successor and the effectiveness of succession process. The higher the preparation level of possible successor, the higher the likelihood that he or she will take over the family business after the predecessor leaves it.

In this context, Dyck et al., (2002) said that succession-planning process requires three steps: (1) determining and analyzing main tasks, (2) generating and evaluating candidates, and (3) choosing the correct persons who will assume the key positions. In other words, succession planning must consider the preparation level of successors.

So the potential successors of family businesses should have business skills, management abilities, knowledge of business operations, and readiness to manage the family business (Morris et al., 1996, Motwani et al., 2006 and Sharma and Rao, 2000). However, if the potential successor does not possess the needed skills to undertake the leadership of the business, the succession might fail because the lack of skills may cause the successor to give up the position or cause other main players to fight the possible successor. Consequently, for effective succession to occur, the successor must be sufficiently encouraged and eager to face challenges and opportunities (De Massis et al., 2008). In other words, in a condition where an incumbent is too attached to the business, the possible successor might not be given the chance to obtain the skills or gain the experience and respect necessary to run the business.

Another important element for succession is the successor interest; Sharma and Rao (2000), argue that the degree of interest of possible successors in the family business can affect their commitment to work for the family. If the possible successor is not interested in the family business, the likelihood that he or she will take over the family business from the predecessor is decreased due to lack of motivation to work in the family business (Potts et al., 2001, Le Breton-Miller et al., 2004; Venter et al., 2005; and Mejbri & Affes, 2012).

Lam (2007) stressed that the founder and the successor are main factors that influence family business succession. Nevertheless, the study did not contain variables such as environment as one of the main variables. Family business succession plans or processes that do not include or ignore environmental influences should be viewed as inadequate. Therefore, this study did not provide complete variables that influence family business succession, although father and son are key determinants of family business succession and continuity.

Westhead (2003) investigated variables that influence family business succession. The study discussed the retirement age of the CEO and who will succeed. The study also addressed the need to have a CEO succession plan. The study concluded that external environmental factors play a significant role in the success of succession plans in family businesses. Still, the study did not indicate how succession ensures business continuity.

Beside the above, it is important to understand the variables that affect the outcome of succession process. Two factors are proposed: (1) participants' satisfaction with the succession process and (2) the profitability of the business after succession (Venter et al., 2003).

Ellin (2001) said in this context that failure of management to deal with disagreements that emerge when family members work together could usually lead to high levels of succession failure.

Santiago (2000) examined succession experiences of eight family businesses in Southeast Asia and found that effective succession depends more on commitment to values than formal succession planning.

Beside the above, Morris et al., (1997) concluded that the relationship within family members has the greatest influence on effective succession between generations of family businesses. Moreover, they categorized the controllable variables that affect family business successions into three groups: (1) preparation of successors, (2) relationship among family and business members, and (3) planning and control activities. Their research indicated that successful family businesses have successors who are well prepared in terms of education and experience. Therefore, Morris et al., (1997) stated that trust, effective communications, and shared values among family members are essential to successful succession.

Brown and Coverly (1999) explored difficulties in succession planning in family businesses and stated that the difficulty of selecting a successor is the most significant problem in this regard.

Consequently, there are many concerns related to succession planning. According to Lansberg (1988), the questions of who, when, and how ownership of family businesses will be moved are connected to the ownership component of succession planning, while the questions of what changes will the succession lead to, when to be accountable for the results, and how the results will be realized are associated with management succession planning. Succession planning cannot be successful unless these two components are coordinated or dealt with together.

Therefore, the two conditions that are critical to successful succession are the long-run interest of successor in the family business as well as his or her ability to obtain the knowledge, skills, and capabilities needed to run the business when the incumbent steps down (Fox et al., 1996).

Francis (1993) stated that succession planning is an active process that needs a future ownership plan and an implementation of that plan. In addition, it is a complicated process including interaction of numerous variables at different levels. These variables involve personal and career development of successors as well as succession planning and control activities, mainly controlling the successor movements steps, the more monitoring the successor is subject to, the better the succession process and the more the survival rate will be (Ogundele et al., 2012).

Swogger (1991) conducted a case study of five family businesses and designated three aspects of sibling relationships that are critical to effective succession process: (1) bonding against rivalry, (2) autonomy against dependency, and (3) leadership against paralysis.

Handler (1991) said that four elements affect the succession outcome: (1) level of training, (2) level of responsibility, (3) experience outside the family business, and (4) communication regarding succession.

Relationships among family members, including trust, communications, sibling rivalry, and failure to accommodate one another, play an important role in successful succession (Kets de Vries, 1993).

Other factors that influence succession outcomes include, among other things, rejection by the founder to give responsibilities to successor, anger and jealousy among descendants (Handler, 1990) and common values among generations (Dyer & Handler, 1994). Before that, Beckhard and Dyer (1983) concluded that planning and control activities which involve succession and estate planning, appointment of independent board of directors, family business advisors, and the formation of family council affect the succession process of family businesses.

Whereas Danco (1982) said that potential successors require variety of experiences inside family businesses including relationships with stakeholders. Experience in the family business allows successors to develop relationships within the family business and to understand the business culture.

However, Goldberg and Wooldridge (1993) have another point of view in their study when they established that the degree of successors' self-confidence has a direct effect on the succession process. Therefore, successors must be self-confident and must possess the necessary management skills to manage the business. If the possible successor does not have enough qualifications because of lack of skills and bad preparation, he or she may reject the position, resulting in a failure of succession (Potts et. al, 2001; Le Breton-Miller et.al, 2004; Venter et al., 2005).

Therefore, we can say that the key variable affecting succession planning is HR development including development of possible successors (Sambrook, 2005). Hence, the following steps can lead to the success of succession planning: (1) determining the goal and the desired outcomes of succession, (2) determining the prerequisite of current performance, (3) evaluating the performance, (4) determining the performance required for the future, (5) evaluating the potential, (6) creating a method to narrow the gaps, (7) following up, (8) documenting proficiency, (9) offering rewards for developing staff, (10) assessing results and (11) leading from the front (Rothwell, 2002).

Another important factor that also has a positive impact on succession according to Weiser et al., (1988) is communication, where they stressed that there are numerous important tasks to be accomplished for the succession of ownership to realize the owners' goal, and the most important of these tasks is communication.

In the same context Dyck et al., (2002) proposed that the success of succession depends on four factors: (1) successors' skills and experiences, (2) timing of succession, (3) the technique by which succession will be accomplished, and (4) communication between the incumbent and successor.

According to Michael et al., (1996), the variables that influence the succession of family-owned businesses can be classified into the following:

1. Level of successor preparation:
    a. Education.
    b. Training.
    c. Work experience from outside the family business.

2. Relationships amongst members of family and/or business:

    a. Communication.

    b. Trust.

    c. Commitment.

    d. Loyalty.

    e. Family upset.

    f. Sibling competition.

    g. Jealousy/anger.

    h. Conflict.

    i. Common values.

3. Planning and control activities:

    a. Succession planning.

    b. Tax planning.

    c. Using independent board.

    d. Using consultants and/or advisors.

    e. Formation of a family council.

Several studies argued that successors' capability and interest to run the business is directed related to positive succession outcomes (e.g. Barach & Gatinsky, 1995). Levinson (1971) and Kets de Vries (1988) revealed that the most significant problem in the succession process is attributed to personal features of both possible successors and predecessors. This could include: (1) possession of skills to run the business, (2) successor desire to join the business, and (3) level of preparation by potential successors.

Family values and the type of relationships among family members also play an important role in family businesses and how successful the businesses will be (Kepner, 1983; Lansberg, 1983). A successful succession occurs if the successor feels that it is in the interest of the family to continue as a family business (Morris, 1996; Malinen, 2001; Lee, 2003).

In order for the possible successor to feel welcomed and therefore be willing to continue the family business, the quality of relationships among potential successors, incumbents, and other family members must be positive. If the predecessor and the successor have a shared understanding about the future of the family business, there will be less conflict among them and therefore an effective succession is more likely to occur (Malinen, 2001; Miller et al., 2003; Venter et al., 2005).

Also, the relationship among the successor and the other members of the family is important for the succession process (Brockhaus, 2004). A high degree of rivalry and conflict among family members typically discourages the possible successor and hence hamper the succession process (Cespedes & Galford, 2004; and Bruce & Picard, 2006).

Matthews et al., (1999) said that one of the key reasons for the high level of succession failure in family-owned businesses is the owners' inability to handle the complex procedures of transferring ownership and leadership of the business. Such variables that are connected with the inability and/or unwillingness of the owner to permit smooth succession process are usually called incumbent-related variables.

Handler (1994) revealed that the more a potential successor has accomplished career interests, social needs, and life-stage needs in the family business, the more probable the successor will experience a positive succession outcome.

Potential successors are a key participant group in the succession process. If the successor is managerially and/or physically unable to take over the ownership, succession of the family business will hardly take place. Consequently, the topic of successor development is of high priority to researchers (Ibrahim et al., 2001).

Family business researchers usually agree that potential successors have to be willing, capable, and committed to the family business (Handler, 1994; Chrisman et al., 1997).

Davis (1986) regarded personal skills, family, and organizational development as important factors for family business to move from an early stage to a later stage in its growth. Therefore, it is worth saying that the founder's resistance to succession planning is linked to his or her inability to step down from the business due to lack of other interests, worries connected with retirement, and an inability to learn or seek out consultation (Kets de Vries, 1985). Besides, imbalances of power, family conflicts, as well as lack of clear potential successor appear to complicate the succession process (Levinson, 1971; Stern, 1986).

At the organizational level, variables such as organizational culture, structure, and stability are connected with problematic successions (Schein, 1983). In addition, the ability of founder to step down from the family business and give responsibilities to other family members is critical to effective succession (Handler & Kram, 1988).

A study conducted by Stempler (1988) of 15 family businesses revealed that respect, understanding, and complementary performance between family members from the next generation and the business leader are very important to successful succession of family businesses.

Handler's (1989) qualitative research on 32 family businesses emphasizes that mutual respect and understanding between the founder and family members from the next generation are important constituent of effective succession outcomes.

Other important influences of successful succession include the degree of sibling accommodation, commitment to preserve the family business, minimum conflict between family and business values (Handler, 1989; Ward, 1987), and general family agreement (Malone, 1989).

CHAPTER THREE
THEORITICAL FRAMEWORK

This chapter intends to present the theoretical framework of the study by defining the concept of succession planning and management, explaining the benefits of succession plans, highlighting the trends affecting succession planning and management, specifying the keys to effective succession planning, highlighting reasons for resistance to succession planning, listing alternatives to successful succession, presenting models of family business succession, tracing the family business succession process, and finally discussing ways of selecting the right successor.

3.1 Definition of Succession Planning and Management

More and more family-owned businesses are fronting succession concerns (Astrachan et al., 2003) since succession is often not effectively conducted, especially after the life of the founder (Fox et al., 1996; Stavrou, 2003), it is more than an economic exchange and transfer of resources and power it is also a social exchange (Daspit et al., 2015).

One important question when considering succession planning is to decide if the successor will be a family member or not. Nepotism is one of the reasons why succession occurs within the family (Gersick et al., 1997). Pollak (1985, p. 587) argues that certain threats are related to internal successions and proposes that “nepotism may prove a serious problem for the family firm”. Barach et al., (1988) investigate the entrance of next generation into family businesses from a strategic viewpoint and report that selecting a family insider may be against the interest of family business shareholders. Yeung (2000) designates how to handle nepotism by examining cooperation and training potential in Chinese family businesses. However, the researcher has not given concrete evidence that nepotism is a main reason for transferring family businesses to other family members. But the researcher has agreed on the positive role of succession planning and management in having a sustainable family business, but what do we mean by succession planning and management?

Succession planning and management is defined as the process that aids in stabilizing the tenure of staff. It is any effort undertaken to ensure sustainable effective performance of a family business by providing the development and replacement of main persons over time (Rothwell, 2010).

According to the definition of Rothwell (2010), succession planning is a mean of determining key management positions, starting at the project manager level and ending at the highest position in the family business. Succession planning also means that as persons attain greater seniority, their managerial skills will expand and become more comprehensive in relation to organizational goals rather than to only departmental goals.

Succession planning is not enough; it should be accompanied by succession management, which requires the capacity building of employees to happen on a timely basis. In another words, succession management focuses on ongoing daily effort to create talent and comprises the manager's role in training, providing feedback, and helping persons attain their potential. Succession planning and management stress the need to develop inside talent to meet future talent needs of the business.

Accordingly, succession planning and management process is an organized effort by businesses to ensure continuity of key leadership positions, to maintain and develop intellectual capital for the future, and to inspire personal development. Systematic succession planning takes place when businesses adopt certain measures to assure the identification, development, and preservation of talented persons (Rothwell, 2010).

Succession planning and management should not be limited only to management positions or employees. In fact, successful succession planning and management need also to deal with the need for backups and personal development in any job including main people in professional, technical, sales, clerical, and production groups. Extending succession planning and management further than management positions is becoming increasingly important as businesses adopt active measures to create work environments that are both high-performance and high-involvement. In consistent with that Moss et al., (2014) investigate whether the intentional continuity of past strategies over time has a positive or negative impact on the financial performance in publicly listed companies. By contrasting 92 family firms with 113 nonfamily firms in high-tech industries over 12 years, as they conclude that higher strategic consistency yields higher levels of performance in both family and nonfamily firms, especially in smaller companies.

According to Rothwell (2010), one objective of succession planning and management is to match the business current talent to its future talent. Another objective is to assist the business to overcome strategic and operational challenges facing it by possessing the suitable people at the suitable places at the suitable times to do the suitable things to get the suitable results. Therefore, succession planning and management are considered as an important mechanism for organizational learning since it ensures that organizational experience will be kept and combined with other experience to accomplish continuous development in work outcomes.

It can be concluded that the process of succession planning and management is considered as a method to guarantee continued leadership and intellectual ability, to manage the important knowledge assets, and to enhance continued relationships that are vital to continuity and success of businesses.

3.2 Benefits of Succession Planning

Good business succession plans consider both short-term and long-term periods. These plans should specify what will happen if the unexpected occurs (e.g., illness or death), as well as how to transfer ownership and management before ultimate retirement (IMCI, 2015).

There are five main reasons for developing business succession plans (First National Bank of Vernon, 2015):

1. Deal with financial needs

Good succession plans make the most of investment in family businesses, and can disclose the need for an insurance policy to cover a probable deficit in a buyout condition.

2. Minimize taxes and avoid tax dangers

Replacement planning may identify the need to cover taxes in case of a loss due to the death of a main person of the family business. Containing succession strategies in the estate plan can also maximize return while at the same time reducing estate and transfer taxes. Finally, if the founder plans to retain the business within the family, planning a tax-efficient transfer may help decrease estate taxes.

3. Maximize business value

Valuation as part of succession planning helps calculate the current market value of the business and determine whether it precisely represents the value that the founder has in his or her mind. If so, the succession plan can help keep that. Otherwise, a succession plan can help determine methods to rise that value up. Also, it can avoid losing value during a ownership succession and may be helpful in recruiting best talent by answering questions regarding business stability, value, and longevity.

4. Allow for growth

Developing future leadership for the business ensures its growth will not be hindered in case of a change. The founder can fill the business talent pipe nowadays by determining persons the founder can train to train the leadership team in advance by identifying fields where skills and knowledge are required.

5. Provide emergencies for the unforeseen

The presence of a ready succession plan to deal with the unpredicted helps everyone engaged in the business by determining the measures they should follow in case of a crisis. For example, if a key person is disabled, who will succeed? Does the successor own the needed skill to fill the position? Considering the potentials today provides everyone with guidance when it is needed.

It is particularly important for owners of small family businesses that rely on a limited number of persons to develop succession plans and to revise them on a regular basis for modifications in main variables such as valuation or selected successors.

3.3 Trends Affecting Succession Planning and Management

Succession planning and management must be implemented due to more and more dynamic family businesses. Those businesses are reacting, proactively or reactively, to changes happening in the external environment. Leibman (1996) explains that the business dynamic environments that are characterized by international competition and business failures describe the area where succession planning must occur. To do so, more active orientation characterized by succession management and its stress on continuing and integrated processes is needed.

For Leibman (1996), succession management is more effective than succession planning and must be undertaken so that it is consistent with business strategy and at the same time reacting to quickly changing business environments.

In order to be effective, succession planning and management must expect and not only respond to the changes created by more and more dynamic business environments. It should be exercised everyday by managers who are accountable for developing the business (Rothwell, 2010).

Several trends shape the future place of work and labor force, among them are (Rothwell, 2010):

1. Changing technology.
2. More globalization.
3. Cost containment.
4. Market changes.
5. Importance of knowledge capital.
6. Increasing change.

The above trends require new roles for managers. They also need new and strategic roles for human resource personnel. Such trends shape succession planning and management, and succession planning and management efforts are made to help businesses manage and take advantage of the impacts of these trends (Rothwell, 2010).

The main trends that have an impact on succession planning and management are (Rothwell, 2010): (1) need for speed, (2) changes in labor markets, (3) decreased loyalty,

(4) intellectual capital and knowledge management, (5) values, ethics, and competencies, (6) more software to support succession, (7) more involvement of boards of directors, (8) more awareness of succession issues worldwide, and (9) increasing awareness of succession programs.

Each of these trends is briefly discussed below.

Need for speed

Time is considered to be a key strategic resource. To emphasize this, think of how frequently we use the phrase "time cycle reduction" in businesses today and the speed of processing time in computers. Reducing time is a goal in its own. This includes:

1. Discovering faster methods to convert basic research into applied research so as to produce more innovative products and/or services and thus exceed competitors in providing products and/or services.

2. Entering new markets earlier.

3. Decreasing unimportant procedures in the production process through process upgrading.

4. Using just-in-time inventory techniques to decrease inventory holding expenses.

5. Decreasing the time required to deliver products to customers.

Speed is more likely to be more important in the future. Vulnerability to more speed is influencing human resources as well. Several businesses have data to see how much time is required to:

1. Justify a position.

2. Recruit for, and fill, a vacancy.

3. Find talented people to satisfy immediate needs.

4. Train staff.

In more steady periods, it is acceptable to permit longer period between justification and filling of a position, or between choosing a talented individual and attaining maximum productivity subsequent to training. Time is a scarce resource that can be easily wasted, and people must be recruited and trained so that they are productive as rapidly as possible.

Changes in labor markets

A key change that is formed by the recent economic downturn is the conversion of markets for skills from the sellers' side into the buyers' side. Best talent can today be obtained at least for the near future at bargain-based prices. Businesses that do not manage retaining staff properly are likely to have an increase in turnover of best talent when economic circumstances improve.

Employers in many areas of the world have taken workers as granted. Many managers still assume that if their businesses simply pay enough, they can find the staff they need. Currently, some managers assume that employees should regard themselves as lucky to have a job. Nevertheless, the assumption that talented employees will always be available is not always valid anymore.

Decreased loyalty

There was a time when workers thought that they would get a career with one business and stay with that business until their retirement. A stable employment record was regarded as an advantage during job interviews. Similarly, employers assumed that when they offered a job, they were creating a long-run relationship with the employee. Even poor workers were not fired, and sometimes transferred into other positions to reserve workers’ feelings of job security.

This is no longer valid; one of the results of downscaling is that employers have modified employment contracts. As competition became more severe, business conditions became less stable. Employers are no longer making a long-run commitment to their workers.

An implication of this change is that workers today are more interested in short-run gains such as salaries, job titles, progress opportunities, and other benefits. They prefer immediate reward for their work because they do not trust their employers’ capabilities to reward them in the future for work performed now. They prefer immediate satisfaction rather than future satisfaction. This change has important implications for succession planning and management practices. Workers no longer trust their employers when they promise of future advancement. Moreover, employers no longer depend on workers patiently performing for long periods before getting rewards or professional development.

Speed is important in succession issues as other aspects of organizational practice. Managers need to manage against possibly losing top talent if they do not offer immediate rewards and development opportunities.

Intellectual capital and knowledge management

Intellectual capital is the economic value of a business workforce. The actual use of intellectual capital refers to knowledge management. As the speed of decision-making process increases, the value of intellectual capital increases since it is important for customers to deal with staff who know how to serve them rapidly and effectively. This requires better knowledge management of the workforce.

While land, capital, and information can be acquired from other sources and, sometimes they may be rented, subcontracted, or bought, workforce is a main asset. Without individuals who know what the business does, no business could continue in its operations.

While old-style managers see staff as a cost to the business, business leaders recognize that staff is the asset that matters in a competitive environment. Without individuals, there is no competitive advantage. This is a lesson that is very easy to forget when people are frightened by fast technological developments.

The consequences of both intellectual capital and knowledge management are essential in succession planning and management. Succession planning and management are an input to an output. It is a device of knowledge management in that it aims to ensure that intellectual capital is serviced, reserved, educated, and protected.

Values, ethics, and competencies

People in businesses expect very much of their leaders, and these expectations are improbable to decrease in the future. People want leaders who can achieve results and, at the same time, represent high standards of ethics. Thus, values, ethics, and competencies are important to success in businesses.

Values are extremely maintained beliefs. They are about what is considered as good and bad. Ethics is about what is considered as right and wrong. In times of scandals, values and ethics are very important in business settings. Several multinational businesses, for example, have dealt with cultural variances by creating core values respected universally under one umbrella and codes of conduct that exceed geographic borders.

Competencies are also important in the context of decision-making processes, human resource practices, and succession planning and management programs. Ethics is a moral aspect to how leadership is used and work is achieved. Competencies can characterize the unique features between high versus low performers. The use of competency is critical in succession planning and management.

More software to support succession

More and more software programs are now accessible to support succession planning and management under different names such as talent management or workforce planning. That has both advantages and disadvantages. The advantage is that software allows persons and groups that are geographically spread to cooperate. Software aids in making decisions regarding, among other things, competency identification, values explanation, individual development, and identification of resources required to develop competencies. It also helps tracking staff progress, inventory talent, and the assistance provided by supervisors.

However, the disadvantage is that some businesses think that when they have a technology solution they also have solutions to their succession-related problems. They believe that the software will provide them with one-size-fits-all models. Certainly, this is not true. In summary, technology solutions can ease the work but not eliminate it.

More involvement of boards of directors

Boards of directors are taking an increasingly active role in succession planning and management. Therefore, selecting talent successors for chief executive officers (CEOs) and other top managers is a critical issue that must be periodically discussed by boards of directors.

More awareness of succession issues worldwide

One size does not fit all is also true in succession planning. Unfortunately, some international businesses have not learned this lesson yet. Some business headquarters in Europe, the United States, and Japan design guidelines for succession planning and then spread them out internationally, overlooking that cultural differences play a major role in effective succession planning.

Increasing awareness of succession programs

One program of succession planning and management does not fit all businesses worldwide. Although there are several similarities in effective succession planning and management programs, there are also several important differences.

3.4 Keys to Effective Succession Planning

Succession planning requires a long period, and the most effective successions arise from creating a partnership process between different generations. Once it has been agreed that the long-run aim is to retain the business within the family, a succession plan must be put in place. The succession process in family-owned businesses is more likely to be successful if it comes from having good partnership with the next generation. The founder and the next generation need to see succession not as an event, but instead as a process that requires planning (BDO Centre for Family Business, 2004).

Managing succession effectively requires taking the following eight points into consideration (BDO Centre for Family Business, 2004): (1) start early, (2) encourage teamwork between generations, (3) design a documented succession plan, (4) include everyone and use outside assistance, (5) design a training process, (6) plan for retirement, and (7) make retirement timely and clear.

Start early

Usually, the first thoughts about succession are driven by the death or illness of the business leader or the possible for severe damage to the business. In these cases, the family is least able to give the topic appropriate consideration.

Inadequate planning for the death or illness of the major shareholder might expose the family to cash flow problems.

Succession should be wisely planned and occur over time. Ideally, the owner's succession from CEO position to board chairman or full retirement should be gradual. Instead of suddenly leaving the top job, the founder should gradually separate his or her identity from the family business and become adapted to a new role. Simultaneously, successors should expand their roles, gaining the admiration and trust of the founder.

Having a complete understanding of the succession process and its impact on family members is vital; especially that this process takes a long period. The different alternatives thus should be evaluated, family members should be given enough time to think of the consequences of decisions, and a gradual succession schedule should be organized and agreed.

Encourage teamwork between generations

It is important to create and enhance teamwork between different generations so that the succession itself and what happens subsequently are as trouble-free as possible.

Family businesses get more and more complicated with the passage of time and particularly with the succession from one generation to another. With later generations, the severity of emotional factors that shape the family's engagement in the family business rises. If unsettled issues that are left from the former generation do not disappear, they become larger and larger.

Enhancing teamwork between generations lead the different generations to recognize the problems and discuss them to find the best and appropriate solutions. Supposing that such issues will be solved with the passage of time is a big mistake.

<u>Design a documented succession plan</u>

It is essential for families to create formal mechanisms, rules, and procedures to avoid or at least manage tensions and conflicts, which may inversely affect the effective functioning of the family business. Creation of a family council and drafting a written family constitution provide an operational framework that helps family members emphasize on the important topics, solve problems and find techniques of working with each other.

For the same reasons, designing a documented succession plan that includes a detailed approach for dealing with the aspects of the succession process will be valuable. The presence of a written document that every person is aware of and has been consulted about will considerably decrease the potential for any worries and misunderstandings.

The plan should cover, as a minimum, the following (BDO Centre for Family Business, 2004):

1. A plan for leadership and skills development for possible successors. This would incorporate working outside the family business to gain experience and an initial outline for career path within the family business.

2. The procedure for choosing a successor such as timing, business criteria, if the decision is given to the board or a committee of family members, and how to communicate the decision to the family and outside stakeholders.

3. A detailed schedule that determines each stage where the founder has decreased involvement with the business.

4. A schedule detailing how the selected successor is extending roles and responsibilities.

5. An organizational succession plan, which covers the structure and functioning of management after succession.

When the succession plan is ready, it needs to be communicated to family members, employees, and outsiders. This will give everyone the opportunity to plan for a smooth succession (Walsh, 2011).

Include everyone and use outside assistance

It is necessary to create a succession party that consists of the owner, particular family members, non-executive directors, and main employees. The team should be responsible for designing the succession plan and reviewing its application. The latter is vital to ensure that the succession plan is achieving the intended results.

The founder is responsible for initiating and leading the succession planning process, but party grants everyone the opportunity to talk about his or her opinions and worries openly. This forum helps to decrease adverse emotional reactions within family members.

Although feedback from family members and workers about their worries, interests, and priorities is very essential, the founder is the only one completely understands the complicated emotional and management issues related to succession planning.

Therefore, founders should include as many people as possible in the succession process as long as they are able to give valuable advice and support. For instance:

- Board of directors is a vital source of experience and objectivity during succession planning.

- Consultants of family business and other adviser are usually skillful in dealing with succession issues.

- Business colleagues who are dealing with or have passed through succession process may be helpful.

Design training process

It is vital to develop a training process for possible successors because inadequate preparation and training lead successors to be dissatisfied and not productive.

Retirement planning

It is critical that owners prepare themselves emotionally and financially for a new stage of their lives where they do not think of the family business.

Owners should take advice on financial arrangements. Emotionally, experts agree that this step is probably successfully implemented if the owners are leaving to a new life that is full of exciting activities instead of their old one. Therefore, owners need to consider how to use their new spare time and plan their future activities. Many owners nowadays start a second job after retirement from the first one.

Nevertheless, do not ignore that owners continue to be an important resource to their family businesses, even if they have transferred daily responsibilities to their successors.

As part of succession plans, many owners undertake new roles in the family business such as strategic planning, product development, or special projects. In addition, owners can play a significant role in encouraging continuity.

Decide timing of retirement and stick to it

Unfortunately, owners do not usually know when to retire. Succession is more likely to progress easily if owners retire while they are still in their full control of their capacities and able to offer direction to senior managers when they seek it. Analysts have discussed the difficulties that can emerge when owners hold on to their positions after the age of 65. They tend to be 'out of stage' with their successors who are probably to be in late-30s or 40s and not patient for leadership.

Furthermore, having decided on a certain date for retiring, the owner need to adhere to it. A public promise in the form of a specific timetable for the owner's leave involved in a documented succession plan tends to decrease the potential for misunderstanding or delay.

However, this does not mean that owners must stop playing any role in the family business, but it means that their role is well-defined and does not include involvement in daily operations of the business.

3.5 Fighting Succession Planning

Different complicated factors in family-owned businesses prefer doing nothing about succession. Lansberg (1988) has grouped the restraints to succession planning into those linked to: (1) the founder, (2) the family, and (3) the employees and environment.

The founder**:**

1. Death

Few people find it easy to address their own death. This is usually a certain problem for founders whose success is typically driven by an influential character and the belief that they control their own fates. It is not amazing, thus, that giving up control can be viewed as a big sacrifice.

2. Loss of identity

Owners are often attached very strongly to the business, viewing it as a personal accomplishment. Leaving the business can thus make them feel that they lose personal achievement and can renew old identity that may be hard to deal with at the late stage in the owner's life.

3. Bias against planning

Effective management successions are usually driven by planning that starts many years before succession occurs. Nevertheless, owners seem to be doers rather than planners, and they usually see planning as a bureaucratic process.

4. Inability to select among children

According to business principles, the selection of successors must depend on competence, while family values state that children must not be the subject of a selection process, but should be loved and treated likewise. Family values seem to dominate in this conflict, with founders reluctant even to think what they see as special treatment of one child at the cost of the others.

5. Fear from retirement

Family business owners are usually attached to their businesses and thinking about leaving daily work to retirement can be perceived as a life-threatening event. Owners will probably have few interests that might be developed in retirement and will thus try to emphasize on negative concerns such as loss of self-esteem and the threats of transferring the business to an untried successor.

6. Envy and competition

'No one can manage this family business as well as me' is a sign of the view many founders fighting succession develop about their importance. The statement also summarizes the certain feelings of competition and envy that owners have towards possible successors who are waiting to assume control of their businesses. When the owner and the possible successor are father and son, this variable is even more serious, presenting an additional emotional aspect of fear and aggression.

The family

1. Resistance to change

The owner's spouse is often unwilling to welcome and promote a partner's move into retirement. He or she may not enjoy the prospect of leaving many roles played in and around the family business.

2. Family taboos

The cultural customs that shape family behavior do not encourage discussion between parents and children about the family's future after they die. This is mainly correct regarding financial matters. Succession planning obviously encompasses discussions of these subjects and is therefore usually avoided, even in the well-organized families.

3. Fear of parent death

Children normally have deep emotional concerns about abandonment and separation, and these feelings may be too painful to allow participation in discussions regarding succession.

Employee and environmental factors

1. Job insecurity

Staff can be obstacles to succession even if success and continuity of the business are in their own best interests. For many workers (particularly top managers) their personal relationship with the business owner represents the most important advantage of working for the family business. Substitution of the owner with a successor is viewed by some employees as a danger to their job satisfaction and security.

2. Concerns about change

Outside the family business, key customers are likely to resist change due to their reluctance to trust a new person. Likewise, the reluctance of other entrepreneurs to address succession acts to strengthen the owner's bias against management succession. Owners challenged with an array of complicated and interconnected processes that operate against manage transition. It is not surprising; therefore, that few business owners are willing and able to initiate a successful succession planning.

3.6 Alternatives to Successful Succession

Although owners may have an enormous amount of emotions invested in the business and desire to see it continued by their children, it might be wrong to force management succession if the proper conditions do not exist (BDO Centre for Family Business, 2004).

Maybe none of the children has the capability required to manage the business, or perhaps competition between them is so dangerous that none would accept one of the others as a successor.

If an honest evaluation concludes that there is low potential of a successful management succession to the next generation, owners need to search for other options (BDO Centre for Family Business, 2004):

1. Division of business

If severe competition prevents the children continuing together, dividing the business may be worth discussing. Supposing the business can be separated, the children can obtain different parts that can be developed individually. Nevertheless, businesses should not take this path only for family causes but also must make business logic.

2. Sale of business

When a succession within the family is not attainable, the owner may decide that it is better to sell the business instead of forcing the succession process. Selling the business is probably to be shocking and -compared with succession to the next generation- may involve negative tax consequences.

It's vital to separate the emotional concerns from the financial ones. A sale may be the most appropriate choice in order to reserve the owner's financial position and agreement in the family.

3. Hiring outside executives

Several family businesses choose to employ non-family managers if it is not possible for a family member to take over. The main concern here is trust –will the family's wealth be safe in the hands of a non-family manager? On the other hand, family members in the business usually prefer reporting to a professional manager.

Hiring non-family managers is a relevant concern when the family business is in the third generation and beyond. By this time, there can be many family members with an interest in the business and professional management usually represents the only realistic solution to succession.

Occasionally, families can avoid employing outside managers by hiring as a CEO somebody who has worked in the family business for years and who is viewed as part of it. This is a strategy of high risk. Such a CEO will have minimum opportunity to improve the needed leadership skills and is usually under significant pressure from the family to approve a stewardship role.

4. Employing a bridge

If the family succession obstacles are temporary, a caretaker CEO may be employed to manage the business until the succession within the family finally occurs. Denoted as a 'bridge', the person is generally a professional manager who is well paid to be compensated for the short-term task.

It is not unusual for such a 'bridge' to act also as an advisor to the subsequent generation. The new generation may find it easy to take advice from an outside manager rather than from a parent and the ‘bridge’ usually oversees their career development to prepare them for future positions in the business.

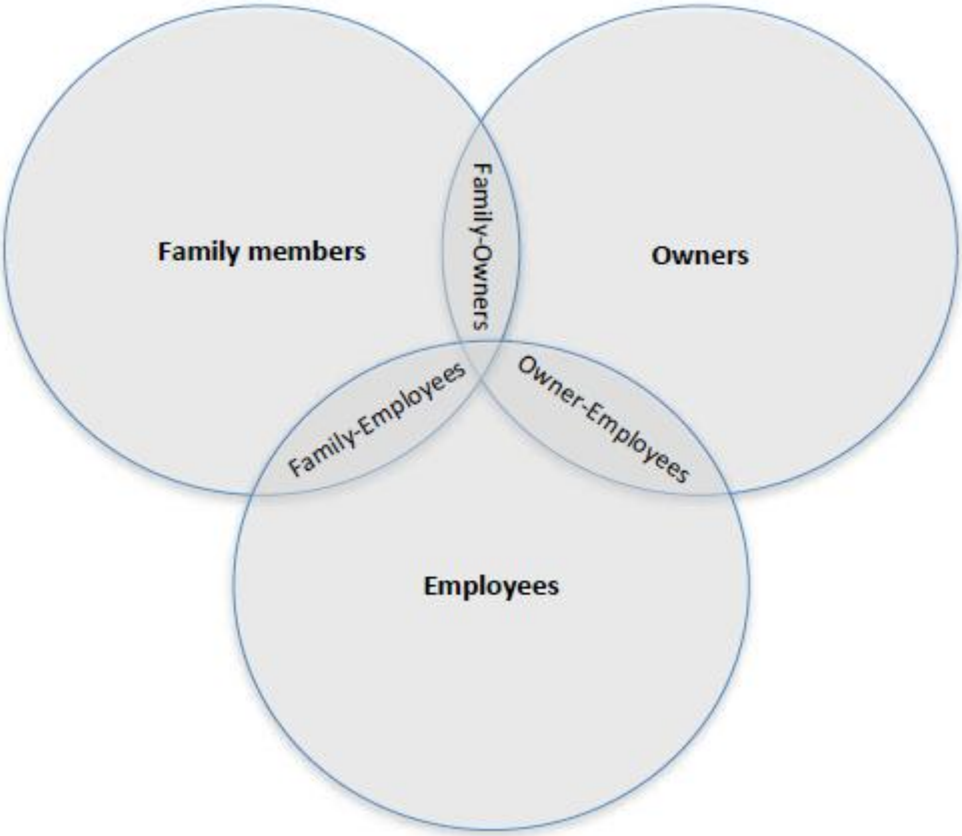
3.7 Models of Family Businesses

In this section, the most important models of family businesses are discussed. These models are: (1) the three-circle model, (2) the strategic succession planning model, (3) the life cycle model, (4) the contingency model, (5) the mutual role adjustment model, and (6) the six stepping stones model.

3.7.1 The Three-Circle Model

Davis (1982) developed a three-circle model that consists of distinct areas with high interactions between them. Based on this model, the family-owned business is made up of three distinct but intersecting systems: (1) the business system, (2) the ownership/governance system, and (3) the family system. In the intersection of these systems, conflicts emerge when family goals and business goals conflict with each other. The three-circle model is depicted in Figure 3.1.

Figure 3.1: The Three-Circle Model



The model attempts to identify the motivations, expectations and fears of each group. When a family implements the three-circle model as a framework, it can help stakeholders to understand their personal perspective and help them to understand how their decisions might be affected if they looked at the issues from another perspective. The most thoughtful strategic and continuity plans take into consideration how a change will affect each group of stakeholders.

The three-circle model is the basis upon which most family business discussions and analysis are conducted nowadays. According to Gersick et al. (1997), the reason why this model has such extensive acceptance is that it is theoretically elegant and applicable in practice.

In this model, there are seven different roles as illustrated below:

1. Outside investors who own portion of the business but do not work in it and are not family members.

2. Managers and employees who are non-family members.

3. Owners who work in the business but are not family members.

4. Family members who own shares in the business but are not employees.

5. Family members who are not engaged in the business as employees or as owners.

6. Family members who work in the business but do not own shares.

7. Owners who are also family members and who work in the business.

The many stakeholders in the business should understand what role(s) they occupy and where the natural conflicts between their roles exist. With this logical framework, individuals are better equipped to consider the impacts of changes in the family or business.

Understanding the different perspectives becomes increasingly necessary as over time the number of individuals who are family members, owners and management members' decreases and the number of individuals in the non-overlapping roles increases. The most thoughtful strategic and continuity plans take into consideration how a change will affect each group of stakeholders.

Tagiuri and Davis (1996) illustrated that family circle is governed by a family council and defined by a family charter, which is a forum for educating family members on their roles and the responsibilities that come with ownership and management of a business. Family-based issues such as marriage, divorce, in-law, estate planning and family spirituality are acknowledged and addressed in this forum. In cases where no sale of shares to outside parties is permitted, issues regarding share transfer can be dealt with in this circle. It is in this forum that family makes decisions that are communicated, as a single voice, to management and the board of directors.

The ownership circle is governed by a board of directors who is responsible for the corporation. The rights of ownership are defined by a shareholder agreement or in the absence of an agreement, applicable provincial law. Unless otherwise agreed to, all shareholders are treated equally. Conflicts over compensation, divestitures and dividend policies are dealt with here.

The business circle is governed by management and the board of directors. Factors affecting the business such as which child is best suited to assume which role are discussed in this forum. While the family's wishes and values are reflected by the business, the business does not answer to individual family members nor does it become involved in family disputes. However, at the family's direction, the business may pursue non-economic goals.

The three-circle model is adopted in this study to collect and analyze data for the following reasons:

- First, this model is the most used framework for understanding family run businesses.

- Secondly, the model attempts to identify the motivations, expectations, and fears of each group of family business.

- Thirdly, the model is theoretically elegant and immediately applicable.

- Finally, this model has proven extremely valuable to understand the current position and perspectives of key internal stakeholders in a family business.

According to Sharma and Salvato (2013), when analyzing family business cases dealing with succession, it may be helpful to list the rules of entry and exit for the three circles already in place. Often, the rules are implicit or simply unclear. When making recommendations, it is important to circle back to these rules and where appropriate provide guidance on how to clarify/apply them to deal with issues at hand. It is also important to consider how often and by whom the rules are revisited and revised.

Following the three-circle model, succession can be seen as successful if the family and the owners are satisfied with it and the business performance is positive. This means that both financial and non-financial goals are pursued by a family business. Astrachan and Zellweger (2008) argue that a family business can prefer non-financial over financial goals if it satisfies the family more. If there are synergies between financial and non-financial goals, it is advisable for the family business to pursue both. However, the definition of success can be highly individual for each family business and can also vary from generation to generation (Colli, 2012).

As in Davis model, Schwass (2008) said that family-owned businesses can be viewed as going through three stages, each of them with its interaction of business, ownership, and family components as well as culture. The first is the entrepreneurial phase where an entrepreneur creates a business. At this stage, the business is the most important issue. Ownership and family are not an issue. The culture of the family business is undertaking a major change since the business is still new, different, and has to be established first. The second stage is known as early generations and smaller families. In this stage, the children of the founder get involved in the business. The culture of the family business is progressing since the business is evolving from what the founders created without changing totally. In addition, family members have the same shares and family is an issue at this stage. In the third stage, subsequent generations and larger families get involved in the business each with an inherited share in the business. The ownership issue becomes the most important.

Here, the business is facing one of the most critical questions: Should the business continue along the old, traditional way, or adjust to new market needs? Regarding the family, it is important to deal with the increasing level of diversity due to a rising number of family members.

In this regard, Gersick (1997) concluded that succession is a key obstacle for members of all three circles, since it is a complicated process in which the owners need to make a vision of governance structure. The challenge facing the old owners is to train possible successors and create a process for choosing the most qualified of them.

According to the three-circle model, a successor may be selected from any of the circles within the model. In practice, however, it is more likely to choose the successor from the family members who work within the family business. Tensions will arise if there is more than one talented successor to select from.

According to Clifford (2008), every member of each circle in the model is worried about the business and the succession plan, each of them has hopes and expectations. If the succession plan is to fulfill any of these expectations, they must be determined first. This could cause conflicts of interests among the family members involved. An official succession planning will mitigate some of the conflicts since each of the family members can feel that his or her concerns will be discussed. Despite the possible difficulties, the members who have major interest in the outcome should be engaged in the process; since if they are left out, they may accumulate anger against those who are engaged and refuse the outcome.

Therefore, succession planning helps owners to deal with these issues. Effective succession plans usually comfort the certain issues confronted by owners and provide a professional framework to deal with those issues and when founders develop succession plans, they keep control over the outcome. If the business can continue to be successful through the succession, the owner has another time proved a significant personal and professional achievement. The sustained success of the family business is an honor to the owner's accomplishment. When it remains to deliver required products and employment for relatives and the community, it is a touch of longevity for its creator (Clifford, 2008).

Brown (2009) asserted that an elegant model, known as the “three-circle model,” provides a roadmap by delineating the arenas that influence the succession.

The model shows three interlocking circles representing family, business, and ownership. It demonstrates that each member of the family could wear several “hats” referring to their role and responsibility in the succession. Each of the three circles has its own governance structure: the business has its executive team; the family has a family council; and the owners have a board of directors. While the model primarily defines the family and other stakeholders as important participants in the transition process, it also defines seven different subgroups with separate agendas/needs or voices in the process. Hearing the view of each of these and considering their changing needs became a significant endeavor as family enterprises moved to third and fourth generations, increasing their number and diversity Brown (2009).

The consultant of family businesses Dr. Barbara Murray uses the three-circle model in her study to help understand the complication of succession. She says that the succession process which is regarded as a main change will have consequences on the family, ownership and business components. Thus, a system methodology guarantees that the big picture will always be in mind and consequences can be expected and planned for rather than reacted to (Murray, 2005).

Family business succession plans include two processes: (1) management succession process and (2) ownership succession process. Many succession activities are defined for each of these processes to accomplish the desired succession outcome. Management and ownership succession can be carried out instantaneously or one by one. It is advised that management succession be implemented first so that ownership succession plan reflects the management succession (Murray, 2005).

The three-circle model is used to analyze succession activities that are aim to integrate family members into management and ownership succession processes (Walsh, 2011). These activities also aim to make family members feel relaxed with the succession process and its outcomes. The final aim is to permit family members to make knowledgeable decisions about their future in the management and ownership of the family business.

According to Walsh (2011), creating communication activities such as family business meetings, family council meetings, and family business rules will guide the whole succession process. These communication activities will pave the way for the effective management of the all-important family component. Management succession activities also involve training of successors and incorporating active family members into a number of main management activities.

Therefore, this model can also be utilized for the analysis of ownership succession including succession activities regarding family members. The activities include the same communication channels as in the management succession process. Ownership succession activities also include governance and shareholder agreement issues.

3.7.2 Strategic Succession Planning Model

Effective succession of family businesses involves the following five areas (Moitoza, 2013): (1) business succession, (2) CEO/owner succession, (3) management succession, (4) ownership succession, and (5) estate succession.

The above areas are presented as major groups to be used successively in the strategic succession plan. A strategic plan is an organized method of asking main business questions that are intended to create insights into the business and it environment. Strategies are designed from those questions to accomplish the main goals.

Succession planning starts with the founder who initiates a succession plan. To achieve this, he or she needs to create a team of professional advisors that include, amongst others, accountants, bankers, lawyers, and so on. At the same time, active discussions originated by the family business can start at the levels of the board of directors and family meetings.

The order of dealing with succession issues can follow the above-mentioned five areas. Each of these areas has certain objectives to accomplish and should be motivated by questions that assess critical succession planning options. A brief discussion of each area is given below.

<u>Business succession</u>

Strategic planning relates to the real capability of the business in the future. The aim is to ensure that this business has a future, and if this is the case, what is the vision and values that will be required to keep it. Examples of questions to be asked are:

1. Does the business have a promising future?

2. Should this business be sold or go forward?

3. If it should go forward, what is needed to make successful succession?

4. What is the best method to achieve the changes?

5. What obstacles exist to defeat the business?

6. Does the family desire to continue the business?

7. How much change is needed to manage the business in the future?

8. Do the values of the business match that of the family?

<u>CEO/owner succession</u>

Strategic planning relates to the personal succession of the family business owner. How capable they are of transferring roles and handing over business control is vital. The willingness and ability to develop nonbusiness interests that are valued are included. Strategic questions involve:

1. Can I monitor this business after step down?

2. What factors must I control in order to “go”?

3. How can I get financially independent from the business?

4. How do I feel about being a boss?

5. How able am I to see others in control of my investment?

6. Where will I do exercise daily interests and activities?

7. What do I believe about the capability of other family members?

8. Do I believe that anyone can manage this company better?

Management succession

Strategic planning focuses on who can manage the business best, what talents are needed to run this business, and what are the qualifications of this business. The most important questions are:

1. Who is able to manage the business?
2. What factors are needed to manage the business?
3. What managerial skills are needed?
4. What leadership features are needed?
5. What procedures must be made to transfer management?
6. What family members are suitable for executive positions?
7. How much time will be needed to transfer management?
8. How will authority be shared?
9. Can the business absorb more family members?
10. Is employing outside management a solution?

Ownership succession

Strategic planning involves who is actually going to control the family business. Ownership topics are closely associated with estate planning. At this stage, owners need to depend on business principles and criteria to make the decisions. Efforts to "keep everything equal amongst the children" typically cause disaster for the continuity of the business and family harmony. Important questions are:

1. Who is able to control the business?
2. How should the succession of control be carried out?
3. How will different family owners be distinguished?

4. When should the process start?

5. What criteria to be used?

6. What can finance the ownership model?

Estate succession

Strategic planning encompasses the assets of both the family and the business. The questions of who obtains what, why, and how are very important in this process. This dimension of planning is closely associated with the above-mentioned ownership questions. Important questions are:

1. What is fair and what is equal for successors?

2. What are the other models used for other businesses?

3. What legal and financial planning tools are available?

4. What are the tax consequences of the different alternatives?

3.7.3 Life Cycle Model

Churchill and Hatten (1987) established a life cycle method to define the succession process in family businesses. They determined four stages: (1) owner/management stage, (2) training and development stage, (3) partnership stage between father and son, and (4) power transfer stage.

In the owner/management stage, the owner is the only family member who is directly engaged in the business and the successor is not directly engaged in the business. It is the stage in which the founder is the individual managing the whole business and using his or her leadership skills to build the business culture which from one hand is necessary to run the daily working of the business and in the long term it is beneficial for the effective succession of the business. At this stage, the founder learns to delegate authorities.

The training and development stage is the stage in which the successor learns the business. At this stage, the successor comes to the business and begins participating in daily activities of the business. The successor learns and improves his or her capability to manage the business whereas it is the stage for the incumbent to delegate power.

The partnership improves between the incumbent and the successor in the third stage. This stage is considered as a continuation of the second stage in which more authority moves to the successor and the relationship between them improves more and more. During the above three stages, the capability of the predecessor to separate from the business comes into play. Nevertheless, this capability is dominated in the last stage during which power is being moved to the successor.

In the last stage, real power transmission occurs where authorities move to the successor.

3.7.4 Mutual Role Adjustment Model

Handler (1989) developed the mutual role adjustment model. The basic idea of the model is that both the predecessor and the successor should have the capability to adjust to the varying nature of their roles in the business. The longer the time needed to adjust to the new roles; the late would be the succession process. Regarding the personal variables of the predecessors, if they have good leadership skills are accustomed to delegate responsibility in the business, and have created a culture of independence they will be capable of making a successful succession process.

The other variable related to the role adjustment model developed by Handler (1989) is that if the leaders can separate themselves from the business or find new activities then the succession process would be successful. Otherwise, the predecessor will be able to move the succession to the level where he or she is the only player and the successor will only work as an assistant. If this is the case, the health condition of the founder will decide for the next move of the successor. If the founder suffers health problems then the successor will take over the position of the predecessor.

The personal variables can affect the role adjustment model in negative or positive ways. Beside the group level variables and business level variables these personal level variables play a significant role in the effective succession of family businesses.

Life cycle models depend on the assumption that the business develops the management skills of the predecessor, and the business develops in such a way that ownership and management get dissociated (Morris et al., 1997).

These models usually overlook succession issues and fail to consider the distinctive problems inherent in family-owned businesses. Dyer and Handler (1994) proposed that if a family business is approached from a 'total system' viewpoint that involves a number of other subsystems that consist of the predecessor as an entity, the business as an entity and the family as an entity the succession process would be successful.

3.7.5 Contingency Model

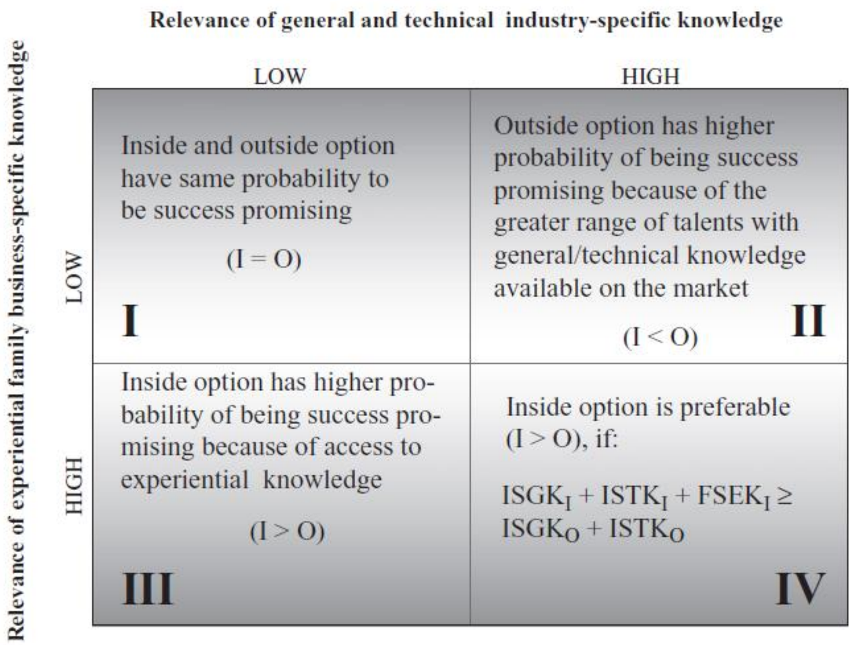
Choosing a family member as a successor depends on relevant transfer of knowledge. Nevertheless, one possible problem is that an inside family successor may not have the abilities, skills, and talent to run the business. A possible inside successor needs to own the general knowledge of running a business as well as technical industry-specific knowledge. If an outside manager has a plus regarding industry-specific general management and technical knowledge, the outside alternative has to be more analyzed. Formally speaking, the "inside-family option" is as preferred as the "outside-family option" only as long as the knowledge of inside family successor is the same as the knowledge of an outside family successor (Royer et al., 2015).

The most appropriate successor depends on the difficulty of moving relevant knowledge within the business in a given industry environment. There are conditions with high or low relevance of experiential family business-specific knowledge and conditions with high or low relevance of general and technical industry-specific knowledge. The result is the matrix shown in Figure 3.2.

Square I in the figure labels conditions where the relevance of general and technical industry-specific knowledge and the relevance of experiential family business-specific knowledge are low. In this situation, it can be supposed that all kinds of knowledge are of low relevance regarding gaining competitive advantage. In such businesses, insider or outsider successors are both appropriate and selling the business may be possible.

Square II is described by high relevance of general and technical industry-specific knowledge and low relevance of experiential family business-specific knowledge. For these businesses, it is more possible that a proper successor is selected outside family members due to the larger range of talents who have relevant knowledge available on the labor market. This does not propose that family members are bad regarding technical and general knowledge; if there is a successor from the family who has relevant knowledge, this would be ideal. Nevertheless, since the labor market is larger than the family internal market, there is an increasing probability of selecting a successor from outside the family.

Figure: 3.2: Contingency Model



Square III demonstrates conditions where high relevance of experiential family business-specific knowledge is joined with low relevance of general and technical industry-specific knowledge. These conditions could indicate a preference for successors from the family. Usually, the relevance of the experiential knowledge is so critical that such businesses die if no internal successor is ready to take over. It is usually impossible to sell these businesses because talents can scarcely be found from outside and it is hard to attract external successors. Similarly, it is difficult to employ an outside successor if the outsider has not already worked in the business.

Lastly, square IV shows the mixture of high relevance of general and technical industry-specific knowledge and experiential family business-specific knowledge. Given that the successor from the family has more knowledge than the outside successor, an internal successor will be optimal. In addition, it is important to anticipate the internal successor to act less deviously than the outside successor and that the family has more information about his or her qualifications. However, if the family successor has less knowledge than an external successor or there is no family successor, the problem is how the external successor can acquire the relevant experiential knowledge.

3.7.6 Six Stepping Stones Model

This model was established by Lambrecht (2005) on the ground of experimental research where various family businesses were taken into account. Entrepreneurship is the first step. In the first step, knowledge, management values, leadership features, and the soul of the business are transferred to subsequent generations. During the second step, potential successors perform a few activities in the family business. The second step involves studying. Most internal successors are motivated to have an advanced degree before full-time work in the family business. In some cases, studies are directed toward the sector of the business. In other cases, possible successors are allowed to select their field of study.

In the third step, they do work that is more serious in the business. This way, possible successors at an early age absorb the secrets of the family business. Big family businesses may provide internal education for family members at an early age (Tifft & Jones, 1999; Bibko, 2003). This is part of the third step. In this step, potential successors learn about the main contacts of the business and are involved in the meetings to understand the business. During this stage, the abilities of possible successors are assessed by the predecessor.

The fourth step is gaining work experience from other businesses. This provides the possible successors with knowledge, wisdom, and self-confidence.

The fifth step is the formal entry of the successor into the family business. Before later generations obtain managerial positions, they generally pass through the different departments in the business. This way, potential successors prove themselves, gain the confidence of staff, and learn the business.

Finally, the sixth step is the documented planning and arrangements. Consideration should be given to procedures required in the bad days of the business such as the death or retirement of a family member. However, documented plans are not an assurance for a successful succession and bad planning could be costly for the business and the family.

3.8 Family Business Succession Planning Process

The aim is to develop a plan that will satisfy the prospects and hopes of the business owner. Usually, the most important aims are to keep the business and family together. Hence, it is important to include stakeholders in the process. Sometimes, when stakeholders are left out, they do not encourage the outcome. Therefore, a mistake in the process can lead a good plan to fail. One general aim is to avoid anger and conflicts. To avoid these problems, it is important to have an intentional process and a timetable for the process (Clifford, 2008).

The business succession planning process consists of three steps:

1. Determine the goals of the owner.
2. Identify how to accomplish the goals.
3. Implement the plan.

A general error in succession planning is that the business owner implements succession planning before determining his or her personal goals. Unfortunately, the complicated relationships in several family businesses can make it hard to set goals. Thus, it is worth an exploration of goals at this stage.

The succession planning process involves the following steps (Clifford, 2008):

1. Determine the goals of the owner

Owners need to determine their goals regarding future annual income, level of engagement in the business, investments inside and outside the business, legacy for the future, and values.

2. Determine the needs and aims of other stakeholders

It is critical to identify the needs, aims, and anticipations of family members, owners, and main employees. Consideration of their anticipations assures that the plan will satisfy their aims.

3. Management succession planning

If the continuity of the business is important, the owner must decide who is able and willing to assume his or her responsibilities. This may involve providing new compensation packages in order to give managers incentives to accept new tasks.

4. Design a best case scenario

Based on the business values, the owner must balance the needs and aims of everyone engaged. The resulting plan is a best-case scenario. This is the optimal condition that the owner desires to achieve in the succession plan.

5. Investigate all alternatives.

Investigate the alternatives available to achieve the aims. This is where the aims of the succession plan meet legal and financial requirements. The owner has to totally investigate the available alternatives. Unfortunately, some owners avoid these steps and do not investigate all of the alternatives. Usually, this means that after developing the plan, new and more solutions that are effective arise, leading to expensive changes.

6. Develop and carry out the succession plan

The first step of implementation is preparing legal and financial documents. The advisors who developed the plan can also help develop a procedure to implement it. A timetable for implementation is necessary to make intents clear while managing anticipations. The timetable can involve aims or "trigger events". These aims indicate that it is time to move to the next step in the plan. Obviously, in order for the timetable to be effective, the owner should update the other stakeholders in an appropriate way. Shared information is the best technique to guarantee implementation, prevent rumors, and avoid conflicts.

Below is a brief description of the alternatives available. These alternatives are not the only one available, but they are the most frequently used strategies. Many of these alternatives can be joined to meet the different needs of business owners. It is critical to analyze all of the alternatives so that when the plan is developed, the owner does not conclude that there was a better strategy to meet the same goals (Clifford, 2008).

Keeping the family business

This alternative is usually the main objective of succession planning. There are several methods to retain the business in the family. Some alternatives include gifting the stock to members of the family, creating trusts to deliver continuous income to the owner, or leaving shares to the subsequent generation. Extra alternatives involve selling shares to managers or employees. Any of these alternatives allow the family to keep control while providing liquidity to the selling shareholder.

Buy-sell arrangements

They are commonly used in ownership succession. Buy-sell arrangements can be arranged between or among shareholders and the business. They assure that each shareholder can sell his or her shares and secure stable ownership among a small group of shareholders.

Gifting stock

Gifting shares is extensively since it helps decrease taxes. Usually, gifting is part of a total strategy for ownership transition. The stock can be gifted to family members or trusts for beneficiaries such as family members or charitable organizations.

Trusts

They are usually used to generate continued income to the owner and his or her spouse. After the life of the trust, the assets can be moved to beneficiaries like family members, charitable organizations, and so on.

Management buyouts

They are excellent options for owners of family businesses wanting the family business to remain under existing management, but also want liquidity and want to decrease responsibility for the business.

Sale to employees

Sale to employees is becoming increasingly popular. Sale to employees lets the business remains carefully held and can permit for tax-free rollover of proceeds into other differentiated investments intended to provide continued income to the shareholder. Sale to employees also gives the employees the opportunity to share in the success of the business. This in turn can encourage employees to make the business more successful.

Sale to strangers

This is usually the alternative of owners who do not have successors within the business. It is usually not regarded as succession planning since the new owner is responsible for the business.

Liquidation

It is not usually considered succession planning since the family business is not transferred as an operating concern. Thus, in some situations, liquidation is the best option for owners to fulfill their financial needs.

Each of the above alternatives should be analyzed to work out how they could be used as part of a full strategy to achieve the goals of the owner. Several alternatives can be joined into an overall plan that will achieve the goals of the owner and other stakeholders.

After all of the alternatives have been analyzed, the owner can develop and implement the selected succession plan.

3.9 Selecting the Right Successor

One of the biggest barriers to the succession process is the parents' inability to choose among the children. When family businesses stick to a more traditional structure with a single CEO, it raises questions about how a choice should be made among multiple offspring.

A successor can be chosen in several ways. Some business owners make a choice, either very early or after a period of competition. Others delegate the decision to a board of outside directors or to a management committee of family members. In a nearly ideal solution, others manage to attain consensus among family members, directors, and key executives and, sometimes, among the successor candidates themselves.

Each of the alternatives to choosing a successor is discussed below (Aronoff et al., 2011).

<u>Early selection</u>

Some business owners choose among potential successors very early, often while the oldest children are still in their 20s. This alternative tends to work best in families whose offspring are very different in age or capability.

Parents who choose early may want to reassure everyone that they intend the business to continue under family ownership. Parents are still young to heal any wounds inflicted by their choice. They also want to give other family members who were not chosen time to pursue alternate career paths (Aronoff, 2011).

An early choice reduces the risk that unexpected death or disability of the founder will leave or the business drifting. It also erases the possibility that deciding will become more difficult as the founder and the children grow older.

However, this alternative can eliminate talented young children from the running too early. It forces the selection of a CEO long before the future strategic needs of the business have become clear. It also requires parents to make tough choices and take difficult risks, causing hard feelings among some family members.

Competition over time

Some founders allow candidates to compete over time. This reduces the risk of making wrong choice, and it allows time for the strategic needs of the business to influence the selection. Unfortunately, this alternative sometimes becomes an excuse not to decide. It increases the risk that no successor will be chosen in time- that is, before the incumbent CEO's death or incapacity.

In addition, making a choice becomes more difficult as children grow older. Candidates may grow resentful as their positions shift over time. As the owners approach retirement, their values or sense of family may grow more important to them, making a choice among their children even more difficult.

The outside board as a catalyst

Many parents seek outside help with succession. The founder may ask the company's board of directors to help design the selection process, create a succession plan, and oversee implementation. Directors can also help prepare and counsel family members involved in the process.

Some family businesses actually assemble an active board of outside directors or advisors for the first time primarily to help with succession. Ideally, the board is composed of respected peers of the CEO who can act as a sounding board and help mentor the successor. Directors can be an invaluable source of stability and cohesiveness at difficult times in the succession process (Oludare et al., 2017).

However, business owners have to be worry of misusing a board. If a board is ostensibly given the role of making the choice of successor but the incumbent CEO, behind the scenes, is retaining the final decision, the family will see through the scheme and the board will lose credibility in the eyes of family members. It is also a mistake to create a board to assist with the succession process when the CEO or the family is not ready for a board–not prepared to share information openly with directors or to truly welcome their advice.

The family executive team

Some parents assign responsibility for succession to an executive committee or task force of sibling in the business. This removes the burden of a decision from parents and encourages consensus among brothers and sisters. As this group works together, an obvious leader sometimes emerges.

This method can end in stalemate, though. It also risks encouraging politicking and the formation of emotional alliances that can hurt the business and the family. Another possibility is that the siblings will decide not to decide on one individual but to take on leadership of the business as a team. The notion of a sibling partnership may clash with the views of the incumbent CEO and others that a business should be run as a hierarchy with a single head. It also means that the leadership of the business is no stronger than the consensus of the siblings on the management team.

Once responsibility has been given to a sibling task force, however, it is difficult to override the group's decision.

The non-family CEO

Some business owners name a non-family CEO and ask that person to pick his or her own successor. This method removes the burden of choice from the parents and can be used to fill a management gap if the business owner retires before any family successors are ready.

This is risk to this method, however, especially if the non-family CEO has sole responsibility. Non-family executives can be even more vulnerable to family politicking and worries about showing favoritism than family executive. They may fear a stockholder revolt. They also may lack the understanding of the business's values, history, and culture that is necessary to guide their choice of the next successor. A non-family executive in this situation is especially in need of support and oversight by an outside board.

The professional advisor

Some family businesses resort to a professional advisor such as a layer or a family business consultant. This method has the same risks as hiring a non-family CEO. In addition, it is usually used after the founder's death when it is too late for planning and preparation.

Selection by default

Some parents let time pass until most of the successor candidates have left the business for greener pastures. This makes the choice obvious. The person who has waited the longest deserves the job.

Unfortunately, this method tends to chase away the most ambitious, eager, and talented candidates, leaving the least qualified prospect. In addition, there is no guarantee that retirement, death, or disability of the incumbent leader will not occur before there is only one potential successor left in the business.

Consensus among family, board, and executives

Ideally, the business owner, family members, directors, and the executive team can agree on criteria, a selection process, and a timetable for succession. Once this is achieved, a leading candidate tends to emerge over time with a minimum of conflict. Either the board of the family executive team can then act as a catalyst for a final decision.

This process of evolutionary self-revelation makes a well-executed family business succession neither random nor choreographed. The people involved are governed by certain principles or procedures−that a successor will be chosen within five years, for instance, and then only by consensus of the board and key family members. However, no one knows as the process begins who will be selected. Instead, the choice becomes apparent over time.

This approach can unburden parents and lead to deliberate, well-reasoned choices with less room for rancor within the family (Aronoff, 2011).

The succession task force

Larger, older companies with formal boards and organized family councils sometimes create a succession task force to execute a more formal version of the consensus method. Key managers, family members, and directors make up the task force. The group may decide on a succession plan and a selection process, and then monitor its implementation, knowing that monitoring the new generations throughout the succession process will facilitate adapting them with the organizational culture and assist them in subjecting their knowledge and experiences to fulfill the family business needs and goals (Oludare et. al., 2017). Such a task force can also help with other aspects of succession, including compensation of key family and non-family members, job descriptions, and team building.

While small to medium-sized family businesses typically use less formal methods, companies in third generation of family management or beyond often use an outside board or succession task force to select a successor.

No logical candidate

In some family businesses, it becomes clear during the preparation or planning process that no logical successor candidate exists within the family. An outside board of directors or a professional advisor can be helpful to the family in weighing its alternatives.

At some point, all owners should at least consider alternatives to family succession, including naming a non-family successor. This guards against the possibility that none of the children will work out as successors or that all might decide to pursue other interests. Some families use non-family CEOs to bride their children's generation, hoping that business leadership will be restored to the family once the grandchildren grow up.

To summarize, the consensus method of choosing a successor is favored, particularly one in which the incumbent CEO, family members, board, and executive team agree on the selection process and support the final decision.

Whatever method is used, the most capable successor is needed. There may be dissatisfaction with the selection in some quarters. However, the grumbling cannot go too long when a successor leads the company to new heights, assuring its continued benefits to family members and giving them new reasons to be proud that they are part of a business-owning family.

3.10 Family Businesses in Palestine

The importance of family businesses stems from the fact that it forms the majority of the private sector in both developing and developed economies. In Palestine, family businesses play a pioneering role in the Palestinian economic development. They also form the safety valve against the spread of unemployment as a result of deteriorating political conditions and continuous closure imposed by Israel which prevents thousands of Palestinian employees from crossing the so called green line into Israel (Abuznaid & Doole, 1999).

According to PCBS (2009), family businesses in Palestine play a significant role in combating unemployment. The Palestinian family businesses comprise almost 70% of the private sector. The number of private businesses in Palestine has reached 107,745 firms of which 75,080 firms are located in the West Bank while 30,665 establishments are in Gaza. Therefore, the number of family firms in Palestine reaches 80,808 firms. Of those businesses in the West Bank, there are 45 family businesses that employ more than 50 employees, 30 family businesses employ 50-99 employees while 10 businesses employ 100 employees and above.

Sabri (2008) conducted a study that shows that there are several types of entrepreneurs in the West Bank:

1. Entrepreneurs who started their businesses without previous technical experience and those constitute 26% of family businesses.

2. Entrepreneurs who initiated their businesses with previous experience and they constitute 27% of the total family entrepreneurs.

3. Entrepreneurs who were working as investors in trade and have expanded their operations in trading, in construction materials, or in clothing and food products. These are the most successful, and they constitute 17% if the total entrepreneurs.

4. Horizontal expansion entrepreneurs who converted their small-scale workshops into small-scale industries and they constitute 16 % of the total entrepreneurs in the West Bank.

5. The remaining entrepreneurs are described as “employee entrepreneurs”. Those entrepreneurs used to work for other employers and have bought the used machines sold by their employers to initiate their businesses and thus used family members as employees.

3.11 Strengths of Palestinian Family Businesses

It is naturally evident that family businesses in Palestine have major strengths that contribute to their success. The factors that contribute to the success of the firms vary and all depend on the manager/owner management style. The results of a survey conducted in the West Bank to assess the major strengths that lead to the success of Palestinian family businesses have indicated the following factors as major strengths that contribute to the success of firms (Jabari, 2010):

1. Owners/managers possess the qualities, experience and skills necessary for the firm's growth and success. Such successes provide the basis for talent management. Palestine has a good quality of human capital.

2. Manager/owner commitment. The majority of managers /owners spend over 80 hours per week working in the business. This unique feature has to do with the importance of family reputation in the West Bank hence the majority of family businesses are named either after the founder or the owner such as AlJunaidi Dairy, Neiroukh for Steel, Al Jabriny Dairy, Almasri Company for Cars, Alhirbawi Mattresses Company, Al Tarifi Company, Al Zatari Company for Leather and Tanning, and Al Jabari Company for Stone and Marble.

   To these managers and owners the success of the business means success for the family and vice versa. In the Palestinian culture, the failure of the business will tarnish the image of the family in the society.

3. The success of family firms has to do very much with the relationship between family members and non-family members in the firm. A good relationship between them is necessary for the success of the business. Maintaining a healthy family relationship in family businesses is another issue that the owner-manager must keep in mind. As such, Palestinians are always keen to have good relationships with other members of the society and in many cases; they go out of the legal formal system to remedy any damage in relationships. In Palestine, family leaders play a major role in mending differences between families. Any problem caused by any member of family business will put the family business at stake.

4. Many family businesses are managed and run by non-family members in a show of good governance. Therefore, the separation between ownership and management can maximize the family business competitive advantage and surely can influence the continuity of the firm. Failure to separate family from business is a great issue that can lead to the stagnation and cessation of the business. In many family firms founders have the money but lack the experience, skills, and knowledge. Therefore, they resort to hiring qualified managers from outside the family to run the business.

5. Palestinian family business managers and owners embrace customers as the core of their vision. This is one of major strengths of family businesses and has to do with Arab culture, which places a great deal of emphasis on relationships and reputation.

3.12 Problems Facing Palestinian Family Businesses

According to Abuznaid (2014), the following are the main causes that contribute to failure of Palestinian family businesses:

1. Owners usually make decisions themselves without consulting with peers or others in the firm either family members or outsiders.

2. Lack of management skills and improper management styles. It is evident that the majority of Palestinian owner managers of family firms employ the autocratic management style.

3. Employment and hiring based on kinship and family relations.

4. Tax consideration.

5. Transfer of ownership.

6. Financial arrangements in the transfer of ownership.

7. Marginalizing the role of non-family members in the firm. This leads to high turnover, lack of motivation and commitment in many businesses. However, it is important to mention here that some managers view high turnover as something positive. They believe that turnover will help bring new blood to the establishment. To them, zero turnovers lead to the absence of innovation and creativity.

8. Allowing conflict and family feud to impact the business. In many cases where death is caused by a relative of the owner of a business firm the business is set on fire or closed as a sign of revenge.

9. Conflict among the owners or management members. This in many occasions may result in the dissolving of the business and the start of other business. In many family businesses, confusion exists between family and business goals.

10. The inherent conflict of interest among members of management. Conflict of interest is defined as putting one's interest ahead of those he or she works for.

11. Spoiled kids running the business and lack of confidence in them. Many businesses dissolved immediately after the father / manager death. Clients and more specifically elders believe that they get well better with managers in their age. They believe that they do not get the same respect they normally get from the father or elder.

CHAPTER FOUR
RESEARCH METHODOLOGY

This chapter aims to discuss the research methodology. In particular, data sources, data collection method, sampling, research design, data analysis approach, unit of analysis, and research limitations are all discussed.

4.1 Data Sources

Primary as well as secondary data are employed in this research, where the primary data are collected by means of semi-structured interviews. The interviews are conducted with respondents who are owners and/or managers of family-owned businesses.

Secondary data are used in this research to review existing literature on succession in family-owned businesses. In addition, secondary data are used to draft the theoretical framework of the study.

Data Collection Method

Qualitative researchers rely on four methods for gathering information: (1) participation in the setting, (2) observation, (3) in-depth interview, and (4) analysis of documents. Qualitative researchers rely quite extensively on in-depth interviewing, where Kahn and Cannell (1957) describe interviewing as “a conversation with a purpose” (p. 149); it may be the overall strategy or only one of several methods employed.

Qualitative deep interviews normally are much more like discussions than official events with prearranged response groups. The researcher investigates a few general topics to discover the participant’s views but at the same time respects the way the participant gives answers.

In order to collect the primary data for this research, semi-structured in-depth interviews are conducted with one key person from a sample of 16 family-owned businesses in Palestine.

The interview questions consist of four major parts:

1. The first part aims to collect general information about the family business including, among other things, the founder, year of foundation, location, legal form, sector, number of employees, generation, percentage of family ownership, key challenges facing the business, strategic plan, and board of directors.

2. The second part addressees the family component of the three-circle model.

3. The third part deals with the management component of the three-circle model.

4. Finally, the fourth part is devoted to collect information on the ownership component of the three-circle model. Interview questions are included in Appendix A.

4.2 Sampling

Qualitative research is different from quantitative research in the sampling process. Random sampling is the most frequently used sampling technique in quantitative research (Marshall, 1996). The objective of random sampling that is utilized in quantitative research is to have a representative sample from the whole population. However, the optimal sample size depends on the phenomenon under study. Generally speaking, a larger sample size is better in quantitative research since this increases the likelihood that the sample represents the population.

Random sampling is not suitable in qualitative research since it enhances the generalizability of the results but is not the most appropriate method of understanding complicated issues regarding human behavior (Marshall, 1996). Polkinghorne (2005) argues that the experience of individuals is the field of study that qualitative research aims to understand. The objective of qualitative research is to describe, understand, and clarify human experiences. In qualitative research, the sample is not chosen to completely represent the population but to gather full description of the experience from the participants on the phenomenon under study.

Although Neergaard (2007) says that convenience sampling techniques are used in qualitative research in more cases than purposeful or judgmental sampling, Polkinghorne (2005) suggests that qualitative researchers use purposeful sampling since they are not concerned about how much data are gathered but how rich information is collected about the experience.

Patton (1990, p. 169) suggests selection of "information rich" cases for conducting in depth study of a particular phenomenon and defines "information rich" cases as those "from which one can learn a great deal about issues of central importance to the purpose of the research". The purposive sampling technique is used to collect sufficient replication of the experience of the phenomenon under study. In addition, this technique is used by researchers to choose samples that are likely to be knowledgeable and informative about the phenomena under study (Babbie, 2010).

Therefore, 16 family businesses are selected purposefully in this research (See Table 4.1). Respondents are purposefully selected for interviews according to the following criteria:

1. Respondents must be a family member (generations 1-4).
2. Respondents must have enough information regarding the business and the respective family.
3. Respondents must have knowledge about succession issues in the business.
4. Respondents must have long-run involvement in the business.

Table 4.1: Profile of Family-Owned Businesses

Family Business	Location	Sector	Generation	Strategic Plan	Board of Directors
A	Ramallah	Food	3rd	Yes	No
B	Ramallah	Food	4th	Yes	No
C	Ramallah	IT	1st	Yes	Yes
D	Ramallah	Beverage	2nd	Yes	Yes
E	Ramallah	Pharmaceuticals	1st	Yes	Yes
F	Hebron	Plastic	1st	No	Yes

Table 4.1: Profile of Family-Owned Businesses

Family Business	Location	Sector	Generation	Strategic Plan	Board of Directors
G	Hebron	Food	2nd	Yes	Yes
H	Hebron	Mattresses	3rd	Yes	Yes
I	Ramallah	Pharmaceuticals	3rd	Yes	Yes
J	Jerusalem	Food	2nd	Yes	Yes
K	Nablus	Transportation	3rd	Yes	Yes
L	Nablus	Food	3rd	No	Yes
M	Hebron	Stone & Marble	2nd	No	Yes
N	Hebron	Food	2nd	Yes	Yes
O	Ramallah	Distribution & Marketing	3rd	Yes	Yes
P	Tulkarem	Toilet Paper	2nd	No	Yes

4.3 Research Design

Quantitative research generates standard data whereas qualitative research results in nonstandard data (Saunders et al., 2007). While quantitative research yields thin description, qualitative research produces in-depth description (Ponterotto, 2006). Qualitative research aims to investigate and describe the complicated nature of human experience. In addition, qualitative data are comprehensive, rich, and can be analyzed and understood holistically (Walker et al., 2008).

Researchers in the field of family-owned businesses like Haberman and Danes (2007) prefer to employ qualitative methods since qualitative methods are considered as a suitable tool for in-depth understanding of the problems facing family businesses because the human factors that are engaged in these businesses could be sufficiently studied only with qualitative approaches.

Consequently, this research is qualitative in nature since it aims to explore and investigate the complex human behavior regarding succession in family-owned businesses in Palestine.

4.4 Data Analysis

Qualitative data analysis involves organizing and explaining data in terms of certain patterns, themes, or categories. There is no one single or correct way to analyze qualitative data, but there is a wide range of acknowledged methods (Sekaran, 2010), including: (1) thematic analysis, (2) content analysis, (3) grounded theory, (4) narrative analysis, (5) discourse analysis, and (6) interpretative phenomenological analysis.

Content analysis can be viewed as a tool for the grouping of data for purposes of classification, summarization, and tabulation. The main notion is to determine from the transcripts of interviewees the data that are informative in some manner and to reveal the key messages hidden in each interview.

Content analysis includes the following steps (Hancock, 2002):

1. Read the transcripts of interviewees and make a summary note when observing interesting or relevant information.

2. View the notes and make a list of the different kinds of information.

3. Build a list of items extracted from the scripts. View the list of items and classify each of these items in a method that designates its meaning. You will find that you have used certain categories several times since some items belong to the same topic. At this stage, as many categories as you need. The number of categories needs to be reduced later on.

4. Compare the identified categories and decide if some of these categories can be combined in some way. If this is the case, you can list them as major categories and the smaller categories as minor ones. The major categories are known as themes.

5. Compare the different categories. You may see that some items belong to a different category.

6. Repeat the above five steps to the other transcripts. You will classify new categories but at the same time, you will gradually find that an item belongs to a previously determined category. Finally, you will find that all items belong to one of the existing categories.

7. Review the data in each category. You may consider moving some items from one category to another. In addition, you may decide that the terms used to describe a given category is not accurate.

8. Review the different categories and decide if two or more categories appear to fit together. If so, they make a major theme in the research.

9. Lastly, refer to the transcripts and find any text not highlighted so far because it did not seem relevant. Consider if any of the formerly excluded data is relevant and should be included.

Based on the above, data analysis in this research will be done using the content analysis approach.

4.5 Unit of Analysis

The unit of analysis is the level at which data are analyzed. The most frequently used unit of analysis in social research is individuals. This is the degree at which researchers usually combine and compare data. To say it differently, analysis of qualitative data can be conducted at higher levels like groups, families, or countries (Sekaran, 2010).

In other circumstances, the unit of analysis can be an event. In theory, a study can gather and compare data at any level from certain behaviors to countries.

Units of analysis are not the same as units of observation. The first means the level at which data are analyzed, while the latter is the level at which data are gathered. They are usually, but not always, the same (Sekaran, 2010).

For interviews, the unit of analysis is usually individuals. In focus groups, the unit of analysis is individuals as well as interactions among them within the group. For participant observation, the unit of analysis depends on the research topic and can include individuals, groups, events, activities, or factors such as physical environments (Sekaran, 2010).

In this research, the unit of analysis is the individuals who are family business owners as well as managers. Using them as the unit of analysis will enhance the findings of the study.

4.6 Research Limitations

Although this study contributes to the field of succession of family-owned businesses in Palestine, the following limitations to the study are worth mentioning:

1. A sample of family-owned businesses in Palestine participated in the study based on the availability of and accessibility to data. Other studies using different samples of family-owned businesses and different succession contexts would enhance the findings of this study.

2. The study is a qualitative one.

3. The study used the case study approach. Using a different approach may lead to different findings and conclusions.

4. The researcher used non-probability sampling technique. Therefore, one needs to be careful in generalizing the findings of the study to the whole population.

5. Some respondents were reluctant to provide some information about their family-owned businesses.

6. The study is conducted during a specific period, particularly in 2016-2017.

CHAPTER FIVE
DATA ANALYSIS AND DISCUSSION

This chapter intends to analyze the data that was collected using the semi-structured interviews. The first section analyzes the profile of family-owned businesses that participated in the study. The following three sections are based on content analysis using the three-circle model of family businesses. Specifically, the three components of family businesses are: (1) family component, (2) management component, and (3) ownership component. Each of these components is analyzed and discussed below. Then, answers to research questions will be given depending on the content analysis of the three-circle model.

5.1 Profile of Family-Owned Businesses

In this section, the general information of family-owned businesses that participated in this study is analyzed below.

5.1.1 Founder of Family-Owned Businesses

Item	Father	Grandfather	Great Grandfather	Owner
Founder	69%	19%	6%	6%

The above table shows that 69% of family businesses were founded by fathers, 19% by grandfathers, 6% by great grandfathers, and only 6% by owners, which indicates that the vast majority of family businesses in Palestine vary between the first and the second generations.

5.1.2 Date of Establishing Family-Owned Businesses

Item	0-20 Years	21-40 Years	41-60 Years	+ 60 Years
Date of establishment	6%	50%	25%	19%

It is clear from the table above that 6% of the sample is young aging between 0-20 years, 50% between 21-40 years, quarter of the sample is aging between 41-60 years, whereas 19% of the sample is really old aging more than 60 years.

5.1.3 Location of Family-Owned Businesses

Location of Family-Owned Businesses		
1.	Hebron	31%
2.	Jerusalem	6%
3.	Nablus	13%
4.	Ramallah	44%
5.	Tulkarem	6%

The above table shows that around 75% of the sample was located in Hebron and Ramallah, a thing that indicates that both cities is known with its market activation and the growing rate of business in all sectors.

5.1.4 Legal Forms of Family-Owned Businesses

Legal Forms of Family-Owned Businesses		
1.	Sole proprietorship	6%
2.	Private company	69%
3.	Public shareholding company	25%

The distribution of family-owned businesses by their legal form shows that 25% are public shareholding companies.

5.1.5 Sectors of Family-Owned Businesses

Sectors of Family-Owned Businesses		
1.	Food and beverage	44%
2.	Service	18%
3.	Manufacturing	38%

The distribution of family-owned businesses by their sectors show that 44% of these businesses belong to the food and beverage sector, 18% belong to the service sector, and 38% belong to the manufacturing sector.

5.1.6 Number of Employees in Family-Owned Businesses

Item	0-50	51-100	+100
Number of employees	19%	12%	69%

The distribution of family-owned businesses by number of employees shows that 19% of businesses have 0-50 employees, 12% of businesses have 51-100 employees, while the rest 69% of the sample is considered big businesses which employ more than 100 employees.

5.1.7 Generations of Family–Owned Businesses

Item	1st	2nd	3rd	4th
Generation	18%	38%	38%	6%

The distribution of family-owned businesses by their generation shows that 18% of these businesses are in the 1st generation, 38% are in the 2nd generation, 38% are in the 3rd generation, and only 6% in the 4th generation.

5.1.8 Percentage of Family Ownership in Family-Owned Businesses

Item	25%	36%	100%
Percentage of family ownership	6%	6%	88%

The above table shows that 12% of family owned businesses are partially owned by family members (25% and 36%, respectively) and 88% of these businesses are wholly owned by their family members.

5.1.9 Key Challenges Facing Family-Owned Businesses

Key Challenges Facing Family-Owned Businesses		
1.	Business continuity	6%
2.	Complying with regulations	6%
3.	General economic/political situation	44%
4.	Family issues	6%
5.	Increasing competition	44%
6.	Running the business more professionally	12%
7.	Suppliers	12%

The analysis of the main challenges facing family-owned businesses reveals that the top challenges are general economic/political situation and the increasing level of competition. Whereas the lowest challenges are business continuity and complying with regulations.

The above results are in consistent with the results of PWC (2014) that the key challenges of family businesses worldwide during the following five years include, among other challenges, competition, the general economic situation, and suppliers.

5.1.10 Availability of Written Strategic Plans

Item	Yes	No
Availability of written strategic plans	56%	44%

The above table indicates that 56% of family-owned businesses have written strategic plans whereas the remaining 44% of these businesses do not have such plans, the thing that supports the result of table (1.1.9) that continuity is not a serious challenge facing Palestinian family businesses.

The above result is supported by Cliffe (1998) who concluded that more than 66% of the family-owned businesses have no written strategic plans.

5.1.11 Availability of Formal Boards of Directors

Item	Yes	No
Availability of formal boards of directors	88%	12%

As indicated in the above table, 88% of family-owned businesses have formal boards of directors whereas the remaining 12% do not have formal boards. This result goes to the fact that the study sample consists of only big family businesses nit the SMEs.

The above result is consistent with the result of Deloitte (2013) that 72% of respondents have a formal board of directors.

5.1.12 Percentage of Family Members in Boards

Item	< 50%	> 50%
Percentage of family members in boards of directors	29%	71%

The above table shows that the percentage of family members in boards of directors are less than 50% in 29% of family-owned businesses whereas 71% of these businesses said that family members represent more than 50% of their boards of directors.

The above result shows that most of the family businesses do not have enough independent directors which may adversely affect the succession process as Beckhard and Dyer (1983) emphasized when they said that the appointment of independent board of directors affects the succession process of family businesses. This result is also consistent with the results of Deloitte (2013) that 43% of respondents indicate that family members make up at least three-quarters of their boards.

5.2 Family Component

It is important to understand the family-related dimensions that affect or may affect the succession planning of Palestinian family owned businesses. Each of these dimensions is discussed below.

5.2.1 Desire to Control the Family Business

Item	Yes	No
Desire to control family businesses	75%	25%

Content analysis of the scripts of the interviewees indicates that family businesses labeled A, C, D, E, F, H, J, K, L, M, N, and P (75% of interviewed family businesses) have the desire to continue their control over their family businesses in the future. For example, interviewee L replied by saying that “yes, we desire to continue as a family business, but expansion is the main objective”.

On the other hand, family businesses labeled B, G, I, and O (25% of interviewed family businesses) said that it is not an issue for them to have control over their family businesses in the future. To emphasize this, interviewee "O" said “it is not necessary to continue our control over the family business in case that there is an opportunity for investors to enter into the business”.

The above content analysis reveals that the majority of the family businesses would like to continue their control over their own family businesses. This may be due to the characteristics of family businesses compared to other types of businesses.

The above result is consistent with the result of Dingliana (2013) who concluded that over 87% of family businesses desire their businesses to continue under the control of their families whereas the remaining 13% of the businesses would consider changes in the ownership structure which did not necessarily involve continuation of family control.

5.2.2 Managerial Experience of Family Members

Item	Family	Non-Family	Both
Managerial experience of family members	63%	18%	18%

When asked about the source of experience for family members, interviewees labeled B, C, E, G, H, J, M, N, O, and P (nearly 63%) indicated that the new family executives gain their managerial experience from the family business itself rather than from other sources.

The above result is supported by Danco (1982) who said that potential successors need variety of experiences inside the family business including relationships with stakeholders. He also said that experience in the family business allows successors to develop relationships within the family business and to understand the business culture.

By contrast, interviewees labeled A, K, and L said that the new family executives gain their managerial experience from other businesses and then they apply their experience to the family businesses. This is consistent with the result of Handler (1991) who said that the level of experience gained from outside the family business is one of the four elements that affect the succession outcome. In addition, Michael et al., (1996) said that the variables that influence the succession of family-owned businesses include, among other things, work experience from outside the family business. Finally, Lambrecht (2005) has the same point of view when he said that the fourth step of the six-stepping model of family businesses is gaining work experience from other businesses since this kind of experience provides possible successors with knowledge, wisdom, and self-confidence

Finally, interviewees labeled D, F, and I stated that the new family executives gain their managerial experience from both the family business itself as well as from other businesses.

5.2.3 Employment of Family Members

Item	Selective	Not Selective	It Depends
Employment of family members	94%	0%	6%

When interviewees were asked if the family is selective about which family members are qualified to work in the family business, almost all of them said that they are selective. To stress this point, interviewee O reacted that "yes, we are selective in hiring family members; if they are qualified they work at the business, otherwise they do not". Interviewees K and L said respectively "yes, to improve performance" and "yes, to avoid disputes among family members". Only interviewee A answered that employment of family members in the business depends on the position to be filled.

The above content analysis shows that the majority of the family businesses are aware of the importance of qualifications when making employment decisions. This result is supported by many researchers (e.g. Potts et. al, 2001; Le Breton-Miller et.al, 2004; and Venter et al., 2005) who say that if the potential successor does not have enough qualifications due to lack of skills and bad preparation, he or she may reject the position, resulting in a failure of succession.

5.2.4 Managerial Positions Held by Family Members

Item	Yes	No
Managerial positions held by family members	19%	81%

Content analysis reveals that the majority of interviewed family businesses (A, C, E, F, G, H, I, J, K, L, M, N, and O) said that family members do not run all the managerial positions in their family businesses but also allow non-family members to run some managerial positions if they have the required qualifications.

Only three family businesses (B, D, and P) indicated that all the managerial positions are held by family members only. This is perhaps because their family members have very good qualifications so that they control all the managerial positions or may be these family businesses do not pay much attention to qualifications when they wish to fill their managerial positions.

The above content analysis of managerial positions held by family members reveals that most family businesses prefer to hire individuals who possess the needed qualifications, whether they are family members or not.

5.2.5 Business Succession Plans

Item	Yes	No
Availability of business succession plans	44%	56%

Content analysis of the availability of business succession plans reveals that only six family businesses (F, H, M, N, O, and P) out of sixteen have business succession plans.

Five of these family businesses said that they are in the process of implementing the business succession plans while the remaining family business said that the business succession plan is not under implementation. One family business (E) said that they have a draft for business succession plan but it is not finalized yet.

On the other hand, family businesses labeled A, B, C, D, G, I, J, K, and L (approximately 56% of family businesses interviewed) reported that they don't have business succession plans for various reasons.

These reasons include, among other things, lack of appreciation and recognition, lack of forgiveness, desire to control, fear of change, scarcity of alternatives, entitlement, poor communications, and poor expression of feelings and wants (Hubler, 1999).

For example, the family business labeled B said that “we don't have a business succession plan but there is an intention to separate between management and ownership of our family business”. “No, we don't have a business succession plan yet since the 2nd generation has recently assumed responsibility” commented family business C. Another family business (D) replied that “this issue is under consideration”. Finally, the family business labeled I commented this way “no, there is no clear plan, but there are some ideas to qualify the new generation”.

The above content analysis reveals that nearly more than half of the family businesses do not have business succession plans and less than half of the family businesses have such plans.

5.2.6 Main Obstacles Affecting Family Business Succession

Main Obstacles Affecting Family Business Succession		
1.	Different opinions among family members	38%
2.	Lack of appropriate experience by members of the new generation	31%
3.	Rivalry among family members	13%
4.	Unwillingness to give up positions	13%
5.	Other reasons	25%

Content analysis of the main obstacles that affect family business succession process indicates that different opinions among family members especially between new and old generations is the top obstacle according to family businesses labeled A, C, D, I, M, and N. The next obstacle is the lack of appropriate experience by members of the new generation (C, F, G, H, and I).

Other reported obstacles that affect the family business succession process include rivalry among family members (E and L), unwillingness to give up their positions (G and I), lack of authority and accountability (B), poor communications among family members (D), lack of written rules and procedures (E), and lack of interest in the family business (K).

The above result regarding poor communication is consistent with the findings of Troth et al. (2012), Michael-Tsabari and Weiss (2015), and Hubler (1999) who concluded in their research that poor communication results in disagreements between both the founder and the successor and decreases family harmony during the succession process.

5.2.7 Benefits of Succession Planning

Benefits of Succession Planning		
1.	Family business continuity	50%
2.	Maintaining the family unity	44%
3.	Protecting the family name in the market	38%
4.	Protecting the family heritage and wealth	31%

Content analysis of the benefits of succession planning from family businesses' point of view reveals that family business continuity in the long run is the top benefit (reported by family businesses labeled D, E, F, G, I, L, N, and O). This result is consistent with the results of researchers who say that business continuity from a generation to another depends greatly on succession planning (Christensen, 1953; Dyer, 1986; Handler, 1989; Lansberg, 1988; Rosenblatt et al., 1985; Tashakori, 1977; Ward, 1987).

The next benefit of succession planning as said by family businesses C, D, E, H, K, M, and P is maintaining the family unity. Protecting the family name in the market is also one of the benefits of succession planning as confirmed by family businesses labeled A, C, H, J, M, and P. Finally, protecting the family heritage and wealth is viewed as one of the benefits of succession planning (reported by family businesses labeled B, H, J, M, and P).

5.2.8 Importance of Father-Son Relationship

Item	Important	Not Important
Importance of father-son relationship	96%	6%

When asked about the importance of father-son relationship in terms of family businesses' succession outcome, content analysis indicates that there is consensus among the interviewees that this relationship is very important to yield positive succession outcomes of family businesses.

This result is emphasized by interviewee M who said that “this relationship is very important to have an effective succession process and thus family business continuity over the long run”.

The above result is also supported by Lam (2007) who stressed that father and son are key determinants of family business succession and continuity. In addition, Morris et al. (1997) concluded that the relationship within family members has the greatest influence on effective succession between generations of family businesses. Kets de Vries (1993) has the same point of view that relationships among family members, including trust, communications, sibling rivalry, and failure to accommodate one another, play an important role in successful succession.

5.2.9 Family Members Level of Authority

Item	Same Level of Authority	Different Level of Authority
Family members level of authority	0%	100%

As indicated by content analysis of the scripts of family businesses, all of these businesses have currently siblings and cousins who work in the family business. Moreover, the level of authority granted to them varies according to qualifications as well as job responsibilities.

This indicates that family businesses are aware of the importance of qualifications when granting family members any authority in the business.

5.2.10 Rivalry among Family Members

Item	Concern	Not Concern
Rivalry among family members	44%	56%

When asked if siblings and cousins rivalry is a concern in family businesses, family businesses labeled A, F, G, I, J, L, N, O, and P (56%) stated that this issue is not a concern in their family businesses. Interviewee F commented on this question by saying that "no, it is not a concern in our family business". He added "when an organizational structure is available, there is integration among family members rather than rivalry". Interviewee G made this comment "there is consistency and integration to achieve the desired goals and so we don't have rivalry among family members".

The remaining 44% of family businesses (B, C, D, E, H, K, and M) said that rivalry among family members is a concern in their businesses. Interviewee M said that "yes, because of personal interests of family members".

The above result is consistent with the result of many researchers (Cespedes & Galford, 2004; Bruce & Picard, 2006) who emphasized that a high degree of rivalry and conflict among family members discourages the possible successor and hence hamper the succession process.

5.2.11 Successor Selection

Successor Selection		
1.	Preparing successor during the life of current business leader	50%
2.	Having a written succession plan	44%
3.	No decision yet	6%

When interviewees were asked about the most appropriate method of selecting the family business successor, exactly 50% of them (interviewees labeled A, B, D, H, I, K, L, and M) said that they prefer to prepare the successor during the life of the current business leader. They say that this ensures that there will be no conflict among the family members after the death of the current business leader.

On the other hand, interviewees labeled E, F, G, J, N, O, and P said that having a written succession plan is the best alternative to follow from their point of view. Interviewee G emphasized this by saying that “having a written succession plan ensures the continuity of the family business”.

Finally, one of the interviewees (C) said that they are not yet sure about the best alternative among the above.

5.2.12 Ability of Business Leader to Make Business Changes

Item	Just Business Leader	Not Just Business Leader
Ability to make business changes	19%	81%

Content analysis clearly reveals that the majority of interviewees (A, B, C, D, E, F, G, I, J, K, L, N, O) believe that the current family business leader is not the only person who can accomplish the required changes in the family business.

On the other hand, just three interviewees (H, M, and P) believe that the current family business leader is the only one who can accomplish the required changes in the family business.

5.2.13 Ability of Future Generation to Make Business Changes

Item	Yes	No
Ability of future generation to make changes	44%	56%

When interviewees were asked if future generations can accomplish the needed changes in the family businesses better than the current generations, almost half of them (B, E, F, H, K, M, and O) answered positively saying that future generations have the ability to accomplish the needed changes in the family businesses better than the current generations.

By contrast, interviewees labeled A, C, D, G, I, J, L, N, and P believe that future generations cannot accomplish the needed changes in the family businesses better than the current generations. One of those interviewees commented that “no, family members of the new generation still lack the necessary experience”. Another interviewee added “no, because the new generation has recently assumed responsibility”.

The above result clearly indicates that there is some trust in new generations to assume responsibilities of family businesses and make the required changes even better than the current generations. However, providing the new generations with the necessary guidance and help is very critical to their success.

5.2.14 Interference in Choosing CEO Successor

Item	All Family Members	Not All Family Members
Interference in choosing CEO successor	12%	88%

Content analysis of the role of family members in selecting the CEO successor indicates that the vast majority of interviewees (B, C, E, F, G, H, I, J, K, L, M, N, O, and P) say that not all family members interfere in selecting the CEO successors. Slightly less than half of them said that just active family members interfere in selecting the CEO successor. The others say that just board members interfere in selecting the CEO successor.

On the other hand, just two interviewees (A and D) stated that all family members, regardless of whether they are active or not, interfere in the process of selecting the CEO successor.

5.3 Management Component

In this section, the management component of family businesses is analyzed, using content analysis, in the context of succession planning.

5.3.1 Ability to Continue as a Family Business

Item	Yes	No
Ability to continue as a family business	100%	0%

Content analysis of the scripts of interviewees reveals that all interviewees are convinced that their family businesses have the ability to continue within a competitive market place in the long run.

Analysis of the key competitive factors that enable family businesses to continue their operations indicates that providing good product at a good price is the top factor according to the interviewees labeled A, B, D, F, G, H, I, J, L, M, N, and O.

Interviewees labeled A, B, D, F, H, J, and O considered the reputation of the family business as one of the key factors for their continuity over the long run. Also, loyalty by family members to the business is also one of the key competitive factors as reported by interviewees labeled A, B, J, and P.

Finally, other key competitive factors that enable family businesses to survive over the long run include, according to the scripts of interviewees, access to capital and labor (interviewee A), family values (interviewee A), good human resources (interviewee C), strategic planning (interviewee E), and marketing (interviewee K).

5.3.2 Required Changes in Family Businesses

Required Changes in Family Businesses		
1.	Introducing new products and services	50%
2.	More innovation	44%
3.	Finding new customers and markets	38%
4.	Restructuring	13%

When the interviewees were asked about the most important changes that are required to be made in order to enable family businesses to continue in the market, the big winner was introducing new products and services (reported by interviewees A, B, D, F, I, L, N, and

P). The need for more innovation in the business (reported by interviewees B, C, E, J, K, L, and O) is the second top priority.

Moreover, finding new customers and markets is viewed as one of the changes required by family businesses according to interviewees A, B, C, D, F, and G. Finally, restructuring is the least important of the changes required to be achieved in family businesses (reported only by interviewees H and M).

5.3.3 Priorities for Family Businesses

Priorities for Family Businesses		
1.	Expansion, either regionally or internationally	56%
2.	Business continuity in the long run	13%
3.	New business lines or factories	13%
4.	Restructuring	13%
5.	Business development	6%
6.	Succession	6%

Content analysis of the top priorities for family businesses reveals that the first top priority for these businesses is expansion, either regionally or internationally as reported by interviewees labeled B, C, E, G, I, J, L, M, and N.

In this context, interviewee G said “our priority as a family business is to expand in the Arab market” whereas interviewees L and M said “expansion internationally is our priority”.

Other priorities for family businesses include business continuity in the long run (reported by interviewees C and F), new business lines or factories (reported by interviewees A and H), business development (reported by interviewee P), restructuring (reported by interviewees K and O), and succession (reported by interviewee D).

The above results are consistent with the results of PWC (2014) that the most important priorities for family businesses, ranked from the most to the least important, are growth and success, professionalizing the business, diversification and expansion, and family and business continuity.

5.3.4 Reasons for Family Business Survival

Reasons for Family Business Survival		
1.	Strategic planning	44%
2.	Balancing between the family and the business	38%
3.	Recruiting talented employees	25%
4.	Producing good products or providing good services	19%

Content analysis revealed the main reasons why family businesses survive from their point of view. The most important reason for family business survival is strategic planning (reported by interviewees B, D, E, H, J, O, and P).

The second most important reason is balancing between the family and the business as mentioned by interviewees A, C, G, I, M, and N. Recruiting talented employees is considered as one of the main reasons for family business survival (interviewees B, D, E, and K).

Producing good products or providing good services is also one of the reasons that make family businesses survive over the long run (as interviewees F, L, and N say). Finally, interviewee E mentioned good corporate governance as a reason why the family business has survived.

5.3.5 Reasons for Family Business Failure

Reasons for Family Business Failure		
1.	Bad management	56%
2.	Bad relationships among family members	44%
3.	Financial-related problems	19%

When interviewees were asked about their opinions on the main reasons that generally make family businesses fail, the most frequently mentioned reason is bad management practices (reported by interviewees C, F, G, J, L, M, N, O, and P).

The second most important reason for family business failure is attributed to bad relationships among family members (reported by interviewees A, B, E, H, K, L, and M). In addition, financial-related problems are also among the main reasons for family business failure according to interviewees H, I, and J. This result is consistent with the results of Beckhard and Dyer (1983) and Paul (1996) who concluded that conflicts among family members are one of the reasons for family business failure.

Other reasons for family business failure include succession-related issues (interviewees A, D, and I), insufficient capital (interviewees C and P), and lack of government support (interviewee K).

5.3.6 Availability of Business Leader Retirement Plans

Item	Available	Not Available
Availability of business leader retirement plans	6%	94%

Content analysis of the scripts of interviewees indicates that all family businesses do not have a written retirement plan for the business leader except for one family business as interviewee F says. According to interviewee F, the business leader has to retire at the age of 65 based on the written retirement plan. This result is consistent with the result of Dingliana (2013) who emphasized that only 28% of family businesses have formal retirement plans for their incumbents.

The above result clearly shows that retirement issues of family business leaders need more attention in the context of succession planning of these businesses.

5.3.7 Availability of CEO Succession Plans

Item	Available	Not Available
Availability of CEO succession plans	37	63%

Content analysis of the scripts of interviewees reveals that more than half of the interviewees said that their family businesses do not have a written succession plan for the CEO position (reported by interviewees C, D, E, G, I, J, K, L, M, and P).

Several reasons may explain why most of the family businesses do not have CEO succession plans. First of all, new generation is probably not ready to assume the position of the current CEO. Also, current CEOs may be unwilling to leave their positions. Finally, there may be some conflict among family members regarding the most suitable person to succeed the current CEO.

On the other hand, interviewees A, B, F, H, N, and O stated that their family businesses have a written succession plan for the CEO position. Interviewee B commented on this saying that "yes, we have a written succession plan for the CEO position and the tendency is that the next CEO is a non-family member".

5.3.8 Time Required to Appoint a New CEO Successor

Item	1-7 Days	8-30 Days	> 30
Time required to appoint a new CEO successor	63%	19%	13%

Content analysis reveals that the majority of family businesses need from 1 to 7 days to announce a permanent successor if the current CEO leaves the business (reported by A, B, D, E, F, G, H, J, L, and O).

Interviewees from three family businesses (C, I, and M) said that their businesses need from one week to one month to appoint a new CEO successor if the current one leaves the family business for whatever reason.

Finally, it will take more than three months for two family businesses to hire a new successor for the CEO if he or she leaves the business according to interviewees K and N.

5.3.9 CEOs of Family Businesses

Item	From Family	Outside Family
CEOs of family businesses	94%	6%

Content analysis of the scripts of interviewees indicates that the vast majority of family businesses have CEOs who are from within the family itself. Only one family business has a CEO who is a non-family member (interviewee N).

Regarding the appointment of CEOs in family businesses, content analysis indicates that in six family businesses the current CEOs were appointed by the boards of directors of these businesses (interviewees E, G, J, L, N, and P). According to interviewees D, F, M, and O, the CEOs of these family businesses were appointed by family consensus. Four CEOs of family businesses succeeded their predecessors in their positions after the death of father or grandfather (interviewees B, H, I, and K). Finally, interviewees A and C said that the CEOs of their family businesses were appointed by the owners or founders of these businesses.

Content analysis also indicates that the CEOs of three family businesses have been in their positions for 10 years or less (interviewees B, I, and N), the CEOs of six family businesses have been in their positions between 11-20 years (interviewees E, F, G, L, M, and O), the CEOs of five family businesses have been in their positions between 21-30 years (interviewees C, D, H, K, and P), and the remaining two CEOs have been in their positions for more than 30 years (interviewees A and J).

Content analysis of the qualifications that CEOs of family businesses must have reveals that the most important qualification is experience in the field of business (reported by interviewees A, B, D, E, F, H, I, K, L, N, and O). Ability to make decisions is reported by six interviewees as being one of the most important characteristics that CEOs must have (interviewees D, F, H, J, K, and M).

Moreover, interviewees E, G, K, N, and O said that good academic qualification is among the requirements that CEOs in family businesses must have.

Other requirements include leadership skills (interviewees E, G, and I), possession of good future outlook (A, C, and I), relationship skills (interviewees A and B), loyalty to the business (interviewees K and L), good personality (interviewees A and G), and strategic planning skills (interviewee P).

Regarding the compensation packages received by CEOs of family businesses, more than half of CEOs do not receive any compensation apart from their ownership in their family businesses (interviewees B, C, D, G, I, L, M, O, and P). Interviewees A, E, and H said that they get a percentage of earnings. According to interviewee K, the CEO receives annual bonuses depending on the financial results of the business. Finally, two interviewees (F and N) refused to give any answer to this question saying that this is a private issue.

Based on the content analysis, three interviewees (I, N, and P) said that they do not have any candidate who is ready "now" to assume the CEO position in case that the CEO leaves the business. Two family businesses (B and H) have only one candidate who is ready "now" to assume the CEO position if the CEO leaves the business. Slightly more than half of the interviewees (A, F, G, J, K, M, and O) said that their businesses have two candidates who are ready "now" to assume the CEO position. Interviewees C, D, and L said that their businesses have three candidates who are ready to assume the CEO position immediately in case that the CEO leaves the business. Finally, only one family business (E) has four candidates who are ready "now" to assume the CEO position in case that the CEO leaves the business.

5.3.10 Availability of CEO Retirement Plans

Item	Yes	No
Availability of CEO retirement plans	6%	94%

When interviewees were asked if their family businesses have retirement plans for CEOs, only two of them (B and F) said that they have such plans. However, one of these two businesses said that the plan is not written. On the other hand, the remaining fourteen family businesses said that they do not have CEO retirement plans.

The above result demonstrates the need for family businesses to draft and finalize Retirement plans for their CEOs so that will help them in the context of succession of their businesses.

5.3.11 Importance of CEO Succession Plans

Item	Important	Not Important
Importance of CEO succession plans	69%	31%

Content analysis of the scripts of interviewees reveals that the majority of interviewees say that CEO succession plans are very important (interviewees B, D, E, F, G, H, I, K, M, N, and O). In this regard, interviewee F commented that "yes, it is very important so that everything will be clear when the current CEO leaves his position".

On the other hand, four interviewees do not see any importance to the CEO succession plans (interviewees C, J, L, and P). For example, interviewee C explains "no, I do not consider CEO succession plans important since our family business does not depend on one person". Interviewee J added "these plans are not important because everything is known to everybody". Finally, interviewee A said that CEO succession plans may be important.

5.3.12 Overseeing CEO Succession Planning Process

Item	Board Members	Advisory Board	Owners	None
Overseeing CEO succession planning	56%	6%	6%	31%

According to the content analysis of the scripts of interviewees, nine family businesses said that members of boards of directors oversee the CEO succession planning process (interviewees F, G, H, I, K, L, M, N, and O). Five family businesses do not have any party that oversees the CEO succession planning process (interviewees A, C, D, E, and J). One family business said that the advisory board of the business oversees the CEO succession process (interviewee B). Finally, one family business said that the owners of the family business oversee the CEO succession process (interviewee P).

5.3.13 CEO Successor

Item	Family Member	Outsider CEO	Employee	Vice CEO	No Decision
CEO successor	44%	6%	6%	13%	31%

Content analysis of the scripts of interviewees reveals that seven family businesses (A, C, D, E, G, K, and M) said that one of the family members (e.g. brother, son, or grandson) is most likely to succeed the current CEO if he or she leaves the business. On the other hand, one family business (B) said that a CEO from outside the family is most likely to succeed the current CEO in case he or she leaves the business. One of the employees is most likely to succeed the current CEO according to interviewee O.

Two family businesses declared that the executive vice president is the person who is most likely to succeed the position of the current CEO. Finally, interviewees F, I, J, and N said that their businesses have not decided yet on the next CEO successor.

5.3.14 Executives of Family Businesses

Item	From Family	Outside Family
Executives of family businesses	75%	25%

Based on the content analysis, most of the interviewees said that executives are not necessary to be from family members (interviewees A, B, C, E, F, G, I, J, K, L, N, and O). Interviewee A commented on this saying that “qualifications are the most important”. On the other hand, four family businesses (D, H, M, and P) said that their CEOs must be selected from family members.

When interviewees were asked if all family executives have the needed academic background that suits their positions, three-fourths of them answered yes they do while the remaining one-fourth of the interviewees said that not all of family executives possess the needed qualifications for the positions they hold.

Regarding retirement age of executives, content analysis indicates that fifteen family businesses out of sixteen do not have a mandatory retirement ages for their executives. The only family business (interviewee F) that has a mandatory retirement age for their executives said that "it is the age of 65 when executives have to retire from the business".

With respect to placing and replacing executives, analysis reveals that in approximately 69% of family businesses the board of directors has the authority regarding appointment of executives (interviewees C, E, F, G, H, I, K, L, M, N, and O).

In four family businesses it is the authority of the owners to place and replace executives (interviewees A, B, D. and P). Interviewees A said in this regard "the owner who is at the same time the CEO of the business has the power to make such decisions". Finally, according to interviewee J, the CEO has the authority to place and replace executives.

5.3.15 Senior Management Appointment

Item	Competence	Bloodline	Both
Senior management appointment criteria	88%	6%	6%

Content analysis of the scripts of interviewees indicates that the vast majority of interviewees consider competence as more important that bloodline when making decisions regarding management appointment (interviewee A, C, D, E, F, H, I, J, K, L, M, N, O, and P). In this context, interviewee A says "competence is more important for the continuity of the business". "Competence is more important but bloodline plays a major role" added interviewee E.

On the other hand, interviewee G said that competence as well as bloodline are important when senior managers are appointed. Finally, bloodline is considered more important than competence in terms of senior management appointment according to what interviewee B said.

5.3.16 Compensation Packages of Executives

Item	Same	Different
Compensation packages of executives	19%	81%

Content analysis of the compensation packages given to executives reveals that the majority of family businesses do not give the same compensation packages to family and non-family executives (interviewees A, B, C, D, E, F, G, I, K, L, M, N, and O). Only three family businesses (J, H, and P) stated that they give identical compensation packages to executives whether they are family members or not.

The above result indicates that most of the family businesses discriminate against executives who are from outside the family in terms of compensation packages. This also indicates that bloodline is more important than competence while offering compensation packages to executives.

5.3.17 Efficiency of Executives

Item	Family Executives More Efficient	Outside Executives More Efficient	It Depends
Efficiency of executives	19%	19%	62%

When interviewees were asked if non-family executives are more efficient than family executives, three of them did not agree that executives who are not from family members are more efficient than other executives (interviewees B, D, and P). On the other hand, three of the interviewees (specifically A, H, and N) agreed that non-family executives are more efficient than family executives.

Finally, ten of the interviewees (namely C, E, F, G, I, J, K, L, M, and O) said that there are no clear criteria to decide if non-family executives are more or less efficient than family executives.

5.3.18 Authority of Non-Family Executives

Item	Full Authority	Restricted Authority
Authority of non-family executives	50%	50%

Content analysis indicates that exactly half of the interviewees said that their family businesses grant non-family executives the needed authority to do their job without checking with family executives (interviewees C, E, F, G, I, J, K, and O). One of those interviewees commented “yes, non-family executives have the required authorities within certain limits”.

By contrast, the remaining family businesses said that the required authority is granted to non-family members depending on the circumstances.

5.3.19 Implementing Business Strategies

Item	Hire Non-family Executive	Wait
Implementing business strategies	100%	0%

Content analysis of the scripts of interviewees indicates that there is a consensus that these family businesses will hire non-family executives if they want to implement specific strategies but family successors are not ready or not qualified enough rather than postponing these strategies until the family successors are ready.

5.4 Ownership Component

In this section, the ownership component of the three-circle model will be analyzed in the context of succession planning of family businesses.

5.4.1 Ownership of Family Businesses

Item	Yes	No	No Decision
Desire to be owned by family members	69%	25%	6%

When interviewees were asked if their family businesses will continue to be owned totally by family members, roughly 69% of family businesses declared their desire to have their businesses totally owned by their family members (interviewees C, D, F, G, H, J, K, M, N, O, and P).

On the other hand, four interviewees (A, B, I, and L) said that it has not been agreed that family businesses will continue to be owned totally by their family businesses. Interviewee

A commented “we desire to have 55% of our business owned by the family and the remaining 45% owned by non-family members” whereas interviewee B said “no, it is possible to list the company at the stock market”.

Finally, one family business (interviewee E) said that they have not decided on the ownership of the business.

5.4.2 Ownership of Family Members

Item	All	Not All
Ownership of family members	63%	37%

Content analysis of family members' ownership indicates that all family members have shares in their businesses according to interviewees A, B, C, D, E, G, K, L, N, O, and P. On the other hand, only five family businesses said that not all family members have shares in their family businesses (interviewees F, H, I, J, and M).

5.4.3 Eligibility to Own Shares in Family Businesses

Item	All Members	Active Members
Eligibility to own shares in family businesses	69%	25%

Regarding the eligibility of family members to possess shares in the family businesses, approximately 69% of the interviewees (A, C, D, E, G, H, I, J, K, L, and O) said that all family members can own shares in their family businesses. On the other hand, only active family members can own shares in their family businesses according to interviewees B, M, N, and P.

With respect to non-family employees, just two family businesses (A and I) believe that they should invite employees who are from outside the family to have shares in their family businesses. “Yes, especially if they have been working in the business for a long time” interviewee A commented.

The remaining fourteen out of sixteen interviewees said that employees who are not from the family members should not have the right to be owners in their family businesses. Interviewee D said in this regard “no, it is difficult to let non-family employees have shares in our family business”.

5.4.4 Next Generation Ownership of Family Members

Item	Criteria	No Criteria
Criteria for next generation ownership	19%	81%

When interviewees were asked about the criteria according to which next generation family members can be owners in the family businesses, more than 80% of them said that there are no criteria, whatever, for next generation ownership of family members in the family businesses (interviewees A, B, E, F, G, H, I, J, K, L, N, O, and P).

On the other hand, only three family businesses have certain criteria for next generation family members have shares in the family businesses (interviewees C, D, and M). The most important of these criteria are competence, education, interest in the business, seriousness.

5.4.5 Selling Shares of Family Members

Item	Other Members	Any Person
Selling shares of family members	81%	19%

Content analysis indicates that three-fourths of family businesses allow only other family members to buy shares if a family shareholder decides to sell his or her stake in the family business (interviewees B, C, D, E, F, G, H, J, K, L, N, and P). Interviewee O said that the priority is to owners from the family to buy shares if other family members like to sell their shares in the business.

Finally, only three family businesses (interviewees A, M, and O) said that any person, whether a family member or not, is eligible to buy the shares of other family members wishing to sell their shares.

5.4.6 Plans to Transfer Ownership to Next Generation

Item	Available	Not Available
Plans to transfer ownership	13%	87%

When interviewees were asked if their family businesses have written plans regarding the transfer of ownership to the next generation, only two family businesses (interviewees B and E) have plans to transfer ownership to the next generation. However, these two family businesses clarified that these plans are not yet written.

On the other hand, the vast majority of family businesses (interviewees A, C, D, F, G, H, I, J, K, L, M, N, O, and P) do not have any plans for the transfer of ownership to family members from the next generation.

The above result is supported by the result of Dingliana (2013) who stated that only 24% of family businesses have formal plans for the transfer of ownership.

5.4.7 Timeline for Ownership Transition

Item	Gradual	Not Gradual
Timeline for ownership transition	50%	50%

With respect to the timeline for ownership transition in family businesses, content analysis indicates that eight family businesses (interviewees A, B, C, D, F, G, L, and P) prefer to conduct gradual transfer of ownership rather than transferring the ownership at once.

On the other hand, the other eight family businesses said that they prefer to transfer ownership to the next generation at one step rather than gradually (interviewees E, H, I, J, K, M, N, and O).

5.4.8 Entering Outsiders as Shareholders

Item	Yes	No
Entering outsiders as shareholders	19%	81%

Results show that three interviewees (B, I, and L) out of sixteen said that they have plans or intentions to let outsiders enter in their family businesses as shareholders.

On the other hand, the majority of family businesses do not have any plans or intentions to let outsiders enter in their family businesses (interviewees A, C, D, E, F, G, H, J, K, M, N, O, and P).

5.4.9 Communications Related to Ownership Succession Process

Item	Family Meetings	Board of Directors	Advisory Council
Communications of ownership succession	75%	19%	6%

Three-fourths of family businesses said that they handle any communications regarding ownership succession through family business meetings (interviewees A, C, D, E, F, G, J, K, M, N, O, and P).

Boards of directors are responsible for handling communications connected to ownership succession process according to three family businesses (specifically H, I, and L). Finally, one family business (interviewee B) said that the advisory council is the party that will handle any communications regarding the process of ownership succession.

The above result is consistent with the result of Walsh (2011) who stressed that creating communication activities such as family business meetings, family council meetings, and family business rules is important to guide the whole succession process.

5.4.10 Selecting Family Business Ownership Structure

Item	Active Members	All Members
Selecting ownership structure	88%	12%

When interviewees were asked if all the family members, whether they are active or non-active, interfere in choosing the family business ownership structure, fourteen out of sixteen family businesses (interviewees A, B, C, E, F, G, H, I, J, K, M, N, O, and P) said that not all family members interfere in selecting the ownership structure. Four of these family businesses clarified that just board members are the persons who have the authority to choose the appropriate ownership structure of their family businesses.

The remaining two family businesses (D and L) said that all their family members interfere in selecting the ownership structure of their family businesses.

5.4.11 Funding Alternatives of Family Businesses

Funding Alternatives of Family Businesses		
1.	Go to the banking system	63%
2.	Use of family loans	38%
3.	Call more family members to be shareholders	13%
4.	Go public	6%

With respect to funding alternatives, content analysis of the scripts of interviewees indicates that more than 60% of the family businesses would like to go to the banking system if they need more funding for their family businesses (interviewees A, B, C, E, G, H, I, K, L, and O).

Using family loans is viewed as one of the best alternatives if more funding is needed according to six family businesses (interviewees A, D, F, J, M, and N). Two family businesses (A and P) would prefer to expand the ownership stakes and call more family members to be shareholders in their family businesses if they need more funding.

Finally, only one family business (interviewee I) said that their business would prefer to go public in case that the business needs more funding.

5.4.12 Ownership Transfer Plans

Ownership Transfer Plans		
1.	Selling and/or gifting them to their family members	100%
2.	Other ownership transfer plans	0%

Regarding the ownership transfer plans, content analysis indicates that there is a consensus among all family businesses to transfer the shares by selling and/or gifting them to their family members rather than other ownership transfer plans such as selling shares to employees, selling to third parties, or liquidating the business.

The above result is inconsistent with the result of Funsten et al. (2013) that 24% of family businesses prefer selling and/or gifting shares to other family businesses as their ownership transfer plans.

5.4.13 Shares of Business Leader

Shares of Business Leader in Case of Death		
1.	Passed to his or her heirs	100%
2.	Other stock plans	0%

Content analysis reveals that all family businesses, with no exceptions, said that the shares of business leader are passed to his or her heirs in case of business leader death. Other stock plans such as passing to other family members or selling directly to other partners are not considered by any of the family businesses.

The above result is inconsistent with the result of Funsten et al. (2013) that only 44% of respondents prefer to pass their shares to their heirs in case of their death.

5.4.14 Ownership Structure of Family Businesses

Ownership Structure of Family Businesses		
1.	Having control over the family business	63%
2.	Transforming the family business into corporation	37%

When interviewees were asked if they prefer to have control over the family business, having the family business sold, or transform the family business into corporation (decreasing the family ownership stake), content analysis indicates that more than half of family businesses desire to have their control over their family businesses (A, C, D, F, H, J, L, M, and P). Six family businesses (interviewees B, E, G, I, K, N, and O) would like to transform the family business into corporation (decreasing the family ownership stake).

5.5 Answers to Research Questions

Answers to the following research questions are provided below according to the content analysis of the three-circle model of family businesses (family, management, and ownership) within the succession context:

1. What are the most critical challenges that face family-owned businesses in Palestine?

   Based on the content analysis of family businesses in Palestine, the top critical challenges facing these businesses are: (1) the general political and economic situation in the country, (2) increasing competition locally and internationally, (3) introducing new products and services, (4) finding more customers and markets locally and globally, (5) restructuring, (6) business continuity over the long run, (7) the need to have more innovation, (8) complying with applicable laws, rules, and regulations, and (9) running family businesses more professionally.

2. To what extent do family factors affect family businesses' need to have a succession plan?

   Regarding the family factors that affect or may affect the family businesses succession process and outcomes, it is evident from the content analysis that many factors play a significant role in this context. First of all, there is almost agreement among family businesses on their desire to have control of their family businesses. Secondly, the lack of appropriate experience, specifically management experience, by some family members makes it difficult for some businesses to have good succession outcomes. Thirdly, some family members prefer to work outside their family businesses.

   Moreover, many family members are still not aware of the importance of having business succession plants. The result of this lack of awareness is that some family businesses do not have any succession plans. In addition, different opinions, and sometimes rivalry, among family members particularly from different generations force some family businesses to postpone the succession process. Even more importantly, some family business leaders are not willing to give up their leadership roles for various reasons. Finally, lack of confidence in the future generation's ability to manage the business in the right way makes it difficult to have effective succession process and outcomes.

It is very necessary for family businesses to solve the above-mentioned problems regarding the family component in order to manage the succession process more effectively so that good outcomes will be more likely to arise.

3. To what extent do business factors affect the family-owned businesses' need to have a succession plan?

   Many business-related factors play a role in the succession process. Content analysis reveals that the need to make fundamental changes in some family businesses such as restructuring, expansion, enhancing innovation and so on makes succession planning less urgent for these businesses at the current time. Also, many family businesses do not have appropriate strategic planning which means that they do not perceive the importance of succession planning. Some businesses do not have the required balance between the family and the business itself which in turn affects the succession process itself as well as the desired outcomes.

   Additionally, the bad management of some family businesses makes it difficult to manage the succession process effectively. This in turn leads to bad succession results. The financial-related problems from which many family businesses suffer means that these businesses will not discuss any issues, including succession matters, till they recover financially. Above this, many family businesses do not have the appropriate successor candidates. This makes these businesses delay the succession issue till they find the suitable candidates. Finally, most of the family businesses do not have retirement plans for their key executives. Therefore, they do not feel that it is important to start the succession process.

4. What are the main obstacles that affect family-owned businesses' succession process?

With respect to the obstacles of family businesses succession process in the first and second generations, the most important of these obstacles are (1) lack of practical experience of family members, (2) poor communications among family members, (3) different viewpoints between family members from different generations, (4) lack of written rules and procedures, and (5) lack of awareness in terms of succession importance.

Content analysis also indicates that the top obstacles of family businesses succession process in the third generations and beyond are the same as the above obstacles.

5. What are the main factors that influence succession outcomes of family-owned businesses in Palestine?

It is evident from the content analysis that the family and management components of family businesses are the main factors that influencing the succession outcomes of family businesses in Palestine.

Chapter six

Case study

Izhiman coffee chain company

Background

Izhiman is a private shareholding company, and one of the successful family businesses in Palestine. It was established in 1920 in Jerusalem by Khaled Izhiman. Since the twenties, the family became famous in trading coffee, spices, and nuts, the business used to be as a traditional profession and trade inherited by generations.

The family moved to Jordan in 1967, and they opened a branch in Amman, in 1969 the founder Khaled and his son Mousa moved back to Palestine, and continued in the family's profession.

Challenges

Many challenges faced the business during its life time, nothing was related to outside competition nor to financial issues; the major challenge was succession between generations.

During the passage of time the family and the business faced many challenges that resulted in separation between the second and the third generations due to disagreements regarding the company's future vision, in addition to the ambiguity related to the defined roles of the family members involved in the business, particularly if the new family member successor does not possess the needed requirements to fulfill the vacant position.

These challenges resulted in miscommunication regarding the shared goals and visions that could have threatened the business's continuity, these critical issues caused separation that lead to divided businesses related to the original family profession, holding the family's name using different logos.

Turning point

Despite those obstacles the family succeeded in establishing Izhiman chain company by the successor of the third generation/ Mohamad Izhiman the son of Mousa Izhiman, in 1994.

The quality of the product and the experience of the family business in dealing with the best suppliers and satisfying the local customers tastes have contributed in shining the family's name locally and internationally, another factor that contributed in this success is the shared vision and respect between both generations. Between 1994-2018 the business has expanded to create three production and marketing lines distributed to nine branches in different cities and villages in the west bank, employing about a hundred twenty members, including only three family members, in addition to four branches that were launched in Jordan.

Recently the family business is going through the 4th generation, and due to the business's huge expansion , the three key family members Naser and Qasem ,and their father Mohamad focused on intensifying all their efforts towards running the business more professionally, in which they started pursuing modern management in 2004-2005 .

The owners are Looking forward to maintaining the family business's continuity through succession from one generation to another, as Mr. Naser said; "the main reason that keeps your family business running is strategic planning including separating, and balancing between family and business".

Although the family business does not have a formal board of directors, but there is an advisory board consisting of five members including the owners and two outsiders, in which this board is responsible for overseeing and communicating the succession planning process.

Succession between generations

The family business now is in its' fourth generation, more precisely between third and fourth generations, where the owners Mohamad Izhiman, chairman from the third generation, and his two sons Qasem the general manager, and Naser the operation manager represent the fourth generation. The management succession used to take place by inheritance, in which "the heirs were appointed based on their specific characteristics and qualifications, particularly on their management experience, good relations, and ability to take decisive decisions". said Mr. Naser.

Qasem and Naser were interested in the family’s business, in addition to loyalty and passion, there were many incentives including financial returns. The two brothers engaged in the family business at the age of fourteen as said by Mr.Naser, also The predecessor was keen on providing the most suitable environment, as the successors acquired the required certificates and demanded skills to run the business, in addition to the gained experience from the family business itself through consultants, they are now working with their father for developing their business.

Succession Plan

The overall process of succession is planned and communicated between the advisory board members and the owners, but only owners have the final decision in choosing the new successor, in which they agree on the successor without facing challenges and conflict of interest. The reason behind this is that the business’s possession is enclosed to three owners, though the business is in its’ fourth generation. Plus, when the predecessor authorizes power to the new generation, and the second party prove themselves, this creates a smooth relationship between different generations, in which the successors can apply their ideas and work under the umbrella of the previous generation at the same time, the father-son relation is key to family business’s continuity as Mr. Naser emphasized “the relationship between the father and the son is very important, lack of understanding can lead to conflict of interest and successor’s depression, the son may bear creative ideas that are proper to the current market, but the decision making power is controlled by the father, and that enhances harmony’s importance”.

In 2014, the first strategic plan was designed in contribution with two outsider consultants, and a vision of globalization was developed as well. During the last five years a great effort was exerted for restructuring the company by adopting institutional work, developing the internal regulations, and assigning outsider auditors in charge of main positions.

Future Succession Plans

A formal written succession plan clearly states separation between ownership and management, to assure business's continuity, and to protect the family's heritage and wealth.

Although the current general manager is a family member in which has held this position for the past ten years, but the orientation is clear towards corporate governance for the separation, the segregation between family and business requires appointing an outsider for management, this is also supported by a written succession plan for the new CEO position.

Future Vision

Family businesses usually fears from expanding to global markets, but competitors may enter their markets aggressively and beat them. Globalization has double faces; conservatism in which it may make you safe from one side but will beat you from another. Izhiman Company's top priority within the next five years is international markets, aiming to open more branches abroad targeting different countries, in which they possess four branches in Jordan, in addition to another company in Bahrain that is not currently active in the market.

Other aspirations include introducing new products and/or services, finding new customers, attracting new talented employees, and more innovation to assure continuity in the market locally and internationally.

CHAPTER SEVEN
CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the key conclusions of the study as well as the necessary recommendations in addition to the directions for future research.

7.1 Conclusions

Based on the data analysis and discussion, it can be concluded that:

1. The five top challenges facing family businesses in Palestine are: (1) the general political and economic situation in the country, (2) increasing competition locally and internationally, (3) introducing new products and services, and (4) finding more customers and markets locally and globally.
2. Family businesses consider continuity, maintaining unity, protecting the family name in the market, and protecting the family heritage and wealth as the most important benefits of succession planning.
3. Good father-son relationship is viewed as one of the most critical factors that positively affects the outcomes of succession of family businesses. On the other hand, rivalry among family members is one of the factors that negatively affect succession outcomes.
4. Preparing successor during the life of the current business leader is considered the best alternative for family businesses. On the other hand, having a written succession plan is not popular to most family businesses.
5. Introducing new products and services, having more innovation, finding new customers and markets, and restructuring are the most important changes required by family businesses to be able to survive over the long run.
6. Expansion, business continuity, restructuring, business development, and succession planning are the top priorities for family businesses over the next five years.
7. Family and management dimensions of family businesses are the most critical factors that affect, positively or negatively, the process as well as the outcomes of succession of family businesses.

7.2 Recommendations

Based on the findings of the study, the following recommendations are made:

1. It is important to have effective communication mechanisms among family members to help in the flow of information among those members regarding succession issues through conducting regular family meetings or activating family councils.

2. Family businesses need to separate ownership and management clearly. This in turn will enhance the governance of these businesses.

3. It is recommended, according to family business specialists, that family members from the next generation work for several years outside the family business to acquire the necessary knowledge and experience.

4. It is recommended that family businesses have boards of directors with independent directors so that they enhance objectivity and rationality in these businesses.

5. The roles of board chair and CEO should not be exercised by the same person.

6. It is highly recommended to undertake the management succession process before undertaking the ownership succession activities.

7. It is recommended that the next generation of owners take the lead in the family business succession process by addressing all of the family, management, and ownership issues.

8. It is recommended that family businesses use trusted advisors in order to assess each of the succession options based on its advantages and disadvantages.

9. Because of the emotional and complexity of family business succession, it is recommended that family businesses start planning for leadership change at least ten years in advance. This period will allow enough time for the family to manage the succession process effectively.

10. Governmental agencies are recommended to establish an appropriate data base to support and promote family businesses in succession planning and come up with a follow-up policy and mechanism.

11. Family businesses are advised to have a succession plan in place that clearly states how the plan will be implemented.

12. Family businesses should train successors to ensure that they have the appropriate skills in place before they proceed over the predecessor to ensure continuity of the family business, a result consists with Gagne et al (2014).

7.3 Directions for Future Research

First, it is necessary to conduct quantitative analysis using larger sample size to be able to generalize the findings of the study. In addition, this study is a cross-sectional one that only captures the data at a particular period. Thus, future researchers should also employ other methods to study the succession process over a longer time horizon. Finally, future researchers are urged to investigate more the factors that affect communications in the context of family business succession process.

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Appendix A: Interview Questions

Part One: General Questions

1. Who is the founder of the family business?
2. When was the family business founded?
3. Where is the current location of the family business?
4. What is the legal form of your family business?
   a. Sole proprietorship.
   b. Partnership.
   c. Corporation.
   d. Other, ________________.
5. To what sector does your family business belong?
6. What is the total number of employees in your family business?
7. At what generation is the business now?
8. What is the percentage of family ownership in the business?
9. What is the key challenge facing your family business in the last five years' time?
   a. Competition.
   b. Running business more professionally.
   c. General economic/political situation.
   d. Complying with regulations.
   e. Suppliers.
   f. Family and the community.
   g. Other challenge, ________________.
10. Does your business have a written strategic plan?
    a. Yes. b. No.
11. Does your family business have a formal board of directors?
    a. Yes. b. No.
12. What percentage of your board is from family members?

Part Two: Family Component

1. Does the family desire continuous control over the business? Why?
2. From where do the family executives gain their managerial experiences (from the family business itself or from other businesses?)
3. Is the family selective about which family members are qualified to work in the business?
4. Are all the managerial positions run by family members? What is the percentage?
5. Is the business attracting the most competent family members from the next generation?
6. How is communication working within the non-active family members?
7. Does your family business have a business succession plan? What are the benefits of succession planning? What are the main obstacles that affect your family business succession process?
8. Currently, is the family preparing and developing your CEO successor?
9. From a family point of view, what are the benefits of succession planning?
   a. Keeping the family unity
   b. Protecting the family name in the market
   c. Keeping the family social class level high
   d. Protecting the family heritage and wealth
   e. All of the above
   f. Other reasons, ________________.
10. How important is the relationship between father and son, working together in the family business, in terms of succession outcomes?
11. Does the family business currently have both siblings and cousins? How many? Do they enjoy the same level of authority?
12. Has sibling and cousins rivalry been an issue in your family business?
    a. Yes. b. No.

13. Which is better to follow from a family point of view?

    a. Preparing a successor during the life of the current leader.

    a. Selecting a successor after the retirement/death of the current leader.

    b. Having a written succession plan based on the business needs in selecting the future successor.

14. Do you believe that the current family business leader is the only one who can accomplish the required changes in the business such as replacing the executives or modifying a production line or expansion?

15. Do you believe that the future generation can accomplish the needed changes better than the current one?

16. Is there a plan or process in place to develop the next generation for the business?

17. Are there specific criteria followed in selecting the leader successor?

    a. Affective successor.

    b. Normative successor.

    c. Calculative successor.

    d. Imperative successor.

18. Do all the family members (whether they are active or non-active) interfere in choosing the CEO successor? The executive successors?

<u>Part Three</u>: Business / Management Component

1. Do you think that your family business has the ability to continue within a competitive market place? If yes; what are the key competitive factors your business depends on in the process of continuity?

    a. Loyalty by family members to the business.

    b. Access to capital.

    c. Access to labor.

    d. Values.

    e. Good product and/or price.

    f. Support from family.

    g. Reputation.

    h. Other, _______________.

2. What are the required changes needed to enable your business continue in the market?
3. What is the top priority for your family business within the next five years?
4. What are the three main reasons that keep your family business survive?
5. Can you think of three main reasons that caused other family businesses to fail?
6. Is there a written retirement plan for the current business leader (CEO)? In other words, is there a specific retirement age your company sticks to?
7. If the current CEO left tomorrow, how long would it typically take for the board to name a permanent successor (in days)?
8. Is the current CEO a family or non-family member? How was the current CEO appointed? How long has the current CEO had this position? What are the specific characteristics / qualifications that the CEO must have? What kind of compensation package does the CEO receive?
9. How many candidates are "ready now" to immediately assume the CEO position?
10. Is there a formal retirement plan for the CEO? Is your business preparing a specific executive to succeed the current CEO? Does the family business have a succession plan for the CEO position?

11. Do you consider the CEO succession plan important? Who on your board of directors oversees the CEO succession planning process? How often is the CEO succession plan reviewed?

12. In case you do not have a CEO succession plan, who is more likely to be selected to be the CEO successor? Why?

13. Is it a mandatory issue to be a family member to be a key executive? Do all family executives have the needed academic background that suits the position? Is there a mandatory retirement age for all executives, especially owners? Who decides on placing and replacing the executives?

14. How important is bloodline versus competence in terms of senior management appointment?

15. Is there a formal process for developing successor candidates for key executive positions?

16. Do you believe that non-family executives are more efficient than family executives? Do the non-family executives have the needed authority to do their job the same as the family executives? Do both family and non-family executives have the same compensation packages? At present, are there adequate ready successor candidates for key positions?

17. If specific strategies require creating new departments, specialties, and the family successors are not ready or not qualified enough, what do you do? (Do you hire non-family executives or do you postpone this strategy until the family successors are ready?)

18. How can you tell that the business is in succession?

Part Four: Ownership Component

1. Has it been agreed that your business will continue to be owned totally by the family?

    a. Yes. b. No.

2. Do all the family members (regardless of whether they are working or not in the business) have shares in the business?

    a. Yes b. No.

3. Who can own shares in the family business and why? Only family members who are active in the business? Non-active family members? Should non-family employees be invited to have ownership in the business?

4. What are the criteria for next-generation family members becoming owners?

5. In case a family shareholder decides to sell his stake, who is allowed to purchase it: other family members or outsiders?

6. Do you have any written plans regarding the transfer of ownership to the next generation?

7. What is your opinion in respect to the timeline for the ownership transition? Will it be a gradual transition whereby a portion of the ownership will be transferred first with the balance at a later date?

8. Are there any plans to enter outsiders as shareholders in the family business?

    a. Yes. b. No.

9. How will the family handle communication as it pertains to the ownership succession process?

    a. Family business meetings.
    b. Family council meetings.
    c. Family business rules.

10. Do all the family members (whether they are active or non-active) interfere in choosing the family business ownership structure?

    a. Yes. b. No.

11. In case of need for more funding, do you

    a. Expand the ownership stakes and call more family members to be shareholders.
    b. Expand the ownership stakes and call non-family members to be shareholders.

c. Use family loans.
d. Use the banking system.
e. Go public.

12. The ownership transfer plan is to:

a. Sell to employees.
b. Sell/gift to family members.
c. Sell to a third party.
d. Liquidate.
e. Uncertain at this point.

13. In the effect of business leader death, his stock:

a. Passes to my heirs through my estate.
b. Is redeemed by the company.
c. Is purchased directly by my partner.
d. Other stock plans.

14. Which is better to follow?

a. Having the family business sold.
b. Transforming the family business into corporation (decreasing the family ownership stake).