

Analysis of Factors that Affect Successor Satisfaction in Family Firms

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Abstract

This study is to find effects between the level of preparation of factors and the satisfaction of successors. Independent variables are the level of preparations of successors and divided by three detailed type, the level of preparation of management ability, the level preparation of positive succession attitude and the level of preparation of ownership succession. A dependent variable is the satisfaction of successors and a moderating variable is the level of communication between successeees and successors. This study was undertaken in South Korea among 59 successors in 59 family firms. A total of 53 samples were available to use for the research. The empirical results indicate that the level of preparation of successors, management ability, positive succession attitude and ownership succession, is associated to the satisfactions of successors. Additionally, the moderating variable has not the relationship to the dependent variable as a moderating variable, but the result showed a strong relationship between the level of communication and the satisfaction of successors.

Keywords : Family Business, Family Firm, Succession, Satisfaction of Successor

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1. Introduction

In 2015, the number of small and medium enterprises (SMEs) in Korea is about 3.6 million, accounting for 99.9% of the total number of companies, and the number of employees is 15.13 million, accounting for 90.2% of the total number of employees (Ministry of SMEs and Startups). Not all of SMEs are family firm, but nonetheless the rate of family firms is overwhelming [Gersick et al., 1997]. According to Poza [2010], 80~98% of the total enterprises in the world are estimated to be family firms. Also in South Korea, there is a study that about 73% of total enterprises are family firms [Nam et al., 2007].

Although the definition criteria of SMEs in each country are different, family firms in the US represent a maximum of 64% of GDP and a maximum of 62% in employment creation (Astrachan & Shanker. 2003). In this way, family firms make jobs and wealth creations and national economy and social stability [Cho et al., 2011]. Because family firms have a great influence on the national economy, so the succession of family firms is a crucial meaning at the national level.

There are many important factors in the succession process, but Ward [1987] emphasizes that the level of preparation of successors and the ability of successors are important parts of successful succession. In addition, the higher preparation of successors for the succeeding succession of the family firms results in more positive influence [Venter et al., 2005]. If family firms have not been planned or prepared for a

succession, the survival rate of family firms falls to 30% from the first generation to the second generation and the survival rate from the second generation to third generation is 13% [Ward, 1987]. In addition to the level of preparation of successors, according to Nam [2016], various external environmental factors influence on the satisfaction of family members and succession decision making. Even if the successor is well prepared, if the external environment is not considerate, the successor's satisfaction and succeeding the family firm are in difficulty. Although there are various factors influencing the succession, many studies have been focused on successees, not successors, so the studies have a limit to ascertain the validity of various factors during succession [Lim et al., 2016].

The purpose of this study is as follows; first, we identify the detailed factors which are associated to the satisfaction of successors. For this, we divide the level of preparation of successors into the three detailed type, management ability, positive succession attitude, and ownership succession. Second, there are many environmental factors, but we selected the level of communication between successees and successors as the external factor and use this factor in a moderating variable.

2. Literature Review

2.1 Definition of the Family Firm

The definition of the family firm slightly differs from each researcher. Astrachan and Shanker [2003] classified family firms into three catego-

ries according to the extent of family member participation. A broad concept is that family members control the strategic direction of the firm, a middle concept means that some of family members, usually founders, are included some part of management, and a narrow concept is that more than one generation should be included and control the firm directly. There are other views that family members should have more than half ownership [Westhead, 2003] and family members should participate in the firm as well as half ownership [Shanker and Astrachan, 1996]. Venter also defines family firms as having to set and pursue family's vision and to try to succeed in the next generation of family firms [Venter, 2005]. In other view of Chrisman, the three elements which are management activities, succession between generations and ownership are an important criterion for defining a family firm [Chrisman et al., 2005]. It is also one of problems that there are various concepts according to each standard rather than one common concept. Even in the western where actively conduct this field, the name of family firms are called various names such as family firm, family business, family owned business, and family enterprise [Baek and Hong, 2007].

In this study, we define the family firm as the narrow concept, which is suggested by Astachan and Shanker, more than one generation in family members should be included and participate management.

2.2 The Process of Succession and Success

Succession in a family firm is defined to be

an important process and event to determine the life and death of the firm. In succession of family firms, it is called various terms such as succession of business, succession of family business. Although the succession is largely divided into ownership and management succession, however, Hwang [2008] argues that small and medium-sized firms should be regarded both concepts, because rights of ownership and management are usually inherited.

Dyer [1986] argued that if one chooses three important issues in the family firms, the first is succession, the second is succession, and the third is succession. It means that the succession is a crucial part, but also a difficult problem for the sustainability of family firms. Succession of Non-family enterprises transfer just the right of management, on the other hand, family firms should transfer the culture of the family, leadership of the family and also is related to retirement of the first generation [Cho, 2008]. This is the point why succession of family firms is difficult. For successful succession in family firms, successees and successors are related to different factors. Successees are related to voluntary retirement will, shared firm's vision with next generation, and successors are related to voluntary succession will, education, and training [Kim and Nam, 2013].

Perspectives on the success of the family firms of succession are varieties such as performance of firms. However, there are no criteria for what perspective is right, what should be regarded as a failure, or how to evaluate the succession process [Santiago, 2000]. Because of this problem, successess and successors should

find their succession method in accordance with the situation of each firm, instead of the standard of succession process. However, Morris et al. [1997] argued that success and failure of succession can be judged by the level of satisfaction of family members including successors or stakeholder and the profit of firms after succession.

3. Research Model and Hypothesis

3.1 Research Model

<Figure 1> is the model of this study, independent variables are the level of preparation of the successor, managerial ability, positive succession attitude and ownership succession. Also the dependent variable is the satisfaction of the successor, the moderating variable is the level of communication between successees and

successors.

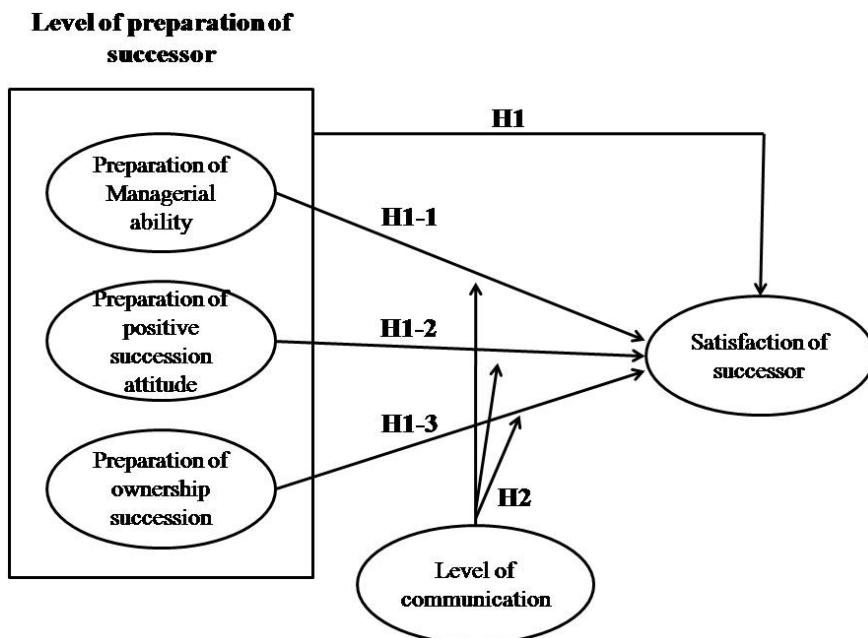
H1: The level of preparation is associated to the level of satisfaction of successors.

H1-1: The level of preparation of managerial abilities is associated to the satisfaction of successors.

H1-2: The level of preparation of positive succession attitude is associated to the satisfaction of successors.

H1-3: The level of preparation of ownership succession is associated to the satisfaction.

H2: The level of communication between successors and successees moderates the relationship between the level of preparation and the satisfaction.



<Figure 1> Research Model of the Level of Preparation of the Successor and the Satisfaction of the Successor

3.2 Operational Definition of Variables and Measurement

3.2.1 The Level of Preparation of the Successor

Successful succession of the family firms requires successive preparations and interests of the successor [Sharma, 2004], the successor's ability to manage the family firm [Morris et al., 1997], and the successor's willing to continue the family firm. Ward [1987] argues that successor's managerial abilities, such as experience to make decision and general administration capacity, help to conduct the real management. In this study, the level of preparation of managerial ability of the successor was measured as the managerial ability needed for the successor's task, the variety of experience related to the business, mid and long term vision of the family firm, and the level of preparation for succession following to the change of times.

Chrisman et al. [1998] contend that successful succession needs not only the successor's managerial ability but also the successor's willingness to take over the family firm. In order to measure the positive succession attitude of the successor, this study measured the willingness to actively run the firm, the attitude toward the upright leader, and the reward to tasks. The last detailed independent variable is the level of preparation of ownership succession. Ahn and Moon [2008] argue that there are many cases in South Korea which the family firms are closed or sold off due to excessive taxes when the successor takes over the family firm from the successee. It can be interpreted as an essential part of the successor understanding of the tax system for successful

succession of the family firm and the satisfaction. To measure the variable, we measured the degree of understanding of the successor's tax system and tax system related to succession, understanding of the legal process of succession, and finally understanding of financial knowledge.

3.2.2 The Level of Communication between Successeees and Successors

Song and Nam [2017] contend that family dialogue and communication emphasize that family members play an important role in assisting other family participation and sharing family values and philosophy. It implies that the level of communication between successeees and successors can affect the satisfaction of successors. In order to measure the level of communication, we measured the formal and informal communication between successeees and successors, the level of learning about the firm's aim, strategy and information, the level of mutual support with the successee, and the consensus of succession among family members.

3.2.3 The Satisfaction of the Successor

As mentioned earlier, Morris et al. [1997] argue that the success of succession can be measured by the level of the satisfaction of family members and stakeholders, and by the performance of the firm. In particular, stakeholders may include family members and employees in the firm, but we measured only the successor and did not measure the firm's performance. For this measurement, the satisfaction is measured by the satisfaction of the successor in tasks, the

level of pleasure about work, the satisfaction with the succession process, the satisfaction of parents in process, and the willingness to give the firm to next generation.

3.3 Measurement Method of Variables

<Table 1> shows that how to measure each variable, the level of preparations of the managerial ability, of positive succession attitude, and

of ownership succession, and the moderating variable such as the level of communication between successsees and successors, and the dependent variable as the satisfaction of the successor. Also the questionnaire is completed by using the existing measurement and by modification by successsees and successors in the current succession process. For each question, the Likert 5-point was used (1: Not very, 3: Moderate, 5: Very much).

<Table 1> Measurement Method of Used Variables

Variable		Questions summary	Name of variable	The quarry of questions
Independent Variables	Managerial ability	The managerial ability needed for the successor's task	BU1	Renn and Fedor [2001] etc
		The variety of experience related to the business	BU3	
		The mid and long term vision of the family firm	BU4	
		The level of preparation for succession following to the change of times.	BU7	
	Positive succession attitude	The willingness to actively run the firm	PS7	Venter et al. [2005] etc
		The attitude toward the upright leader	PS8	
		The reward to tasks	PS9	
	Ownership succession	The degree of understanding of tax system	FI1	Park and Hong [2012] etc
		The degree of understanding of tax system related to succession	FI2	
		The understanding of the legal process of succession	FI4	
The understanding of financial knowledge.		FI6		
Moderating Variable	The level of communication between successsees and successors	The level of formal communication	CO1	Venter et al. [2005] etc
		The level of informal communication	CO2	
		the level of learning about the firm's aim and strategy	CO4	
		The level of mutual support with successsees	CO5	
		the level of learning about the firm's information	CO6	
		The consensus of succession among family members	CO7	
Dependent Variable	The satisfaction of the successor	The satisfaction of the successor in tasks	SA1	Venter et al. [2005] etc
		The level of pleasure about work	SA2	
		The satisfaction with the succession process	SA3	
		The satisfaction of parents in process	SA4	
		The willingness to give the firm to next generation	SA5	

3.4 Data Collection and Characteristics of Samples

To verify the hypothesis of this study, a survey was conducted. The questionnaires were distributed and retrieved directly, and a total of 59 questionnaires were collected. Except 6 questionnaires with insincerity and missing answers, 53 questionnaires were used for the analysis (<Table 2>). The percentage of males and females were 83% and 17%, respectively. By age,

the percentage of 20~25 age were 5.7%, 26~30 age were 35.8%, 31~35 age were 39.6%, 36~40 age were 17% and more than 40 were 1.9%. Respondents of the late 20s and early 30s were the most frequent. About succession situation, 28.3% were preparing for succession, 58.5% were in succession, 3.8% completed succession, and 9.4% were not related to succession yet. By industry, manufacturing accounted for 52.8%, construction 13.2%, distribution 11.3%, service 13.2%, finance 3.8% and agriculture 5.7%. Among the

<Table 2> The Characteristic of Samples

Classification	Response categories	Frequency	Rate	Total responses
Gender	Male	44	83%	53
	Female	9	17%	
Age	20~25 age	3	5.7%	53
	26~30 age	19	35.8%	
	31~35 age	21	39.6%	
	36~40 age	9	17%	
	More than 40	1	1.9%	
Succession situation	Preparing for succession	15	28.3%	53
	In succession	31	58.5%	
	Completed succession	2	3.8%	
	Not related to succession.	5	9.4%	
Industry	Manufacturing	28	52.8%	53
	Construction	7	13.2%	
	Distribution	6	11.3%	
	Service	7	13.2%	
	Finance	2	3.8%	
	Agriculture	3	5.7%	
Position	CEO	3	5.7%	53
	Board member	14	26.4%	
	Senior manager	7	13.2%	
	Manager	3	5.7%	
	Assistant manager	11	20.8%	
	Others	15	28.3%	
Working period	Less than 1 year	11	20.8%	53
	1~3 years	13	24.5%	
	3~5 years	12	22.6%	
	5~10 years	16	30.2%	
	More than 10 years	1	1.9%	

<Table 3> Means, Standard deviation and Coefficient of correlations for the variables in the Model

	Means	Standard deviation	1	2	3	4	5
1. Managerial ability	3.4387	.77971	1				
2. Positive succession attitude	3.8365	.59780	.408**	1			
3. ownership succession	2.9340	.84232	.581**	.341*	1		
4. The level of communication between successeees and successors	3.7390	.85829	.481**	.407**	.237	1	
5. Satisfaction of successors	3.5358	.79882	.446**	.461**	.115	.777**	1

respondents, 5.7% were CEOs, 26.4% were board members, 13.2% were senior managers, 5.7% were managers, 20.8% were asset managers, and 28.3% were others. The working period was 20.8% for less than 1 year, 24.5% for 1~3 years, 22.6% for 3~5 years, 30.2% for 5~10 years and 1.9% for more than 10 years.

4. Research Results

Before analyzing the collected questionnaires, descriptive statistics analysis, factor analysis, and validity analysis were conducted. The Cronbach's alpha coefficient is used to examine the reliability of the variables. Multiple regression analysis is used to analyze the effect of the level of preparation of the successor on the satisfaction. The program used is SPSS version 21.

4.1 Analysis of Validity and Reliability of Independent and Moderating Variables

In this study, the questionnaire is conducted using the interval scale. The independent variable is the level of preparation of the successor and its subcategories are the level of preparation of managerial ability, of positive succession attitude, and of ownership succession. To find the effect

of the moderating variable, we divide the moderating variable as groups the high level group and the low level group, and set each group 1 and 0 as the dummy variables for analysis. The dependent variable is investigated as the satisfaction of the successor. Factor analysis is conducted to increase the conceptual validity of each variable. We use the Varimax method which rotates the angle between the factors at 90 degrees. As shown in <Table 4>, the questions are grouped into the set variables. In addition, KMO and Bartlett's results provide the level of validity for conceptual validity. The reliability of each variable ranged from 0.671 to 0.904, and the scale of the level of reliability is generally available. For reference, an exploratory study is considered to be sufficient Cronbach's alpha of 0.6 or greater [Nunnally, 1978].

4.2 Analysis of Validity and Reliability of the Dependent Variable

This study sets the dependent variable as the satisfaction of the successor and measures through 5 questions and also uses Likert 5 scale. The result of KMO and Bartlett tests provides the level of validity for conceptual validity. In the reliability analysis, the result is 0.875 which is enough to use (see <Table 5>).

〈Table 4〉 Analysis of Validity and Reliability of Independent and Moderating Variables

Definition of variables		Name of the variable	Factor Results	Cronbach's alpha	Total Explained Variance(%)
Independent Variables	Managerial ability	BU1	.731	.826	71.292
		BU3	.653		
		BU4	.694		
		BU7	.735		
	Positive succession attitude	PS7	.525	.671	
		PS8	.801		
		PS9	.767		
	Ownership succession	FI1	.781	.886	
		FI2	.867		
		FI4	.903		
FI6		.667			
Moderating Variable	The level of communication between successses and successors	CO1	.841	.904	
		CO2	.740		
		CO4	.748		
		CO5	.877		
		CO6	.806		
		CO7	.733		
Kaiser-Mayer-Olkin: .800 Bartlett's chi-squared : 558.143, The degree of freedom: 136, Sig.: .000					

〈Table 5〉 Analysis of Validity and Reliability of the Dependent Variable

Definition of variables		Name of the variable	Factor Results	Cronbach's alpha	Total Explained Variance(%)
Dependent Variable	Satisfaction of successors	SA1	.829	.875	67.426
		SA2	.830		
		SA3	.863		
		SA4	.749		
		SA5	.831		
Kaiser-Mayer-Olkin : .772 Bartlett's chi-squared : 148.612, The degree of freedom : 10, Sig. : 0.000					

4.3 The Results of the Analysis

〈Table 6〉 is a table that represents the relationship of the level of preparation of the successor to the satisfaction. For the analysis, the independent variable is calculated by summing three subcategory averages and conducted regression analysis. As a result, t value (3.163) and significance level ($p < 0.01$) are found in Model 1, so that it can be explained that the relationship between two variables have a sig-

nificant relationship with each other. According to this result, H1 is accepted 〈Table 7〉 is the analysis table that shows the relationship among three subcategories of independent variable, the moderating variable and the dependent variable. As shown in the table, Model 1, the level of preparations of managerial ability and of positive succession have a significant effect at $p < 0.01$ level, but the level of preparation of ownership succession is significant at $p < 0.1$ level.

〈Table 6〉 The Relationship of the Level of Preparation of the Successor to the Satisfaction

Model		Non-Standardized Coefficient		Standardized Coefficient	t value	Significance	VIF
		B	SE	B			
1	Constant value	1.679	.596		2.817	.007	
	Preparation of succession	.546	.173	.405	3.163	.003***	1.000
R					.405 ^a		
R square					.164		
Adjusted R square					.148		
F					8.470		

*p < 0.1, **p < 0.05, ***p < 0.01.

〈Table 7〉 The Relationship of the Three Sub-Preparations of the Successor to the Satisfaction

Model		Non-Standardized Coefficient		Standardized Coefficient	t value	Significance	VIF
		B	SE	B			
1	Constant value	.806	.629		1.280	.206	
	Managerial ability	.469	.152	.455	3.075	.003***	1.633
	Positive succession attitude	.493	.171	.369	2.878	.006***	1.223
	Ownership succession	-.261	.136	-.275	-1.915	.061*	1.540
R					.584a		
R square					.341		
Adjusted R square					.301		
F					8.470		

2	Constant value	.216	.467		.462	.646	
	Managerial ability	.170	.119	.165	1.423	.161	1.898
	Positive succession attitude	.256	.130	.191	1.972	.054*	1.323
	Ownership succession	-.194	.100	-.205	-1.947	.057*	1.556
	Level of communication between succeeessees and successors	.622	.093	.669	6.667	.000***	1.412
R					.811 ^b		
R square					.658		
Adjusted R square					.630		
F					23.095		

3	Constant value	1.061	.813		1.305	.198	
	Managerial ability	.126	.148	.123	.852	.399	2.894
	Positive succession attitude	.107	.148	.080	.518	.607	3.290
	Ownership succession	-.280	.127	-.295	-2.210	.032**	2.465
	The level of communication between succeeessees and successors	.647	.096	.695	6.732	.000***	1.473
	Managerial ability× Communication	.024	.266	.016	.090	.929	4.104
	Attitude×Communication	.180	.267	.106	.672	.505	3.407
	Ownership×Communication	.184	.217	.138	.849	.400	3.625
R					.821 ^b		
R square					.674		
Adjusted R square					.623		
F					13.301		

*p < 0.1, **p < 0.05, ***p < 0.01.

〈Table 8〉 The Results of Hypothesis Verification

Hypothesis		Result
H1	The level of preparation is associated to the level of satisfaction of successors.	Accepted
H1-1	The level of preparation of managerial abilities is associated to the satisfaction of successors.	Accepted
H1-2	The level of preparation of positive succession attitude is associated to the satisfaction of successors.	Accepted
H1-3	The level of preparation of ownership succession is associated to the satisfaction.	Accepted
H2	The level of communication between successors and succeesees moderates the relationship between the level of preparation and the satisfaction.	Rejected

Therefore, H1-1, H1-2 and H-3 are accepted. In Model 2, except the level of preparation of managerial ability, the level of preparation of positive succession attitude and the level of preparation of ownership succession are significant at $p < 0.1$ level, also the level of communication between succeesees and successors is significant at $p < 0.01$ level. It implies that the level of communication has a strong correlation with the dependent variable.

However, in Model 3, which is analysis to find the effect of the moderating variable, except the level of preparation of ownership succession and the level of communication between succeesees and successors, all results are not significant. According to the Model 3 of result, H2 is rejected. 〈Table 8〉. is The results of hypothesis verification.

5. Conclusion and Limitation

In this study, we analyze the relationship between the successor of the level of preparation and the satisfaction. As we have seen in previous studies, the level of the preparation is an important part in succession, so we started to study for finding answers to the question that what subcategories affect to the satisfaction of the successor. We also examine to find out the rela-

tionships including the external variable as the level of the communication between succeesees and successors. The dependent variable is set as the satisfaction of the successor, and the independent variable is set as the level of preparation of the successor, and it is divided by three subcategories, managerial ability, positive succession attitude, and ownership succession. The results of this study are as follows. First, the relationship between the level of preparation and the satisfaction is significant. It means that the level of preparation of successors is necessary for successful succession. If successors participate in the family firms without the level of preparations, the satisfaction of the successor would be decreased. Also, it is possible to relate to success or failure of succession. Second, the level of preparations of managerial ability, of positive succession attitude and of ownership succession, all subcategory, affect to the satisfaction. Education of management, experience to management, understanding tax system and financial knowledge etc are important factors. Especially, the successor's willingness to voluntary succession is a crucial role in process. To accomplish this, it is expected that the role of family members related to the successor is important to support the successor and to make the successor

having the willingness by himself or herself. Third, the level of communication with successors, which is an external factor that is set to see the moderating effect, is a crucial important factor in this study. It means that successors should make a great effort to communicate with successees and family members for improving his or her satisfaction. Not only formal conversation, but also informal conversation should be made often and deeply, and fellowship supporting each other makes the satisfaction higher. The limitations of this study are as follows. First, the samples in the study have limitation. Finding respondents is difficult because of subject of research. This problem affects the size of the sample, and the study has this limitation. Second, to generalize research theories is difficult because of the sample group. Most respondents are Y.E.S. MBA students or graduated students in Hanyang University. The MBA is a professional education course in master degree for succession in family firms, and usually this course is mainly composed of students who already positive consultation with family members. Therefore, there is a limitation that the samples can be surveyed from a positive point of view. This study suggests these issues for future research. Except the variables we used, future research would need various variables and view of stakeholders such as family members in succession as well as successors. Especially, study to communication between generations would be specifically needed such as time, level and so forth. To extend study on the effect of the satisfaction of the successor on firm performance would be needed. Additionally, the future research would study the de-

tailed relationship the level of preparation of capital and the satisfaction of successors. This study showed that when successors understand tax system well, the satisfaction of successors is decreased. Finding reasons would be needed. Also, to study negative samples which has not completed a positive consultation about succession is necessary and to find reason why has not completed a consultation is needed. Finally, it would be necessary to investigate the characteristics of family firms surviving in the era of digital and 4th industrial revolution, and the competencies needed to survive.

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