

# The Analysis of Effective Factors on Family Business Transition to the Next Generations in Iran: Strategic Management Perspective

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**Abstract:** this paper discusses effective factors which result in sustaining and transferring family business to the next generations in Iran. In the research, effective factors in family business transition to the next generations have been analyzed. These factors include potential successor's preparation, successor's selection, family meeting, consulting group selection and activity coordination between old and new generation. Then the impact of each factor is measured and prioritized. Finally it is shown that planning for potential successor's preparation is the most effective factor in transferring family business to next generations in Iran. There are also some solutions suggested at the end to resolve challenges in family business administration which lead to successful transfer of family business to the next generations.

**Keywords:** Family business, Succession planning, Next generations, Strategic management

## 1. INTRODUCTION

Family business is a business which the main decisions and operational plans for the transfer and replacement of leadership are under the influence of family members. The ownership or management members in that organization are responsible for the main roles. [1]

Family business is a business which the property is completely available to families; At least one of the owners is working in business. Even if he or she is formally employed business regularly to help it out. . [1]

Author believes that the family business is successful which Family entrepreneurs can own business as a family heritage transfer to the next generation. Family business is so significant because it has three dimensions business, family and ownership If these dimensions are integrated these businesses will create synergy. Family business owners are families, groups of relatives, with combination of values, past and his or her emotional relations through family businesses, some families seek to keep family tied and close to each other, or are team work and finally have something meaningful.

What family business distinct from non-family business, is the added complexity resulting from family systems which make the most of them act and determine their strategies differently. [2]

Some factors affect family business decisions such as their needs, wishes and concerns.in addition, there are rival sibling , cousins and competition to attraction and confirmation of their parents .family systems and methods which is used to interact with family members can affect business decisions .these challenges make attract the family business management . Family business leader not only should be business management but also should be family management; unfortunately, success in family business is generally low. Statistic indicates that 70-80 percentage of all family businesses during the initial 4 to 5 years lifetime fail.[2] What the importance of this research will increase,1. Growth Entrepreneurship Culture 2. privatization in Iran Because author believes that with the growing culture of entrepreneurship and increase the number of private companies in Iran the number of family business grows. Therefore, this study focuses on the family business in Iran which has the long-term plan to transfer their business to the next generations. Namely they have been able to identify current challenge in business and family, planning to transfer their business to next generations h. type of research is based analytic, the methods of research are filed and library. In this research

have been studied and collected data by questionnaire and interview with family business owners and the size of the sampling is 105 Iranian family businesses.

## **2. FAMILY BUSINESS CORE CONCEPTS**

What makes a family business is the degree of presence and Control of owners and relatives in the company. [3] as family member interaction at the work site increases, a higher risk of painful family conflict must be expected, leading to an imbalance in the family/business relationship. Business firms strive to strike a balance between business and family; however, this is not attained most of the time. [4] Often family welfare and needs take priority with no consideration for the firm's need for future growth. When the company is given priority, this usually occurs to the detriment of family communication, harmony, and fulfillment of other family needs and issues. This gives family businesses a unique character. [4]A family business balance (or imbalance) depends also on the arrival of new generations to family businesses. [5]The successes of family business transition, and the continuance of the family business, depend on the coherent planning for performing common activities between old and new generation, holding family business, utilizing technical counselors, successor's preparation, successor's selection.

## **3. FAMILY BUSINESS PREVENTIVE PROCESS**

For successful management, every family business needs to a process which can manage different family business discuses and problems. Business successful management should be based on key values which are so important for owner and family members and help to their strength points. [6] Family values are important factor in overcoming jealousy, rivalry and personal financial demands. Family business management is consist of two parts: 1.business management 2.family management .each of these dimensions are changing and dynamic .for example ,when age of each family members increase their needs will change in different duration [7] .these changes will affect their attitudes and wants. They lead to make difficult such as jealousy and rivaling, and eradicate interactions between family and business .family business leaders have to use preventive management or leadership to anticipate and solve family important problems. Suitable preventive management process in the family business must be consist following factors: 1. participation 2.Transparency Information 3.respect 4.interaction.

## **4. ACTIVITIES COORDINATION BETWEEN OLD AND NEW GENERATION**

Recent research shows that joint and coordination activities leading to greater participation in the next generation. Author believes that Joint activities between the old and new generations can make transfer different experiences to new generation and also transfer new perspective from new generation to old generation. [8]This type of activity leads to eliminate contradiction and tension between old and new generations because of close relationships between them. Eventually, make integrated family and business and led to the survival or persistence of family business. [9].

## **5. CONSULTANT**

Consultant or group of consultants is one of the most important factors in family businesses success which can facilitate family businesses transition to the next generation. [10].Consultants are relating to family, board or both of the Often consultants group is used in development level where potential successor involved with family and business performance. Initial focus of the group is on strategic problems, family management, and relationship management. The most important counselor's goals to help increase possibility of long-term family success, prosperity and harmony between family and business. [11]

Every business owner needs to advice in every step of the time. If owners choose good advisers they can use their opportunity and predict problems and also solve them eliminate conflicts between family member .good counselors not only should be strong technical knowledge but also they should have a strong understanding of the problems which resulted from family, business or both of them .important questions about future of business which are posed by counselors, can help to find and recognize opportunities .Also they can use financial and managerial techniques till they provide family business unique needs. So they can

help making decisions process and excellence strategy .owners have to know that choose good counselor in suitable situations. Unfortunately family businesses are so unknown in Iran .rate of success family business is low so numbers of the family business consultants are limited .author believe that family business counselors must have high ability for helping to family members' development ,coordinate family and business goals with together and , develop and implement succession plans.

## **6. FAMILY MEETINGS**

Family meetings are locals to teach family values, traditions, Basic skills of business to younger family members and their spouses. Family meeting at specific times is one of the important factors for making a process that can raise family business issues by it. [12]Family meeting is considered as a way to gather family members for educational purposes, discuss, prevention management of the family and business issues. However a family business flourishes and develops its shareholders are becoming more dispersed and however family members are more away from home, Family meetings can cause to family members come together in a specified time to the family reasons and also business reasons [13]. Author believes that family meetings can make so strong families. The meetings are powerful way to strengthen families and the best way to help family members to discover and make Common areas that cause them to increase their unison. During the meetings, families understand their problems about themselves and about their business. In order to understand their role in joint cooperation programs in the future Family members should learn about strategic matters, capital, property and succession and inheritance matters. Families, who resolve their problems, will make a common future that there are common values, goals and assumptions about the family and business performance .also family meeting give opportunity to family members for practicing and taking on leadership skills, conflict resolution, good listening and speaking, training , management, and conducting meetings .finally there will be a feel of participation and cooperation by family meetings that can protect family and business in In harsh conditions .[14]Author believe that family meeting can make strong business which cause strengthen shareholders with positive results. A knowledgeable and resourceful group composed of stakeholders and successors in family can cause promote useful program to business continuity that will make resolve series of problems .family meeting send an important message to outside of world, to the employees; customers and suppliers, generally it will send an important message for the public about vision and perspective business. A united family Can affect all employees and companies, finally the culture's family make the culture prevail, families who protect and Emphasize on their values, they can pass sense of responsibility on managers and observe their impacts on employees.

## **7. SUCCESSION**

Succession includes leadership transition from one generation to the next generation to ensure to remains business ownership in the family [15]. Certainly the succession is a complex process that will happen in the long term [16]. This includes key stages as potential successor's preparation to play a leading role, to delegate control responsibilities to successors, to integrate potential successors with the position that they will be given so they can easily become familiar with the business and will have good understanding it. Planning for family businesses is one of the most important duties of family business leaders, they have to start their planning in first stages of business life cycle [17] .succession is a two dimensional change in leadership .change in business leadership and change in family leadership. Change in business leadership, when occurs the new leadership tries to dominate the business, can affect business strategy and its culture. Succession could be a change to the family because different people have different leadership style and abilities for dealing with family members and other issues related to business. [18] Replacing the current leader is general challenges among family business .human nature, force people to action that will ensure their continuity and this is a reason that the most leaders prevent from succession and therefor will destroy family business. Thus, family businesses need to coherent planning for surviving. Family businesses need to experience succession for surviving. In other words, the succession is important subject which should be concerned to family business transition to the next generation. [19]

Succession is comprise of two comprehensive plans to management and ownership transition of family business to the next generations, the plans include: 1.planning to successor's preparation 2. Planning to successor's selection.

### **7.1. Planning for successor's preparation**

Preparation is a process with succession planning which provide the opportunity for improving children abilities. Assuming there is a ratio to leadership transition the business to the next generation, although the family may have no the only person or the best person for the training and guidance and experience transition to their children. They should use every opportunity to attempt to transfer their experience as business knowledge as well as necessary skills to live large city [20]. Successor's preparation can be executable in four steps: 1.Behavioural preparation 2.Enter to family business 3.Business insight development 4. Leadership activities development.

7.1.1. Behavioral preparation: important behaviors are formed from childhood to 25. Usually potential successor.Work part time in their family business and some times travel with owners or counselors relate to business. [21] Ideally a potential successor should experience in out of his or her business about 3 to 5 years.

7.1.2. Enter to family business: usually discuss about succession should not be done before a young to business. Generally the discuss should be put off when successor is between 20 and 30 and an important position have been granted, it is time to he or she can train, orient and develop his or her relationships with other colleague . [22]

7.1.3. Business insight development: usually this step is between 25 to 35 and this occur when successor have the best experiences about their business, in these years successors have to acquired skills and capabilities from their managements or they can complete their experience along working to their managements.in this step successors have to learn about culture, strategy and business philosophy .

7.1.4. Leadership activities development: at this step successor develop team work and making decision skills.

### **7.2. Planning for successor's selection**

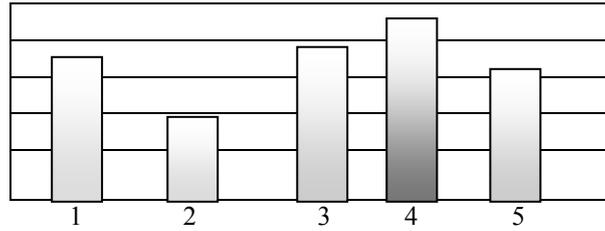
After successor's preparation step, successor has to have necessary preparation for the leadership transition but the transition should be occurred slowly. [23] First, should be considered and recorded criterias to evaluate successor's performance, then successors should take mid-level management positions, next leadership roles delegate from current leader to new leader slowly. [24] In this process, successor performance evaluated, to be determined potential successor has necessary merit for the transition or not.

## **8. RESULT**

Data collected from family business in Iran according to the five hypotheses were analyzed. These hypothechs include: 1.planning for performing common activities between new and old generation is affected family business transition to the next generation. 2. Planning for holding family meeting is affected family business transition to the next generation. 3. Utilizing technical consultants is affected family business transition to the next generation. 4. Planning for Successor's preparation is affected family business transition to the next generation 5.planning for Successor's selection to the next generations.

All the effective factors on family business transition to the next generations are analyzed by Pearson Correlation coefficient. After analyzing the data, results showed that among effective factors on transferring family business to the next generations, successor preparation has the highest mean and consulting has the lowest mean. Effective factors averages are shown in chart 8.1.

Table 8.1



1. Common activities between new and old generations 2.family meeting 3.consulting 4.Successor’s preparation 5.Successor’s selection.

**9. CONCLUSIONS AND IMPLICATION**

In this research, impact of the effective factors on family business transition to the next generation had been viewed form owners by a questionnaire. These factors had tested by using the Pearson correlation coefficient. Finally will be presented results all hypothesizes.

The first hypothesis is planning for performing common activities between new and old generation is affected family business transition to the next generation. In the research, results and statistical indicators showed that there is a significant relationship between performing common activities and family business transition to the next generation. Therefore, this hypothesis is confirmed.

The Second hypothesis is planning for holding family meeting is affected family business transition to the next generation. Results and statistical indicators showed there is a significant relationship between holding family meetings and family business transition to the next generation.

The third hypothesis is Utilizing technical consultants is affected family business transition to the next generation. Results and statistical indicators there is not a significant relationship between Utilizing technical consultants and family business transition to the next generation. Therefore, this hypothesis is not confirmed.

The fourth hypothesis is planning for successor’s preparation family business transition to the next generation.

In the Field research, results and statistical indicators showed that there is a significant relationship between successor’s preparation and family business transition to the next generation. Therefore, this hypothesis is confirmed.

The fifth hypothesis is planning for the successor’s selection affect family business transition to the next generation. Results and statistical indicators showed that there is significant relationship between successor’s selection and family business transition. Therefore, this hypothesis is confirmed.

Descriptive parameters (mean and standard deviation) related to all the effective factors on family business transition to the next generation was calculated, the results are presented in Table 9.1

Table 9.1: Descriptive indicators questionnaire scores

factors	number s	mean	standard deviation	min	max
Common activities	105	19.13	2.69	12.00	25.00
consultants	105	10.49	3.59	5.00	19.00
Family meeting	105	20.25	3.09	11.00	25.00
Successors preparation	105	20.31	2.80	15.00	25.00
Successors selection	105	19.10	2.58	11.00	23.00
transition	105	17.68	3.87	10.00	25.00

This table indicated that among the effective factors on family business transition to the next generation, successor’s preparation has the highest mean and consultant has the lowest mean.

According to the results of data analysis and hypothesis testing, the following suggestions are presented, in order to succeed family business owners for the family business transition to the next generation:

1. Regarding the results of the first hypothesis based on affecting common activities on family businesses transition which make more participate new generation, also exchanging experiences of the old generation to new generation, and new perspectives transition from new generation to old. So recommended that family business owners about the planning for the common activities between new and old generation carry out various actions more effectively.

2. According to the findings of the second hypothesis recommended that regular meetings plan in different periods of time for example several seasons, to be developed. These meetings should be invited all family shareholders in all parts of the country. Also presented all Reports related to financial issues, succession, future plans and their success in performing their plans. This report makes clear, Informatics and eliminate many uncertainties and contradictions between family members.

3. According to the findings of the fourth hypothesis based on no effect the Utilizing technical consultants on family business transition to the next generation can be concluded, lack of culture in using technical consultants in family business hypothesis has not been confirmed. Therefore recommended that increase owner's cutler for utilizing consultants via education and also will establish consultants association, so consultant's members can be ranked and introduced to the family businesses.

4. According to the results of the fourth hypothesis testing seems that family business owners should be coherent and detailed plan for the proper successor's selection. The plan must be codified and done by executives or a responsible group form outside company to prevent from the Interference any family members.

5. Recommended that family businesses owners should have serious and regular plans for the successor's preparation ,therefore, they can have options for selecting suitable successor after this stage.

## 10. ACKNOWLEDGMENT

The author thanks Mrs. **Laleh Molaye Zahedi** for her helpful comments on earlier drafts of the paper.

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