

# **Family business transfer: evidence from a Portuguese field study**

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## **Abstract**

This paper is about business transfer in SMEs Portuguese family businesses companies. The problem of succession in family businesses is a global problem, but in Portugal gets special interest given the higher number in such companies. The field study uses interviews of two cases studies which are or will be in a succession process. To assist in the success of the succession is important to emphasize the role of succession planning. The succession plan is a tool very important for the predecessor. It should be done on time and set whom is the successor and when and how the succession takes the place. This paper suggested that succession can be successful, even without a formal succession plan (the first case study) and sometimes it is needed think in another solution, different that succession (the second case study) for the continuity of the bussiness.

Key words: Succession, family business, succession plan.

## **Introduction**

Family businesses are responsible by 65% a 80% of the enterprises worldwide (Gersick, et al., 1997).

This research addresses the topic of family business and its importance in regional development and competitiveness of Portugal. In Portugal, similar to what happens in other European countries, the number of small and medium enterprises (SMEs) is overwhelming. In a study by IAPMEI (a Portuguese Institute of SMEs) in February 2008, indicates that SMEs account for 99.6% of business units - companies - of the country, creating three quarters (75.2%) of jobs, private sector and performing more than half of the total businesses (56.4%). These numbers are a quite enlightening overview of the Portuguese and the importance of SMEs.

The research we perform will focus on a case study of two SMEs which are or will be in a succession process. We hope to get answers about how and in which way these companies are dealing with the issue of succession. The survival and continuity of these companies is very important for the country.

The study investigates how the succession process is or will be conducted in the companies using the frameworks presented by other researchers.

To achieve these purposes, the following questions have been developed:

- Is there a succession plan to implement or that is being implemented?
- How the succession process is conducted in the company?

### **Theoretical Base**

In this chapter we give a brief review of the literature. One of the most important aspects in a succession of a familiar business is the planning of the succession. Lansberg (1988) said that the lack of succession planning has been identified as one of the most important reasons why many first-generation family firms do not survive their founders. This failure is intimately linked to the problem of dependence on the control of the company and know-how of the business, which is owned by its founders (Lansberg 1988). The succession is not a simple process but a process with multiple steps, which begins long before entering the heirs of the company (Handler 1994).

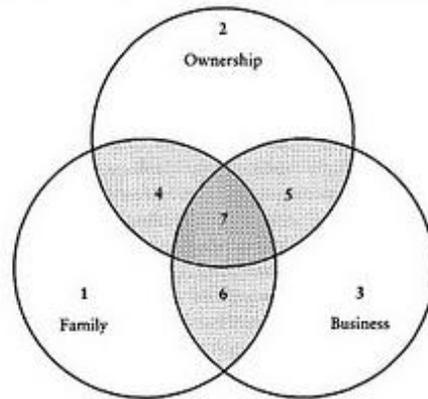
In his paper discussed five fundamental aspects that think within the family businesses, which are: succession as a process, the role of the founder, the perspective of the next generation, multiple levels of analysis and the characterization of effective successions.

### **Family Business**

In order to facilitate interpretation over the years in family businesses, some models have been developed. Of the various models that were developed, one that stands out is the three-circle model. This model is one of the most used and cited. This model was an evolution of the model created by Tagiuri and Davis, the two circles result of work done at Harvard in the early 80's. This model is known by the three circles model. Through the interpretation of this model we can identify many sources of problems, especially those areas where there are intersections of the circles.

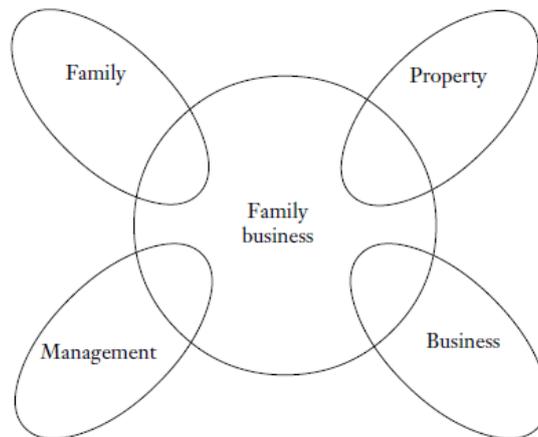
There are many authors who have used these fundamentals to create models of family business succession. A brief literature review focused on some of these models of family business succession.

Figure 1: The three circle model of family business (Gersick, et al. 1997: p. 6)



Given the importance of family businesses in the European economy the definition of family business is not yet institutionalized, as with the definition of SMEs, which has been defined by the European Union, and has already stated in our introduction. Such companies have huge meanings that once concentrated two of the most important values in western societies: family and private property (Neubauer 2003). Neubauer (2003) show us some important characteristics of the family business, which makes this kind of very heterogeneous. These characteristics are, own an unique history, culture and its own specific characteristics.

Figure 2: Family Businesses and Their Components (Neubauer 2003)

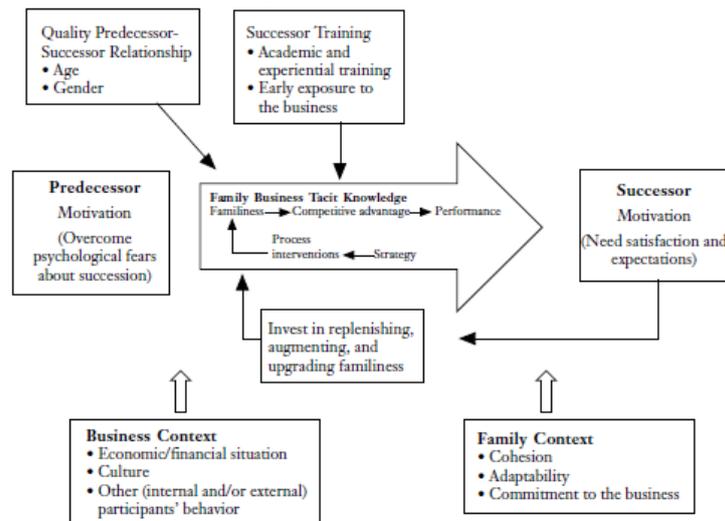


### Succession Development

Succession is processes that have an objective, ensuring the business in the family (Breton-Miller 2004). The succession represents a process that starts by a long period of time before the successor enter the firm (Handler 1990).

We will then present the model proposed by (Cabrera-Suarez 2001).

Figure 3: Model of Knowledge Transfer and Successor's Development in the Family Firm (Cabrera-Suarez 2001)



This model represents, in our opinion, the main factors to take into consideration on a process of succession, since selection of the successor, training, motivation of the successor and the predecessor, the business context and the family context. These factors are very important to the process of succession to succeed. Regarding the first factor, selection of a successor, we like to highlight one aspect that is about the gender. In the socialization process, young girls are often treated differently than their brothers (Handler 1994, citing Iannarelli's).

The series resistance is often linked to various types of retirement of the predecessor. Handler (1994) citing Sonnenfeld identified several types of predecessors: Monarchs, Generals, Ambassadors and the Governors. Levinson (1974), we used three types of predecessor loyal servant, watchful waiter and false prophet. These type definitions are very important predecessor to understand the various types of resistance to succession.

Howorth (2001) in their study concluded that the interviewees expressed a preference for type founding monarch and showed great difficulty in accepting mortality. This conclusion is very important to us, since the study was conducted in Portuguese companies. Another interesting conclusion that the authors reached was that the reasons for resistance are equal to other cultures.

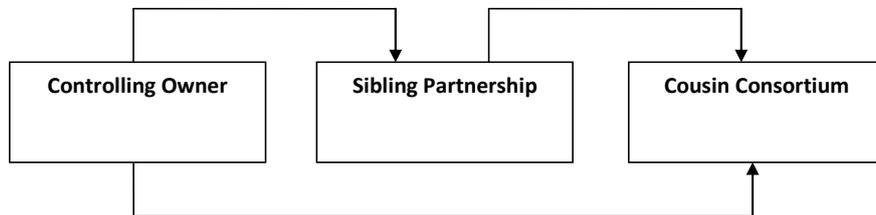
### Succession Planning

Neubauer (2003) breaks down the barriers to succession into three broad groups: personal barriers, business-related and general barriers. In personal barriers are: acceptance by employees of successor, successor by acceptance of business partners, limited management experience of successor, limited professional and qualifications of successor's successor lack of a business license. With regard to business-related barriers have, problems broken down into can be the areas of suitability for a successful transfer, prospects of success in the respective industry, and financing requirements for the takeover. In general barriers we have: the product or service range no longer meets the market's requirements, the business location is unfavorable especially in retail trade (lack of customer frequency), the business is in an industry that is not very promising for the future and/or the business' size is poorly suited to its field of business activity, management styles and structures are outdated, neglect or postponement of investment often means lower productivity and/or lower product or service quality.

Lambrech (2005), being identified six key steps to transfer the business to be successful, entrepreneurship, studies, formal internal education, external experience, official start in the family business: bottom of the ladder and freedom for and by the successor(s), written plan and agreement. For the studies, Howorth (2001) found something interesting. In families that have at least one daughter and a son, daughter has a higher level of education, typically college, while the boy is by the high school. This scenario is already better than the level of education of the father who is usually up by low levels of education.

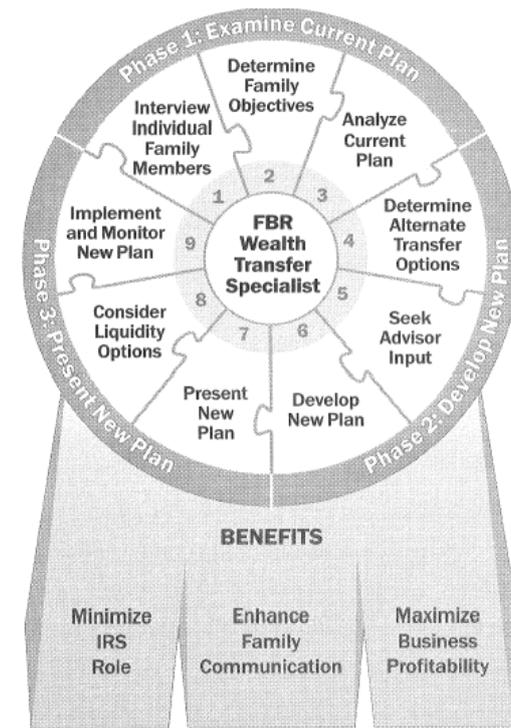
Another factor which we find very important to mention is the way to control the company and the distribution of leadership. According to Gersick (1997) presents three types of leadership. Schematically appears to us as follows:

Figure 4: Three types of leadership (Gersick, et al. 1997: p. 31)



Another model of succession planning that we consider it crucial to mention is that developed by Bareither. This is based on three phases, 9 steps and 3 benefits. The phases are: phase 1 – examine current plan, phase 2 – develop new plan and phase 3 – present new plan. No que respeita aos passos temos, step 1 – interview individual family members, step 2 – determine family objectives, step 3 – analyze current plan, step 4 – determine alternate transfer options, step 5 – seek advisor input, step 6 – develop new plan, step 7 – present new plan, step 8 – consider liquidity options and the last step – implement and monitor new plan. In last we have the benefits. Benefit 1 – minimize IRS role, benefit 2 – enhance family communication and benefit 3 – maximize business profitability.

Figure 5: Model of succession planning by Bareither (2003, p: 140)



However, research on family firms in Portugal is virtually nonexistent. Portugal in cultural terms is very similar to Anglo-Americans (Howorth 2001).

## Empirical Research

### Methodology

The research work mainly intends to understand how family-owned SMEs make the succession transfer process. The research design entails two case studies from Portugal, one from the northern region and another from the centre region.~In this investigation we will conduct interviews with predecessors and successors, as these are the main stakeholders in a process of succession.

### Data

All interviews were recorded for later analysis. The interviews were conducted with open questions.

### Analysis

For data analysis we use the interpretative analysis.

Analysis to date we highlight two statements we find very important for our research. In the first case the predecessor said that relies entirely on the eldest son (the youngest son is still studying) and that already has assigned the management of the company, although he has not passed the property. In the second case the predecessor is very concerned about his succession. The two daughters live about 200 kms away from the company and now both have their own business. No wonder the father's business.

These statements are revealing that highlight the preliminary results we have reached.

## Results (Preliminary)

The succession continues to be worrisome and important to its predecessor. The succession plan continues to be informal or non-existent in our cases studies. In the first case, already start the succession, but without a succession plan. In the second case, there is also no succession plan, but only the predecessor, wants the succession. The heirs do not want the succession takes place.

## Contributions and limitations

With this research we hope owners aware of the importance of succession planning and there are other ways of transmitting business without being by way of succession.

This study is limited because only still only two companies have been examined and have been limited to Portugal.

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