
Succession in Horticultural Family Businesses: Determining Factors

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ABSTRACT

Succession is a pervasive topic in recent family business research and receives attention from a wide range of research directions. Strategic and principal-agent approaches discuss the subject from an organizational point of view; gender research takes a sociological viewpoint. The study assesses the perspectives of those involved in the succession process through a qualitative research approach. Based on in-depth interviews, a comparative analysis leads to the development of a substantial grounded theory of succession in horticultural family businesses. Results show a range of determining factors, including socialization of the potential successor, affecting the generation spanning succession process.

Keywords: *decision-making; entrepreneurship; interpersonal relations; ownership; parental generation*

1 Introduction

In the life cycle of family businesses, succession is of exceptional importance. Suitable structuring, timely initiation, and thorough implementation of succession processes lay the foundations for the continuing success of the company. Results of the census of agriculture 2010 show for German agricultural holdings, where farming is the main activity and the owner is older than 45 years, 187.000 family farms are facing succession. Of these, 54% favor succession within the family. For 69%, farm succession is unclear or does not exist (Statistisches Bundesamt, 2017).

In Europe, agriculture faces considerable demographic challenges. In 2007, 56% of farmers were over 55 years old, and only 6% of farmers less than 35 years old (European Commission, 2013, 2013). According to the Public Consultation “The role of family farming, key challenges and priorities for the future” by the Directorate-General for Agriculture and Rural Development (2013), 85% of respondents considered “ageing and succession” the main societal challenge for family farming.

The design of the succession process is affecting economic and personal aspects, which both are key drivers for success in a family business. Given that farming is mostly a family business, successful succession processes in farming families are critical for the preservation of a regional and sustainable food production in Germany and across Europe. The objective of the study is to identify key factors determining the succession process and to develop a substantial grounded theory of succession in German horticultural family businesses through assessing the perspective of predecessors and successors.

2 Literature Review

Most businesses are complex systems with elaborate management procedures. Adding the equally complex system of the family increases the difficulties in internal processes and creates the advanced system “Family Business”. Represented by two overlapping circles, this twofold system was used throughout the early course of family business research. Based on the realization that, independent from the size of a family business, differentiation between ownership and business management was necessary, Gersick, Davis, McCollom Hampton, & Lansberg (1997, p. 5) included ownership as a third subsystem (figure 1).

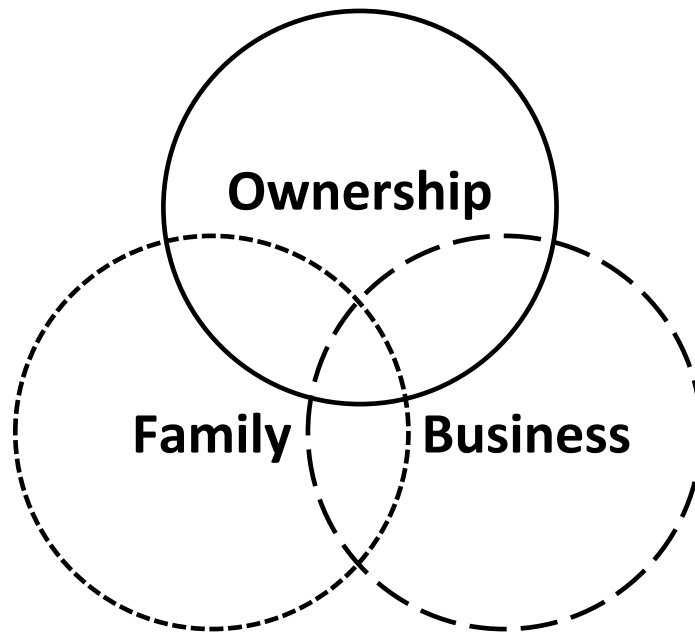


Figure 1: Three-circle model of family business

(Source: adapted from Gersick, Davis, McCollom Hampton, & Lansberg, 1997, p. 6)

Frequently used in current family business research, the three-circle model of family business illustrates the interaction of the subsystems business, family and ownership forming the unique characteristics of the entire system Family Business (Simon, 2011, p. 10).

Family business research does not always draw a distinction between small and medium sized enterprises, family businesses, privately owned or family controlled enterprises. One reason for the lack of distinction was that originally, nearly all companies were family owned and it was then not necessary to differentiate. The term family business comprises enterprises exclusively run by the owner family, even without any hired labor, up to globally active conglomerates with tens of thousands of employees (Felden & Hack, 2014). According to the Institut für Mittelstandsforschung (2016), family businesses are businesses in which the property and management rights are united in the person of the entrepreneur or the entrepreneurial family. A comprehensive definition, more suitable as a basis of further research was provided by the European Commission (2016):

“Common European definition of a family business:

1. The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child, or children’s direct heirs.

2. The majority of decision-making rights are indirect or direct.
3. At least one representative of the family or kin is formally involved in the governance of the firm.
4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.”

Differences between family businesses and non-family businesses are not only a matter of definition. Harris, Martinez and Ward (1994) analyzed the influence of the family on strategy formulation and implementation. They found that family business characteristics have a decisive influence on the strategy of the firm. In their study, McConaughy, Matthews, & Fialko (2001) concluded that a business in the hands of the founding family is run more efficiently, is less dependent on borrowed capital and shows higher asset values. For the reduction of agency-costs, the authors further concluded, it is not sufficient that management holds the majority of the company's property. Rather ownership and control of the company must be concentrated in the founding family. Comparing similarly economically successful family and non-family businesses, Chrisman, Chua and Litz (2004) also showed that the involvement of family members reduced agency-problems.

For the successful continuation of a business, the change in the company's leadership is a pivotal event. Davis (1968) differentiated whether the company is dealing with a first change in leadership, i.e., the transition from the founder to the first successor, or succession in the further development of the company. To outlive its founders and to master the transfer of leadership from the often charismatic founder personality to the future leader, the first transition process is of vital importance. Yet, any subsequent succession can as well lead to a major break in the expected development and even cause the closedown of the business (Kets de Vries 1988; Sauer, 1999; Dyck, Mauws, Starke, & Mischke, 2002; Cespedes, 2004). Enterprises being significantly influenced by a single family for more than three generations, so called multi-generational family businesses, are not common. Less than 5% of all family businesses manage the transition to the fourth generation (Wimmer, Groth, & Simon, 2004; Groth, 2011).

Socialization, the continuing, lifelong process of internalizing values and social norms of the society an individual lives in, guides decisions (Akerlof & Kranton, 2010, pp. 22–23). Dumas, Dupuis, Richer and St.-Cyr (1995) characterized succession as a multi-stage process. During the process, socialization exerts a pronounced influence on the decision of the potential successors whether to continue the family business.

Based on a meta-analysis of thirteen empirical studies, Spelsberg (2011, p. 229) identified six essential factors for the success of succession: (i) the motivation of the predecessors to hand over; (ii) the motivation of the successors to take over; (iii) the competence of the successors; (iv) the harmonious interaction within the family; (v) a sound economic condition of the family business; and (vi) employees' respect for the successors. Based on a literature review, De Massis, Chua and Chrisman (2008) developed a model of factors impeding a previously intended intra-family succession. They presented three direct causes: (i) all potential family successors declined the management leadership of the business; (ii) the dominant coalition rejected all potential family successors; and (iii) the dominant coalition decided against family succession although acceptable and willing potential family successors were available. In addition, five categories of preceding factors were identified: (i) individual factors; (ii) relationship factors; (iii) context factors; (iv) financial factors; and (v) process factors.

Purportedly due to the lack of female entrepreneurs, family business research focused on investigating successions from male owners to by and large male successors (Cadieux, Lorrain, & Hugron, 2002; Pfannenschwarz, 2006, p. 196). Consequently, the influence of the owner's gender on the succession process was not considered (Harveston, Davis, & Lyden, 1997). With the growing involvement of women in the leadership of family businesses, they find themselves increasingly confronted with primogeniture (Cole, 1997).

Primogeniture, the unwritten law that the firstborn son is going to inherit the family business, is an important aspect in studies dealing with women leadership of family businesses or daughters as successors (Dumas, 1989; Garcia-Elvarez, Lopez-Sintas, & Gonzalvo, 2002; Vera & Dean, 2005; Haubl & Daser, 2006; Haberman & Danes, 2007; Nischak, 2011; Dostmann & Vollmar, 2014). Based on a literature review, Martinez Jimenez (2009) recommended to focus on primogeniture as a primary subject for further studies. Even in families without a male offspring women reported gender-specific disadvantages during the succession process (Keese, 2002). Analyzing observations and interviews with family members in an ethnographic case study, Glover (2014) provided substantial evidence on gender issues in the succession process of a family farm business. Results revealed the social complexities and power struggles within the entrepreneurial family.

3 Material and Methods

To assess the perspectives of the people involved in succession processes, the study takes a qualitative approach. According to Flick, von Kardorff and Steinke (2010, p. 14), qualitative research “describe[s] lifeworlds ‘from the inside out’, from the point of view of the people who participate. By so doing it seeks to contribute to a better understanding of social realities and to draw attention to processes, meaning patterns and structural features.” To limit the scope of the research, five exploratory interviews with horticultural consultants and experts from associations and administrative bodies were conducted in the early phase of the study. The interviewees generally confirmed the relevance of succession as a research topic in agribusiness and the further analyses of the interviews revealed a lack of knowledge regarding the broad range of factors influencing intra-family business succession. Through one of the experts interviewed, appointments for the first round of four interviews, two with predecessors and two with successors were arranged in July 2013.

To broaden the access to the field of study, on the 9th of September 2013 the author presented the results of the exploratory interviews and the results of the analyses of the first set of interviews at the 51st horticultural business management conference in Berlin. The extension agents in attendance were asked to support contacting potential participants for further interview rounds. Overall the data collection was conducted in five rounds from 07/2013 until 01/2016 in 13 horticultural enterprises located in different regions in Germany, amounting to 20 viable interviews. Based on a semi-structured interview guide eight predecessors and eight successors, two of them female, were interviewed. To include different perspectives on the same succession process an attempt was made to include both generations from the same company, which was achieved in four cases. In one interview situation, the mother of the successor was present during the whole interview and the father did come in several times; this interview was excluded from the analysis. Of the remaining three interviews, two were conducted with sisters of one of the female successors. Another interview was conducted with the once prospective successor in a failed succession process.

All interviews were digitally recorded and, excluding introductory conversations, interview contents comprised between 23 minutes and 68 minutes. Using f4 software, the recordings were transcribed verbatim; overall resulting in 246 pages of text (Times New Roman 12). The qualitative analysis was supported by the use of the specialized software package ATLAS.ti.

After the initial interview round, open coding was the first step in the grounded theory process. By asking analytic questions while going through the transcripts and by studying single fragments of data, different incidents meaningful for theory development were collected (Charmaz, 2006) (figure 2). To develop the theory further the next round of data collection was initiated subsequently, followed by another coding process. In the course of the analysis, a set of determining factors with the potential to either promote or impede the course of succession were identified.

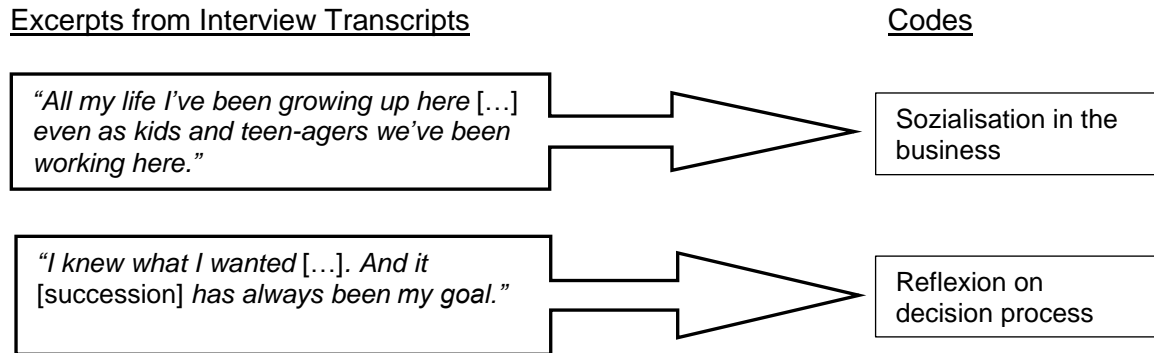
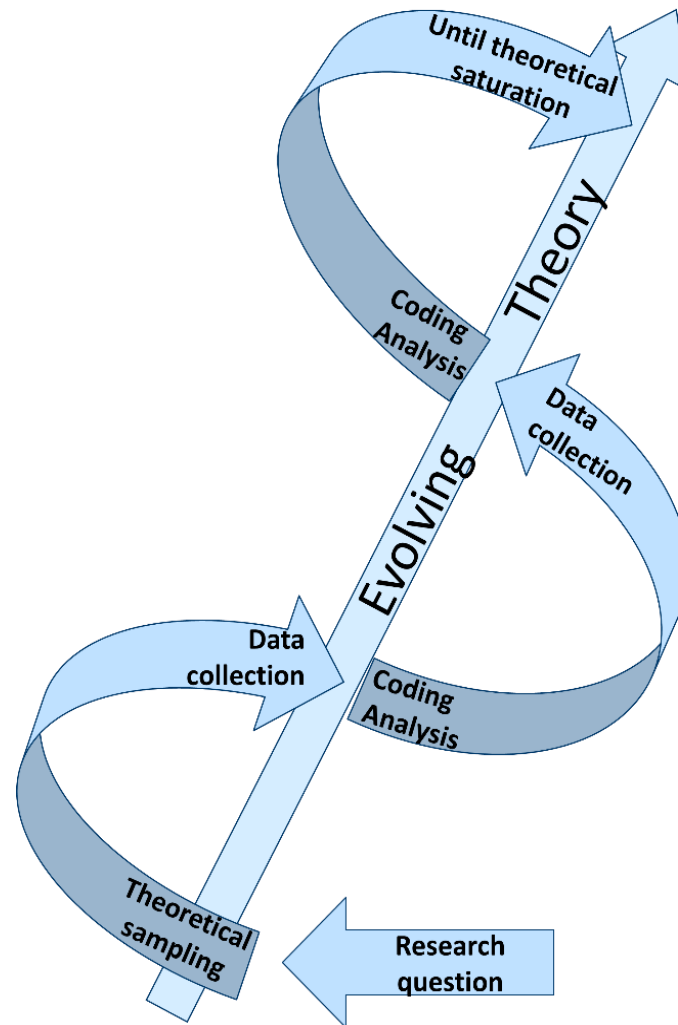


Figure 2. Examples of coding of interview transcripts

Comparative analysis as described by Glaser and Strauss (1967, repr. 2008) and developed further by Corbin and Strauss (2008, p. 195) led to theory development by constantly comparing incident against incident looking for similarities and differences. During this repeated procedure, codes became more and more elaborate and emerged into concepts and categories, in the process expanding and grounding the evolving theory (see also Bitsch, 2005). At the point when additional collection and analysis cycles did not improve the elaborated grounded theory, so called theoretical saturation was reached and the data collection completed. Each of the five interview cycles was followed by data analysis leading to continuous theory development (figure 3). Based on prior steps of analysis and theory development, the interview guide was refined to ensure the collection of appropriate data during the next steps.



4 Results and Discussion

Corresponding with the literature (Breuer, 2009), results show that – within the multiple generation spanning succession process – the individual intra-family succession starts with the birth of a potential successor. With varying intensity, the process extends to the intermediate completion by the legal conclusion of the transition or in case of failure to alternative solutions like selling or abandoning the business.

Socialization and choice of identity of the potential successor, within the family as well as in the business turned out to be a prominent determining factor. Exploring the social and business environment is part of the identity finding process. Below a successor reports in an emotional way on his childhood experiences while growing up within the horticultural business of his parents.

“Always [...], had the freedom to try things out in the nursery by myself. So I had my own vegetable garden, grew tomatoes, [...] worked in the garden together with my granny” (Male successor, case #6).

This did not happen unobserved by the father and supposedly not entirely unintentional.

“My father has always been there, has instructed us [...] this always did fascinate me” (Male successor, case #6).

Breuer pointed out that the offspring remains under observation by the father, respectively by the parents. Especially during “activities on the company premises [and] occupation with material from the production process” (2009, p. 292). The observer registers certain playing habits and interprets behavior with respect to initial signs of suitability for succession.

Yet, observation occurs on both sides. Successors registered very well when the father did actively participate in the family life, despite the tight business schedule.

"[...] it is very, very important to show the young [...] could not have been better in my case than my father taking a lot of time, even then when we [successor and his brother] played soccer a lot, [...] or him being our coach" (Male successor, case #3).

The influence of the spouses and life partners of the successors presents a complex determining factor. One male successor expressed his concerns about the lack of understanding on the part of his and his brother's wives.

"[...] the wives, they partially don't have the [same] understanding. They do not live it. We have been growing up with it, we know it precisely. The wives [...], they have an eight hour day" (Male successor, case #9).

Additional potential for conflicts arises if the expectations of the parental generation do not match the life plan of the younger generation. Without having talked to her, the predecessor expects his daughter in law to take over the direct marketing portion of the company when coming back from her maternal leave.

"Yes, than she'll, I believe, when she has finished, when she is back from parental leave, she will take over the fruit barn" (Male predecessor, case #8).

Perceived obligations to continue the family business can influence the succession process either way, depending on the reaction of the successor. Telling her succession story, the female successor focused on her sense of obligation to support her father. According to her portrayal, as a child she had the impression that her father was overburdened with running the business.

"It's just that I have seen that my father was overstrained with the business" (Female successor, case #2)

To what extent this was the regular workload of an entrepreneur, interpreted as being overburdened from a child's point of view cannot be evaluated. Relevant in the succession context are the consequences the daughter has drawn. With the decision to begin an apprenticeship as a gardener the course to succession was set.

"I learn that, [...] and then I'll be able to help the father adequately" (Female successor, case #2).

During the entire succession process lack of communication between generations, respectively within the generations poses a notable threat to a positive result. In the failed succession process analyzed, communication regarding succession between the prospective successor and his parents never took place. At least they did not start communicating before it was too late.

"I can't remember that there have ever been explicit talks about [succession]. Especially not initiated by my parents" (Male potential successor, case #20).

"And then, someday I have spent the whole evening discussing with my mother. It became clear that the firm was not economically viable for two families. [...] Than the company was leased out" (Male potential successor, #20).

The overall results are derived from snapshots during the succession processes captured in the moment the interviews were conducted. Therefore the results represent a temporary state of the process. With the attitudes of the participants changing over time, data collection at different dates could have influenced the outcomes.

5 Conclusions

Considering the long-term nature of the succession process, many obstacles can cause an obstruction on the path to a successful family business succession. By identifying and presenting determining factors the present study elaborated a substantive grounded theory of succession in German horticultural businesses. By transferring the results to ongoing succession cases, predecessors and successors will be able to use the lessons learned in their individual succession processes thereby increasing chances of success.

The overall business succession strategy must consider the development over time of every person involved in the process. At different stages of his or her personal development, the potential successor undergoes different phases of identity formation and socialization within the family and the business. Whether they admit it or not, adolescents follow the role model of their parents, precisely for that reason the predecessors have to show by their positive example that entrepreneurship is a desirable life style worth following.

To avoid misconceptions in crucial situations, predecessors and successors alike need to be proactive in seeking dialogue with each other. Especially the analysis of a failed succession process revealed that communication is of paramount importance throughout the entire succession process.

Gender issues were not identified in the investigated succession processes, perhaps because the female interviewees had no male competitors for succession. Due to the comprehensive study situation within gender research it is recommended to expand future research on succession explicitly to cases where opposite sex siblings compete with one another in the business succession.

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