**Abstract**

The Organizational Development (OD) literature has predominantly focused on larger institutions. However, Family Owned Businesses (FOBs) also contribute significantly to the economy and to society. Historically, the success rates of FOB succession are low and questions arise as to the role and importance, if any, of the OD practitioner and scholar in aiding succession planning and transfer within FOBs. This paper explores the existing academic literature on FOB succession, and using the insight gained from assisting FOBs in successful succession, the author merges two existing models on FOB succession to create a new model, thus enhancing our approach to OD interventions in this dynamic field. The new model combines the Integrative Model of Effective FOB Succession (Le Breton-Miller, Miller, & Steier, 2008) and the FOB Knowledge Accumulation Model (Chirico, 2008) in an attempt to adopt the strengths and address the weaknesses of each approach. The effectiveness of this new model is demonstrated through the use of a case study.

**Introduction**

A review of the Organizational Development (OD) literature on the succession processes for Family Owned Businesses (FOB) shows that none of the current approaches fully addresses what is often involved in and the complexities of these transitions.

Gibb Dyner (1997) concludes that most of the work, theories, and practices of OD practitioners and academic scholars have been grounded in the study of large institutions. For this reason, Gibb
Dyner cautioned that there is more to consider when diagnosing family firms or Family Owned Businesses (FOBs) before you develop an OD intervention, which is consistent with the assertions made by Lansberg (1983), who stated that family dynamics have to be considered.

The Wall Street Journal (2009, October 6) claimed that 90% of businesses are family owned (Mattioli, 2009), while Shanker and Astrachan’s (1996) work—the first of its kind—clearly cautioned against what they term as “Street Lore” family business statistics, and suggested that, since there is little academic history pertaining to FOBs, what is really needed is a clearer understanding and appreciation of terminology and definitions that can be tied to specific data. Shanker and Astrachan then masterfully showcased that FOBs employed within the range of 15%–59% of the U.S. workforce, representing between 12%–50% of GDP and 19%–78% of all new jobs between 1976–1990. These ranges depend on the definitions used to define an FOB. However, regardless of the definition used, it is clear that the implications and importance of FOBs are disproportionate to the amount of research devoted to them.

Business Week (2003, August 11) claimed that in 2003 nearly 40% of FOBs would be passed on to the next generation within the next five years, and that made family succession an essential area of interest. Beckhard and Dyer (1983a, 1983b) showcased that in 1983 only 30% of FOBs in the US managed succession successfully, while only 10% made it to the second generation. The slightly more recent research of Birley (1986) and Ward (1987) suggested that it is about 33% that are successful in the first generation, while between 10%–15% FOBs make it to the second generation.

Given the significance of FOBs within the American economy and the contextually relevant succession concerns, we must ask what role OD should play, if any, in aiding succession planning within FOBs. Are the current models within family succession adequate to explain contextual experiences of FOBs? Are there significant lessons to be learned from the OD research used and evident within family succession literature? These questions form the basis of this exploratory research and contribute to developing a new model and framework for FOB succession—an Integrated, Dialectic, Knowledge Accumulated Model for FOB Succession. Such a framework comes from a merging of models developed by others through their research and practice in the field of FOB succession, augmented with insight from the author’s experience in successfully aiding FOBs in planning and implementing succession plans. (See section entitled – Canadian Case study: A demonstration of the new model.)

**Definitions**

Incumbent: The person who is leaving or retiring from the most senior position within the FOB.

Successor: The person who has been identified as taking over the most senior position within the FOB.

**An Integrated, Dialectic, Knowledge Accumulated Model for FOB Succession:**

_Theory toward developing a new model and conceptual framework_

Weber (1946) was probably the first to suggest that the founders of FOBs need to ensure that there is a successor who can develop administrative structures, systems, and processes to ensure the sustainability of the organization. In fact,
Lansberg (1988) stated that succession planning, or the lack of it, is the single, most important reason why many first generation FOBs do not survive. It is for this reason that more work needs to be done in this area. However, in order to develop a model or framework that will aid in family succession, it is prudent to review the literature that identifies those items that prohibit success. Lansberg stated that “the owners, the senior managers, and other stakeholders typically experience poignantly ambivalent feelings toward succession planning” (p. 140). Handler and Kram (1988) attempted to explain Lansberg’s (1988) statement by using a “Lewin-style” force-field approach that addresses “those factors that promote and reduce resistance on the individual, group, organizational and environmental levels” (p. 362). (See Figure 1, p.24)

This model showcased four specific levels that need to be considered: individual, group, organizational, and environmental. Within this model, the individual level influences include personal, emotional, and development characteristics of the owner(s), where the personality and stage of development of the individual greatly influence the success of succession. The interpersonal group level influences are concerned with the family systems focus of succession and lean heavily towards interpersonal and group dynamics. The organizational level influences address the cultural aspects and systems perspective of succession. The environmental level influences are generally divided into either contingency or population ecology theory perspectives. The significant contribution of the Handler and Kram model is that it clearly identifies the complexities of family succession and how all four levels have factors that promote and resist change.

Morris, Williams, and Nel (1996) suggested that the notion of the FOB as traveling through a “life cycle” of development stages is too simplistic. This notion implicitly assumes that, at some point, the FOB will outgrow the capabilities of the founder and evolve in such a manner that the ownership and management have to become separate. Instead, Morris, Williams, and Nel suggested that the FOB should be conceptualized as a number of subsystems, “including business as an entity, the family as an entity, and the founding entrepreneur as an entity” (p. 69).

Morris, et al. research suggested that there are three key areas that succession planning needs to address: preparation of heirs, relationship among family and business members, and planning and control activities. Their research showed that, within successful FOBs, heirs are well prepared, both in terms of education and experience. It also showed that relationships within the family are positive, with limited levels of conflict, and, finally, that planning and control activities tend to be informal, with little reliance on boards, advisors, or outside consultants. Thus, Morris, et al. strongly asserted that “building trust, encouraging open communication, and fostering shared values among the family members” (p. 78) is essential, and they encouraged both practitioners and scholars to focus more on the human element—the complex relationships between family members—when designing interventions and planning future research.

Davis and Harveston (1999) were the first to present the notion of the founder’s shadow and the extent to which it influences and impacts succession. In their research, the founder’s shadow is defined as “the generation’s excessive and inap-
**Factors Promoting Resistance**

**Individual Level**
- Good health
- Lack of other interests
- Identity with business
- Retention of control over time
- Fear of aging, retirement, and death
- Avoidance of self-learning
- Avoidance of technical advice and consultation

**Interpersonal Group Level**
- Lack of open communication
- Minimal trust
- Heir(s) are or appear disinterested, incapable, inexperienced, or inappropriate
- Minimal training
- Power imbalances
- Family conflicts or issues permeate the business
- Nuclear and extended family members as potential heirs

**Organizational Level**
- Culture threatens organizational development
- Stability of organizational growth
- Maintenance of structures promoting unilateral control

**Environmental Level**
- Non-problematic environment
- Many industry requirements
- Specialized professional prerequisites

**Factors Reducing Resistance**
- Health Problems
- Other interests
- Ability to dissociate from the firm
- Delegation of responsibilities to others
- Opportunities for life and career planning
- Capacity for self-reflection
- Pursuit of technical advice and consultation
- Honest, informed communication is encouraged
- High level of trust
- Heir(s) are actively and capably involved in the business
- Mentoring is encouraged and practiced
- Shared power
- Family dynamics are separated from business issues
- One child as potential heir
- Culture reinforces organizational continuity
- Impending organizational crisis
- Organizational structure promotes functional delegation
- Problematic environment
- Few industry requirements
- Minimal professional prerequisites

Figure 1: A Model of Resistance to Succession in the Family Business
propriate involvement in an organization, possibly causing social disruption in the organization” (p. 311). Not surprisingly, in the FOBs where the founder's shadow was present, there were higher levels of conflict after the succession, regardless of the generation (first or second). However, what was most interesting was that the founder's shadow was seen as the primary driving mechanism of conflict for second generation FOBs and that this resulted in the socially disruptive consequences for the FOB. Thus, FOB owners who want to increase the successor's chances of success need to decrease the size of their shadow and let go. This is most interesting, as it reveals that “social processes in family firms may be less coupled to the life cycle of the firm (Lansberg, 1988) than they are to the fate of the founder” (Davis & Harveston, 1999, p. 320). This places a priority on the character, attributes, and skill of the founders—at the individual level.

García-Alvarez, Lopez-Sintas, and Gonzalvo (2002) asserted that FOB founders create values that shape both the family socialization process and the business socialization process. They also assert that there are two patterns of socialization, the founder homosocial model and new-leader development model, which are consistent with the founder's perceptions of the nature of business. For García-Alvarez, et al. if the FOB is within a dynamic environment it would be best to develop a successor based on the new-leader development model, which includes formal education. On the other hand, those FOBs that do not experience large amounts of external environmental change can be developed from the “ground up” (without formal education) using the founder homosocial model within the FOB. However, they stress that the founder homosocial model has limited flexibility within its application due to the complex context of most businesses.

Le Breton-Miller, Miller, and Steier (2004) agreed with Lansberg (1988) that poor succession planning is often the main cause of unsuccessful FOB generational transfer. In their research, those authors develop an Integrative Model of Effective FOB Succession (see Figure 2, next page).

What makes this model so important is that it was the first attempt at integrating the social and industry contextual factors and their influence on the family context, and the FOB context, respectively. Additionally, this model clearly separated the skills and abilities of both the incumbent and the successor within the FOB context and its current need. At the heart of the model, there is a four-stage succession process that leads to the transfer of capital and ownership, complete with performance/evaluation and feedback throughout the four stages. Central to both the Le Breton-Miller; Miller, & Steier; and the Handler and Kram (1988) models is the importance of learning/education or knowledge for successful transfer.

Chirico's (2008) FOB Knowledge Accumulation Model (see Figure 3) also stressed the importance of Knowledge Accumulation (KA) and suggested that KA was the enabler of longevity in FOBs. What is interesting about this model is that Chirico suggested that KA begins within the family but continues within and outside of the FOB, which is similar to García-Alvarez, Lopez-Sintas, and Gonzalvo's (2002) socialization model. Chirico's model identified two specific elements of significance: openness factors and emotional factors. The openness factors are those elements that aid in successful transitions such as “academic courses and practical training courses outside the
Figure 2: Integrative Model for successful FOB successions
family business; working outside the family business; and employing/using non-family members” (p. 451), while the emotional factors are those elements that aid in successful transitions such as “family relationships working within the family business—fueled by trust between family members—and commitment and psychological ownership to the family business” (p. 451). What is unique and represents a significant contribution to the literature on FOB succession, is Chirico’s identification of the emotional factors that contribute to successful FOB succession. Although these aspects were identified prior to Chirico’s work, he was the first to express them as emotive or emotional factors and to specifically connect them to the KA process. This line of thinking is consistent with positive organizational scholarship and with positive emotions and upward spirals in organizations—as stated by Fedrickson (2003)—and the power of high quality connections—as suggested by Dutton and Heaphy (2003)—all of which speak to the internal capabilities within the FOB and the family to create an optimal learning environment for KA. The openness factors in Chirico’s model speak on the extent to which the FOB and the family are willing to be influenced by the external environment, either via outside work experience or more formal education by the successor, for example. Thus, Chirico suggested that KA is an ebb and flow between the internal capabilities and the intentionality of ensuring external influences that enable the successor to attain as much tacit knowledge, KA, from both the incumbent and others in order to maximize the likelihood of successful succession transfer.
A new model forward

In developing a new model, the author merged the strengths of these existing models and built on their combined strengths. As such, the new model combines the Integrative Model of Effective FOB Succession (Le Breton-Miller, Miller, & Steier, 2008) and the FOB Knowledge Accumulation Model (Chirico, 2008) in an attempt to adopt the strengths and address the weaknesses of each approach. The new model is presented in Figure 4 below and is referred to as the Integrative, Dialectic, Knowledge Accumulation Model for FOB Succession.

The model is “integrative” since it takes into account both the social context that shapes and influences family dynamics and the industry context that shapes and influences the FOB. Central to the model is a “dialectic” process of the four key areas of effective succession transfer:

1) Ground rules: values, vision, guidelines, communication of the possible transfer.
2) Development: identifying gaps in skills/knowledge and training (external and internal to the FOB).
3) Hand-off transition: where the incumbent is phased out and the successor is placed within a specific position.
4) Transfer of capital: the decisions of ownership structure, control, and the legal and tax considera-
tions are addressed.

This part of the model is different to the Le Breton-Miller, Miller, and Steier Integrative Model of Effective FOB Succession in that the new model incorporates these four key areas in a dialectic process, rather than a linear process. Additionally, these four key areas are shown as contextually dependent on the various family members and their abilities and experiences, and thus, as a dialectic process, represents a more open systems perspective on the nature of change. As a result, the model contemplates that each succession transfer may take a different path. Some succession transfers may set ground rules after evidence of development has occurred, while others may transfer the capital prior to commencing the hand-off transition. The strength of this model is that no single method has to be followed; rather, there are multiple ways to achieve a successful transfer, depending on the context.

Contrary to the Le Breton-Miller, Miller, and Steier (2008) model, this new model does not include “selection” as a specific set within the process, as the model places selection as part of the more holistic element of feedback and should be considered as an integral element of the family context, performance, evaluation, and feedback feature. Additionally, each element of the model has been identified as either an emotional factor or openness factor—and, in one instance, both emotional and openness factors—to reflect the fact that Chirico’s (2008) KA is a central element that will ensure successful transfer of a FOB. In the new model, the FOB context and transfer of capital are identified as openness factors, while the ground rules, hand-off transition, family context, performance, evaluation, and feedback are identified as emotional factors. The development element is identified as both the openness and emotional factors. The importance of distinguishing the openness and emotional factors within the model is to ensure the benefits of attaining the largest opportunities for KA within the succession process. This approach would be supported by the notions of new leader development within the socialization process for family succession, as defined by Garcilla-Alvarez, et al. (2002).

Canadian case study: A demonstration of the new model

The following case study is provided to showcase the strengths and applicability of the new model. The case study involved an FOB with several operating companies in related industries in Northern British Columbia, Canada. Not all of the incumbent’s children wanted a part of the FOB. There were four children in total and only two wanted to be involved in two of the operating companies. This specific case involved a daughter (the successor) and the successful transfer of one of the FOB’s companies to her. Dad (the incumbent) was an “icon” within the community. He had not formally planned for succession or estate transfer to a level that effectively dealt with all of the companies. His wife of 34 years had suffered a brain aneurism and then a stroke, as a result of surgery, and had been permanently incapacitated for the past four years. The family had now begun to settle into its new reality and was ready to return to a new “normal.” During this period, the FOB had been essentially operating without a “skipper,” which made it more frustrating for the possible successor, as business decisions were being delayed or put off.

The company, within the specific case study, will be referred to as XYZ Company Ltd. At the time
of the case study, XYZ Company Ltd. was not on sound footing, since the incumbent had been more or less absent over the previous few years. The successor had worked at XYZ Company Ltd. for 15 years and was interested in acquiring it. Prior to working at XYZ Company Ltd., she worked outside the FOB for 4.5 years. The incumbent was ready to retire. He deeply trusted his family and children, but was concerned about treating all of them equally (in terms of the estate). In order to address these concerns, he transferred the shares of XYZ Company Ltd. to the successor, practically and legally speaking, over one year, but financially, over 10 years. In effect, the business was sold to the successor instead of simply being gifted to her. Once the shares were transferred, the successor developed her own training that would be considered “action-learning”, an essential element within the Chirico (2008) model and the new model.

In this particular case, it is important to note that the shares were transferred to the successor in the early stages of year one, while effective ownership was not completed until some 10 years later. Note that the LeBreton-Miller, et al. model would not have contemplated the transfer of the shares at this early stage in the process. However, this early transfer was invaluable, since it greatly aided the motivation of the successor as she was experiencing, in a practical way, the willingness by the incumbent to transfer the shares. Moreover, in order to satisfy the incumbent, there was an understanding that if the business was to start suffering at the hands of the successor, the incumbent could, although an expensive undertaking, retake control of the company. In other words, the incumbent could effectively undo the sale since the successor had not yet been fully paid for the shares. Additionally, there were tax benefits for both the successor and the incumbent by enabling XYZ Company Ltd. to redeem the shares.

The successor set up a business advisory group, and, over a period of time, made changes to significant advisors (accountants, lawyers, bankers, etc.) as the business needs arose. The successor used the advisory group to facilitate action-learning on those projects she was involved in. The advisory group was never involved in the activities on a day-to-day basis, thus ensuring that the successor was interpreted as the leader. The successor maintained most of the employees, yet immediately removed underperforming divisions by closing them down and reassigning that part of the workforce she wanted to keep. All of this demonstrates elements of the openness factors, which contribute to KA.

This case was a successful succession transfer as evidenced by these few measurements. Over the 10 year period (the transfer period): net income of XYZ Company Ltd. increased by 1,180%; net income as a percentage of sales, increased by 1,333%; and return on equity increased by 283%. The approach contemplated by the new model explains this specific case well, since, at its core, it is not a linear process, but rather a dialectic process between the incumbent, the successor, and the other family members, while, at the same time, it takes into account the contextual factors of both the industry environment and the societal pressures on the family. In doing so, this model overcomes many of the concerns raised by Handler and Kram (1988) and aids incumbents in avoiding the founder’s shadow, as cautioned by Davis and Harveston (1999). Additionally, this model places a large priority on the importance of tacit knowledge or KA that Chirico (2008) and
Morris, Williams, and Nel (1996) believed to be essential for the development of the social, emotional, and openness aspects of the successor. Also, this model highlights the awareness that the incumbent needs to be emotionally preparing to let go, an important factor identified by Lansberg (1988). Finally, the most significant contribution of this new model is that it ensures that although succession should be at least somewhat planned, it also needs to be understood as a dynamic and interactive process that unfolds as opportunities and feedback provide.

**Conclusion**

The field of OD is steeped with group dynamics, and yet the OD change literature to date has paid little attention to the unique circumstances of FOBs and, in particular, to the succession of FOBs. This aspect of FOBs offers us an opportunity to study what has been learned within the field of OD and further develop these exciting fields of research and practice. In addition, since FOBs represent such a large percentage of the U.S. workforce, their successful succession is an issue that OD needs to confront. It is hoped that this new model will move the OD field forward in discovering what factors should be considered when planning OD interventions for FOBs and for their successful successions.

**References**


