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The Dynamics and Sustainability of Family Businesses : Succession, Challenges, and Strategies for Growth

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Abstract

This essay investigates the role that family businesses play in supporting economic growth, with a particular emphasis on the challenges connected with long-term survival and the transition of leadership from one generation to the next. The lifecycle of family businesses is examined in this article, beginning with their inception and ending with their collapse. The essay focuses on the various management styles and how they influence succession. At the end of the piece, numerous recommendations are provided for ways in which family businesses might continue to exist and avoid going out of business. Among these are the establishment of open and honest processes for the transfer of leadership and the reorientation of the company's long-term objectives around the principles of family.

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1. *Introduction*

Family businesses constitute an important part of the global economy, playing a significant and vital role in the economies of countries that rely on free market principles. These businesses can take the form of service, industrial, or commercial enterprises, whether they are small limited entities or medium-sized companies. In some societies, the increasing importance of this role suggests that family businesses represent the backbone of comprehensive development in these communities.

Furthermore, the continuous presence of family businesses has led to their recognition as the product of individual initiative around which activities grow. These businesses drive actions and innovations and form the basis for collective work. They absorb a large workforce, supply the market with significant quantities of products, and capture a considerable portion of national savings. Additionally, they contribute significantly to foreign trade. It is estimated that family businesses account for 85% of registered companies globally and represent 35% of the world's top 500 companies.

Despite the importance of family businesses, it is well-known that the commercial lifespan of most of them becomes very short after the founder's phase. About 95% of these businesses do not survive beyond the third generation of owners. This is often due to the lack of preparation of subsequent generations to handle the growth requirements of these companies and the increasing number of family members. This situation leads us to explore the following question:

- How can family businesses ensure their sustainability across generations and avoid collapse?

Research Objectives: This research aims to:

- Highlight the importance of family businesses in economic development within society.
- Address the issue of succession in family businesses and identify mechanisms for successfully transferring ownership to future generations.
- Explore the relationship between the sustainability of family businesses and succession across generations within the owning family.

To address the research question, we have divided the study into the following main sections:

1. Section One: Understanding the Nature of Family Businesses
2. Section Two: Generational Succession in Family Businesses – The Struggle for the Crown and the Issue of Succession
3. Section Three: Towards the Sustainability of Family Businesses and Avoiding Collapse – A Survival Strategy

2. *Section One: Understanding the Nature of Family Businesses*

- ***Definition of Family Businesses:*** Generally, there is no legal classification

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for family businesses in any country worldwide. All classifications of company types and business organizations do not include the term "family business." They adopt the same legal frameworks as regular companies, with the family aspect being the distinguishing feature. Moreover, there is no unified definition of family businesses. Researchers have proposed three approaches to defining a family business, as outlined by Ghalab et al. (2019, p. 250):

1. **Ownership-Based.Approach:**
According to this approach, a company is considered a family business if a single family owns more than 50% of the company's shares.
2. **Emotional Perception Approach:** This approach considers a business to be a family business if a group of relatives emotionally perceives it as such.
3. **Management-Based Approach:** This approach defines a family business as one managed by family members.

Several definitions have emerged to specify what constitutes a family business, among which the following are noteworthy:

The European Union adopted several criteria to determine if a company qualifies as a family business (Ghalab et al., 2019, p. 251):

- The majority of ownership must be controlled by the company's founder, a family member, or any person who has acquired it.
- The family's ownership should not be less than 25% of the company's shares if it is listed on the stock exchange.
- The family must have control over decision-making within the company, either directly or indirectly.
- At least one family member should be present on the company's board of directors.

A family business is also defined as an establishment in which two or more individuals work, belong to the same family, and are owned by one or both of them (Suleiman, 2017, p. 15).

Another definition describes a family business as one where more than one family member shares ownership of the company's capital, with guidelines in place to ensure the company's continuity and control across generations (Suleiman, 2017, p. 15).

A family business refers to a company where the majority of voting control lies with the family, including the founder(s), who intend to transfer ownership to their descendants (Brouba and Saoudi, 2019, p. 103).

Sceacia and Mazzoler define family businesses as those in which a family controls the operations through participation in ownership and management. Family involvement in ownership (FIO) and family involvement in management (FIM) are measured by the percentage of shares owned by family members and the percentage of the

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company's managers who are family members (Hawas et al., 2018).

The previous definitions show a consensus among researchers that family businesses are those in which members of the same family share most of the shares they own or have a shared interest in the company's capital.

In the context of our topic on succession in family businesses, they can be defined as businesses owned and operated by a single family that ensures their survival and continuity through the transfer of ownership from one generation to another.

2.1 Family Businesses as a Driving Force for Economic Development:

Family businesses represent the backbone of private sector investments and activities worldwide. They absorb a large workforce, supply the market with substantial quantities of products, and capture a significant portion of national savings. In addition, they contribute significantly to foreign trade. Family businesses account for 85% of registered companies globally and make up 35% of the world's top 500 companies (Suleiman, 2017, p. 16).

The importance of family businesses in the economies of many countries, regardless of the diversity of these countries' economic approaches and their position on the global economic map, can be illustrated through the following statistics:

Table 1: The Relative Importance of Family Businesses

Country	Number of Family Businesses
Middle East	More than 95%
Italy	More than 95%
Sweden	More than 90%
Switzerland	85%
Spain	80%
Saudi Arabia	75%
Portugal	70%

Source: (Aladdin, 2005, p. 211)

These statistics highlight the significant role that family businesses play in achieving the national economic development of the countries to which they belong. This role remains crucial even in highly industrialized countries with large corporations. There is no inherent conflict between large companies with substantial capital and family businesses. On the contrary, large companies have not been able to eliminate or marginalize the role of family businesses. Instead, they have cooperated with and benefited from them by outsourcing small and frequently requested needs to family businesses (Issa, 2007).

2.2 Family Businesses: Advantages and Disadvantages

Family businesses have several unique advantages compared to joint-stock companies, primarily due to their distinct nature. Some of these key advantages include (Al-Tamimi, 2018, pp. 22-23):

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• **Mutual Trust:** There is a higher level of mutual trust among family members than with outsiders, creating a comfortable work environment and enhancing the organization's performance. This also increases the commercial community's confidence in the family business, especially if the owning family has a good reputation.

• **Family Support:** Family members are more likely to finance and support the idea's originator (the founder) both financially and morally, as they trust his abilities and believe in his vision. Often, this business becomes the family's main capital and source of income, prompting them to contribute all their effort and resources to ensure its success and achieve their goals and dreams.

• **Time Spent Together:** Family members spend more time at the workplace, which has a social advantage by strengthening family bonds, positively reflecting on the company's economic activity. This is especially true when partners have the capability and responsibility to complement each other, combining the profit motive with social dimensions. The family business contributes to strengthening family relationships due to the unity of interests among its members through the enterprise.

• **Respect for the Family Elder:** This advantage is particularly evident in Arab and Islamic societies, where there is trust in the decisions of the family elder. It creates an atmosphere of cohesion and alignment around the collective best interest.

• **Inherited Expertise:** Despite many family business owners having limited formal education, they often excel in management skills and have a keen vision. This leads to the increased abilities and skills of the company's workforce, with expertise often passed down within the family.

• **Flexibility and Boldness:** Family businesses exhibit flexibility, boldness, and quick decision-making processes, along with a higher willingness to take risks since the owner is also the manager.

• **Management's Commitment to Enterprise Growth:** Family businesses are often committed to the long-term development of the enterprise. This commitment can encourage management to engage in long-term projects that, while not necessarily quick to turn a profit, provide solid investment structures within the company and grow its investment assets.

However, despite the advantages mentioned earlier, family businesses are not without flaws that can impact their management processes. Some of the main disadvantages of family businesses include (Suleiman, 2017, pp. 18-19):

• **Nepotism Over Professional Management:** Family ties often take precedence over professional management. The degree of kinship plays a significant role in hiring decisions, regardless of the candidate's professional competence. Sensitive positions are typically occupied by children or close relatives of the

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business owners, regardless of their experience or qualifications.

- **Tolerance of Mistakes and Overlooking Transgressions:** There is often a tendency to overlook mistakes or all transgressions committed by family members working in the company, favoring leniency over accountability.

- **Lack of Performance Evaluation:** Due to the overlap between management and ownership, the performance and behavior of employees in family businesses are not always subject to evaluation. Additionally, there may be reluctance to change management even if its performance is unsatisfactory.

- **Favoritism in Distributing Benefits:** In many family businesses, benefits and advantages are distributed equally among family members working in the company, regardless of their performance or job title.

- **Lack of Objectivity in Bearing Costs and Burdens:** There may be no structured system for salaries, vacations, and expenses, leading to increased burdens due to jealousy among family members in management, even if individual performance is unequal.

- **Difficulty Balancing Family and Business Demands:** It can be challenging to reconcile the family's needs with the enterprise's commercial and investment requirements. In family businesses, management often overlaps with ownership of the capital. Sometimes, fulfilling family obligations—such as building homes, educating partners' children, or even financing weddings—can interfere with the business's commercial and investment needs in the absence of a financial system governing this spending. This conflict can hinder the necessary development and growth of the enterprise to sustain its existence.

Despite these drawbacks, some family businesses have successfully separated ownership from management by adopting modern and sound approaches, such as corporate governance, in managing large projects and by involving external experts.

3. *Section Two: Generational Succession in Family Businesses: The Struggle for the Crown and the Issue of Succession*

Inheritance issues are a primary cause of disputes within family businesses, particularly regarding the choice of the successor (succession) and the existence of succession plans. Failure to prepare a successor is the biggest factor contributing to the failure of family businesses.

- **Succession in Family Businesses from One Generation to the Next: Passing the Torch**

Succession refers to the process of transferring leadership from the company's founders (the owner) to a family member or an individual outside the family. Conflict may arise from comparing the successor with the predecessor, leading to disputes and disturbances within the business and family. This is especially true if the owner is hesitant to relinquish their position as the head of the company and

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family. The reasons for this hesitancy may include (Tawfiq, 2001, p. 69):

- **Financial Insecurity:** Owners may feel insecure about their financial future and fear relying on a business that is no longer under their control.

- **Self-Identity and Authority:** They may view the business as a means of self-fulfillment, fearing that losing authority in the business will result in their opinions being undervalued or ignored, and that they will no longer be invited to take on leadership roles in the community. They also worry about losing the respect and recognition that came with their authority.

- **Control Over Family Members:** Owners might feel that controlling the business gives them greater influence over family members and their behavior. When they manage the business, they can support family members' participation and needs, and they can promote harmony within the family by using incentives or punishments for family members who misbehave.

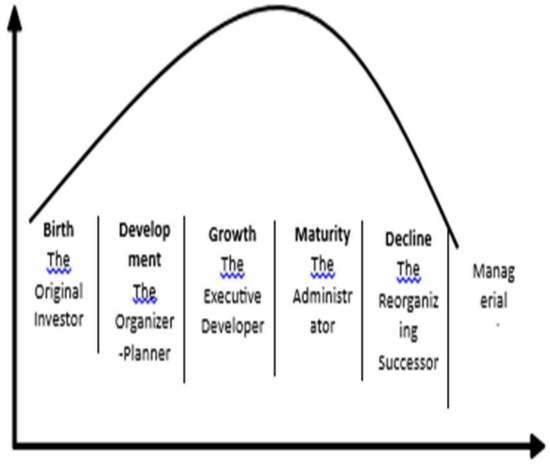
The absence of succession plans can also contribute to conflicts within family businesses and lead to the collapse of the company. If family members do not have full confidence in the successor, alliances may form, leading to increased internal conflicts among family members. Proper planning and preparation for the succession phase, involving practical and academic expertise, can help convince family members of the successor's capabilities. Advanced training programs and education can provide the successor with experiences and skills at all levels. Additionally, it is crucial for the successor to participate in decision-making positions to facilitate the transfer of authority from one generation to the next (Tawfiq, 2001, p. 70).

From another perspective, family businesses go through various stages or phases during their life cycle. McGivern uses the life cycle model presented by Kroeger as a basis for studying how the succession of the chairman is managed in small family businesses. This model links the organization's life cycle stages with the process of managing the succession of the chairman in small family businesses.

The model combines the five stages of the life cycle—birth, development, growth, maturity, and decline—with the managerial roles that are assumed and required at each of these stages. This approach strongly suggests that the selection of a successor should be made considering the skills needed for a specific managerial role that the new chairman will undertake during the growth phase of the company.
In this context, the model deals with five situational variables:
1. The stage of the company's development.
2. The motivation of the owner-manager.
3. The extent of the family's control over the company.
4. The organizational climate.
5. The business environment.
These variables will be illustrated in the following curve (diagram).

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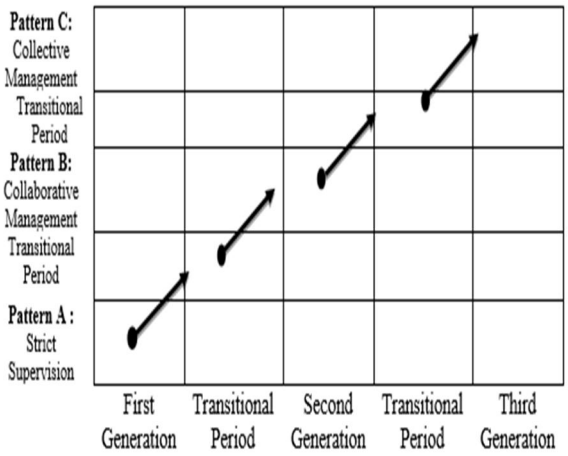
***Figure 1: Managerial Evolution Across the Life Cycle of Small Family* Businesses**



Source: Al-Dabl, 2019, p. 34.

Hershon created a two-dimensional graphical model that clearly connects the family's progression over three generations (administrative succession or the x-axis) with the appropriate managerial patterns (organizational development) for each stage of the family business. It is noted that the transitions that occur throughout the life cycle between each generation and each management style are critical. Hershon is considered one of the early pioneers who adopted a multi-generational perspective instead of focusing solely on what happens during the founder's or owner-manager's maturity phase. This concept will be illustrated in the following figure:

Figure2: Successful Patterns of Administrative Succession in Family Businesses (Organizational Development)



Source: Al-Dabl, 2019, p. 35.

From the figure above, we can deduce that the first generation in family businesses is closely focused on increasing the company's value as a means to strengthen its position and ensure its survival and growth. During the initial phase of a family business, there is typically a low level of organizational and functional conflict, and an emphasis on formulating a strategic vision for the company's future.

The second generation, on the other hand, tends to collaborate on administrative matters and implement delegation policies to promote decentralization in decision-making. They also prioritize development, innovation, and creativity.

By the third generation, there is an increasing emphasis on further development, encouraging innovation and modernization, and a concern about the

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potential collapse of the company. This concern drives this generation to avoid causes of disputes or functional conflicts among themselves.

3.2 From Family Culture to Institutional Culture: Establishing Familial Values

Family businesses are influenced by the family's culture, which guides the organizational behavior of family members working within the company. This culture aligns with the institutional organizational culture of the family business in its role of sharing values across family generations.

The socio-cultural environment of the family context, including practical experience, professional environment, and educational system in family businesses, serves as a field for cultural influence. This creates a unifying framework between the family and its environment, fostering the values of familial spirit in entrepreneurial actions across successive generations. This aspect is one of the factors that explain the emergence and development of the capabilities and motivations that shape the institutional behavior of family members.

The work presented by Cabrera-Suárez offers a practical perspective for ensuring a smooth process to effectively transfer tacit knowledge from the predecessor to the successor. This perspective is based on Szulanski's (1996) model, which identifies four success factors for this process (Kammerlander, 2018, p. 176):

1. **Characteristics of Knowledge:** Whether it is tangible or intangible.
2. **Characteristics of the Knowledge Source:** The predecessor.
3. **Characteristics of the Knowledge Recipient:** The successor.
4. **Characteristics of the Knowledge Context.**

The researchers argue that knowledge transfer will be ineffective if the knowledge itself is ambiguous or not well-established around a conceptual model. Furthermore, a smooth transition requires the predecessor to create motivation through stepping back, delegating, and granting "acceptable" autonomy, while acknowledging the successor's managerial discretion.

On the other hand, creating the motivation to take on responsibility requires the successor to learn from the predecessor to prepare. Learning is a continuous process, often starting in early childhood, which can occur at home by hearing about the parents' work or by being assigned tasks and roles during the summer. The researchers emphasize that this process of transferring institutional knowledge in family businesses between the predecessor and the successor is not independent of their relationship. A trust-based relationship will significantly enhance a smooth and stable succession process (Kammerlander, 2018, p. 176).

Therefore, it can be said that family businesses are a social construct undergoing a complex path of power inheritance. It is crucial to develop a mechanism for the organizational and

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managerial development of the family business during succession from one generation to the next, without conflicts, to preserve its entity and ensure its continuity by reproducing unified social relationship structures within the social, symbolic, and economic capital framework of the family business.

4. Section Three: Towards the Sustainability of Family Businesses and Avoiding Collapse: A Survival Strategy

Ensuring the continuity and sustainability of a family business is the most challenging task for management. Only about 13% of successful family businesses make it to the third generation. Family businesses are fragile entities; the average lifespan of an American family business is 24 years. Studies indicate that 30% of family businesses survive into the second generation, while less than 10% make it to the third generation. So, what causes these businesses to fail and collapse? The primary reason for the collapse of family businesses is the family itself. The pressures of working within the family business often intensify competition among siblings, cousins, and other relatives, as well as between older and younger generations. The following elements also contribute to the failure of family businesses (Suleiman, 2017, p. 22):

- **Succession Issues:** The challenge of transferring leadership after the founder's death, including the division of the founder's estate, changes in family ownership patterns, and power struggles over leadership and management.
- **Weak Strategic Planning:** A lack of strategic planning and failure to separate ownership from management, along with the absence of an institutional framework to guide and lead administrative work, are fundamental characteristics of family businesses. This does not align with sound corporate management and does not guarantee the growth, stability, or continuity of the company.
- **Poor Preparation of Successive Generations:**

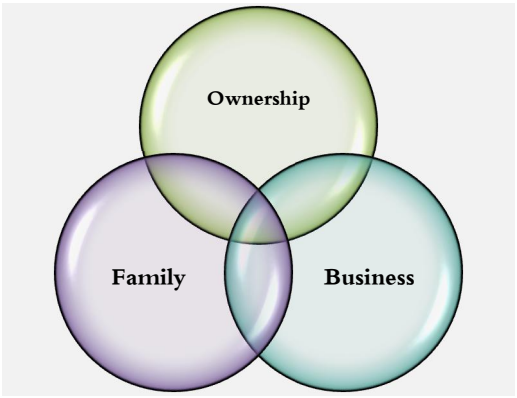
Inadequate preparation of succeeding generations is another common issue. Researcher J.L. Ward proposed a growth model that emphasizes the importance of strategic planning for family businesses. The model suggests long-term planning for family companies rather than a short-term focus. It also proposes that the core of strategic planning should be the family's core values and culture. The model further asserts that family involvement in the company should be utilized as part of the strategy to foster the growth of the family business.

The model identifies two main strengths that can be leveraged: the family's reputation in the market and family unity. On the other hand, the Three-Circle Model represents the system encompassing the family business to ensure its long-term growth through plans that guarantee its survival within the triad of family-business-ownership. The key components are:

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- Shareholders' Meetings
- Family Plan
- Management Development Plan
- Strategic Plan
- Ongoing and Contingency Plans
- Inheritance Plan

Figure 3: Three-Dimensional Model for the Sustainability of Family Businesses



Source: (www.pdffactory.com, p. 50)

Forward-looking family businesses understand that sustainable growth across generations can only be achieved by defining their values and setting strategic objectives. Developing a clear vision of the company's needs and requirements can help it navigate the various fluctuations of financial markets and economic cycles.

Naturally, family businesses, like any other companies, are affected by external economic factors, such as political instability and economic crises. Therefore, to ensure the sustainability and growth of these companies, it is essential to confront the challenges they face by positively reinforcing and reassessing their policies, management, and overall status, especially in light of new economic developments and the shift toward a market economy that has deprived family businesses of many advantages they once enjoyed.

5. *CONCLUSION*

This research clearly shows that family businesses have been and continue to be one of the primary forms of business organizations and fundamental components of the economic system. They play a significant and influential role in the economies and development plans of countries, particularly in the Middle East. On the other hand, family businesses possess a set of characteristics that encompass the elements of survival and success, supporting their strength and growth in the market. However, their ability to grow and continue also depends on their capability to address the challenges they face, especially those related to succession disputes.

Succession in family businesses is a multi-stage process that begins with the heirs entering the company, bringing influences that extend beyond the moment when the successors become the company's leaders. To overcome the challenges of succession and the struggle for the position of president in family businesses, we have reached the following conclusions:

- There must be a participatory process through which successors in family businesses undergo preparation for taking on leadership roles.
- Establish mechanisms for succession transitions between generations.
- Define the values and professional principles that the family company should follow for future generations.

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- Implement a testing phase to evaluate the successors' success in leading and growing the company.
- Employ specialized consultants to resolve family issues related to management succession.
- Appoint members to the company's board of directors from outside the family to avoid ownership conflicts.
- Differentiate between the responsibilities of family members on the board of directors and their personal responsibilities as owners in the company.
- Adopt governance practices in family businesses to ensure their sustainability and growth, and to protect them from collapse during generational transitions.

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